

Some Comments on 'The Remaking of the American Working Class: The Restructuring of Global Capital and the Recomposition of Class Terrain'

Introduction

At first sight 'The Remaking of the American Working Class' appears as an interesting attempt to develop an understanding of 'post-social democratic' capitalism. An article that would seem to be even more pertinent in the current period than at the time when it was first written. Unfortunately, on close inspection we find that 'The Remaking of the American Working Class' is riddled with so many errors and misconceptions that it is unable to sustain a coherent analysis. While Goldner manages to string together a number of apparently perceptive propositions, which create the semblance of a consistent theory, when he seeks to substantiate such propositions we find that his analysis is, at best, woefully inadequate for the task, and at worst, just wrong!

We do not intend to present a comprehensive criticism of 'The Remaking of the American Working Class', given that it is after all a rough draft. Instead we shall confine ourselves to a few short comments on the more glaring errors and problems that we find in the Introduction and the First Chapter of this text.

The Structure of Marx's *Capital*

Of course any attempt to understand and develop Marx's categories presupposes an understanding of the method and structure that we find in the three Volumes of *Capital*. However, we find Goldner's simplistic division of *Capital* into a quasi-Ricardian analysis contained in Volume I & II and a fully Marxist analysis in Volume III particularly problematic. Goldner puts forward six reasons for this division:

- ◆ *Volumes I & II presuppose that there are no non-capitalist classes i.e. that there are only capitalists and workers.*

As far as this goes this is true. However, in an important sense this is also true of Volume III, since for Marx landowners are also a capitalist class. Landowners draw their revenue from *capitalist* ground rent that is based on their ownership of *modern landed property*. They are not for Marx a relic of the feudal past. Furthermore, most of Volume III, before the question of rent is considered, also presupposes that they are just workers and capitalists. The real difference is that in Volume III the bourgeoisie is differentiated according to its function in the overall process of production and exchange so that we can distinguish between commercial, financial and industrial capitalists as well as the landed bourgeoisie.

- ◆ *Volumes I & II presuppose that there is only capitalism i.e. there is no mode of production external to capitalism.*

This is of course connected to the previous point. If we abstract from non-capitalist modes of production, in order to analyse 'pure capitalism', then there can not be non-capitalist classes. However, nowhere in Volume III - except for a few historical

digressions on the history of rent and interest - do we find Marx introducing non-capitalist modes of production. In fact if any part of *Capital* discusses non-capitalist modes of production at any length it is in Volume I, in for example Part VIII - 'So-called Primitive Accumulation'. Of course we could also accept this as an historical digression, albeit a lengthy one. But the point is that *all* three Volumes are about the capitalist mode of production and as such for the most part abstract from non-capitalist modes of production.

- ◆ *Volumes I & II presuppose that there is simple reproduction i.e. productivity of labour is constant.*

Firstly, Marx introduces the concepts of simple and expanded reproduction at the end of Volume II. In his analysis of the 'schemas of simple and expanded reproduction' Marx seeks to determine the proportional relationships that must hold between the Department I - i.e. those capitals producing the means of production - and Department II - i.e. those capitals producing the means of consumption - in order to allow the material reproduction of the economic system as a whole. Marx first of all takes the simple case in which the economy is reproduced on the same scale - simple reproduction - and then proceeds to consider the more realistic case in which the economy is reproduced on an expanded scale - expanded reproduction. In both cases, for the sake of clarity, Marx *abstracts from changes in the productivity of labour*. Just as he abstracts from changes in the value composition of capital¹.

In fact where Marx does consider in depth changes in the productivity of labour is his extensive discussion of the production of relative surplus-value in Part IV of Volume I!

- ◆ *Volumes I & II presuppose that there is no credit system.*

This at least is true. But it should be noted that the credit system is only introduced halfway through Volume III.

- ◆ *The theoretical discussion in Vols. I and II is a discussion of capital from the vantage point of a single capitalist enterprise.*

Of course it is true that much of the argument in Volume I, at least, is *illustrated* in terms of the 'single capitalist enterprise'. But this does not mean that the theoretical discussion is simply *developed* 'from the vantage point of the single capitalist enterprise'. If this was the case then Marx would be following the method of bourgeois economics that takes the individual firm as a given fact. On the contrary, Marx considers the 'single capitalist enterprise' in Volume I *only insofar as it is the immediate and undifferentiated expression of capital-in-general*. It is this that allows Marx to talk in terms of value, rather than costs and market prices which is all that would be seen from the vantage point of a 'single capitalist enterprise', and it is this that allows Marx to take price as the direct quantitative expression of value.

This dialectical method, which seeks to grasp the whole within the parts, is developed at more concrete levels as *Capital* unfolds. Thus while Volume I grasps each individual capital only insofar as it is itself an expression of the self-expansion of

¹ Of course later Rosa Luxemburg introduced changes in the value composition of capital which may well imply changes in the productivity, but this is Luxemburg not Marx.

alienated labour, Volume II considers the *particular* material and temporal forms that both individual and social capital must assume in the course of its circulation. Then in Volume III Marx seeks to grasp the *singularity* of each 'individual capitalist enterprise' insofar as it has a distinct particular function of capital as a whole. *Hence it is only in Volume III, where Marx can talk about price and profits etc as differentiated and mediated forms of value and surplus value, that the vantage point of the individual capitalist enterprise emerges as something distinct from that of capital as a whole!*

The Fundamental Contradiction of Capitalism

- ◆ *The fundamental contradiction of capitalism, as is expressed in capitalist practice, is the development of the productive forces to the point where any technological innovation intended to increase the rate of surplus value and thus the rate of profit of an individual capital creates more capitalist titles to the total surplus value than it adds to the total surplus value available to become profit, interest and ground rent.*

Here Goldner seems to put forward a significant proposition that promises to go beyond the traditional Marxist theories that see the expression of contradictions of capitalism simply in terms of the falling rate of profit. It is a proposition that allows us to grasp capitalist crisis in terms of the disjunction between the movement of money-capital and real capital. To develop this point it would seem necessary as a first step to both situate and reconstruct the fragments of the theory of the accumulation of real and money capital that we find in Volume III and relate it to the theories of the circulation of the particular forms of capital that we find in Volume II. On this basis we could then see how both the production of surplus-value and the creation of claims on surplus value are grounded in the combined process of accumulation of both money and real capital. Unfortunately Goldner fails to even begin to do this. Instead he makes a number of stabs at the issue, each of which ends up in utter confusion.

Military expenditure as fictitious capital

How does the development of the productive forces lead at a certain point to the claims on surplus value increasing faster than the surplus value actually produced? The answer lies in what Marx terms 'fictitious capital' that forms the basis for 'false' claims on the total surplus value produced. But where does this fictitious capital come from and how does it come to generate claims on surplus value at a rate faster than the surplus value can be produced?

The first explanation that Goldner offers is unproductive labour, which for him becomes most evident with military expenditure. Goldner's argument would seem to be as follows: productive labour is labour that produces surplus value; however, what may appear to be productive labour for the individual capital may from the social point of view appear as unproductive labour. This occurs when the commodities that an individual capital produces are *consumed unproductively*: that is the commodities they produce are neither used to reproduce the labour power of the working class nor used to produce means of production, and hence do not serve as the material forms necessary for further capital accumulation. This is of course the case with those individual capitals producing arms (but we should also add that it applies to all those

capitals producing luxury goods for the capitalist class since such commodities are unproductively consumed).

As a consequence, since the labour employed by arms manufacturers are non-productive from the point of view of total capital, then, from this point of view, they do not produce surplus value. So, according to Goldner, from the view point of total social capital, the surplus value produced by arms manufacturers is in fact a 'false surplus value' and the capital of these capitalists consequently 'becomes fictitious relative to their total material product of global capitalist society'.

Unfortunately this argument is based on a basic misconception of the distinction between productive and unproductive labour that arises in Marx's critique of political economy. The distinction between productive and unproductive labour was originally developed by Adam Smith in order to explain how the labour employed by the capitalist in the factory and the workshop served to create social wealth, while the labour employed by the landlords to service their own personal needs merely dissipated the wealth of society. Unable and unwilling to recognise the social form of labour, Smith sought the essential difference between productive and unproductive labour in the material forms that these different types of labour produced. For Smith, productive labour was that labour which produced material commodities that could then be accumulated; in contrast, unproductive labour merely produced immaterial services².

For Marx, what is important is the social form of labour. As a result, against Smith, Marx argued that productive labour is that labour, which in producing new use-values, whether material or immaterial, at the same time produces surplus value. In making this distinction it was irrelevant for Marx how these use-values were subsequently consumed. What was important was that these use-values served as a material form for the production of surplus value.

In this light it is clear that Goldner's conception of productive and unproductive owes more to Smith than it does to Marx. But doesn't Goldner have a point about military expenditure being in some sense unproductive? To answer this it is necessary to make the distinction between **capital** and **revenue** (and hence between investing and spending) - a distinction vital for understanding fictitious capital but one that Goldner fails to understand³.

We shall illustrate this distinction by a couple of examples. First, let us take an individual capitalist enterprise, which we call Capital A. After selling its output Capital A makes a profit. Part of this profit may be reinvested while the remainder is distributed amongst its share holders in the form of dividends. Now suppose shareholder X having received his dividend payment (his share of the surplus value produced by Capital A) decides to spend it on a yacht. Consequently, individual Capital B, which produces yachts, sells Mr. X a yacht. In doing so Capital B realises

²This is perhaps in fact unfair to Adam Smith. As Marx points out in Theories OF Surplus-Value Part I, Smith in effect has two theories of productive and unproductive labour one of which accords with Marx while the other confounds the first by stressing the material form of the commodities produced. See Theories of Surplus Value Part I Chapter IV.

³ Goldner's failure to understand this important distinction is evident right from the start with what at first glance appears as a mere slip of the pen. Having shown that the components of value are surplus value (S), constant capital (C) and variable capital (V), Goldner goes on to state 'The component S, *once the consumption of the capitalist class has been deducted*, is the surplus value which is available for division into the capitalist forms of profit, interest and ground rent.' (Our emphasis). This is of course nonsense. The capitalists appropriate surplus value in the forms profit, rent and interest. These are the revenues from which the capitalist class *both* buys its means of consumption *and* advances new capital.

the surplus value contained in the yacht, and at one and the same time Mr. X expends his **revenue** on his own personal consumption. For Capital B, it is irrelevant that the yacht does not materially re-enter production, either directly as means of production or unproductively through the reproduction of labour-power, what is important is that the money-capital originally *advanced* to produce the yacht returns with a profit (i.e. M becomes M + m). There is nothing 'false' or 'fictitious' about the Capital B; it is socially recognised as self-expanding value by the hard cash paid by Mr.X.

As far as Mr. X is concerned, in buying a yacht he *spends* his money. He does not advance it as capital and hence can not expect it to return with a profit. It is **revenue** not **capital**: it therefore does *not* create a claim on future surplus value.

Now let us consider military spending. In this case the profits made by Capital A is split three ways: one part is reinvested as capital, a second part is distributed to the shareholders while a third part is appropriated by the state in the form of taxation. With the surplus value appropriated in the form of tax revenue the state then, say, buys tanks from Capital C. Like Mr.X, the state spends its money as *money* not as *capital*. *In buying tanks it does not create any claims on future surplus value* and hence does not create 'fictitious capital'. Yet in spending this money on tanks it provides the money-form for the realisation of Capital C's capital. It provides the *social validation* of C as capital - of self-expanding value. It is irrelevant, either from the individual point of view or from the social point of view, whether yachts or tanks are unproductively consumed.

However, it is true that that the more of the surplus value is spent as revenue - whether this is by individual capitalists spending it on yachts or the state spending on tanks - the rate of accumulation will slow down. But this has nothing to do with 'fictitious capital' but to the obvious fact that the greater the proportion of surplus value that is spent as revenue the less is left for reinvestment as new capital⁴.

Fictitious capital, capital accumulation and the devalorisation of fixed capital

Ultimately this whole discussion on military expenditure is a red herring. After all military expenditure is a contingent factor with respect to the fundamental process of the accumulation of capital through 'technological' development. Military expenditure may mitigate or exacerbate the 'fundamental contradiction' of capital accumulation that Goldner identifies but it can not be the basis for it.

Admittedly Goldner implicitly recognises this and confines this discussion to what may be taken as a preliminary section of his paper. Furthermore, later on in his paper he takes up a far more promising approach that seeks to ground his fundamental contradiction in the devalorisation of capital brought about by the production of relative surplus value. Unfortunately Goldner's attempt to develop this approach ends up even more confused than his previous discussion of military expenditure.

Before attempting to follow Goldner's confused account on this question we must first briefly clarify what is meant by fictitious capital and how it relates to both the devalorisation of capital and the production of relative surplus value.

Fictitious Capital

⁴ The rate of accumulation can be written $g = aS/(C+V)$; where g is the rate of accumulation; C is total constant capital; V is total variable capital; S is surplus value and a is that proportion of the surplus value reinvested as fresh capital. The more surplus value is unproductively *consumed* (e.g. the more spent on tanks and yachts) the less a is and hence the slower the rate of accumulation.

Suppose we have an individual capitalist enterprise that seeks to set up in production but which lacks capital in the form of money. In order to proceed it must borrow money. Our capitalist enterprise therefore sells bonds worth say £10,000 that it promises to buy back at the end of the year for £11,000. With this £10,000 the capitalist firm buys means of production and hires labour-power that it then sets to work to produce £12,000s worth of commodities by the end of the year. With the sale of these commodities the capitalist enterprise has £12,000 in hand. £11,000 is used to buy back the bonds (i.e. to cancel its debt and pay the interest due on it) and is left with £1,000 that is its profit of enterprise. This describes a movement of *real* capital through which surplus value is actually produced (i.e. M-C...P...C'-M').

For the moneyed-capitalists who buy the bonds issued by our capitalist enterprise, capital is merely the means through which money makes more money (i.e. it is simply the process M...M'). In buying bonds they obtain a paper claim on future surplus value in the form of the interest on those bonds. For them bonds are their 'capital' since they are the means through which they hope to make more money. But such 'paper claims', which exist separately from the real capital that is in the hands of our capitalist enterprise, is *fictitious*. It is not these bonds that serve to produce and realise the surplus value that they are to claim at the end of the year, but the *real capital* (i.e. capital in the material forms of machines, raw materials, labour-power and the resulting commodities) in the process of production and exchange.

Fictitious capital is therefore nothing more than the 'paper claims' to future surplus value, such as bonds, stocks and shares as well as direct loans and overdraft facilities etc, that arise out of the financing of production and circulation, and which shadow the movements of real capital. Insofar as this fictitious capital corresponds to the movement of real capital, it does not represent 'false value' nor does it necessarily arise from the devalorisation of capital, as Goldner often seems to imply. As our example shows, if all goes well fictitious capital does not cause any problems. At the end of the year the debts are paid back with interest through the redemption of the bonds while the individual capitalist enterprise makes its profit.

However, having its own independent existence and (insofar as such paper claims are tradable or form the basis of derivative paper claims) independent movement, fictitious capital may not necessarily correspond to the movement of real capital through which surplus value is both produced and realised. It is out of such cases of non-correspondence between fictitious capital and the movement of real capital that we have to look if we are to find how the paper claims to surplus value can rise faster than the amount of surplus value that is produced.

There are two simple cases of such non-correspondence that may emerge within the realm of circulation and exchange of real capital that we shall now examine.

Firstly we have the case in which the money-capital borrowed from the financial capitalists fails to be transformed into productive capital. For the moneyed-capitalist what is important is that his money returns with a profit (M...M'). He is indifferent to the actual process through which this quantitative transformation of his money-capital that he lends takes place, so long as he can be sure that he will in the end make money. Thus while the moneyed-capitalist may lend money as capital there is no compulsion for the borrower to use this money as capital by transforming it into productive capital. Indeed the money could well be borrowed merely to be spent.

As we have seen, by lending money-capital the moneyed-capitalist creates a fictitious capital in the form of his 'paper claim' to a part of surplus-value in the

future, but if the money is spent as revenue, rather than invested as productive capital, this fictitious capital at once ceases to correspond to any real capital that is producing this future surplus-value⁵. Such fictitious capital no longer corresponds to any real capital and hence it produces a claim to surplus value that is not backed by any real production of surplus value.

Of course this divergence between the claims on future surplus value and the production of surplus value is usually resolved by the borrower surrendering part of his claim to future revenues through the repayment of the loan with interest. As such this case of non-correspondence between fictitious and real capital is transitory and there is no systematic reason why it should increase or become unresolvable as such.

Secondly, we have the case in which real capital fails to be fully realised. This may arise due to the commodities being produced by the real capital becoming obsolete or going out of fashion; or simply due to the bad management or forecasting of the individual capitalist enterprise. In this case money-capital is transformed into productive capital, through the purchase of means of production and labour-power and their combination in a particular production process, but the commodities consequently produced either cannot find sufficient buyers, or else can only be sold at a price below their production price. In this case real capital becomes devalorised, a devalorisation that may then cause a divergence between real capital and its corresponding fictitious capital - the consequences of which will depend both on the extent of the devalorisation, and the terms on which the money-capital was originally borrowed.

However, this devalorisation only really becomes significant, with regard to the problem of the divergence between the movement of real capital and fictitious capital, when we consider the case of fixed capital. From the point of view of the turnover of capital, productive capital assumes two distinct types of material forms – circulating capital and fixed capital. Circulating capital is that part of productive capital that assumes material forms that are entirely consumed during the period required for the production of the commodity. Circulating capital therefore includes the labour-power of the worker (variable capital) and that part of the constant capital which assumes such forms as fuel, raw materials etc that are used up during the production process or else enter bodily into the final product. Fixed capital, on the hand, includes that part of constant capital that assume those material forms that are not entirely used up during a single production period; such as plant and machinery. As a result fixed capital only gives up its value to the final product bit by bit over the life time of its material form.

So what are the consequences of the existence of fixed capital for the devalorisation of capital?

If an individual capital consists only of circulating capital then after the time it takes to produce and sell the commodities – the turnover period – the total capital will return at once to its money form. So if, for example, a capitalist advances a sum of £100,000, then, after a single turnover period, the capitalist will expect to receive from the sales of the commodities he has produced £100,000 plus a sum equal to the general rate of profit. If the rate of profit for this period is 10% then the expected

⁵ Here we have the grain of truth of Goldner's digression on military expenditure. If the State *borrow*s money from the financial markets, rather than raising the money through tax revenues, the State borrows money as capital but spends it as revenue on tanks. Hence it creates fictitious capital which does not correspond to any real capital that can produce future surplus-value. But of course this applies to any public expenditure not just to military spending.

profit will be £10,000, so he will expect to receive £110,000 in sales. If this actually occurs then the original sum of £100,000 will have been fully valorised.

But of course the capitalist may find that he is unable to sell his commodities for £110,000. Perhaps because of a fall in the market price he is only able to sell them for £108,000. In this case the original advance of £100,000 has in effect only functioned as a capital of £80,000 since it has only fetched a profit of £8,000 (i.e. 10% of £80,000). The capital has in effect been devalorised. However, this devalorisation is only temporary. The capitalist still has the original £100,000 in his pocket and can invest it again in the hope of making a £10,000 profit in the next period. If the fall in the market price in his industry looks permanent the capitalist can always invest his £100,000 in a new line of business with better prospects of making a profit⁶.

With the existence of fixed capital, however, the originally advanced capital does not return all at once. Part of the capital remains in the form of productive capital and is not immediately valorised through the sale of commodities. Let us consider the example of an individual capital with the existence of fixed capital. The capitalist advances a total capital of £200,000, of which £150,000 is advanced to buy plant and machinery with an expected average life span of five years. £20,000 is advanced to pay wages and £30,000 is advanced to pay for fuel and raw materials. If the rate of profit over the given turnover period is 10% the capitalist will expect to make a £20,000 profit on his originally advanced £200,000 at the end of each period. Further he will also need to make £30,000 to replace the costs of fuel and raw materials i.e. circulating constant capital), £20,000 to replace the costs of the labour-power he has purchased (i.e. variable capital) and a further £30,000 (i.e. a fifth of the fixed capital) towards the eventual replacement of the costs of his fixed capital. All in all the capitalist will expect to make £100,000 in sales at the end of each period.

It will only be after five turnovers that the original advanced capital will return to the capitalist as money. Up until then part of the fixed capital will be locked up in the material forms of productive capital (i.e. plant and machinery). It is only after five turnovers that the sum set aside at the end of each period will be sufficient to valorise and replace the entire value of the fixed capital (i.e. £30,000 x 5 = £150,000). During this time the value of the fixed capital locked up in production is only 'imputed' through the valorisation of circulating capital.

Now let us consider the situation in which the market price falls such that at the end of the first turnover period the capitalist only makes £90,000. Here the capitalist can replace both his variable and constant capital as well as cover the amortisation of his fixed capital for that period and still make a £10,000 profit. But on his total capital of £200,000 this represents only a 5% rate of profit. Hence, with the general rate of profit at 10%, the originally advanced capital has only functioned as if it had been £100,000. However, even if the fall in the market price appears permanent the capitalist will not immediately withdraw his capital and invest it elsewhere. On the contrary he will accept the devaluation of his total capital and attribute it to a devaluation of his fixed capital.

Why is this? As we have seen, at the end of the first turnover period the capitalist has £80,000 that replaced his circulating capital and the amortisation of his fixed capital plus £10,000 profit. If he were to abandon his plant and machinery to invest the £80,000 in another industry he could only expect to make £8,000 at the prevailing general rate of profit. If however, he continues to produce with this plant and machinery he can make £10,000. The plant and machinery now acts as if it was a

⁶ It is only if sales drop below £100,000 that the original capital will be permanently devalued.

fixed capital of £50,000. Hence the ‘imputed’ value of the fixed capital has fallen by £100,000 from its original value of £150,000.

Of course this devaluation of fixed capital is temporary since the capitalist is still able amortise his capital at £30,000 a year so that at the end of five turnovers he has regained the original £150,000. However, the market price could have fallen so that sales were only £55,000 at the end of the first period and it would still make sense for the capitalist to continue in production. With £55,000 the capitalist could still replace the circulating capital necessary to recommence production in the next period (i.e. £20,000 on labour-power and the £30,000 on fuel and raw materials) and still make a 10% profit on this circulating capital – which is as good as he could expect to obtain from investing it anywhere else. However, the capitalist would have to accept the permanent and complete devalorisation of his fixed capital. Unless there was a recovery in the market price for his commodities at the end of the five turnover periods the capitalist would end up with out any money to replace his worn out plant and machinery.

With this brief analysis of fixed capital and devaluation we can see how a real productive capital can become devalued but still persist in a particular industrial circuit. As such it is with fixed capital that we should focus in order to examine how the movement of fictitious capital may diverge from the movement of the movement of real capital.

However, what must be remembered is that fictitious capital (and for that matter fictitious value) only arises when we consider the financial and credit system. If we abstract from finance and credit we cannot talk about fictitious capital!

Having clarified the concepts of fictitious capital, devaluation of capital and fixed and circulating capital we are in a position to return to Goldner.

Goldner on the devalorisation of capital through technological innovation

Of course in the normal everyday functioning of capitalism firms go bankrupt and debts are written off, just as other firms make extra profits and pay out extra dividends. What Goldner needs to show is how claims on surplus value based on fictitious capital grow *systematically* faster than the growth of surplus value itself. Goldner makes an attempt to do this by looking at the devalorisation of fixed capital due to the growth in the productivity of labour that arises from technological innovations inherent in the process of capital accumulation. Unfortunately he becomes hopelessly lost, as we shall now see!

Goldner would seem to offer us a promising analytical approach, first we consider devalorisation without technological innovation and without the credit system, secondly we introduce technological innovation and finally we introduce the credit system to see how this devalorisation is integrated within the accumulation of fictitious capital. Unfortunately, as we saw above, Goldner is so concerned with blowing up this simple analytical procedure into the key to understanding the entire structure and method of all three volumes of *Capital* that he forgets to apply it when he comes to discuss this problem where it might be of some use!

Let us attempt to follow Goldner’s tortuous line of argument on this question. Goldner begins by setting out an example:

Assume a branch of industry consisting of ten competing firms that begin a production cycle on an equal footing. The capitalist of one of

these enterprises, in the first year of the cycle, employs a new technology that reduce his costs of production by 15%.

Unfortunately Goldner is not clear how this reduction in cost takes place. Does the innovating capitalist enterprise introduce new machinery, or changes in the production process, which reduce the amount living labour, and hence the variable capital, necessary for production; or does the reduction of cost reflect savings in dead labour, that is constant capital? If we are to consider the question of an increase in the productivity of labour directly then it would seem that we should consider the case in which the technological innovation reduces the amount of living labour necessary for the production of given mass of use-values (i.e. the innovation reduces variable capital, v , and with a given rate of exploitation the amount of surplus-value, s).

But it would seem from his subsequent argument that he is concerned with savings due a reduction of constant capital. But are such savings due to savings in the value embodied in fuel or raw materials, that is *circulating* constant capital, or due to cheaper machinery, that is in *fixed* (constant) capital? In fact Goldner is not simply unclear but confused, as he repeatedly seems to refer to this reduction in costs interchangeably as a 15% reduction in fixed capital, constant capital and even the total capital advanced!

However, it would seem that Goldner is mainly concerned with a reduction in the costs of fixed capital. Assuming this let us continue. Goldner now proclaims:

Immediately, (the innovating capitalist) has devalued the constant capital [fixed capital?] of his entire sector by 15% in current reproductive terms. Whatever, the *historical* value (original costs) of the constant capital [fixed capital?] of the nine other enterprises, whatever the rate of amortisation, its reproductive value has been reduced.

So, for Goldner, the fall in the current value of fixed capital of the innovative capitalist leads to an *immediate* fall in the 'current value' of fixed capital for the industry as a whole. But how is this fall in the 'current value' of fixed capital reflected in the market price? Once again Goldner is confused on this crucial point. On the one hand, Goldner seems to imply that the fall in the 'current value' of fixed capital – and hence, other things being equal, a fall in the total value of the commodities produced, leads to a fall in the market price and hence in the profits of nine competing capitals (since their revenue will fall while their costs remain the same).

Indeed he argues that if these capitals fail to adopt the new technology they will have to squeeze more absolute surplus value out of their workers in order to compensate for the devaluation of their fixed capital. However, as Goldner himself puts it:

[T]he individual capitalist knows nothing of constant capital: he knows the *capitalisation* of a rate of profit that he expects from his capital.

The nine competing capitalists will only 'know' that their fixed capital is devalued if the market price falls so that their profits fall. So they will only be obliged to increase the production of absolute surplus value if the market price falls.

In fact, Goldner goes on to argue that:

[T]he nine outmoded capitals will receive a rate of profit lower than the average that will not support their capitalisation at the anticipated levels.

Yet, on the other hand, Goldner wants to argue that the market price remains the same, since it is crucial for his argument that it is the difference between this market price, and hence the 'imputed value' of the fixed capital of the nine non-innovating capitals based on the historical costs of that fixed capital, and the reduced 'current value' that constitutes what he terms 'a fictitious element' i.e. is *fictitious value*.

However these competing firms react, the accounting of their constant capital [fixed capital?] henceforth contains a fictitious element: a capitalist representation, expressed in terms of price, which no longer has any counterpart in terms of value, which is to say in the costs of *reproduction*.

And hence:

It is this capitalisation, and the value in market prices that he attributes to his devalued fixed capital, which represents a fictitious value.

So does the market price fall or does it not? Or perhaps it falls but not enough to equal the fall in the 'current value' of fixed capital? Goldner does not say. Indeed he seems blissfully unaware of the contradiction in his argument!

We shall return to this point shortly. But let us press further on through the thickets of Goldner's argument. Goldner now considers the situation after five years.

In a fifth year of the production cycle, we can imagine a *generalisation*, through all constant capital of this fictitious element by a general reduction of costs of reproduction through technological innovation. The fictitious segment 'f' of historic book values might be 25%, assuming an annual reduction of necessary time of reproduction, in current terms, of 15% and an amortisation of 10% per year.

So it would seem that after five years all ten capitalist enterprises have adopted the new technology and reduced their costs but, for some mysterious reason, the market price remains above the value of the commodities produced. How can this be? Goldner senses a problem:

Are we indulging in what Marx called 'vulgar economics'? Are we saying that the profits of the capital overvalued by 25% comes from the sale of commodities 'above their value'? Absolutely not. We affirm, on the contrary, against the empiricism of everyday appearances – that "vast accumulation of commodities" – that the "profit" of enterprise, calculated with regard to the capitalisation of a constant capital with a fictitious element of 25%, IS NOT PROFIT at the level of the total capital and has no counterpart in surplus value.

Yet however much Goldner may bluster against the 'empiricism of everyday life' this overvaluation of capital can only come about by the 'sale of commodities above their

value' or more precisely above their prices of production. As such the profits made above the average rate of profit ARE PROFITS – they are *surplus-profits* in so far as they are confined to innovating individual capitals and *monopoly profits* in so far as they apply to the industry as a whole⁷. As such, these profits do not represent a fictitious element that has no counterpart in the total surplus value produced but represent a transfer of this total surplus value from the economy as a whole to the industry in question!

But even before this Goldner had given up the hunt for a solution to his problem. In a parentheses he declares:

In a pure capitalism of Vols.I and II an enlightened accounting system could avoid this problem of fictitious values by amortising each capital every year in terms of its real costs of reproduction. Because there would be no banks, there would be no fictitious capital. In such a capitalist society, and only there, a tendential fall in the rate of profit, year in, year out would become visible.

In other words Goldner realises that he has abstracted from the very problem he is trying to solve i.e. the problem of fictitious capital! He is completely lost and can only conclude from this that his 'pure capitalism of Vols. I and II can not exist!⁸

We do not propose going any further in following Goldner's muddled thinking. The question is where does Goldner go wrong? Of course Goldner is confused concerning fixed capital – indeed he seems unable to distinguish it from constant capital – and does not clearly understand the concept of fictitious capital or value; but more importantly with regard to the question of technological development is Goldner's failure to understand the difference between individual value, market value and production price which is clearly set out by Marx in Chapter X Of Volume III of *Capital*.

For Marx, given that the total social demand for a commodity is more or less equal to its supply, the market value – and hence the actual market price - of a competitively produced commodity will be determined by the *average socially necessary labour time* required for its reproduction. Now in any particular industry

⁷ If the market price remains above the production price for the industry as a whole this can only be because there are barriers to the entry of capital in to the industry and hence limits to capitalist competition.

⁸ Perhaps symptomatic of Goldner's confusion is his repeated failure to recognise that a fall in the value of constant capital, other things being equal, leads to a *rise in the rate of profit* not a fall in the rate of profit! Here Goldner implicitly links the tendency for the rate of profit to fall with his example of a fall in the value of (fixed) constant capital due to technological innovation. Yet elsewhere his grasp of even the elementary algebra of the question becomes explicit in at what at first sight appears as a slip of the pen. He writes: "For 'orthodox Marxists', the rate of profit falls historically because the organic composition of capital, the ratio between dead/constant capital C and living labour/variable capital V...*diminishes*." Of course in using the term the 'organic composition of capital' it might seem to the uninitiated that as the relative growth of dead labour in the inorganic forms of the means of production compared to amount of 'organic' living labour would be described as a diminution of the organic composition of capital. But Marx clearly defines the organic composition of capital as the ratio C/V, which Goldner himself is clearly aware. But if C grows faster than V this ratio increases! The organic composition increases by definition!!! Of course in order to link the falling rate of profit to the devaluation of capital he would have to started with an example in which there was a technological innovation that saved on the amount of living labour needed for production and hence to a rise in the organic composition of capital rather than to the example he uses which seems to imply a fall in the organic composition of capital.

some firms may be more efficient, or more favourably placed than others. The labour time required to produce a given commodity may therefore vary from one firm in the industry to another. As a consequence, the *individual value* of a commodity will be different for each individual capitalist enterprise within the industry. The *market value* of the commodity will be determined by the (modal) average of these individual values. The more efficient firms will have an individual value below the market value, while the less efficient firms will have an individual value above the market value. Hence in so far as the market price tends towards the market value the more efficient firms will sell at a market price above the individual value embodied in their commodities while the less efficient firms will be obliged to sell at prices below their individual values.

As a consequence of this formation of a single market value there is a *transfer of surplus value* within the industry itself from the less efficient firms to the more efficient firms – the efficient firms receiving this transfer of surplus value in the form of surplus profits i.e. profits over and above the those warranted by the general rate of profit ruling in the economy as a whole (while the less efficient firms will suffer deficit profits i.e. profits less than the average rate of profit).

Furthermore, insofar as there is free competition between industries that ensures the formation of a general rate of profit the market values in each industry will be further transformed into production prices. This transformation of market values into production prices involves a transfer of surplus value between industries. Those capitalist enterprises operating in industries requiring a low organic composition of capital will lose surplus value to those operating in industries requiring production techniques with a high organic composition of capital.

In his example Goldner assumes that, at the beginning, all ten capitalist enterprises are identical. Thus the individual value of the commodities produced by each firm are equal to each other and to the market value. Now let us follow Goldner and consider what happens with a technological innovation. As with Goldner we assume that the new technology leads to a saving in the costs of fixed capital, and hence in the value of constant capital that is to be passed on into the value of the final product, and that it is at first introduced in only one enterprise.

What happens? First of all the *individual value* of the commodities produced by the innovating capital falls in accordance with the fall in the costs of production for that enterprise. But the market value will still be determined by the normal mode of producing these commodities reigning in the industry as a whole i.e. the old technique of production which is still being used by the other nine capitals. Hence, while the individual value of innovating capital falls, *there is no immediate fall the market value - and hence there is no fall in the market price* - contrary to what Goldner maintains! As a result there can be no immediate devaluation of the value imputed to the fixed capital of the nine capitalist enterprises due a fall in the market value or price.

Our innovating capitalist enterprise will be able to sell its commodities at the ruling market value, which is above its now reduced individual value and in doing so it is able to reap surplus profits i.e. profits over and above those made by its competitors in the industry. However, as the other capitalist enterprises in the industry follow suit and adopt the new technology then this new technique of production will become established as the norm. The market value will then become determined by individual value of the innovating capitalist enterprise which has now become generalised to most of the other nine capitalist enterprises in the industry. As a result

the market value, and with it market prices, will fall and the surplus profits of the innovating enterprise will become eradicated.

So what is going on here? Where do these surplus profits come from? The reduction in the costs of fixed capital, other things being equal, means a reduction in the costs of production not only for the individual capital but also for social capital as a whole. Less dead labour is required to produce the same mass of commodities. Insofar as the individual capital is considered as a part of social capital as a whole then its adoption of the new technology reduces the total amount of fixed, and hence constant capital, compared with the total amount of surplus value produced in the economy as a whole. That is it serves, however slightly, to increase the profitability of the total social capital. But at first this increased profitability is captured by the innovating capital in the form of surplus profits. As the new technology is adopted by the competing firms in the industry so that it becomes the norm, this profitability is transferred and generalised to all other capitals through the fall in the market value and hence the production price of our industry. Capitals in other industries gain due to the cheapening of the commodities produced by the innovating industry which enter their costs either directly in the form of means of production or indirectly in the form of cheaper labour-power.

So, in short, in Goldner's example of technological innovation there is a gain in the overall profitability of capital which is first captured by the innovating capitalists and then, with the fall in the market value, is generalised to the capital as a whole through a slight rise in the general rate of profit⁹. What this example shows is how technological innovation leads to a process of the reformation of values and prices that involves transfers of surplus value both between capitalist enterprises within the same industry and between these capitalist and capitalists enterprises outside this particular industry. *As such it has nothing to do fictitious capital or fictitious values - as Goldner would have us to believe - but with the transfer of surplus value!*

Of course this analysis of the process of the reformation of values and prices could lead on to analysis of the relation of fictitious capital and technological innovation once the financial and credit system is introduced. (But it should be noted that in Goldner's example the focus should not be on the innovating capitalist enterprise, but on the laggard enterprises who have failed to innovate before the new technology becomes the norm. In this case their individual values will remain at the old levels while the new market value is established at a lower level. They will make deficit profits which they can impute as a devaluation of their existing fixed capital).

Fictitious capital concluded

Goldner is no doubt correct in seeing that any theory of contradictory relation between the growth in fictitious capital and accumulation of real capital must start with fixed capital and the process of technological innovation. Unfortunately Goldner

⁹ The generalisation of profitability will effect the production price of our particular industry in two ways. Firstly the establishment of the new cost saving technology will reduce the value composition of capital ruling in the industry insofar as the reduced costs of fixed capital reduces the overall amount of constant capital socially necessary. This will lead to a small out flow surplus value as market values are transformed through exchange into production prices. On the other hand the increase in the general rate of profit will raise production prices. However, these effects will be slight compared with the fall in the industries market values brought about by the technological innovation (unless the industry constitutes a large part of the economy in question).

is all at sea with regard to the method to approach this problem and is unable to grasp basic Marxian categories. As a result he ends up talking nonsense.

A few remarks on the real and formal subsumption of capital and the periodisation of capital

Goldner's crisis theory, which argues that the devalorisation of capital through technological innovation leads to the creation of fictitious capital and to the claims on surplus value growing faster than the actual amount of surplus value produced, becomes particularly pertinent when we consider one of the main overall arguments of his paper. Central to his paper is the periodisation of capitalism on the basis of the real subsumption of labour under capital. With the transition from a formal to a real subsumption of labour capital is obliged to emphasise the production of relative surplus value rather than absolute surplus value. That is, capital seeks to expand the production of value by technological innovation that increases the productivity labour. But, if Goldner's theory of crisis is correct, then it is with this shift towards a real subsumption of labour under capital that the capitalist system becomes truly crisis ridden.

Writing in the 1980s, Goldner seeks to invert the accepted wisdom of the 1950s and 1960s, that after the World War II and the introduction of Keynesian demand management capitalism had overcome the problem of economic crisis, by insisting that it is only after 1945 that real subsumption of labour under capital becomes 'hegemonic'. If this is the case then it implies that it is only *after* 1945 that economic crises of capitalism will come into their own!

Of course it is true that the periodisation of capital in terms of the transition from a formal to the real subsumption of labour to capital is an advance over traditional Marxist approaches that see it simply in terms of the competitiveness between capitals (i.e. the era of mercantile capitalism, followed by freely competitive capitalism of the 19th Century and a final period of monopoly capitalism of the 20th century). By focussing on the question of the subsumption of labour by capital attention is drawn to the class changing class relations that emerge between capital and labour rather than to the relations between capitals and within the bourgeoisie.

Having said this it must be said that the simple binary opposition of real and formal subsumption is grossly inadequate by itself to explain the different historical periods of capitalism. The transition from the formal to the real subsumption of capital occurs as soon as the capitalist begins to organise the production process. Historically this transition occurred once independent craft workers worker brought together in the factory under capitalist supervision and became consummated with the development of what Marx calls modern industry. In England the factory system begun on a significant scale by the mid-18th century and had become widespread by the beginning of the 19th century. Marx, in *Capital* gives a detailed account of the development of modern mechanised industry. On this basis the historical transition could be taken as 1760, 1800 or at the very latest 1860.

Goldner however argues that this transition from formal to the real subsumption lasted from 1890-1945 and it is only after 1945 that it became 'hegemonic'. But what does he mean by 'hegemonic'? In what sense was the enormous mechanisation of production occurred in the 19th century not a case of the real subsumption of labour through the production of relative surplus value? Or if it

was, in what sense was it not 'hegemonic'? Unable to specify what he means by 'hegemonic' his periodisation of capitalism becomes meaningless.

Subjectivity and objectivity

Besides the mistakes we have noticed above, it is the overall approach to the class struggle that seems to us worth discussing.

At the very beginning of his paper, against the objectivist approach of orthodox Marxists, Goldner is keen to borrow and stress one of the basic points of Marx's *Capital*, that value is a social relationship. Indeed this is a fundamental concept and the basis for the understanding of the fetishism of commodities. By saying that value is a social relationship, Marx meant that value and all the other categories of capitalism are not just objective things, and that their mechanism is not universal nor an ahistorical fact but instead is the result of a social relationship. Only after highlighting this important point does Marx carry on and analyse the objectified categories of capitalism and their 'laws'.

In the present paper, however, by borrowing the concept that value is a social relationship, Goldner attributes to it a special meaning. Indeed for him 'value is a self-reflexive relation...of value to itself', ('Value as a relationship...as value valorising itself')

This mechanism of self-reflexive relation seems to acquire a subjective appearance when Goldner suggests the equivalence between 'value' and 'labour power', and between 'labour power' and 'the total worker' and 'human creativity':

'Capital is the inverted form of the total worker, *labour power as a whole*' [page 7, our emphasis].

With this equivalence, concepts that would be suitable to an analysis of class struggle in terms of subjective categories (such as 'the total worker' and 'human creativity') acquire an objective form. In fact, the parallelism between these concepts and value does not defetishise the mechanism of value - the opposite is the case: it ends up attributing to the 'total worker' and to 'human creativity' the mechanism of self valorisation that is the feature of value under capitalism. Human creativity becomes just something that follows a mechanism of self-expansion just like value does - an automatic reflexion and part of the machinery of capitalism.

'The atomised individual worker is pursuing the expansion of his of her human powers' [page 8]

In an analysis that provisionally abstracts from class struggle in order to make clear the process of capital reproduction (like that in *Capital*), this use of

categories might be sufficient (even if it not complete, since even in periods of stagnation of the class struggle there are always examples of the refusal of work, individual or collective resistance, sabotages, etc. and this kind of behaviour is not a reflexion of the self-valorisation mechanism, not a frantic search for self-expansion of something, and it cannot be framed within the reductive mechanism by capital works). But Goldner extrapolates the use of these categories and their mechanisms to analyse class struggle and even the revolution! Indeed, the mechanism of self-expansion of value, projected into the features of 'human creativity' becomes even the *reason and aim of the revolution*:

'The collective worker should destroy capital *in order to expand as labour power relating itself to itself*' [Page 8, our emphasis].

In practice, Goldner's 'human creativity' just replaces the leftist category of 'productive forces', and it will have to '*destroy capital in order to expand as labour power relating itself to itself*'. In the same fashion as for the orthodox Marxists, this 'self-expansion of human creativity' will lead to the revolution in a completely mechanical way.

In fact *in Goldner's analysis of the class struggle in the US subjectivity has no role* - the only term that seems to express a subject in this analysis is 'labour power', which is equated to the 'total worker' and to 'human creativity', but which remains an objectified category, subservient to the inherent laws of capitalism.

Production for Production's sake

But it is not even with the end of capitalism that Goldner foresees the end of this self-reflexive, self-expansive law in all affairs of human life. In fact, even *after capitalism* this mechanism of self-expansion will be preserved (even if...'inverted!'):

'Communism ...inverts the inversion; insofar as the self-movement of value, valorisation, is only the alienated form of the collective self-development of human powers, *communism is the expansion of human powers as a means and as a goal*, a 'production for production's sake' of creativity' [Page 7-8, our emphasis].

This preservation occurs because, by attributing the features of value in capitalism to human behaviour (and not the other way round) Goldner attributes to human behaviour the objectified mechanism of capital, which then appears *universal and ahistorical*, as a natural human behaviour occurring in any society (and in particular in the future communist one!). Of course, while it is a matter of fact that today all our activity is shaped by the need of production expansion, and profit expansion, Marx showed that this is precisely the consequence of a particular, historical social relationship. By generalising this

frantic activity to the communist world (where in the absence of profit and money the only reason for this frantic production would be *for production's sake!*), Goldner has disregarded a fundamental warning that Marx gives in the first chapter of *Capital*: *that value is a social relationship*.¹⁰

Reified categories and formulas

The most interesting point in this discussion about human creativity is the way Goldner introduces and re-reads the formula for the rate of profit. In his interpretation, all the bits in the numerator and denominator of the rate of profit, which are values, are read as *labour power*.

Of course labour power, being a commodity, is value, but *the immanent substance of value is labour*; it is our labour, alienated and crystallised, that is value, not our labour power. This is already, for us, a weak point in this analysis. But there is a more important point to discuss about the use of this formula, in relation to an analysis that would like to bring into play subjective concepts such as 'human creativity'. How can one quantify 'human creativity'? Only by equating it to a quantifiable thing such as labour power (as he does), which can have a role in an equation. And this was possible to Goldner only because, as we have said in these two last paragraphs, the equation value = labour power = human creativity has *not* led to a subjective reading of the objective concepts of value and labour power, but has reduced subjective concepts to reified categories - that is, *the other way round!* It is not enough simply to rename social relations to change them.

Aufheben, Summer 2000

¹⁰ Though Goldner is influenced by the neo-Bordigist French ultra-left, he fails to note one of the most fundamental insights of the Italian left - that they were clearest on the of communism: 'To begin with the watchword will be SLOW DOWN! There may be cases of productivity being intensified locally in some sectors, but in most others there will be a slowing up of the pace of industry...' (*Communist Left*, Review of the International Communist Party, Summer 1999, p. 24).