Remarks on *Invisible Leviathan:*

Marx's Law of Value in the Twilight of Capitalism

Note: This is an expanded version of the talk given by Murray E.G. Smith on November 8th, 2019, at the Historical Materialism 2019 conference at SOAS, University of London, in a session celebrating the launch of the new edition of his ***Invisible Leviathan*** *(Brill 2018 in hardcover; Haymarket 2019 in softcover). A power-point presentation accompanied the actual talk and has been posted separately.*

Many thanks to the HM 2019 Conference organizers for making this session possible. For their valuable contributions to this expanded and updated edition of my 1994 book, *Invisible Leviathan,* I want to extend my sincere thanks to the HM editors and staff, to Brill and Haymarket, to my colleague Jonah Butovsky (who collaborated with me on parts of Chapter 10), and to Michael Roberts, who has contributed an excellent foreword to the book.

The main theme of *Invisible Leviathan* is 'that, while 'value relations' have played a role of paramount importance in the development of human society, the point has been reached where these relations need to be superseded by a new set of social arrangements that must, at a minimum, provide for a qualitative increase in the degree to which human social and economic affairs are governed by conscious decision-making at the level of the human collectivity as a whole.'

The core propositions of Marx's theory of labour-value, I argue, are fundamental to his theory of capitalist crisis (in particular his law of the tendency of the rate of profit to fall) and to his understanding of capitalism as a mode of production in which social wealth is necessarily measured in terms of abstract human labour time (the phenomenal form of which is money). But the measurement of social wealth in this way has a social and historical foundation in the determinate social relations of capitalism, not a natural or eternal one. Accordingly, it becomes possible to conceive (or 'envision') a mode of production (socialism/ communism) that can dispense with the measurement of social wealth in terms of labour-time, and that can thereby redirect the labour-saving technologies developed by capitalism to the quantitative and qualitative expansion of that free, disposable time which will enable all human beings to develop their many-sided capacities and talents to the fullest. Standing in the way of the realization of such a society is precisely an 'Invisible Leviathan' — the structure of socio-economic relations that form the basis of the capitalist law of value.

Why must 'social wealth' be measured in terms of labour-time in an era when 'living labour' is a less and less significant 'technical' input to material production? In a nutshell, it's because material production under capitalism is subordinated to the production of surplus value — that is, to the appropriation of surplus labour by those monopolizing the ownership of the means of production. The mechanism of this appropriation under capitalism must be understood as a contradictory ensemble of social relations encompassing exploitation, equalitarian exchange, market competition, and cooperation (objective socialization) — an ensemble of relations that imparts a distinctive social content to the capitalist law of value as a historically specific mechanism for the allocation of social labour.

To sustain these theses, I undertake an exposition and defense of the two propositions that I regard as fundamental to Marx's law of labour-value: that living labour is the sole source of new value, and that value exists as a definite quantitative magnitude at the level of the capitalist division of labour as a whole. This value magnitude establishes parameters on the distribution of 'new value' (that is, profits and wages), and those parameters in turn limit the realizability of prices set by capitalists seeking 'reasonable' profit margins. I argue that Marx's theory of the value form is fundamental to his value theory as a whole; that the significance of the value-form theory is missed by Marx's neoclassical critics as well as by his Ricardian-Marxist and post-Sraffian 'sympathizers'; but also that many contemporary 'value-form theorists' impoverish Marx's theory and gut it of its most profound programmatic implications by abandoning the task of articulating his value-form and value-magnitude analyses with each other. Only the 'fundamentalist' school of value theory, I argue, remains true to Marx's value-theoretic agenda of sustaining the core propositions defined above. What is most original in my account is thus my attempt to define the distinctive features of 'fundamentalist value theory', as well as my attempt to show that this approach to value theory is the only one fully in accord with a theory of capitalist crisis centered on Marx's law of the tendency of the rate of profit to fall.

Whereas neo-orthodox value-form theorists reject the notion of ‘embodied labour’ as the measure of a commodity’s value and correctly emphasize Marx’s thesis that ‘money as the measure of value is the necessary form of appearance of the measure of value which is immanent in commodities, namely labour-time’ (Marx 1977:188), fundamentalist value theorists criticize the neo-orthodox tendency to *dissociate* Marx’s value-form and value-magnitude analyses, insisting in particular upon a conceptualization of Marx’s category of ‘abstract labour’ (for Marx, the ‘substance’ of value) as the reflection in thought of the structure of relations and processes through which commodities are produced for the purpose of sale and the realization of profit. Abstract labour (associated closely with Marx’s ‘socially necessary labour-time’) emerges as the category that *links and mediates* the microeconomic focus of the value-form analysis (the metamorphoses of value leading to the market valuation of individual commodities and therewith their money prices) and the macroeconomic concerns of the value-magnitude analysis (including aggregate value flows, the tendency for profit rates to equalize, and the tendency of the average rate of profit to fall). Thus, abstract labour must be understood not merely as ‘an undifferentiated capacity’ (the general, ‘transhistorical’ sense that Marx sometimes brings to the concept), but as a ‘non-particular entity’ that exists as a structural universal specific to capitalism and whose expression is money, the ‘universal commodity.’

Accordingly, the ontological reversals that Marx specifies in his account of the value form in Chapter One of *Capital* -- use-value appearing as value, concrete labour as abstract labour, and private labour as social labour -- should extend as well to the relation between commodities as sensuously concrete particulars (to which are attached individual prices) and *the universal structure of capitalist value relations* (namely, abstract socially necessary labour-time, whose necessary form of appearance is money). It is on this basis, I argue, that the core propositions of Marx’s theory of value can be sustained in a satisfactory way. This is extremely important because, deprived of these core propositions, Marx’s account of capitalism’s historical ‘laws of motion’ (in particular its crisis-tendencies) loses much of its theoretical cogency and programmatic force.

In support of this argument, I stressed Marx's commitment to a 'dialectical social ontology.' In particular, I tried to disclose the internal connectedness of the social relations of production to specific forms of consciousness, and the ways in which such forms animate the dialectic of forces and relations of production that is at the heart of Marx's vision of human social development.

For Marx, I argue, the key to historical-materialist inquiry is the distinction between the natural and the social, the relation of the two being decisively mediated by 'consciousness' understood both as ideas in people's heads and as an active relation of people to their circumstances. Value relations, including the rudimentary value relations that first emerged with the advent of simple (precapitalist) forms of commodity production, encourage within the human mind a mode of abstract thinking highly conducive both to Kant's 'categories of pure reason' and to a 'dualistic' worldview. As such, value relations (via the formal elements comprising the real abstraction of exchange analysed by Alfred Söhn-Rethel [1977]) are a major factor in propelling the forces-relations dialectic through their role in stimulating the development of natural science and mathematics. At the same time, they have nurtured *dualistic* and *ideological* modes of thought that efface the necessary role of historically specific social relations of production in mediating the 'material/ natural' and the 'ideal/cultural' aspects of a unified, monistic reality.

In this new edition of *Invisible Leviathan,* I've sought to deepen my analysis of the 'essential relations' of the capitalist mode of production that are the backdrop to what is now a decades-old structural crisis of the world capitalist economy. These essential relations are precisely the social relations of capitalist production and the worsening contradiction between these relations and the labour-displacing forces of production that mark contemporary capitalism. In this connection, I want to show that Marx's account of the laws of motion of the capitalist mode of production is indispensable to an adequate analysis not only of the Great Recession of 2007-09, but also to an understanding of the historical impasse that humankind now confronts and has confronted (albeit in ever-changing ways) for over a century. Politically, this theoretical undertaking points to the necessity of responding to the increasingly evident decay of the capitalist profit system with a bold reassertion of the fundamental programmatic tenets of Marxist socialism.

In accordance with this goal, and building upon previous work, my book seeks to show why a satisfactory diagnosis of the current and on-going malaise of global capitalism must involve centrally the 'law of the tendency of the rate of profit to fall' (LTRPF), considered by Karl Marx to be 'the most important law of modern political economy'. It does so in good part by surveying and reporting some recent attempts to chart the average rate of profit, the composition of capital, and the rate of surplus value for the US economy over some six decades. The empirical trends for these 'fundamental Marxian ratios' support three central propositions:

> (i) the current global capitalist slump, manifested most acutely in the financial crisis and Great Recession of 2007–09, has its deepest roots in the persistent profitability problems of *productive capital* on a world scale;
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> (ii) these problems are an expression of Marx's LTRPF in an era that has been marked by persistently high 'compositions of capital' (reflecting technological innovations that have displaced living labor from production), as well as by the growing weight of 'unproductive capital' and 'socially necessary unproductive labor' in the richest capitalist countries; and
>
> (iii) the profitability problems of productive capital, the hypertrophy of unproductive capital and the capitalist state, and the unprecedented growth of global debt in the opening decades of the new century are interrelated expressions of an 'historical-structural crisis' of the capitalist mode of production (CMP).

The root cause of this systemic malaise, in my view, is an intensifying problem of *valorization* – a system-wide crisis in the creation of adequate volumes of aggregate surplus value, the 'social substance' uniquely extracted from living labor by productive capital. Tables 1 and 2 depict a significant consequence of this fundamental problem: long-term declining growth rates in the global economy and in the advanced capitalist economies alike.

TABLE 1

1960s	1970s	1980s	1990s	2000-09
4.9%	3.93%	2.95%	2.70%	2.58%

Average Annual Growth Rates of Global GDP by Decade

Source: World Bank

TABLE 2

1980-89	1990-99	2000-09
3.09%	2.64%	1.75%

Average Annual Growth Rates of Combined GDPs of Top 35 'Advanced (Capitalist) Economies' by Decade.

Source: International Monetary Fund, World Economic Outlook Database

In coming to terms with this loss of dynamism in the world capitalist economy as a whole, my analysis relies on both a relatively unique specification of Marx's value categories, as well as a novel delineation of what I call the 'the temporal modes of value.' Let me speak to each of these issues in turn.

Marx's three fundamental value categories are constant capital, variable capital and surplus value. I have long argued that the conventional Marxian specification of unproductive labour in relation to these categories is problematic. In particular, the conventional approach, dating from at least Paul Sweezy's *Theory of Capitalist Development* (1942), has been to treat the wages of unproductive workers as paid for out of gross surplus value. Against this, I argue that the wages of socially or systemically necessary unproductive labour are best viewed as overhead costs of capitalist social reproduction and therefore as elements of the constant capital flow. Since the Second World War, the systemic costs associated with the expansion of unproductive capital and the capitalist state, relative to productive capital, have grown significantly. If the growth of constant capital in relation to newly created value once signified a growth in the productivity of labour, it now also signifies a relative diminution of productive labour in relation to unproductive labour. As a manifestation of the historical-structural crisis of capitalism, this phenomenon points to the fact that a growing share of economic resources is used to sustain and perpetuate the distinctive institutional and class-antagonistic structures of capitalism. It signifies, in other words, that the social relations of capitalist production and reproduction are more and more an obstacle to the progressive development of the productive forces.

Originally proposed by Shane Mage (1963), this value-theoretical specification of the unproductive 'overhead' costs of the capitalist system as elements of constant capital is not only controversial but also, in my view, unjustifiably ignored. In the book, I discuss the uncertain status of these costs in Marx's own writings while defending a constant-capital specification of SNUL and most tax revenues.

The treatment of SNUL wages and tax revenues as elements of constant capital permits me to agree with the critics of the productive-unproductive distinction that these costs are indeed systemically necessary from the point of view of the social capital while also agreeing with my fellow defenders of the productive-unproductive distinction that it is incorrect to treat the labour (and wages) of workers employed in finance, trade and many service industries as part of variable capital (that is, as directly productive of surplus value). The constant-capital specification of these systemic overhead costs compels us to recognize that unproductive capital and SNUL are at once necessary to over-all capitalist profitability and hazardous to it. But to theoretically justify this specification we are obliged to conceptualize the category of constant capital (which Marx calls 'previously existing value') as the value expression not only of physical means of production (its operational definition at the level of abstraction of the first volume of *Capital*) but of all the expenses and investments implicated in the total process of capitalist production and reproduction apart from living, productive labour. For Marx, it is only the latter that creates the new value that enters into profit-of-enterprise, interest and rent (the principal components of surplus value) as well as the wages of productive workers themselves.

Marx's hypothesis of a rising OCC leading to a falling rate of profit (ROP) found strong support in my early empirical study of the Canadian economy from 1947 to 1991 (Smith and Taylor 1996). This study produced what might be considered an 'ultra-Marxist' set of conclusions regarding the long-term dynamics of capitalist development between 1947 and 1975: a falling ROP, a gradually increasing rate of surplus-value and an impetuously rising OCC. In the ensuing 1976-91 period of capitalist 'restructuring' in response to the profitability crisis, the trend lines for the ROP and the OCC become flat and the rate of surplus value rises sharply.

By counting only after-tax profits as surplus value (and refusing the notion of a 'gross' or a 'maximum' rate of profit that would include taxes and SNUL wages), I argue that the rate of profit that actually determines the vicissitudes in the mass of profits and thereby drives the investment decisions of the capitalist class can be more accurately established.

Let me turn now to the issue of the temporal modes of value.

The theoretical presupposition of Marx's theory is that economic value originates in social labour and must be conceptualised both in terms of the *class dynamics* of capitalism and *temporally*. Value is above all a *social relation*, the substance of which is abstract labour, the measure of which is socially necessary labour time, and the form of appearance of which is money. The fundamental value categories of constant capital, variable capital and surplus-value are vital to conceptualising the specifically capitalist mode of class exploitation, the process of capital accumulation, and the distribution of value in national income and gross output. But the Marxian theory of capitalist crisis – and especially any Marxian theory of the historical-structural crisis of the capitalist mode of production predicated on the LTRPF – must also distinguish between three *temporal modes* of value: previously existing value (PEV), new or currently produced value (NV), and anticipated future (not-yet-existing) value (AFV).

In Marx's theory, the concept of constant capital corresponds to PEV, while variable capital and surplus-value are two forms of NV whose relative magnitudes are, within certain limits, determined by class struggle. The concept of AFV is not fully developed by Marx but is nevertheless implicit in his discussions of the credit system and 'fictitious capital'. Stocks, bonds and debt obligations, together with more recent innovations in fictitious capital such as collateralised debt obligations and credit default swaps, constitute claims on current and previously existing value (NV and PEV) but also wagers on AFV – value that has yet to be, and that may never be, produced.

Fictitious capital has long played an important role in the operations of capitalist economies and should by no means be viewed as purely parasitic or predatory. Fundamentally, however, it is money capital seeking to enlarge itself through speculative claims on future income, signifying an attempt on the part of a fraction of the social capital, centred in the financial sector but involving other sectors as well, to liberate itself from the problems of the 'productive economy' and the constraints of the law of value, above all the tendency of the rate of profit to fall.

The downward pressure on the rate of profit of productive capital, associated with a rising composition of capital and an enormous expansion of the constant capital flow, has brought about a deepening, systemic *crisis of valorisation*. Inadequate levels of surplus-value production (relative to overall systemic costs) have compelled dominant fractions of the social capital in the richest capitalist countries to rely on 'investment strategies' predicated on speculation, an extraordinary expansion of credit and debt, criminal parasitism and, following the financial crisis of 2007–09, massive central-bank money-printing ('quantitative easing'), rather than on the production of commodities embodying surplus-value.

Hence, money profits, particularly in the financial sector, are less and less likely to represent 'redistributed' shares of surplus-value originating in capitalist production and are more and more likely to represent determinate shares of 'anticipated future value' (AFV) circulating as paper assets in an increasingly debt-burdened economy.

My claim is that the proliferation of forms of fictitious capital whose 'temporal value composition' is weighted more and more toward AFV has emerged as a hallmark of the historical-structural crisis of capitalism in the neoliberal era – an era whose latest phase might well be dubbed *the age of fictitious capital.* The proliferation of fictitious capital and the generation of fictitious profits are expressions of an advanced stage of decay of the profit system. The 'value' rate of profit – conceptually apprehended in terms of the socially necessary abstract labour *currently* constituted by the social division of labour – has been subject to powerful downward pressures. The active response of the agents of capital, following many 'failed' responses to this problem of valorisation, now involves a massive expansion of credit and debt as a means of sustaining the system – and the result of this is a 'money' rate of profit that is increasingly autonomous from the (underlying) 'value' rate of profit – that is to say, increasingly reliant on purely fictitious claims to value. The 'money form' seeks more and more to assert its independence from socially necessary abstract labour time by acquiring a strong foundation in 'relations of credit/debt'. Hence: money printing, quantitative easing, the burgeoning gap between the 'value' of total securities in the global economy and the value of current real output.

As the flow of constant capital (PEV) grows relative to the flow of NV (due to the declining role of productive wage-labour in the capitalist economy), there is a corresponding tendency for representations of AFV to acquire increased importance. This process is manifested in the proliferation of *increasingly fictitious* forms of financial capital and a malignant growth of unsustainable debt. Consequently, the true extent of the 'valorisation crisis' of late capitalism is concealed by the false appearance of (some) AFV as part of the 'profit' component of currently produced surplus-value. Booked profits, as these appear in conventional national income accounts, reflect not only a determinate share of the new value produced by productive living labour, but also 'fictitious profits' that have no substantial foundation in the value-creation process. Fictitious profits also make up a growing proportion of the personal income of the top 1 percent of 'wage and salary' earners, and especially the top 0.1 percent.

To be sure, some profits that do not arise from the current exploitation of living labour represent *transfers* within the circuits of capitalist revenue (NV) or from certain streams of constant capital (for example, PEV flows originally ear-marked for state expenditures). Such profits can be conceptualised as 'profit upon alienation' or 'profit through dispossession'. But alongside such (non-NV) profits exists a growing mass of fictitious profits (above all in the financial sector) that constitute claims on AFV in the form of debt obligations – and therefore claims on income whose actualisation depends on the future performance of productive labour.

The mechanisms through which 'booked profit' is bolstered by transfers involving one or another form of AFV are numerous and are in need of substantial additional research. Nevertheless, theoretical acknowledgement of this reality is vitally important to registering the significance of the long-term divergence between the rate of profit on productive capital and the rate of profit on financial capital. The more robust performance of the latter compared to the former has been one of the most striking features of capitalism in the so-called 'neoliberal era.' At the same time, however, it can be seen as constituting a new and rather significant 'adulteration' of Marx's LTRPF – one that further complicates the already daunting task of evaluating this law through empirical analysis.

Excerpts from Chapter One of *Invisible Leviathan:*

The Triple Crisis of the Twenty-First Century

Global capitalism, with humanity in tow, is now facing a triple crisis: 1) a deepening structural contradiction of the capitalist mode of production, one manifested as a multi-dimensional crisis of 'valorisation' – that is to say, a crisis in the production of 'surplus-value', the very lifeblood of the profit system; 2) an acute crisis in international relations stemming from the fact that the global productive forces are bursting the confines of the nation-state system, whose individual units continue to address their gravest problems in primarily 'national' ways; and 3) a growing 'metabolic rift' between human civilisation and what Marx called the 'natural conditions of production' – the ecological foundations of human sustainability. Together, these interrelated crises suggest that we have now entered a 'twilight era' of capitalism – one in which humanity will either find the means to create a higher and more rational order of social and economic organisation, or in which decaying capitalism will bring about the destruction of human civilisation.

Very few on what passes for 'the left' wish to consider, much less accept, this assessment. To the contrary, most would-be progressives cling desperately to the notion that 'neoliberal capitalism' is but the ugly mutation of a set of short-sighted policies that the capitalist ruling class may prefer but might also be pressured to abandon in favour of a more humane, just, and equitable species of capitalism. For this reason, the established, 'reform'-oriented left is loath to characterise neoliberalism for what it is: *a predictable and inevitable strategic response* on the part of capital and the state to a deepening crisis of the capitalist profit system – *a crisis that has been unfolding now for several decades*. Even many who describe themselves as Marxist socialists often deny – or at least downplay – the extent to which economic trends have served to confirm Marx's major predictions regarding capital's 'laws of motion', above all 'the law of the falling rate of profit', and his related observation that 'the real barrier to capital is capital itself'.

In the last analysis, such attitudes reflect the still hegemonic view that capitalism is – or can be made to be – a 'rational' system. To be sure, given the power of the capitalist class to shape the dominant ideology of capitalist society, this view has always been difficult to combat, despite the growing weight of evidence against it. All the same, it has only gathered renewed strength with the disappearance of Soviet style 'actually existing socialism', as well as the turn toward a 'socialist market economy' (with pronounced 'capitalist characteristics') in China. Rational or not, most have concluded, capitalism is here to stay, and escaping from it simply impossible.

This fatalistic outlook has a clear elective affinity with the fading hope that capitalism might still be reformed in progressive ways – and that it may not be as irredeemably irrational as Marx thought. For the more complacent segments of the left intelligentsia, Marx's analysis of capitalism's 'economic law of motion' strikes an inconvenient blow to that hope, and is, in any case, too uncompromisingly radical in what it calls for by way of remedial action. On those grounds alone, according to the reformist argument, it must be dismissed! Not exactly a scientific attitude, to be sure, but one that is plainly comforting to many would-be progressives, especially if reassurances are forthcoming from a host of left intellectuals that the status of Marx's own 'science' is suspect.

To be sure, more than blind faith in capitalist rationality has been involved in deterring interest in Marx's scientific critique of capitalism and its relevance to explaining our contemporary troubles. Undoubtedly, some specific features of the financial crisis that erupted in 2007–08 have encouraged a revival of interest in non-Marxist (and certain 'neo-Marxist') theories that emphasise the long-term impact of growing inequality, stagnant or declining real wages, and consumer indebtedness as the 'fundamental cause' of capitalist crisis. Many avowed liberals and non-socialist 'progressives' have called for a return to classical Keynesian policy nostrums to stimulate aggregate demand, along with measures to rein in financial capital. High-profile academics and journalists like Paul Krugman, Thomas Piketty, Robert Reich, Joseph Stiglitz, and Martin Wolf have been especially prominent in this chorus. …….

It is worth noting here, in anticipation of arguments developed later in this book, that among the ostensible Marxists or 'neo-Marxists' avidly supporting a turn … toward such policies are many proponents of the notion that capitalist crises stem from 'underconsumption' or 'problems in realising surplus-value' – and not, as Marx insisted, from *inadequate production of surplus-value* …. It should also be noted that such policies have found scant support in ruling-class circles and political elites; their main function being, it seems, to keep alive the hope that 'capitalism with a human face' is at least a *theoretical* possibility, the better to discourage interest in socialism as an alternative amongst workers, youth, and left-leaning intellectuals.

Against the current of all such ostensibly 'progressive' thought, the purpose of this book is to uphold Marx's original analysis of capitalism, not only as the most fruitfully scientific framework for understanding contemporary economic problems and trends, but also as the indispensable basis for sustaining a revolutionary socialist political project in our time. It does so by examining the crisis-inducing dynamics and deepening irrationality of the capitalist system through the lens of Marx's 'value theory' – which, despite the unfounded claims of its detractors, has never been effectively 'refuted' and which continues to generate insights into the pathologies of capitalism unmatched by any other critical theory.

Capitalism, Marx insisted, is above all a *class-antagonistic mode of production* with several characteristics that are peculiar to it. But as with all previous modes of production founded on class exploitation, it faces definite *historical limits* rooted in a conflict of material interests between its major social classes: the wage-earning working class and the capitalist class. 'At a certain stage of development', Marx wrote, '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 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'.

To assert that capitalism has reached its twilight phase is to say that it has *long since* reached a stage where the conflict between its forces and its relations of production has become acute. The relations of production are constraining the development of the creative and productive capacities of humankind in crisis-inducing ways, and those already well-developed capacities are in turn disrupting the social imperatives and 'logic' of a society that remains divided into antagonistic classes. The result is *a historical-structural crisis* that only Marxism can illuminate: for only Marxism offers the necessary theoretical framework for grasping the contradictory, irrational, and increasingly dangerous trajectory of the capitalist mode of production – an ensemble of social relations and human capacities, of technology and societal organisation that, more than ever, demands to be understood in a global context and that, no less than in the past, remains in the grip of a law that its own property relations and institutional forms imperiously necessitate: *the capitalist law of labour value*….

Ardent believers in capitalist 'free market economics' have long contended that, in principle, the crisis tendencies bred by capitalism can be significantly mitigated and eventually fully contained, once the right 'mix' of state economic policies is formulated. The history of 'actually existing capitalism' suggests otherwise. Despite the confidence expressed by mainstream economists during the 1950s and 1960s that world capitalism would never again experience a severe depression, the period from 1974 to 2009 saw four of the most severe global recessions/depressions of the past century, and the world economy remains today in the grip of a malaise that shows little sign of lifting. To reiterate, Marx's theory of labour value remains the *indispensable* foundation for explaining economic phenomena that non-Marxist economic thought (whether in its classical, neoclassical, Keynesian, post-Keynesian, monetarist/ neoliberal or institutionalist variants) has manifestly failed to explain or even to anticipate. Why has capitalism been unable to 'outgrow' its tendencies toward severe economic crisis? Why is capitalism so capable on the one hand of stimulating progress in science, technology, and labour productivity and so incapable on the other of translating this progress into enduring gains in living standards for the great majority of the working population? Why are positive rates of growth in productivity on a world scale accompanied by declining average rates of profit for productive capital? And why has capitalism, as a world system, ceased to contribute to the progressive development of the 'productive forces' of humankind – most obviously by chronically underutilising the talents and energies of billions of people around the world now relegated to the status of 'precariat' or, more accurately, 'surplus population'?

For those who grasp the essential theses of Marx's theory of value, surplus-value and capital, the answers to these questions are in clear focus. The anomalies and the irrationalities of capitalist reality are to be explained fundamentally by the fact that this reality encompasses four tendentially contradictory principles of social organisation, four interpenetrated yet distinguishable 'relations of production and reproduction': the relation of *formal equality* existing between economic actors and the products of labour within capitalist markets; the *exploitative* relation existing between those who monopolise the ownership of the means of production and those who must sell their labour power for wages or salaries in order to secure a livelihood; the *competitive* relation existing between all economic actors in markets but above all between the owners of capital; and the *co-operative* (objectively socialised) relation existing between producers in a global division of labour that has become ever-more detailed, elaborate and interdependent. While the co-existence and interpenetration of these social relations would seem to be quite problematic, historically their interaction within the totality that is the capitalist socio-economic system has been a source of great dynamism in extending human productive capacities. All the same, Marx insisted that this dynamism was destined to become ever more one-sided and that, in due course, capitalism would substantially exhaust its (always contradictory) role in promoting human progress and development. Accordingly, Marx rested his indictment against capitalism not simply on the claim that the system was 'unjust', but centrally on its growing tendency to generate waste, to block the development of human capacities, and to divert human energies (both physical and mental) into non-productive and increasingly destructive pursuits.

Marx's theory of labour value is at the very core of this indictment against capitalism. At bottom it is an account of what might be described (with apologies to neither Thomas Hobbes nor Adam Smith) as an *Invisible Leviathan* – a structure of socio-economic relations that has usurped from conscious humanity effective control over the socio-economic life process and imposed a set of socially grounded laws that are both very powerful and deeply hidden from view. Its crowning law, the capitalist law of value, compels humanity perforce to apply a single yardstick in the measurement of 'wealth': the yardstick of 'value', of *abstract socially necessary labour time*.

Within a society founded upon capitalist social relations of production and reproduction, the measurement of social wealth in these terms is 'unconscious', in that it is effected through impersonal market mechanisms, and yet decisive to the developmental trajectory of the economy and the division of labour as a whole. Accordingly, certain forms of activity will be recognised as 'wealth-generating' (regardless of how socially destructive they may be – for instance, the production of armaments or supermarket tabloids), while other forms will not enter the economic calculus at all, despite their socially valuable character (for example, voluntary care-giving of children and the elderly). As capitalist production as a whole meets the demand generated by aggregate 'purchasing power' with a range of goods requiring less and less labour input, the material wealth of society in physical terms may expand even as its measurement in terms of labour-time suggests, rather perversely, that society is becoming 'poorer'. This is because the measurement of material wealth in terms of social labour-time (whose phenomenal economic expression is *money*) means that, under conditions of labour-saving and labour-displacing technical innovation, capitalist society tends toward a zero-sum situation in which any gains in income or real wealth must come at the expense of other economic agents, and in which it is quite possible for aggregate purchasing power to decline (as it does under conditions of economic contraction). In other words, social 'wealth' is measured by criteria informed by the *socially antagonistic* (exploitative and competitive) character of capitalist production and exchange.

At bottom, Marx's theory of labour value states that the sole source of 'value' within a capitalist society is living human labour and that the sole source of 'surplus-value' (the social substance of profit) is the surplus labour performed by workers in excess of the necessary labour required to produce the value represented by their wages. To the great majority of the population who rely for their livelihood on the sale of their labour power (whether for a wage or a salary) these propositions should require little proof, a point that I have underscored elsewhere:

> In a capitalist society, the material output of the economy-wide division of labour is distributed and consumed in accordance with people's ability to purchase it with money – which serves not only as a means of exchange but, above all, as a claim on abstract social labour. Marx's proposition that money is the necessary 'form of appearance' of abstract social labour may not seem immediately obvious. But consider this: apart from those who subsist on state-funded social assistance or private charity, people possess money for two basic reasons – they either earn it through the performance of labour or they obtain it by virtue of their ownership of property. The vast majority of the population immediately sees the connection between their labour and the value represented by the money in their possession. At the same time, however, the origin of the money income of those who do not labour and have never laboured for a living seems more obscure. Even so, it's not difficult to understand that those few who hold significant property assets 'earn' their

> money primarily by getting others to perform labour on their behalf. There can be no money profit, money rents, money dividends or any other form of money income for those who own factories, mines, land, apartment blocks, retail stores or banks unless there are people labouring to create the value that finds expression in corporate profits, ground rent, interest and wages. To put the matter starkly, the class of big capitalist property owners can earn income only by exploiting those who labour for a living – that is to say, by paying workers far less than the total 'new value' created through the performance of their labour and by appropriating the difference as 'surplus-value'. (Smith, 2010, p. 5)

The fact that, in the face of these rather obvious realities, 'proof' for the labour theory of value can still be demanded by the capitalists and their ideological apologists attests to the remarkable ability of capital to represent itself as an 'independent' source of 'value' and to confuse the categories of value, money, and wealth. The point of Marx's theory is precisely to establish that the economic category of 'value' – together with those of wages, profit, interest, and so on – is bound up with the existence of the social relations of production/reproduction characteristic of a 'commodity economy', that of capitalism. *Value and wealth are therefore by no means synonymous.* Indeed, implicit in Marx's theory is the notion that the measurement of wealth in terms of 'value' (abstract, socially necessary labour-time) at first stimulates but eventually impedes the production of wealth (useful physical output to satisfy human needs and desires). This is the burden of Marx's 'law of the tendency of the rate of profit to fall': capitalism simultaneously promotes improvements in the productivity of labour, through labour-saving and labour-displacing technological innovation, while continuously measuring material wealth ('use-values') in terms of money representing abstract social labour. A diminishing volume of newly created 'value' relative to the money capital invested means lower profitability, in spite of rising productivity! This perverse state of affairs – *falling profit rates associated with rising labour productivity* – points to the fundamental irrationality of capitalism and reveals starkly why profit must always be inimical to the satisfaction of human needs. But this irrationality is not at all inherent in the human condition, for 'the productive forces developing within bourgeois society create also the material conditions for the solution of this antagonism'– highly advanced technology, very high levels of labour productivity, and a workforce capable of reorganising society along socialist lines.

Thus, … wealth (understood as the useful things and services that define people's living standards and their ability to continuously meet their needs) can indeed be 'generalised' to all of the world's people once it ceases to be measured in socially antagonistic ways – 'relationally', to be sure, but above all in terms of 'abstract socially necessary labour'.

This is a revolutionary suggestion. Yet it flows quite logically from a theory with an excellent track record in charting the course of capitalist development. As such it deserves to be considered with the utmost seriousness, particularly when it is appreciated that, decade over decade, the rate of growth of the global economy has fallen since the 1960s and that, so long as capitalism exists, *higher* growth rates for all sectors of the world economy are needed to provide for growing populations and to mitigate practices contributing to ecological degradation. For if Marx's forecasts are indeed confirmed for our time, if the capitalist law of value *has* exhausted its potential to contribute to the creation of real wealth and to meeting human needs on a global scale, then it becomes incumbent upon us to seek out a new form of socio-economic organisation, one that can transcend this obsolescent law while also subsuming under itself the tremendous developmental potential of the science, technology, and world division of labour that capital has fashioned over the past few centuries.

I am well aware that the objection will be made that Marx's own prescription for this new social form has been found wanting 'in practice'. Although the principal purpose of this book is not to refute this now tiresome argument, a few comments are perhaps in order. In my view, Marx's own vision of the transition to a socialist society presupposes several conditions that have been largely absent from all of the 'experiments in socialist construction' over the past century: a revolutionary working-class movement, pursuing its emancipatory project on a global scale; a functioning democracy of the associated producers and consumers; a highly developed level of productivity; the availability of ample 'free time' permitting the full involvement of working people in political, cultural, and civic activities; and a well-articulated socialist international division of labour. Lacking in these conditions, the transitional, Stalinist-ruled societies of the East registered many impressive accomplishments – though at a human cost exceeded only by Western capitalism in its era of industrialisation and worldwide expansion. However, they were unable (or, in the case of China, North Korea and Cuba, have *not yet* been able) to reach the critical threshold of truly socialist relations of production. In my opinion, the responsibility for this failure is one that ultimately falls most heavily on those ostensibly socialist and working-class leaders in the advanced capitalist world who retreated from the programme of social transformation and who justified this retreat in good part by denying the validity of Marx's value-theoretical critique of capitalism – almost always without having ever bothered to study or understand it.

Let us speak plainly. The rhetoric of 'free market economics' is the euphemistic ideological mantle of a despotism that has most of humanity in its grip, capitalists and workers alike: the despotism of Adam Smith's 'invisible hand', of market forces operating behind the back of the human collectivity whose destiny they shape. This despotism has decreed that the economic life of human beings, the basis upon which all modes of life depend, is to be governed by the capitalist law of labour value, whether or not its subjects consciously understand this, and whether or not it serves the collective needs of humanity. To defeat this despotic power will require an uncompromising revolutionary will to break free from the fetters imposed by capitalist social relations and to subject the processes of production and reproduction to the *conscious* decision-making of working people collectively organised. Such revolutionary resolve, however, must be nurtured by a hard-won prior recognition – that the capitalist law of value is by no means an eternal feature of human society and that it can indeed be transcended.