Reply to a criticism of globalisation lecture

11 June 2001

Dear editor,

Re: "Globalisation: The Socialist Perspective, Part Three"

I think Nick Beams is wrong, when he writes:

"Consequently, the structure of global capital increasingly takes the form of an inverted pyramid as the mass of fictitious capital claiming a portion of surplus value grows by leaps and bounds in relation to the productive capital which must ultimately meet these demands.

Let me cite some figures that illustrate this phenomenon. At the beginning of 1999, America Online, employing 10,000 people, had a market capitalisation of $66.4 billion. However, General Motors, employing 600,000 workers, had a market value of $52.4 billion. Both sections of capital claim a share of surplus value according to their market value. But it is clear that the contribution to the overall accumulation of surplus value available to capital as a whole made by America Online, employing just 10,000 workers, is far less than General Motors employing 600,000. Even if all the America Online workers were employed for 24 hours a day and paid nothing they could not contribute the same amount of surplus value as is extracted from the General Motors workers.

In the case of Yahoo! this contradiction—between the claims made by capital on surplus value on the one hand and its actual extraction on the other—is even starker. Yahoo!, with just 673 employees, had a market value of $33.9 billion.

This inverted pyramidic structure of global capital is the source of its extreme instability. Hundreds of billions of dollars of capital, seeking to sustain its rate of return, surge through world markets in search of profit."

I think he is wrong, because... Human capital is not homogeneous. In general, all capital does not enjoy the same rate of return. It should not come as a surprise that human capital employed in knowledge-based industries has a higher economic rate of return (or "surplus value") than human capital employed in low-skilled occupations. After all, if you needed a brain surgeon, would you ask who the cheapest was? However, to the extent that knowledge-based workers can command higher and higher wages, the return (profits/wages) on human capital will fall if corporate profits begin to fall. When growth slows, as in a recession, a company in the absence of wage freezes or cuts will "let go" employees to maintain an adequate return on capital. The valuation one attributes to a company is really a function of two factors, "return on capital" and the degree to which capital can be scaled up without experiencing diminishing returns.

The second factor refers to the idea that there exist limits to growth. We live on a planet with finite resources and hence finite possible allocations. Nothing can continue to grow indefinitely. This is also referred to as the "Law of Large Numbers", or in Marxist philosophy, as the "Crisis of Capital". At least, that is how I understand the term "Crisis of Capital". As far as market caps go, they don't really mean anything. Price and Value are not the same thing. P=V is the classic error that Marx made in his analytic body of work. Put another way, if GM could figure out a way to employ just 10,000 people and still remain as profitable, don't you think they would? Consider robots...

RP

Dear RP,

Your criticism of my remarks in the lecture "Globalisation: The Socialist Perspective, Part Three" is based on a fundamental misconception which is, unfortunately, widely promoted in the teaching of so-called "economics" in the schools and universities.

You claim that I am wrong because "human capital is not homogeneous" and therefore it "should not come as a surprise that human capital employed in the knowledge-based industries has a higher economic rate of return (or 'surplus value') than human capital employed in low-skilled occupations."

The problem here is that you confuse capital with labour, in particular skilled labour, under the category of "human capital". Capital and human labour are in fact two different and opposed categories.

Capital begins its circuit as the money which is laid out to purchase the means of production—raw materials, machinery etc.—and to buy the human labour power necessary for the particular production process, whether it be producing steel or writing computer software programs. Whatever the different forms taken by human labour power, ranging from unskilled to highly skilled, human labour power has the same social relationship to capital. That is, it is purchased as a commodity through the wage contract.

All societies are involved in production through the application of human labour, whether it be physical or mental labour. In capitalist society, however, the products of labour take the form of commodities which are sold in the market. The value of each commodity is determined by the amount of labour time which it takes on average to produce it.

The central defining feature of a *capitalist* economy, as opposed to a simply commodity-producing economy, is that labour power, the capacity to work, has itself become a commodity which is bought and sold.

The value of this commodity, is, like all others, determined by the amount of socially necessary labour time taken to reproduce it. That is, by the amount of time it takes to produce the food, housing, clothing, etc., to sustain the worker, and his or her family. Skilled labour power will have a higher value because its takes longer to produce it. That is, it embodies the time taken to acquire those skills.

Having purchased the commodity labour power, skilled or unskilled, the owner of capital then consumes it in the production process. The value of the commodities which result is determined by the time taken to produce them—the value embodied in the raw materials and machinery used up in the production process plus the value which is added by the additional labour.

The source of surplus value is here. It arises from the fact that the value added by the worker, skilled or unskilled, in the course of the working day, is greater than the value of the labour power which the worker sold to the owner of capital. This surplus value is then realised as money when the commodities in which it is embodied are sold on the market.

Capital, now augmented by the additional surplus value it has extracted from labour in the production process, returns to the money form, ready to begin the process again. Capital grows and expands through the appropriation of surplus labour from the working class. If we jumble together capital and labour in the category human capital, then this process is obscured and consequently it is impossible to understand any of the essential features of capitalist production, let alone the more complex economic processes to which it gives rise.

The production of surplus value is not the end of the story. Surplus value is then divided up among the different sections of capital, taking the form of industrial profit, interest and rent.

The development of corporate capitalism—the necessity to raise capital through the issuing of shares because of the scope of the production process—adds further complexities. Once shares have been issued, they can be bought and sold. In this stock market, the price of shares will be related to expectations about the future prospects of the particular company. All sorts of factors come into play in determining a particular share price.

However, in the final analysis, whatever determines its day-to-day price in the market, a share is a claim on the surplus value extracted by capital.

This was the point being underscored in the portion of the lecture you cited—that the inflated share prices of Yahoo! and other companies bore no relation to surplus value which was actually being extracted, and hence the whole financial structure assumed the form of an inverted pyramid.

When the lecture was being given the stock market was at its height amid all sorts of claims about how a “new economy” had arrived and the business cycle, together with more serious problems, were consigned to the past.

While our work on the *WSWS* is not concerned with making predictions, but rather with trying to throw some light on the basic tendencies at work in the capitalist economy, the analysis of the inherent instability of the financial system has been borne out by subsequent events.

Yours sincerely,

Nick Beams