

# The law of value and the crisis of capitalism

Nick Beams  
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*The following is the third in a series of exchanges between Nick Beams, the national secretary of the Socialist Equality Party in Australia and WSWS editorial board member, and Stan R. The earlier exchanges are linked at the conclusion of the present correspondence.*

To Nick Beams:

I've reread your two messages on value and I believe I understand their argument & intention. There can only be one conclusion: in a world based on labour power which alone creates value, those who have appropriated anything beyond an equal share of value have, in effect, deprived those below—who must do with less. Any appropriation, any property in excess of the average, is a theft from those who had, or have, originally created it. The argument is convincing. Of course, what to do about it needs careful treatment.

It struck me, as I perused your description of the creation of wealth, the Marxist view, that Marx might have been way ahead of his time in an area least foreseen: chaos theory. (I am dead serious about this.) Firstly, on the surface, the workings of capitalism seem fairly random to its constituents; some profit, others don't; some are lucky or skillful, others aren't. The economists, for all their knowledge & experience & theorising, rarely can explain what has happened and what will happen, successfully. To date there is no single theory explaining any economy or sub economy, anywhere. There is no predictability at the micro level.

Chaos theory agrees with this, that at the micro level of any non-symmetrical system, say water or air turbulence, predictions as to how the turbulence may be resolved cannot be made. The fate of two molecules starting beside one another cannot be predicted when the turbulence is resolved. The process seems chaotic, incapable of description or of control.

This is where chaos theory begins. Mathematicians began finding symmetries in non-symmetrical, chaotic systems. Intricate, mathematically definable symmetries. Physicists joined them and produced beautiful symmetrical computerised illustrations of symmetry in non-symmetrical systems. Have a look at the Mandelbrot Set. These chaotic systems, in the big picture, are perfectly symmetrical. They reproduce themselves, in intricate but mathematically precise dances, infinitely. So what seems chaotic up close....

Does it seem far fetched to ascribe to Marx something so intuitive, complex and yet so simply explainable when you understand the system you look at? Perhaps.

Einstein didn't like Quantum Mechanics. It involves the unpredictability of the forces inside the atom. Einstein said—God doesn't play dice with the universe.

With Quantum and Chaos Theory the reply has come: God does play dice with the universe but the dice are loaded.

Regards,

Stan R.

Dear Stan R,

Thank you for your latest e-mail on the question of value. I am glad that you are finding my replies easier to understand. But I fear that if the conclusion you have drawn is that "property is theft" then we are still a long way from agreement.

The position you advance that appropriation over and above an "equal share of value" is theft from those who created it is not new. In fact it was explicitly criticised by Marx when it was put forward by the petty-bourgeois socialist Proudhon in the 1840s.

In addressing the question *What is property?* Proudhon concluded, as you now do, that property is theft. As Marx made clear, such an explanation, while it had a certain iconoclastic form (at least in the 1840s at the beginning of capitalist development) essentially answered nothing.

"The most that can be got out of this," he wrote, "is that the bourgeois juristic conceptions of 'theft' apply equally well to the 'honest' gains of the bourgeois himself. On the other hand, since theft as a forcible violation of property *presupposes the existence of property*, Proudhon entangled himself in all sorts of fantasies, obscure even to himself, about *true bourgeois property*" (Marx, Letter to J. B. Schweitzer in *The Poverty of Philosophy* p. 196).

Let us turn to the place of the law of value in Marx's analysis. According to this law, the value of a commodity is determined by the amount of socially necessary labour time which it embodies.

Contrary to the assertions of countless bourgeois economists down the years that the law of value was an arbitrary construction, Marx's aim was not to show that capital exploits the working class. That had already been demonstrated by socialists in the 1820s. Basing themselves on Ricardo's analysis, which showed that profit was a deduction from new value created by labour, these Ricardian socialists had already issued some ringing indictments of the capitalist mode of production.

Consider, for example, the analysis of William Thompson, published in 1824 under the title *An Inquiry into the Principles of the Distribution of Wealth, Most Conducive to Human Happiness*. He writes:

"The constant effort of what has been called society, has been to deceive and induce, to terrify and compel, the productive labourer to work for the smallest proportion of the produce of his own labour." "Why not give him the absolute produce of his labour?" "This amount of compensation, exacted by the capitalists from the productive labourers, under the name of rent or profits, is claimed for the use of land or other articles. ... For all the physical materials on which, or by means of which, his productive powers can be made available, being in the hands of others with interests opposed to his, and their consent being a necessary preliminary on his part, is he not, and must be not always remain, at the mercy of these capitalists for whatever *portion of the fruits of his own labour* they may think proper to leave at his disposal in compensation for his toils?" "... in proportion to the amount of *products withheld*, whether called profits, or taxes, or theft" (see Engels, Preface to *Capital*, volume II, p. 14).

Marx's aim was not to expose exploitation as such—although of course he does this—but to lay bare the law of motion of capitalist society, to reveal the driving forces of this mode of production, its historical role in the development of mankind (above all in the specific way in which it develops the productivity of labour) and to show how this very development of the productive forces and the productivity of labour leads to its breakdown and to the necessity for its overthrow by the new social class, the working class, to which it has given birth.

In his preface to Volume II of *Capital* Engels writes that "the existence

of that part of the value of products which we now call surplus value had been ascertained long before Marx. It had also been stated with more or less precision what it consisted of, namely, of the product of labour for which the appropriator had not given any equivalent. But one did not get any further. Some—the classical bourgeois economists—investigated at most the proportion in which the product of labour was divided between the labourer and the owner of the means of production. Others—the Socialists—found that this division was unjust and looked for utopian means of abolishing this injustice. They all remained prisoners of the economic categories as they had come down to them” (Preface to *Capital*, volume II, p. 16).

Then Marx appeared on the scene. He saw that “it was not simply a matter of stating an economic fact or of pointing out the conflict between this fact and eternal justice and true morality, but of explaining a fact which was destined to revolutionise all economics, and which offered to him who knew how to use it the key to an understanding of all capitalist production” (ibid).

Here it is necessary to grasp Marx's method. It is not possible, he insisted, to undertake an analysis of capitalist society by simply laying hold of the economic categories and social forms—wage labour, capital profit, rent, interest, stocks and shares etc.—in which it presents itself. Clearly, despite the assertions of bourgeois economists that “capital accumulation” began way back in the mists of time with the development of the means of production, these economic forms did not accompany mankind in his descent from the trees to the earth. They emerged historically and cannot be simply taken as given but must be explained.

Accordingly, Marx begins his analysis with an examination of the most basic cell-form of capitalist society, the commodity, and the laws governing its exchange. The analysis of the commodity form reveals the origins of money, capital, wage labour and surplus value. Further analysis shows how surplus value is distributed in the forms in which it appears on the surface of capitalist society as profit, rent and interest.

In his analysis of capital and wage labour Marx lays bare the origin of surplus value under capitalism. The secret of any class society, he notes, is to be found in the specific mechanism through which surplus labour is pumped out of the direct producers. The mode of exploitation in earlier class societies—such as slavery and feudalism—is transparent. It takes place through political forms.

How does it take place in capitalist society, a society in which the direct producers, unlike those of feudalism and slavery are free? How does it take place in a society which is based upon the law of value in which equivalents are exchanged for equivalents, in which the worker is paid the full value of the commodity which he sells to the capitalist and in which the capitalist is able to receive for the commodities he sells on the market only the value which they embody?

In Volume I of *Capital* Marx shows how the extraction of surplus value does not violate the law of value, according to which equivalents are exchanged for equivalents, but proceeds in accordance with it.

The crucial turning point in Marx's analysis is the discovery of what it is that the worker actually sells to the capitalist through the wage contract.

The wage worker, unlike the independent commodity producer, does not sell to the capitalist the product of his labour—that is never his to sell in the first place—but rather his capacity to labour, or labour power

Having purchased this commodity the capitalist then consumes it by putting the labourer to work in the production of commodities in the factory or workplace. However, the value which is added by the worker in the production process—whether it be the production of cars or computer software programs—is greater than the value of the commodity (labour power) which he sold to the capitalist. The capitalist, as the owner of these newly-created commodities, is entitled, like every other commodity owner, to realise the value which they embody, comprising the value of the raw materials and machinery used up in the production process and the

new value added by the worker.

Thus, Marx shows how, assuming that equivalents exchange for equivalents and that the commodity owners (both capitalist and worker) receive the full value of the commodity they sell, surplus value is appropriated by capital.

In Volume I, Marx treats capital as a single whole in order to reveal the origin of surplus value. But this is an abstraction. Capital as a whole consists of many capitals which employ labour in different proportions. In some industries there will be a higher proportion of machinery and raw materials relative to labour than in others.

In considering this fact, a contradiction arises. If the law of value were to determine directly the exchange relations between commodities in the market then we would find that those industries where there was a higher proportion of labour relative to raw materials and machinery (constant capital) and therefore a greater mass of surplus value, would enjoy a higher rate of profit, calculated as the ratio of the mass of surplus value extracted to the total capital employed.

As I pointed out previously, a simple numerical example makes this clear. In a capital of 100, divided in the proportions 80 for raw materials and machinery and 20 for labour power and in which the value added by labour is 40, the value of the commodity produced would be 120 the surplus value would be 20 and the rate of profit 20 per cent. In another industry where a capital of 100 was divided in the proportions 60 to 40 and where the new value created was 80, the value of the commodity would be 140 and the rate of profit 40 percent.

Thus if commodities exchange at their value we find that equal quantities of capital yield different rates of profit, depending on proportion in which labour is employed in the production process. But this result contradicts the well-established historical fact that the rate of profit tends to equalise across all industries. How then is the law of value reconciled with this fact?

Marx shows that in fact the law of value does not determine the exchange relations directly, but indirectly. In capitalist society, the prices of commodities in the market fluctuate not around their values but their prices of production—the price at which each section of capital will receive profit at the average rate.

This average rate is determined by the ratio of the total surplus value extracted from the working class to the total capital employed in society as a whole. In other words, the surplus value extracted by capital as a whole will be divided up among the many capitals such that each section of capital will receive a share of the available surplus value proportionate to its share of the total capital.

This division of surplus value does not take place according to a conscious plan but through the competitive struggle in the market. If capital in one area receives greater than its share of surplus value, that is, if its profit rate is higher than the average, capital will move into that area, increasing the supply of commodities to the market and bringing down their price until the profit rate has fallen to the social average. Likewise, in areas where profit is below the social average, capital will flow out of those industries, lessening the supply of commodities on the market and increasing their price until profit rates rise to the social average.

In other words, the apparent chaos of the market—the continuous movement of prices and capital—is indirectly regulated by the law of value.

The issue here is not the random or chaotic nature of this process, or whether, as you put it, “the dice are loaded” (the implication being that it is somehow unfair) but what are the objective tendencies at work and where they are leading.

In the struggle to appropriate surplus value, each section of capital is driven to develop the social productivity of labour. It will receive a portion of the total available surplus value at the average rate provided it carries out production at the average level of productivity. However, the

average level of productivity is itself changing. If capital in one industry, or section of an industry, is able to increase productivity and thereby lower costs it will enjoy profits at higher than the average rate. As more firms adopt the new methods—under the threat of being driven out of business if they do not—so profit rates will fall back to the average. And so the struggle goes on.

In its continuous striving to appropriate surplus value capital is compelled to develop the productivity of labour. But the development of labour productivity means driving labour out of the production process. However, surplus value arises from the exploitation of living labour.

Capital is therefore a “moving contradiction, in that it presses to reduce labour time to a minimum, while it posits labour time, on the other side, as the sole measure and source of wealth” (Marx, Grundrisse, p. 706).

Capital can only resolve this contradiction only insofar as it is able to increase the rate of exploitation (the amount of surplus value extracted from each worker) by an amount sufficient to compensate for the loss of surplus value which takes place because labour has been driven out of the production process.

At a certain point, however, the increase in surplus value arising from increased exploitation will be insufficient to compensate for the loss of surplus-value producing labour.

The historical role of the capitalist mode of production is the development of the social productivity of labour—a process which is driven forward by the incessant struggle to extract and appropriate surplus value. But this very process undermines the extraction of surplus value itself. Herein is the origin of the “breakdown tendency” which is central to Marx’s analysis of the capitalist mode of production.

The development of the social productivity of labour is the development of the productive forces and material wealth. But this comes into conflict with the social relations of capitalism based on the extraction of surplus value through the exploitation of wage labour. Herein lies the origin of the social crisis which confronts the international working class. The more it develops the social productivity of labour, the more capital increases the difficulty of extracting surplus value, the basis of the profit system. It seeks to overcome this crisis by means of increasingly frenzied efforts to claw back all the previous concessions it has been forced to make to the working class in the form of higher wages and improved social services, giving rise to all the social ills which afflict the masses the world over.

The development of the social productivity of labour, prepared by the historical development of capitalism, has laid the objective foundations for the creation of a new and higher form of society. But while the productive forces remained entrapped within the social relations of the profit system, based on wage labour and capital, this increase in productivity can only bring greater poverty and misery for the producers of that wealth—the international working class. Herein lies the historical necessity for the socialist revolution. That is the real meaning of Marx’s analysis of the operations of the law of value.

Yours sincerely,

Nick Beams



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