

ECONOMICS FOR BEGINNERS

Elementary Economics in Simple Language



By JOHN KERACHER

Price ~~Five~~ Cents
15

57/3

ECONOMICS FOR BEGINNERS

Elementary Economics in Simple Language

BY

JOHN KERACHER

*Author of "How the Gods Were Made,"
"Proletarian Lessons," "Producers and Parasites," Etc.*



CHICAGO

CHARLES H. KERR & COMPANY

1935

ECONOMICS FOR
WINNERS

COPYRIGHT, 1935

BY CHARLES H. KERR & CO.



PRINTED IN U.S.A.

ECONOMICS FOR BEGINNERS

COMMODITIES

A *commodity* is something useful which is *made for sale*, for instance, a coat which is produced in a tailoring factory and sold to a customer who will wear it. But if a man makes a coat for his own use it is not a commodity.

Use Value

When a thing has use we call it a *use value*. That economic term means nothing more than the fact that the article can be used in some manner. For instance, the use value of a hat is to cover the head and keep it warm or to protect it from the heat of the sun. The use value of a pick is to dig with. That is all that is meant by the term use value, nothing more.

We call attention to this simple matter here because so many people calling themselves economists, claim that it is the usefulness of a thing which gives it value, that things exchange on the basis of their usefulness. If this were true, then the things with the greatest use, such as bread, would have the greatest value. How does the usefulness of a diamond ring compare with the usefulness of a loaf of bread? It requires little argument to prove that the diamond ring will exchange for far more than the loaf of bread. We see how foolish the *utilitarian theory of value* is when we take the case of a bricklayer who may possess a gold watch, which he may look at several times during his working day, or perhaps not at all, while the trowel in his hand is his most useful possession.

without the use of which he might not even have a watch. According to the utilitarian theory his trowel would have to be many times the value of his watch. But everyone knows that just the opposite is the case. Therefore, we have to look somewhere else than to usefulness for an explanation of what is the substance of *value*.

Exchange Value

Long ago economists, and others, observed that useful things did not produce themselves. Whether they were used directly by those who produce them or were put on the market for sale as commodities, they were the *products of human labor*. Therefore they concluded that the producers had something to do with giving them their value. This led to the *labor theory of value*, which contends that the amount of labor incorporated in a product is the substance of its value. For instance, a commodity that would take ten hours to produce would be worth five times as much as one that takes but two hours. Its value would be five times as great. But then certain questions arose in relation to labor. For instance the question of *what kind* of labor? If a worker was slow and took twice as long as necessary on a product, then would it be twice the value? By no means. It is average labor, taking the average time required for the production of given commodities, that determines their value. This is what Karl Marx calls *socially necessary labor*, that is, labor expended for the recognized length of time and with the recognized means of production of a given period. If there were two hours of socially necessary labor in a hat which was produced by machinery, to produce the same kind of hat by hand, taking ten hours, would not give the

hat any more value. The extra eight hours were socially *unnecessary* labor.

Homogeneous Social Labor

Some products such as, for example, an automobile, require the application of different kinds of labor. How are we to measure its value in labor time? How are we going to arrive at its value by the amount of labor it contains, since there are a variety of kinds incorporated and this, too, for different lengths of time. After all, this is the modern way to produce. Marx lumps all labor together as general human labor, or to use his term, *homogeneous social labor*. It is by quantities of this homogeneous social labor that values are measured today.

But, you will say, how is that arrived at? You know that the labor of the carpenter is quite different from that of the tailor and the latter is different again from the tool-maker or the tanner, or the bricklayer, the typesetter, or the coal miner. But they are all human labor and can be lumped together and averaged. So many hours of highly skilled labor can be reduced to a larger number of hours of lesser skilled labor. Large quantities of lesser skilled labor can be equated to a smaller number of hours of highly skilled labor. In other words, we abstract labor from its concrete reality, and we strike an average. We lump together the labor of the carpenter, tailor, tool-maker, tanner, etc., into homogeneous social labor in the abstract.

To illustrate this change, we will take the example of how a plum pudding is made. First, flour is needed, then milk, butter, sugar, salt, baking soda, perhaps some eggs and other ingredients. And we must not forget the plums,

which give the pudding its name. After these are mixed and the pudding baked and ready to serve it no longer consists of *heterogeneous elements*, such as eggs, sugar, flour, plums, etc., but it is pudding. It can be measured by the pound, divided into ounces, etc. It is a homogeneous thing now. It is thus with lumping all human labor together from the less skilled to the most highly skilled, abstracting it mentally for measuring purposes. Therefore, we can arrive at the *value* of all products as being just certain quantities of homogeneous social labor in the abstract. And this works out in practice, and it was working in this manner before anyone discovered the fact and explained it so that it could be understood.

"But," you will say, "I do not go to the clothing store and say, give me that twenty-hours-of-social-labor suit of clothes." Well, you do not exactly do it that way but you say what amounts to the same thing. You say, "Give me that twenty-dollar suit of clothes."

We are assuming here, for illustration, that there is one hour of social labor incorporated in the quantity of gold behind each dollar, and, therefore, twenty of such dollars would (on the average) be equal to the twenty hours of social labor embodied in the suit of clothes. And that is how it works. Commodities (on the average) exchange at their value. Yet, strange to say, there is plenty of profit made by exchanging commodities at their value. We will explain that "miracle" later.

MONEY

In these days, with so many money bugs buzzing around, there is need for explaining the real nature and

function of money. The Technocrats with their "energy" dollar, the "direct credit" bugs with their "greenback dollars," the Roosevelt "brain trusters" with their "symetallic dollar" or what some have called rubber dollars. Al Smith picturesquely referred to these proposals as "baloney dollars," and he feared they might be sliced too thin.

Large numbers of small property owners who have had the experience of the bankers saying "no" to what they regarded as legitimate demands, are now clamoring for government loans and inflation of the currency, so that they can pay their debts with thin "baloney dollars," to be loaned to them at a small interest or, preferably, no interest at all. Many of these, having little understanding of the science of political economy, have come to the conclusion that money is the "invention of the devil," or at least of devilish bankers. They have come to the conclusion that money was invented for the purpose of robbing them, and that the bankers by some sleight-of-hand trick rob them of the values they produce. This is due to their lack of understanding of what money actually is, and how the competitive system is reducing them to poverty.

The Money-Commodity

When one first looks at social phenomena it is the shadows which protrude themselves, it is the reflections we see first. The substance from which the shadows and reflections are cast are usually hard to detect.

The Scotch have an old saying, "Money makes the mare to go," and the English say, "Money makes money." These old sayings have sprung from the shadows, from

the illusions and not from the substance of social phenomena.

Money does *not* "make the mare to go." It is just the reverse. The "mare," which typifies work, business or trade, was here before money existed. In fact, it was from work, business or trade that money itself came into being. Therefore, it is the "mare" that makes the money to go, or in other words, it is business that puts money into circulation and not vice versa, as many people believe.

As for the saying, "Money makes money," nothing is further from the truth. Money makes nothing. The belief that it makes more money is another illusion, a mistaking of the shadows for the substance from which they are cast.

What at most could be meant by "money making money" is that those who possess it in sufficient quantities can use it to purchase raw materials, machinery, labor-power, etc., and "make money" by exploiting the productivity of labor, the source of all values.

There are many illusions in relation to money today. Common among these illusions is the belief that money circulates commodities, hence the petty-bourgeois outcry for "cheap" money, for a more "elastic" currency, etc. But it is not money that circulates commodities. It is just the reverse. It is the circulation of commodities that causes money to flow. When trade is slow, money circulates slowly. When it is stagnant money lies fallow. It goes to "sleep" in the bank vaults. There is no work for money. It is "unemployed."

At the present time money (gold) has piled up in the hands of the capitalists of the great creditor countries such as France and America. Not long ago two-thirds of the world's gold supply had accumulated in these two coun-

tries, the result mainly of their creditor capitalists not re-investing loans and investments that had been returned to them when they came due. There being no profitable fields for reinvestment, they were obliged to hold their money in idleness.

The notion that business is brisk when there is a lot of money is part of the general illusion which goes with the "mystery" of money. If this notion were true, then, with more gold in America than there ever has been before, business would be booming. The industries would be running night and day instead of being closed down or working part time as they are at present. The "big boys," the finance capitalists who hold the gold, cannot find profitable and safe investments for their money and, much to their disgust, they are obliged to hoard it.

Money is not the dynamic thing under capitalism. It is the production and circulation of commodities that is dynamic. The "money-commodity," gold, is simply a *medium* through which commodities are exchanged with each other. Money is like a wire that transmits power. When we stop to consider the matter we realize that the wire itself has no power. It is simply a medium for circulating power which is generated somewhere else. When the power is shut off, when the current ceases to flow, we say the wire is "dead." It is so with money. Whole piles of it are lying "dead" at present. Its resurrection, under capitalism, can only be brought about through the restoration of business, through the machinery of production again being set in motion, and that is outside of the power of money. The shadow does not pull the substance after it, but just the reverse. Of course, a certain amount of stimulation to business can be made by spending money on

nonessential work, or non-profitable business, what the present doctors of the sick social system call "priming the pump." But, if a natural flow does not respond to the "priming" then it should be obvious, even to the "brain trust," that there is no profit in just pumping out what is poured in.

What Is Money?

Money itself is simply a commodity set aside for the special purpose of circulating other commodities and measuring their values as well as expressing their prices. The commodity, for instance, of the automobile capitalists is the automobile. The commodity of the bankers is money. The banker, of course, does not sell money like the automobile capitalist sells autos, but he rents the use of it like a landlord capitalist rents the use of a house, office, land, etc. Interest is the "rent" paid for the use of money. The banker aims to collect interest on his loans and also to receive the repayment of the principal. But where does the interest come from? The debtor capitalist gives up part of the profit, which he realizes by exploiting his workers, to the banker. If, however, he has enough capital and if he owns his factory buildings he can hold on to all of the profit instead of parting with some of it for interest and for rent.

The Substance of Money

Money is not a supernatural thing or a mere "government stamp," as many of our present-day money reformers contend. It is real material. In modern countries it is gold, and that metal contains much value in small bulk because it requires so much social labor to procure it.

If gold were as plentiful as coal and could be procured as easily it would have no more value than coal and no less. Coal could be used as money, but it could not be used as money and be used in a furnace at the same time. It would have to be set aside as the gold-commodity is now. Coal would be very awkward money. Gold occupies little space in relation to its value (a lot of social labor in small bulk). It is not destroyed by fire. It is very suitable for coinage. Gold that is used for commercial purposes is no more money than other commodities are. Only that gold which is legally set aside in coins or bars functions as money.

The Function of Money

Money functions in three ways: (1) As a medium of exchange; (2) As a standard of prices, and (3) As a measure of value.

The first function of money requires but little explanation. A medium is a go-between. For instance, a certain quantity of lumber is sold for a certain quantity of gold, a certain quantity of the money-commodity. Later the owner of that certain quantity of money can purchase with it, for instance, a certain quantity of cloth. Money, the medium of exchange, has simply been the means of exchanging the lumber for the cloth. This is all there is to money as a *medium of exchange*.

As for money as a *standard of prices*, that simply means that it gives nominal expression to value, so many dollars and cents in America, so many pounds, shillings and pence in Britain, and so on with the monetary units of other countries.

But, as a *measure of value*, money has mystified and

still mystifies many. For money to measure value it must itself have value. You cannot measure something with nothing. The quantity of average labor in a table, which gives it value, can, for instance, be exchanged for a coat containing approximately the same quantity of average labor. That is the way exchanging (trade) began, through direct exchange or barter, before there was any *medium of exchange*.

Money was brought into existence, or rather evolved, from trading. The trader who had wares to sell, yet did not desire immediately other wares in exchange, would accept, in preference, something of value that would be easily convertible later into the things he did want. Thus money arose. Economists have shown that almost every sort of object has been used as money, such as cattle, corn, tobacco, and even human beings (slaves). Anything that has value could be used as money, but all are not equally as serviceable. Perishable things would function poorly as money. That is why the "precious metals" have crowded out tobacco, cattle, etc., as money, and gold has crowded out the less "precious metals," such as copper and silver, because it contains greater value in smaller bulk. "Precious" simply means big value in small bulk, a lot of social labor in a small quantity of metal. Silver and copper, in modern countries today, are not money any more than paper is. They are but tokens. They are representatives, substitutes for certain quantities of gold held in the bank vaults. If the tokens (the currency) have 100 per cent gold behind them, say, gold to the face value of a dollar, then it makes little difference if the gold itself is circulated, if it is also currency. But if the currency is in considerable excess of the gold backing it, then for that

reason gold is withdrawn from circulation, and the effect of the increased ratio of currency (tokens) to gold is that prices rise. The owners of commodities demand more of the "cheap money" (inflated currency) than they would of the dear money. Values are not altered but their monetary expression is higher, prices go up. When currency is deflated, prices fall. Of course, besides this basic factor, there are secondary factors in the rise and fall of prices; for instance, supply and demand.

Fluctuations of Prices

In general, values are relatively constant, but prices fluctuate. If there is a lot of wheat available and not many buyers, its price falls. Sometimes the price of certain commodities falls below their value but, in general, prices fluctuate around value, sometimes above and sometimes below. These fluctuations, sometimes above value and sometimes below, cancel each other so that *on the average* commodities exchange at their value. We have previously remarked that we would explain how profits are made by exchanging commodities at their value. We are not forgetting that promise, but we wish to discuss money a little further.

"Money Bugs"

Whenever a crisis develops and "hard cash disappears," when commodities are unsaleable and, as a result, money is not changing hands and credit has tightened up, there usually arises much agitation against the existing monetary system.

At present the big bankers with great hoards of gold, are anxious to lend it out, but they can find few enter-

prises to which they can lend safely and at a profit. Countless numbers of business men are now trying to borrow. It is always so in a crisis, but fewer than ever can make the grade because of their insecurity. Therefore, at a time when the bankers (not the bankrupt ones, of course) have most to lend, and are very anxious to do so, they find very few secure business men to whom they can lend.

This condition creates the illusion that business is bad because the bankers will not let out their money. It is easy to see that there are plenty of people without money, but they can offer no security, and, in fact, many "securities" vanish in a crisis, leaving many bankers with no choice but to close their doors. However, the large bankers who survive have plenty of money on hand.

Those who believe that the holding back of loans on the part of the bankers is responsible for the depression, or at least for its prolongation, create an agitation for money reforms, for new banking laws, for the demonetizing of gold and the going on a silver basis, or a dual basis of gold and silver (bimetallism).

Although this sort of agitation may not be so prevalent as it has been in former crises, it is, nevertheless, fairly widespread, and especially is such the case in rural communities.

The Greenback Movement

Back about 1876 there arose in America a movement demanding the inflation of the currency. This movement is known historically as Greenbackism. The substance of it was that the government, in the interest of general prosperity, should print large quantities of paper currency, such as had been resorted to during the Civil War, and

which were known as "greenbacks" because of their color.

The first greenbacks were issued in 1862 to meet the financial plight of the government. The banks and the government, too, had withdrawn metal money from circulation, some of which went for foreign purchases. They put this paper currency in its place. Of course, it was inflation. Under the act of February 25, 1862, \$150,000,000 was printed and two further similar amounts were passed upon on July 11, 1862, and March 3, 1863, which were very large sums of money for those days.

A decade after the Civil War the United States was in the grip of a severe economic crisis. The small farmers and other small property owners set up a howl for government assistance. The banks would not lend and the small property owners demanded that the government should print plenty of "money," like the greenbacks of Civil War days, and lend it to the small property owners whom the banks would not trust.

In the presidential campaign of 1876 the Greenbackers put up a candidate for president, Peter Cooper, who received 81,740 votes. Two years later, by fusing with some other reform elements, they got over a million votes and elected 14 congressmen. (The total presidential vote then was about eight and a half millions.) Peter Cooper was one of America's early industrial capitalists, builder of the famous "Tom Thumb," America's first practical locomotive, and a noted philanthropist and general social reformer. When the crisis passed, Greenbackism died out.

Twenty years later, in 1896, William Jennings Bryan was the presidential candidate of that form of resurrected Greenbackism known as the "Free Silver" movement. The famous bimetallist, never a profound thinker, put

forth the theory that the coinage of silver, in the ratio of sixteen ounces to each ounce of gold, would solve the pressing problem of poverty and checkmate the concentration of wealth which was then well under way. He was the champion of the small property owners dying from their economic wounds in the battle of competition.

William Jennings Bryan had America stirred up over the "money question." Bryan was America's political Don Quixote. He tilted with more windmills in his time than any other politician this country has ever produced, and there have been some queer ones. His famous "cross of gold" speech was not an attack upon capitalism as such, but only upon a section of the capitalists, namely, the big bankers, the financial capitalists, who were then beginning to wield power in proportion to the loss of power by the industrialists and the petty business men and small farmers whom Bryan really represented. He never was a representative of the working class. He did not understand the process whereby labor is exploited. While he talked of a "crown of thorns" on labor's brow he did not understand how it came to be there nor did he understand the forces that were pressing it down.

Bryan was what we call today a "money bug." He believed that a certain change in the monetary system would be enough to bring prosperity to the vast majority and, at least, security to all. But, since money is merely a measure of value, we know full well that a mere change in its form would not add more value to that which it measures, any more than the shortening or lengthening of a yardstick would add length or quality to the cloth it measures.

This is the stumbling block of the majority of money

reformers; they believe that a change in the measuring of value, a change in the money system, will bring about an alteration in the wealth it measures and changes in the possession of that wealth. It is the latter, of course, that is aimed at and the belief is that: "If there is a vast increase in money, surely we will have more chance of getting hold of some." This certainly is an illusion that the present conditions should expose, even if the "money bugs" are unable to follow the mechanism of the monetary system. It is just as great an illusion as the notion that if there is abundance of wheat everyone will have plenty of it to eat.

Is it not a well-known fact that within America there is now the greatest supply of money in the world and the largest supply in the history of the country, yet fewer people have it?

Debtors and Creditors

Of course, there is a real reason for the repeated demands for inflation of the currency. Within the ranks of the capitalist class there are several divisions. One such division is that between those who have borrowed money and those who have loaned it, the debtor section of the capitalist class and the creditor section. If currency is inflated it causes prices to rise as those who have commodities to sell demand a higher price. The small business people, such as the small farmers, most of them debtors, want inflation and higher prices so that they can pay their debts with the inflated currency. The creditor section of the business class, particularly the bankers, usually fight inflation so as not to be repaid in depreciated currency. The substance of the whole question is the

conflict between big business and little business. For those who have no business and often no job, it is not something to get excited about. However, where inflation takes place, whatever its ultimate outcome, its first effect amounts to a cut in "real wages," the spending power of the workers. The cost of living goes up, often without an increase in wages and where increased wages are obtained it usually occurs after and not ahead of an increased cost of living.

Present Day "Money Bugs"

In some parts of Michigan and Indiana the "Direct Credits" movement has kindled a new flame in the old bimetal lamp and is attracting quite a few money bugs. *Direct Credits for Everybody* is the title of a small book, chock-full of economic errors, the author of which is one Alfred Lawson, who modestly tells his readers that his book "is as close to the truth as it is possible for the human mind to make it."

This Lawson is the pole star of the "Direct Credits" movement which aims to abolish interest and leave rent and direct profits. This is to be achieved by the government printing unlimited quantities of currency and providing without interest "direct credits for everybody." Lawson conceives of money as being nothing but a government stamp, anyway. In some of the western states a similar movement calls itself "Social Credits." The "Liberal Party" is another small group, led by "Coin" Harvey, which aims to remedy all social ills by reforming the monetary system.

The Franklin D. Roosevelt administration has been to a considerable extent bitten by "money bugs," mostly of

the silver variety. Monkeying with the money (controlled currency, etc.) is one of the main measures aiming at capitalist recovery. These schemes in themselves are foredoomed to failure because no mere change in the means of measuring or medium of exchanging values will create new values or cause existing values to circulate more freely.

PROFITS

How Profits Are Made

We will now explain how profits are made by exchanging commodities *at their value*. When business is good, when there is a brisk demand for products, commodities circulate freely, that is to say, many commodities are bought and sold, and much exchange takes place.

The process of buying and selling commodities has been thought of as the source of profits and many have regarded it as the creator of wealth. The Mercantile School of political economy believed that value arose from buying and selling. To the minds of those early merchants, buying and selling was a value-creating process. This is still a common illusion. To a superficial observer the merchants make their profits by buying cheap and selling dear. But before things can be bought and sold they must first be produced; values must first be created before they can be exchanged. This simple fact was overlooked by the Mercantile School of political economy and is still overlooked by many.

In his *Value, Price and Profit*, Karl Marx closes Chapter VI with the following statement: "To explain, therefore, the *general nature of profits*, you must start from

the theorem that, on an average, commodities are *sold at their real values*, and that *profits are derived from selling them at their real values*, that is, in proportion to the quantity of labor realized in them. If you cannot explain profit upon this supposition, you cannot explain it at all."

Now, let us look at the process of the circulation of commodities. We have previously pointed out that commodities are useful things. But that is only an incidental matter with the capitalist owner of the finished products. He runs his business for profit, but he never would make any if he simply stored up the products, which he usually has no use for, so he must find buyers who have use for them. The capitalist sells *commodities*. The consumer buys *use values*. The capitalist, as Marx has shown, sells commodities, on the average, at their value. Consequently, the consumer buys the product, the use-value, at its real value. The question then arises, "Where does the profit come in?" But that question gives rise to another, namely, "How does a commodity get its value in the first place?"

The Application of Labor to Natural Wealth

Nature makes no charge for "raw materials," in fact, if nature is left undisturbed the "raw materials" would never take on value. Minerals in the ground, so long as they are left there, have no value whatever. The finest trees in the forest may rot and die without ever taking on exchange value. It is only when human labor is applied to nature that its "raw materials" are transformed and begin to take on value which can be exchanged, in proportion to the amount of necessary labor expended.

Supposing that we observe the production of furniture. Let us follow it from the forest to the factory, and from

the factory to the home. As we have previously stated, the growing trees in the forest have no value, no more than coal or oil in the ground, but they have potential value.

The labor of the lumberjacks transforms what were trees into logs which are to be sawed into lumber. These logs, we will assume, are the property of a lumber company. The company has no use for the logs but it is out to make a profit and so it looks for someone who has a use for them. It offers them on the market at their real value. We will say in this case that the average log, when the tree is felled and trimmed and ready for transportation to the saw mill, exchanges for \$10. We will further assume that it costs the company, on an average, \$1 per tree for wear and tear on its equipment and for auxiliary substances used in its business. And let us further suppose that it costs, on an average, \$2 per tree for labor-power (wages paid to the workers). Thus, the costs to the lumber company will be \$3 per tree, leaving a surplus of \$7 in the hands of the company. But there may be other capitalists standing ready to collect a share of this surplus value.

Surplus-Value Source of Profits

This outlay of \$3 by the company (\$2 for wages and \$1 for wear and tear on equipment, etc.), comes back again when the \$10 exchange value of the log is realized. The \$1 for wear and tear on the equipment, etc., replaces itself, no more and no less. It is what Marx calls *constant capital*, but the \$2 for wages, which he calls *variable capital*, not only reproduces itself but produces, in this case, \$7 of additional value which he has named *surplus-value*.

This is the secret of capitalist profit. Its discovery was Marx's greatest contribution to the science of political economy. With this discovery it was shown that profits arise during the production of commodities and not during the time they are being exchanged and, further, that the surplus-value arose out of the variable capital, the outlay for labor-power, and, that the worker receives the value of his labor-power in wages but produces during his working day a much greater value. Of this value added by the worker, the capitalist gets back his outlay in variable capital, in this case the \$2 for wages, plus the additional \$7 of surplus-value.

When we understand this we can see how it is possible for the capitalists to sell commodities at their value and still make a big profit. As all commodities sell at their value, on the average, this also holds good for the commodity of the worker, labor-power. Wages are the price paid for labor-power, and although the prices may fluctuate, sometimes above and sometimes below value, in the long run these variations cancel each other and thus, on the average, labor-power sells at its real value. But, of course, labor-power is unlike all other elements that enter into production and which simply replace their own value. During the time it is being used up labor-power produces a value much greater than its own value, a surplus-value, as we have already pointed out. This surplus-value is appropriated by the owners of the means of production, the capitalists. The process Marx terms "the exploitation of labor."

Dividing up the Surplus-Value

Let us return again to the example of the lumber com-

pany. We may find that out of the \$7 surplus-value extracted from the labor of the lumberjacks the lumber company has to part with \$1 to another capitalist, the landlord upon whose land the trees were cut down. The direct exploiter of labor does not always succeed in retaining the full amount of the surplus-value. He has often to share with other capitalists, and that, too, on an average, according to the amount of their capital that he is obliged to use in his business.

The lumber company may also have had to borrow money from another capitalist, a banker, whose commodity is money which he "rents" the use of to other capitalists. They may have to give up a further share of the surplus in payment of interest on this "rented" money. Then they may have to give up another portion in taxes, etc. What is left of the surplus-value (usually plenty) is the lumber company's *profit*. Their logs are sold at their real value and their share of the surplus-value, the profit, is *realized*. It is collected at the point of exchange, where the logs are sold, but it is during the process of transforming the growing trees into logs or timber, during production, that the surplus-value has arisen.

The question may now be asked: "But what about the value of labor-power?" Its value springs from the same source as that of other commodities, namely, the amount of socially necessary labor required to produce or reproduce it. But this socially necessary labor is incorporated in the food, shelter, etc., that the worker must consume, plus that consumed by his family. Adult labor-power must raise a fresh crop of young labor-power for the future labor market. But this miserable allowance (\$2 per tree in the case of the lumberjacks) only represents

a fraction of the value that the applied labor-power produced.

And, further, we might point out that what the product sells for is not dependent upon what the worker receives in wages. Neither do his wages depend on the value of the products but basically upon the cost of living, upon what the capitalists must part with in order that labor-power can be reproduced for their service. And this despite the fact that the capitalist is always ready to howl that the product will go up in price if the workers get more wages. The capitalist takes all he can get for the product, whether wages go up or down. Often when higher wages are paid the capitalist gets less for the total product and at times he gets more for it when he has paid lower wages. If it was such a simple matter as passing on the increased costs to the consumer he would not resist an increase in wages so vigorously. The reason he fights so hard against wage increases is because its immediate effect is a cut in his profits. If the worker gets more in wages the capitalist gets less in surplus-value. The standard of the working class has not risen with the vast increase in wealth but, in fact, has fallen, taking the class as a whole. For large numbers the standard of living is at times driven below the subsistence level, through an oversupply of labor and competition for jobs.

But let us see what now becomes of the timber logs. Who buys such logs? We started out to observe the production of furniture. So we will now suppose that the logs were purchased by a saw mill company. When the saw mill capitalists bought the logs they had them transported by railroad to their mill where they are again transformed. The logs become finished or dressed lum-

ber to be sold at so much per square foot to consumers, such as those who produce furniture, etc.

The first outlay after the saw mill company buys the logs was the cost of transportation, which we will assume brings the value of the logs to \$12 each, an increase of \$2 in their value, for necessary transportation is part of production and adds value, in this case through the exploitation of railroad workers. If these workers received wages equal to \$2 for each log transported, there would be no profit for the railroad capitalists. But they don't. They are exploited in the same way as other workers, by selling their labor-power at its value and creating much greater values for the railroad company.

At the furniture factory the finished lumber is passed through the machinery by the furniture workers and it is transformed into useful furniture. It is then packed and shipped to the furniture stores where it is sold to the consumers, the buyers who use it in their homes.

As already happened in the case of the lumberjacks, the railroad workers and the saw mill workers, they (the furniture workers) receive wages and produce values much greater than they receive in wages. The saw mill company sells finished lumber at market price to the furniture producing company, holding on to as much as possible of the surplus-value added by the workers of the saw mill. And the owners of the furniture factory do likewise.

If the capitalists engaged in producing furniture could reach the consumers direct they would be able to retain most of the surplus-value themselves, but unless they have their own stores, they have to sell for less than the exchange value of their furniture. In other words, they have

to share the surplus-value with the capitalist retailer, the owner of the furniture store. If it also passes through the hands of a wholesale dealer (a "jobber") the surplus-value is simply divided up differently.

Let us trace this process. If a table is produced to sell for \$10, and it contains \$2 in wages and \$1 in raw materials, wear and tear on machinery, etc., then there is a surplus-value of \$7 in the production of the table. The factory capitalists may succeed in retaining \$2 of the surplus and the other \$5 goes to the retailer, or may be divided in some proportion between the wholesaler and the retailer.

Transportation may play a different part this time. It may be that in the competition between capitalists for markets that furniture makers located elsewhere may ship their goods into the district covered by other producers. Transportation of this kind is socially unnecessary and does not add value. In the case of small articles the costs of transportation may be so small in relation to the value of the commodities that, in practice, they are charged to "overhead" along with heating, window washing, etc., and have no appreciable effect on prices.

To sum up this process of furniture production and exchange, from the forest to the factory and from there through the hands of the dealer or dealers to the home, it will be observed that all the value put into the "raw materials" and the finished product has been put there by the workers, by those who did the producing (including transporting), and that the different capitalists have each taken their share of the surplus-value exploited from the employees.

We will now follow with an explanation of the com-

petitive struggles of the capitalists, and their fight among themselves over the plunder, the surplus-value exploited from the social labors of the working class.

COMPETITION

In the early days of capitalism the merchants said, "Competition is the life of trade," and it seemed to be so. The rivalry for increased business seemed to stimulate trade, especially where capitalism was expanding. The small business men today are not stressing the virtues of competition. The chain and department stores have given the small "independents" more competition than they bargained for, and these gigantic concerns know that much of their success is due to the elimination of competitors. These giant concerns also feel the effects of the terrific competition between themselves which, from time to time, forces them to come to some working agreement or merge into larger units.

The Struggle for Surplus-Value

Some mistaken notions exist about the power of "monopolies." They are popularly supposed to be able to raise prices at will and to almost any degree. But "monopolies" that are not engaged in fierce competition for trade are rare indeed, and even then they can raise prices very little, or perhaps not at all, for fear that they may lose more by the decrease in their turnover than they could gain by the increased price.

We have previously shown that it is during the process of production (which includes necessary transportation) that all values are created, and that the source of profit

is paying wages which have a much smaller value than the value which the workers produce. The difference between wages and the value of the product is the surplus-value, the only source of profit.

Profit, Interest and Rent

We will endeavor to show how surplus-value is *divided up*, for capitalism is a "dividing up" system. Its basic division is wages for workers and surplus-values for capitalists. It is upon the basis of this original division that other "dividing up" takes place.

The holy trinity of capitalism is profit, interest and rent. The three main sections of the capitalists are the industrial capitalists, bankers (financial capitalists) and landlords. The last named have been here for a long time and, as the name implies, originally were owners of land. At one time land was the main form of property and rent was the chief means of exploiting the land slaves, or peasants, after they had been freed from serfdom.

The present day landlord, while he collects rent, does not exploit tenants. The source of his income is the exploitation of wage workers. He gets his share of the surplus-values produced by the proletariat. His investment, like that of other capitalists, yields him the average rate of profit. However, receiving the average rate of profit is not an infallible, mechanical process which assures to all investors such returns. Some get less than the average rate and some get none at all, while others use up so much of their own capital as to become bankrupt. Others receive more than the average and thus increase their wealth rapidly.

The landlord sells the use of buildings (floor space and

such). Rented space takes the form of a commodity on the market which like any other commodity exchanges at its value. The tenant pays for the commodity and has to pay enough to maintain repairs, plus a share of the replacement value of the building and a profit. Otherwise the landlord would be dissipating his capital, while a paying investment under capitalism has its capital returned and a profit besides. Therefore, the so-called landlord is a capitalist, who lends the use of property just as the banker is a capitalist who lends the use of money, or a cab company lends the use of cabs.

Factories, offices, dwelling houses, etc., are capitalist properties. When they are built profits are made by capitalists of the construction industry who exploit building workers of all kinds. But the landlord capitalist who purchases the buildings at their average value does not intend to live in them. He looks for tenants who have use for such buildings and who are willing to pay rent because they have no buildings of their own in which to dwell or to carry on business.

We will consider the tenure of a factory building. We will assume that it is a print shop. The printing capitalist may own his machinery, etc., but may lack sufficient capital to buy a factory building. Therefore, he has to give part of the surplus-value extracted from the labor of his workers to the landlord in the form of rent. He is not exploited as a tenant. Another landlord may have tenements in which workers live. They pay rent, of course, out of their wages, but receive on the average the full value of their outlay. Their landlord may be an exploiter of labor, but not of the labor of his tenants. They are exploited where they are employed. The landlord

exploits his workers, his janitors and others whom he directly employs. The rents which he receives are large enough to cover the reproduction value of the building, including repairs and other maintenance expenses, spread over the years the building is usable, plus the average rate of profit on his investment. There are cases where the landlord does not exploit workers, where the tenant maintains repairs, performs janitor service, etc. In such cases the rent, on the average, is lower. But not all rent received is clear profit. The landlord has to give up part of it for taxes and other expenses. What is left in his hands, after all necessary expenses have been met, is his profit, and like other capitalists the amount he receives is, on the average, in proportion to the amount invested.

The Banker

We have previously shown how profits are made in production. We traced, by way of illustration, the production of furniture, including the lumber, from the forest, through the factory to the consumer and showed how surplus-value arose from the exploitation of wage workers engaged in production. We have also shown that the surplus-value divides into profit, interest and rent.

The banker's income is in the form of interest. He is a capitalist whose "stock in trade" is money. He "rents" the use of it just as the landlord rents the use of a building, and just as the latter expects back his outlay, plus profit, so does the banker expect the return of his loan, plus profit. But the banker's profit is no more made off the customer than the landlord's profit is made off the tenant. The banker collects interest for the money he has "rented" out. If it is an industrial capitalist to whom he

has loaned money the latter has to give up, in the form of interest, part of the surplus-value exploited out of his employees, just as he may also have parted with some of the surplus-value in the form of rent to the landlord. Of course if a capitalist has plenty of his own capital and is able to own his factory buildings and does not have to borrow any of the banker's capital, he neither has to pay interest nor rent and thus retains a larger share of the surplus-value.

Usury

At one time the taking of interest was condemned by the Church, and the money lender, the forerunner of the modern banker, was a sinner in high disfavor. But now the gentleman who collects his income through interest on loans is among the most respectable of citizens and usually occupies a prominent place in Church and State. Banking capital of late years has been very powerful. Its leading lights are men of vast wealth. But they produce no merchandise, neither in mill, mine nor factory. They grow no grain or other agricultural produce, but their wealth increases just the same.

This realization that the banker is not engaged in production has caused many people to conclude that he gets his riches by some evil practice, some sort of financial sleight of hand, but on close observation he can be found to be no more dishonest than other business men. There are "tricks in all trades" and the bankers have their little tricks, too, but their wealth is gained in the same "legitimate" way as the other capitalists acquire theirs, namely, through the exploitation of wage-labor. If the banker was to pay out as much in wages to his employees and in

other expenses as his returns amounted to, he would make no profit. His business, like any other, makes profit or loses according to how much he can retain over and above his necessary outlay. If his employees received high enough wages there would be no profit for him, but he usually can hire all the assistants he needs, pay them on the average the regular wages for such labor, and have a balance left over, a profit.

During the last few years thousands of bankers have gone into bankruptcy, but so did other business men, and the general cause was the same. Loss of income in relation to expenditure wiped out so much of their capital that they became insolvent. Reckless speculation helped to hasten their downfall, just as in the case of other speculators. But not all bankers failed. The large bankers, the real financiers, are in a very powerful position today. At one time banking capital was simply auxiliary to industrial capital, the bankers played a secondary role. While banking capital is still at the beck and call of solvent industry it has gained in many cases such a hold that it has practically absorbed the function of the industrial capitalist. This came about through the bankers becoming more than money lenders. They became direct investors in industry, purchasing large blocks of industrial stock, quite often sufficient to control the financial policies of large industrial concerns.

Three Stages of Capitalism

Capitalism has evolved through three main economic forms. The political development corresponding to these stages we will not discuss here. Its first stage was merchant capitalism, its second industrial and its last finance

capitalism. All three types of capital are still here. The merchant, the industrialist and the financier occupy their respective places in the capitalist scheme of things, but time has brought changes in their methods and in their relationship to each other. The last to appear, finance capital, has recently taken the leading rôle in the directing of industry and commerce.

When banking capital developed to the stage where it had a surplus over and above its requirements for industrial and commercial loans, the big bankers began to look for a way of using this surplus profitably. Permanent investments, not loans, was the answer to this problem, and the bankers were in a position to know where such investments would be the most secure and likely to yield the most profit.

United States Steel

It was the banker, John Pierpont Morgan, Sr., and his associates, and not steel industrialists such as Carnegie and Schwab, who organized and incorporated the powerful United States Steel Corporation. The "money power" since the closing decades of last century has forged ahead and extended its holdings and consolidated its grip upon an ever-increasing share of the national production, not to mention foreign investments. General Motors is another industrial giant that was promoted and is now directed by finance capital. The purely industrial capitalists are either being eliminated entirely or brought under the sway of the financiers. There are a few exceptions who are still powerful enough to resist the encroachment. Probably Henry Ford is the most notable. The Rockefellers also have been strong enough to not only hold off

the financiers but to enter their realm and become powerful banking capitalists as well. But finance capital, as such, is in the saddle and will probably be riding hard when the old horse capitalism runs its last lap.

The Rate of Profit

We have endeavored in these articles to show not merely the source of profit but their division among the different sections of the capitalist class. This division is not according to any preconceived plan, nor is it a mechanical law that guarantees equitable returns on investments, yet there is an economic law at work which tends to regulate the rate of profit. Karl Marx explains the operation of the process in great detail. Briefly it means that when profits are high in certain branches of industry and low in others the capitalists, always striving for the highest profits, withdraw their investments from the poor paying concerns and place them in those that have been paying high profits. This tends to pull down the high profits because of the plentiful supply of capital, and tends to raise it in the case of those industries from which so much has been withdrawn, making the capital invested there scarcer. It is a stabilizing process, which tends to give the capitalists, over their whole field of investment, an average rate of profit. But the amount of profit in relation to the investment steadily declines with the progressive development of industry.

The "Great Contradiction"

Marx and Engels have surpassed all others in pointing out the nature of the great contradiction within capitalist society which will bring about its downfall, namely, social

production and individual appropriation. The opponents of Marx have seized upon his contention that the rate of profit steadily declines while the amount of surplus-value (the source of profits) increases tremendously. This they have referred to as Marx's "great contradiction."

To the metaphysical mind it is quite difficult to reconcile "contradictions," and especially if those minds are looking for proof for a prior conclusion. Marx's explanation is not difficult to understand (except by university professors and other "educated" people). The improvements in machinery, the advancement of the industrial process, makes it possible for individual workers to produce such quantities that the value of the daily product in relation to the value of wages, advances with great strides. This should give the capitalist an enormous increase in the rate of profit, but it does not for the simple reason that he counts his profit on his whole investment. We have previously shown that it is only the variable capital which yields a surplus.

The Capitalist's Investment in Wages

Constant capital (machinery, raw materials, buildings, etc.), only transfers its own value to the finished product, no more and no less. But constant capital is greatly increasing, in fact, out of all proportion to the variable capital (payment for wages). Thus, while the surplus-values produced from the use of the variable capital increases, the rate of profit spread over the whole capital investment, due to the great cost of modern machinery and equipment, decreases. The *rate* of profit progressively decreases but the big capitalists today are wealthier than they ever have been because they exploit whole armies of

workers. Their general investments are so enormous, and expand so fast, that even with a lower rate of profit their annual incomes mount by leaps and bounds. However, the small capitalist with his diminutive capital can get no more than this falling rate of profit and consequently he is being crushed in the battle of competition.

In the competitive struggle "the battle is to the strong, and the race is to the swift." The elimination of the small exploiter and the concentration of the means of production into fewer hands is but hastening the time when the great expropriated and impoverished mass, the modern proletariat, will have to battle it out with its class enemy.

The question may arise, "But how about these great monopolies, these powerful combinations of capital? Can they not endure for generations to come?" Big business develops big problems, impossible of permanent settlement and which can only be temporarily adjusted by government control.

STATE CAPITALISM

In his famous work, *Socialism, Utopian and Scientific*, Frederick Engels says: "In any case, with trusts or without, the official representative of capitalist society—the State—will ultimately have to undertake the direction of production. This necessity for conversion into State property is felt first in the great institutions for intercourse and communication—the post office, the telegraphs, the railroads. . . . But the transformation, either into joint-stock companies and trusts, or into State ownership does not do away with the capitalistic nature of the productive forces. . . . The workers remain wage-workers—pro-

letarians. The capitalist relation is not done away with. It is rather brought to a head. But brought to a head, it topples over. State ownership of the productive forces is not the solution of the conflict, but concealed within it are the technical conditions that form the elements of that solution." (Pages 121-124, Kerr edition.)

In several countries, including America, capitalism has reached this stage of development, where many large branches of production, transportation or communication have been brought directly under government control or State ownership. Politically, it may not wear the label "State capitalism," but that is what it is in substance. In America, so far, it has not been necessary for the government to take over the railroads entirely, although it has been forced to interfere more and more with their operation. In many other capitalist countries the railroads have been State-owned for many years, just like the post office is here.

Under the "New Deal," which is America's way of promoting State capitalism, billions of dollars have been invested directly and indirectly in industry, especially during recent years. We need only mention the great water-power projects, such as the Tennessee Valley Authority, the Columbia River project, Boulder Dam, etc.

The State and Wage-Labor

As we have previously shown, values are created in the process of production, and although the worker receives in wages, on the average, the value of his labor-power, still he produces much greater values which are appropriated by the capitalists. In this exploitation of labor (profit making) the capitalists are supported by all the

main institutions of modern nations, the chief of which is the State. Therefore, when a capitalist government, such as exists today in France, Britain, Germany, America, etc., takes over certain branches of industry, it does not abolish profit making.

Under State ownership or State control of industry, the exploitation of wage workers continues. Surplus-values are appropriated by the capitalist class just the same. The government now functions as the exploiting agent of the capitalists who now receive their incomes in the form of interest on government bonds or on loans to the government. Although the exploitation may be less direct, the profits go to the capitalists as formerly. The workers are not any better off. That is what Engels meant when he said, "State ownership does not do away with the capitalistic nature of the productive forces."

During the past few years America has made great strides in the field of State capitalism. The production of power, one of the major industries, is rapidly becoming a State monopoly. The coordinator of railroads, Mr. Eastman, recently reported that the railroads could not be coordinated while they remained in private hands. In Germany and other countries the railroads have been government institutions for many years and the railroad workers are no better off than other workers.

The American government is now going into the building industry on a large scale. Slum clearance and replacement by new tenements is not merely taking Uncle Sam into the building business but is making the government a super-landlord with a multitude of tenants on its hands, and all in the interest of the capitalist class. It has become a banker by its vast investments through the Reconstruc-

tion Finance Corporation. One of the most outstanding instances of this development was the failure of the National Bank of the Republic in Chicago. Even a \$90,000,000 loan from the government could not save it. That bank, of which former Vice-President Dawes was official head, is now in the hands of Uncle Sam, receiver. Other business institutions will follow the banks. Enormous stocks of grain held by the government and the great purchases of cattle, sheep, hogs, oil stocks, etc., have turned Uncle Sam into the nation's merchant number one. Increasing millions of employees are now in the service of State capitalism. The capitalist class will be just as rich. The working class will be just as insecure and just as poor, or poorer.

Who Is Saved?

It is not necessary for workers to declaim against State capitalism as such, but against all capitalism. It is no worse to be exploited indirectly through the government than it is to be exploited directly by a Rockefeller or a Ford. But, workers should not allow themselves to be fooled into believing that State capitalism is in their interest, that it will "save" them. It is not they who are saved but the capitalists whose banks and industries hit a snag and collapse on their hands. The government steps in and runs business for them. Complete State capitalism, government ownership of all property, will not necessarily improve the lot of the workers one iota. They will still be wage slaves, producing surplus-values which will be appropriated by the government and passed on to the capitalists.

The Fate of State Capitalism

Even when a government takes over industries and runs them for the capitalists, there is no guarantee of permanent security for the profit system. Its inherent contradictions still pursue it. Social production and individual appropriation and the anarchy of overproduction and world competition will bring about its downfall. As Engels points out, State capitalism simply brings the issue to a head. "But brought to a head," he says, "it topples over." State capitalism cannot, by any conceivable scheme, adjust these inherent contradictions. However, it helps to point the way to its own overthrow, for while State capitalism is not the solution, "concealed within it are the technical conditions that form the elements of that solution."

State capitalism demonstrates still further that the capitalist class is superfluous, that it has run its historic course, that production is carried on socially by a non-possessing class whose historic mission is self-emancipation. The socialization of the industries can only be brought about by the conscious action of the proletariat itself, by the political overthrow of the capitalist class and the substitution of working class political power as the means of expropriating the expropriators and ushering in a classless society—the Communist Society.

CAPITAL

A Critique of Political Economy

By Karl Marx

This work is beyond comparison the greatest of all Socialist books. It is a scientific analysis of the society in which we live, showing the precise method by which the capitalists grow rich at the expense of the wage-workers.

VOLUME I, entitled "The Process of Capitalist Production," is practically complete in itself. It explains the thing which, up to the time that Marx came on the scene, had confused all the economists, namely, Surplus Value. It explains exactly how the capitalist extracts his profits. This volume might be called the keystone of the Socialist arch. 869 pages, \$2.50.

VOLUME II, "The Process of Circulation of Capital," explains the part that the merchant and the banker play in the present system, and the laws that govern social capital. Unravels knots in which previous writers had become entangled. 618 pages, \$2.50.

VOLUME III, in some respects the most interesting of all, treats of "The Process of Capitalist Production as a Whole." Predicts the Rise of Trusts and makes clear the Cause of Panics and Industrial Crises. Shows how the small capitalist is swallowed. Explains for all time the subjects of Land, Rent and Farming. 1,048 pages, \$2.50.

The complete work sells for \$7.50, and contains over 2,500 large pages, in three handsome volumes, bound in cloth and stamped in gold. Any capitalist publishing house would charge at least double our price. Ours is a socialist co-operative house, owned by three thousand comrades who expect no dividends but have subscribed for shares to make possible the circulation of the best socialist literature at the lowest possible prices. Ask for catalog.

CHARLES H. KERR & COMPANY

341-349 East Ohio Street, Chicago