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THE FORMATION OF MARX'S THEORY OF CRISIS

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I TWO TYPES OF CRISIS THEORY

Marx's theory of crisis in "Capital" forms a focus of his systematic critique of Classical economics in which capitalist economy is regarded as the ultimate natural order of human society. Unlike the Classical school, Marx's theory treats the law of motion of capitalistic production scientifically with its historical forms and mechanisms. Without such a systematic theory, we cannot clarify the logical necessity of cyclical crises which reveal the contradictory nature of capitalist economy in all its complex interrelations.

In dealing with such complex phenomena, the level and the empirical basis of abstraction is particularly important. The crisis theory in "Capital" was developed in order to prove the inevitability of cyclical crises at the level of basic principle. And it was formed on the empirical basis of the most typical cyclical crises at the middle of the 19th century, the most suitable historical basis of abstracting the principle of crisis..

If we take as the basis of abstraction the whole history of crises, including the immature crises in the mercantilistic age, we will only recognize either too diverse concrete factors (often not exclusively economic factors, such as wars) affecting the courses and phases of crises, or too abstract formal common factors, in order to prove not the mere possibility but the logical necessity of cyclical crises. Professor Uno's systematic division of levels of research in Marxian Economics into Principle, Stages Theory, and Analysis is essential here. Studies in the historical changes of the phases and roles of economic crisis through the world history of capitalism, comprising three stages of mercantilism, liberalism, and imperialism, should belong to another, upper level of research as Stages Theory rather than to the basic Principle of political economy as we see in the theoretical system of "Capital". The surer the principle of crises becomes, the surer the stages theory of crises or further, the analysis of the critical situation of the recent capitalism, can be made. We must recognize even in our age the importance of Marx's crisis theory, abstracted from the typical cyclical crises at the middle of the 19th century, as the principle of capitalistic crisis.

However, Marx's crisis theory is not fully complete. In particular, it contains two different types of theories which are not easily made consistent with each other. Let us call them in short 'the excess capital theory' and 'the excess commodity theory'.

For instance, in the section III of Chapter XV of the third volume of "Capital", Marx tries to show that "a steep and sudden fall in the general rate of profit" due to "absolute over-production of capital" "in a ratio to the labouring population" (K.III.S.262,p.251)[1] brings forth cyclical crises. In this context

[1] In this essay, I will cite pages of Marx's "Capital" in the following way, using both the German edition in Marx-Engels Werke 23-25 (1962-4) and the English edition by Progress Publishers (1965-71). K.III means the third vol. of "Capital", S indicates pages in the German edition and p those in the English edition

excess of commodities in the market and difficulties of the realization of surplus-value are regarded as a result of the falling rate of profit caused by the excess accumulation of capital.[1] Marx's attempt in "Capital" to develop a business cycle theory along this line can be observed also in his theory of capital accumulation of the first volume (K.I,S641-9,661, pp612-2, 632-3), and in his credit theory of the third volume (K.III,S529-30, pp513-14; also K.II,p415). "The conditions of direct exploitation, and those of realizing it, are not identical...The first are only limited by the productive power of society, the latter by the proportional relation of the various branches of production and the consumer power of society". Along with the increase of production of surplus-value, "the contradiction between the conditions under which this surplus value is produced and those under which it is realized" (K.III,S254-5, pp244-5).

Also in Chapter XXX of the third volume, Marx points out that the "disproportion of production in various branches" and the "restricted consumption of the masses" as opposed to development of productive power are the ultimate reason or cause of crises (K.III,S501, p484). In these places, he considers that crises occur from the over-production of commodities beyond demand, due to either the disproportion among production branches or the restricted consumption of the masses. Excess Capital and the falling down of profit rate are seen as resulting from this process.

Needless to say, both capital and commodities have become generally excess in crisis periods. But it is important to discern which of them is the fundamental cause of economic crises. The excess capital theory and the excess commodity theory are logically opposed to each other at this point. We cannot keep both theories if we seek to prove the logical necessity of economic crisis in the principle of political economy.

Why do these two different types of crisis theory co-exist so uneasily in "Capital"? In which direction, and how, should Marx's crisis theory be completed? I will try to give an answer to these questions by reviewing the formation of Marx's crisis theory from "Grundrisse" to "Capital".

II CRISIS THEORY IN "GRUNDRISSE"

In "The Chapter on Capital" in "Grundrisse" which is the first manuscript for "Capital" in 1857-58, Marx shows his theoretical studies of crisis, mainly at the beginning of Section II "The Circulation Process of Capital" and in the profit theory of Section III, "Capital as Fructiferous".

At the beginning of Section II of "Grundrisse", in contrast to the second volume of "Capital", Marx treats the selling process of commodity products by capital i.e. C'- M' as an important restriction on the motion of capital, saying for instance:-

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[1] P.M.Sweezy calls this type of theory 'Crises Associated with the Falling Tendency of the Rate of Profit' in his <u>Theory of Capitalist Development</u> (1942). As I discuss below, this theory should be developed rather independently from "the law of the tendency of the rate of profit to fall". Sweezy's designation seems to be misleading on this point. However, his treatment of this theory remains one of the rare cases (in addition to Prof. Kouzo Uno and his followers' studies in Japan) in the history of Marxian crisis theory. I would also like to suggest that the name Sweezy gives to the other type of theory - "Realization Crisis" - should be changed in order to sharpen the contrast with this theory.

"It is forgotten, as Malthus says, 'the very existence of a profit upon any commodity pre-supposes a demand exterior to that of the labourer who has produced it', and hence the demand of the labourer himself can never be an adequate demand. Since one production sets the other into motion and hence creates consumers for itself in the other capital's workers, it seems to each individual capital that the demand of the working class set by production itself is an 'adequate demand'. This demand which production itself sets drives production forward beyond the proportion in which it would have to produce in relation to workers; on the one hand, the production must overdrive beyond that proportion; on the other, the demand exterior to the demand of the labourer himself disappears or shrinks up, thus the collapse occurs." (Gr.S323,p420)[1]

Marx supposes here that commodity production by capital as a whole must exceed proper proportion for consumers' demand, and emphasizes that "the final product finds its limit in direct and final consumption" (Gr.S323, p421). It must be noticed that Marx does not yet discuss clearly the logical necessity of economic crises in cyclical form. He tends rather to maintain in "Grundrisse" that economic crisis is almost equivalent or leads directly to the final collapse of capitalistic production, basing it on the excess commodity theory of an underconsumption type.

Marx is apparently trying here to follow and develop the crisis theory of Sismondi and Malthus who opposed Ricardo's classical theory. Marx contrasts Sismondi with Ricardo as follows:-

"Those economists who, like Ricardo, conceived production as directly identical with the self-increasing of capital...have grasped the positive essence of capital more correctly and deeply than those who, like Sismondi, emphasized the limitation of consumption and of the existing circle of counter-values. However, the latter has better grasped the limited nature of production based on capital, its negative one-sidedness. The former more its universal tendency, the latter its particular restrictedness". (Gr. S314, p410)

Surely, Sismondi or Malthus tried to show the inevitability of general overproduction, and therefore the particular restrictedness of capitalist production, whereas economists like Ricardo emphasized one-sidedly the adjustment working of demand and supply on the basis of the law of value, denying the possibility of general overproduction of commodities. According to the labour theory of value of Classical economics, the value of yearly commodity products and the revenues, such as wage, profit and rent necessary to buy them become always equal in total, for both are determined by the total quantities of yearly social labour. Extension of the scale of production by capital increases both the supply of and the demand for commodity products equally in total value. Sismondi and Malthus opposed this theory, by throwing overboard in effect the labour theory of value, as they argued that various forms of revenues rose independently from capital, labour or land, and questioned from this view why the total of these revenues should be sufficient to buy the total supply of yearly products of labour. Here, the social relation of production and consumption, or that of supply and demand is separated from their inner co-relation with social labour and only their external balance is called into question at the surface of circulation.

Malthus said from this view, "If production be in a great excess above consumption, the motive to accumulate and produce must cease from the want of an

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[1] This abbreviation shows hereafter the pages in Karl Marx, "Grundrisse der Kritik der Politischen Okonomie" 1953, and its English translated edition in the Pelican Marx Library, 1973.

effectual demand in those who have the principal means of purchasing"[1] and he maintained that this difficulty might be overcome through the 'unproductive' demand of landowners etc.[2] Sismondi asserted an under-consumption theory a little earlier and rather more sharply than Malthus. According to him, the accumulation of capital causes, on the one hand, the contraction of consumption demand through both substitution of labourers (and farmers) by machines in the process of centralization of production. On the other hand, it also causes the increase of commodity products without regard to the scale of consumption demand.[3] Consequently, "the superabundance of production, that goes beyond consumption",[4] must occur.[5]

In order to make clear the restrictedness of capitalist production and the inevitability of general overproduction which is neglected by Classical economics, Marx emphasized, as we have seen, the difficulty of realization caused by the restriction of consumption demand, extending the line of Malthus and Sismondi. He intended to receive and to develop, along with the labour theory of value of the Classical school, the crisis theory of the anti-Classical (or counter-Classical) school to criticise the prescribed harmony in the former.

So far, his crisis theory of under-consumption in "Grundrisse" tends to lack the inner relation to the working of the law of value, the basic law for capital to maintain the social reproduction under commodity relations. However, in contrast to Sismondi or Malthus, Marx does not abandon the labour theory of value, but attempts to develop it systematically as the law of motion of capital within its historical forms, criticising the limits of the classical theory of value. Therefore, he comes also to criticize on one side the excess commodity theory of under-consumption so long as it is inconsistent with the law of motion of capital based on the law of value.

For instance, Marx says, criticizing Proudon, that it is superficial to deduce the necessity of overproduction from the fact "that the worker cannot buy back his product". (Gr. S326, p424). And he goes on to consider interrelations between various sectors each producing raw materials, machinery, workers' necessaries, and surplus products. In this rudimentary attempt to construct a reproduction scheme, he shows how commodity products of each sector can be bought and consumed as either constant capital (which tends to be neglected by the Classicists), variable capital, or surplus value. Thus, when the inner relation between production and consumption of commodity products in the motion of capital is observed on the basis of the law of value, it becomes clear that the extension of production under capital brings forth not only an increase in the consumer demand of workers but also an increase in the demand for means of production. This calls into question his previous notion that general overproduction occurs because "the final product finds its limits in direct and final consumption". Thus, Marx ends his discussion here, suggesting that the main point is not in the mere balance between production and consumption but rather in its restriction to the value increasing process of capital, as follows:-

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[1] T.R. Malthus, "Principles of Political Economy", 2nd ed. 1836, p.7.

[2] Ibid., pp398-413.

[3] Simonde de Sismondi, "Nouveaux Principes d'economie politique", 1819, Tome 1, pp319-20, 33.

[4] Ibid., p338.

[5] See also E. von Bergmann, "Geschichte der Nationalökonomischen Krisentheorien", 1895, on details of crisis theories of Malthus and Sismondi.

"the general overproduction would occur, not because of relatively too little of the commodities consumed by the workers or too little of those consumed by the capitalists, but because too much of both had been produced - too much not for consumption but too much to retain the correct relation between consumption and value increasing; too much for the value increasing"[1] (Gr. s346-7, pp442-3)

What then does "too much production for the value increasing" mean? This problem is not yet presented in "Grundrisse". However, we find another sort of attempt to approach the logical necessity of crisis in Section III of "The Chapter on Capital". Namely the attempt to construct a crisis theory in relation to the law of tendential fall of profit-rate.

Profit theory in "Grundrisse" still lacks the theory of prices of production. It shows the concepts of profit and profit rate simply in the ratio of the social total surplus-value to the total value of capital, and then goes on directly to the theory of the tendential fall of profit-rate, saying:-

"Presupposing the same surplus value, the same surplus labour in proportion to necessary labour, then the rate of profit depends on the relation between the part of capital exchanged for living labour and the part existing in the form of raw materials and means of production. The smaller the portion exchanged for living labour becomes, the smaller becomes the rate of profit". And the increase of productivity in the process of capital accumulation "expresses itself as a diminished proportion of the capital exchanged for living labour relative to the part of capital existing as constant value". (Gr. S633, p747).

Basing on this notion of the tendency of the profit rate, Marx continues his discussion as follows:- -"Bringing forth such a tendency of profit rate to fall," "the development of powers of production becomes, beyond a certain point, a barrier for capital: hence the capital relation becomes a barrier for the development of the productive powers of labour". ..."The growing incompatibility between the productive development of society and its hitherto existing relations of production expresses itself in bitter contradictions, crises, spasms." (Gr. S635, p749, see also S636, p750)

Marx's discussion here is different from Ricardo's theory of the falling tendency of the profit rate. Ricardo thought, presupposing the rising tendency of corn price because of the diminishing fertility of the land, that "with the progress of society the natural price of labour has always a tendency to rise".[2] and that "the natural tendency of profits then is to fall".[3] Against this Marx attempts to show that it is not a natural factor like fertility, outside capital, but the increasing process of productive power inside capital itself that causes a falling tendency in profit rate. This was a theoretical achievement in relation to his discovery of the principle of reproduction of constant capital which had been neglected by the Classical school.

However, there remain fundamental questions as to whether this tendency of the profit rate to fall due to the rising composition of capital indeed brings forth crises when it passes "beyond a certain point". On the one hand, it is difficult to explain the cyclical nature of crises directly from this, as this is not a cyclical but a long-term, tendential movement. Further, this tendential fall in the profit rate does not necessarily imply a crucial difficulty for

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[1]A mistranslation of "Verwertung" into "realization" instead of into "value increasing", in the English edition here makes impossible a proper understanding of the original meaning.

[2]D. Ricardo, On the Principles of Political Economy and Taxation, Camb.Univ. Press, 1951, p93.

[3]Op.cit., p120.

capital accumulation. For this tendential fall of profit rate due to the rising composition of capital may occur even though the absolute volume of surplus value is increasing. Depending upon the production of relative surplus value, the absolute volume of surplus value can go on increasing and capital accumulation can also continue even though at a diminishing pace.[1] On this point, Marx's theory of the tendential fall of profit rate is clearly different from that of Ricardo's which contains a formal necessity for an absolute reduction of the volume of profit, though basing it on the incorrect presumption of the incapability of an increase of productivity in agriculture. If the process of tendential fall of profit rate includes the occasional, sudden and sharp decline in the profit rate, causing the cyclical crises, we should make clear just why they must occur. We see that Marx's excess capital theory of crisis was still far from complete in "Grundrisse".

III CRISIS THEORY IN "THEORIES OF SURPLUS VALUE"

Theories of Surplus Value is edited mainly from nos 6, 15, 18 and partially from Nos 21, and 22 among the 23 notebooks which were written during 1861-63 as the second manuscript for "Capital". It shows in various respects the development of Marx's theoretical research from "Grundrisse" to "Capital". As for crisis theory, his discussion here is concentrated in Chapter XVII "Ricardo's theory of accumulation and a critique of it (The very nature of capital leads to crisis)" of Part II.

The main emphasis of Marx's discussion is still laid on the excess commodity theory as in "Grundrisse". He says, for example "The mere (direct) produc-

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[1] In my view, Marx was aware from the beginning that the law of tendential fall of profit rate due to the rising composition of capital goes along with the production of relative surplus value on the profit rate. However Marx continues his discussion carefully checking the changing ratio "between the part of capital exchanged for living labour and the part existing in the form of constant capital". (See also "Capital" III, pp215-25) We must notice at the same time that he does not count the production of "relative surplus value" in "counteracting influences" (where only the production of absolute surplus value is treated as "increasing intensity of exploitation") in chap.XIV, apart from "the law as such" in chap.XIII of vol.III of "Capital". This is because he already took account of that factor in the explication of "the law as such" in chap.XIII.
As Marx says, a certain number of living labourers come to use more and more dead labour stocked in the form of means of production, i.e. constant capital (c), with a rise in the organic composition of capital. A certain number of living labourers under a given length and strength of working days give yearly the same amount of the value created (Wertprodukt), including both the surplus value (s) and the recreated variable capital (v). Therefore we can recognize theoretically that the ratio $(\frac{s+v}{c})$ declines absolutely with rising composition of capital, independently of the change or rise in the rate of surplus value, i.e. $s'=\frac{s}{v}$. The decline in the ration $(\frac{s+v}{c})$ goes on infinitely when the organic composition of capital continues to rise infinitely, in the long-term process of accumulation. The general rate of profit $p'=(\frac{s}{c+v})$ as formulated by Marx is clearly always smaller than the ration $(\frac{s+v}{c})$. Hence p' must have a tendency to fall even with a rising rate of surplus value, as the ratio $(\frac{s+v}{c})$ falls down infinitely in the long run. I agree with R.L. Meek's discussion on this point and interpretation of Marx's explication of this law in his "Economics and Ideology and other Essays", 1967, pp131-5. Thus my position is that Marx's law of tendential fall of profit rate is quite provable, but that this law cannot be used directly in order to prove the logical inevitability and the cyclical nature of economic crises as discussed above.

tion process of capital in itself, cannot add anything new" regarding the explication of crisis. For the problem of realisation which causes crises "can only emerge in the circulation process which is in itself also a process of reproduction" (Mw, 2, S513, p513).[1] It shows the development of "the possibility of crisis, which became apparent in the simple metamorphosis of the commodity", gaining its "content" or "basis" through the motion of capital. (Mw, 2, S508-11, pp507-11)

Marx still maintains, in part here, the underconsumption type of view to explain the necessity of crisis, saying "overproduction arises precisely from the fact that the mass of the people can never consume more than the average quantity of necessaries, that their consumption therefore does not grow correspondingly with the productivity of labour" (Mw, 2, S469, p468). However, he puts more stress on the disproportionality type of crisis theory, corresponding to his process of inquiry into the inter-sectoral relations among capitals.

While criticizing Ricardo who, admitting the possibility of partial overproduction, rejected the possibility of general overproduction of commodities, Marx says, "For a crisis (and therefore also for overproduction) to be general, it suffices for it to affect the principal commodities" (Mw, 2, S506, p505). And pointing out that if cotton cloth were overproduced, it would affect not only workers in this sector, but also spinners, cotton growers, engineers, iron and coal producers, Marx continues as follows:-

"If over-production has taken place not only in cotton, but also in linen, silk and woollen fabrics, then it can be understood how over-production in these few, but leading articles, calls forth a more or less general (relative) over-production on the whole market". (Mw, 2, S523-4, p523). "Since capitalist production can allow itself free rein only in certain spheres, under certain conditions, there could be no capitalist production at all if it had to develop simultaneously and evenly in all spheres. Because absolute overproduction takes place in certain spheres, relative over-production occurs also in the spheres where there has been no over-production". (Mw, 2, S532, p532)

Thus, Marx asserts here that the disproportional and partial over-production, which is regarded by Ricardo as being always adjusted through the motion of capital, necessarily leads to general over-production and crisis through intersectoral influence when it occurs in the leading commodities. Marx's excess commodity theory of crisis became diversified adding this disproportionality type to the former under-consumption type of view.

Even though Marx still lays stress on the difficulty of realization in the circulation process outside the direct production process, he comes now to regard the circulation process also as a part of the reproduction process of capital including relations among various branches of production. This seems to mean that he is seeking here to find out the difficulty for capitalist production arising from inside the reproduction process of capital itself. At the same time, he no longer views crises one-sidedly as standing in opposition to, and only destructive to the law of value or the law of motion of capital. He indicates not only that the crises occur as a breakdown of the equalisation process among capitals based on the law of value but also that "the crisis itself may be a form of equalisation". (Mw, 2, S522, p521) Crisis theory is about to be separated here from the so-called breakdown theory,

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[1] K. Marx, "Theorien über den Mehrwert", Teil 2, in Marx-Engels Werke Bd.26 (2), 1967. English edition, 1969. The pages of these copies are shown in this way hereafter.

and be developed as the concrete form of reproduction or accumulation theory.

However, the process of capital accumulation, while incessantly causing the anarchical disproportions in the distribution of labour quantities among various branches of production, can usually adjust this disproportionality, through competition with credit systems among capitals correlating with the motion of market prices. This shows the concrete forms of the regulation of the law of value in the ordinary process of capital accumulation.[1] Therefore, even granted the anarchical nature of capitalism, it is still difficult to explain why serious disproportionalities including an overproduction of "leading articles" sufficient to cause a general crisis must necessarily occur and furthermore be of a cyclical nature. Such serious disproportionalities seem unlikely to occur without the appearance of some unusual special difficulty inside the process of capital accumulation as a whole. How then can such an unusual difficulty occur which cannot be overcome without a sharp crisis?

The excess capital theory of crisis could provide an answer. But, in "Theories of Surplus value", this type of theory is hardly developed. However, Marx raises the following question which relates to this point.

Ricardo denied the possibility of general overproduction of commodities, not merely because of his acceptance of Say's theory of demand and supply, but because of his understanding that an excess of capital accumulation could not occur except in the too distant future or in a situation too accidental and particular to be treated in principle. This view, even though in a sense logically consistent, clearly did not accord the real development of capitalism after Ricardo's time. Nevertheless, his successors continued, inconsistently, both to deny the possibility of a general overproduction of commodities and to explain the cyclical crises from the excess of capital.

"What then would Ricardo have said to the stupidity of his successors, who deny over-production in one form (as a general glut of commodities in the market) and who, not only admit its existence in another form, as over-production of capital, plethora of capital, over-abundance of capital, but actually turn it into an essential point in their doctrine?" (Mw, 2, S497, p497) Crises must be clarified as to contain both forms of over-production. Therefore, "the only remaining question thus is: what is the relation between two forms of over-

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[1] The adjustment of the pace of investment among various sectors according to the fluctuations of market prices not only shows but also realizes the concrete regulation of the law of value. The law of value fundamentally means the regulation of values of commodities by labour time socially necessary to produce them. However, this regulation of values by labour time cannot be maintained without adjustment of the labour allocation necessary to keep social reproduction across various branches of production. Competitive movement in the pace of investment according to the fluctuations of market prices and rates of profit, while causing the incessant disequilibrium in the labour allocation, forms, at the same time, the concrete mechanism of readjustment of the labour allocation based on the law of value.

Further, this concrete regulation of prices of commodity products by the law of value under capitalist economy, presupposes the regulation of the social production relation between capital and wage labour based on the law of value of the labour power commodity. Therefore, we have to theoretically recognise and develop the law of value as the basic law of the whole motion of capitalistic production.

production?"..."The question is, therefore, what is the over-abundance of capital and how does it differ from over-production?" (Mw, 2, S498, p497-8)

Marx still does not investigate this important question he raises in his "Theories of Surplus Value". He moves to discuss the excess commodity theory as we have seen. Thus, the question of what the overproduction or plethora of capital is still remains to be answered.

Marx's theoretical research prior to and including "Theories of Surplus Value" seems to lack in two respects the foundations to answer this question. On the one hand, in order to clarify the distinction and relation between the overproduction of capital and the plethora of capital, the latter being "an expression used only with reference to the interest-bearing capital, i.e. moneyed capital" in the money market (K.III, S493, p476), a theoretical treatment of the working of the credit system is clearly indispensible. Marx noticed from the beginning the important role of the credit system in the motion of capitalist economy, and already pointed out in "Grundrisse" that the tendency of capital to reduce the circulation period formed "the fundamental determinant of credit and credit contrivances of capital" (Gr. S551, p659). He also pointedly remarked elsewhere in "Grundrisse", "in a general crisis of overproduction the contradiction is not between the different kinds of productive capital, but between industrial and loanable capital - between capital as directly involved in the production process and capital as money existing (relatively) outside of it". (Gr. S316, p413) And then, in "Theories of Surplus Value" corresponding to his development of disproportionality theory, he comes to pay attention to the fact that a chain reaction of inability to clear the bills among capitalists connected through commercial credit mediates the outbreak of crises (Mw, 2, S512, p511). But Marx's theory of interest until "Theories of Surplus Value" does not yet contain a systematic investigation into the credit mechanism, but unfolds only the abstract form of interest-bearing capital presupposing moneyed capitalists outside industrial capitalists. It was indispensable for Marx to expand his work decisively beyond "Capital in general" in his original plan[1] in order to make clear the motion of capitals in business cycles through the credit system.

On the other hand, a correct theory of the capitalistic law of population in the process of capital accumulation was also indispensible, in order to clarify the notion of overproduction of capital in relation labouring population as we saw in "Capital". Marx was preparing such a theory in Chapter XVIII of "Theories of Surplus Value", pointing out that "with the accumulation of capital a change takes place in its organic composition and the constant part of the capital grows at a faster rate than the variable" (Mw, 2, S564, p563), and

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[1]Marx's original plan of his work, written at the end of the 1850s when he wrote "Grundrisse", was composed of six main parts, i.e. Capital, Landed Property, Wage Labour, The State, Foreign Trade, World Market. The first part of Capital was further divided into four chapters: (a) Capital in General, (b) Competition, (c) Credit, (d) Joint-Stock Capital. The theoretical system of "Grundrisse" was still clearly confined within the framework of "Capital in general" in this plan. However, there are discussions as to the relation between this original plan and the theoretical system of "Capital". I will treat at some length this so-called plan problem in another essay in preparation, where I would also like to explain our understanding of the methodological necessity for dividing the research levels of Marxian Economics into Principle, Stages Theory, and Analysis, relating it to the plan problem.

that "machinery always creates a relative surplus population, a reserve army of workers". (Mw, 2, S556, p554). However, unlike "Capital", Marx almost neglects here cyclical changes in the formation and the absorption of the relative surplus population, as he stresses only the former. Thus, his study of the capitalistic law of population was too rudimentary to support a consideration of the excess capital theory of crisis at this point.

IV COMPLETION OF THE CRISIS THEORY IN "CAPITAL"

The excess capital theory in "Capital" clarifying what is the "overproduction of capital" in relation to labouring population, is of great importance. It not only answers properly the question "what is the overabundance or plethora of capital" in "Theories of Surplus Value", but forms in effect a new crisis theory entirely unique to "Capital".[1] Although it is still shown as if it were a discussion "under the extreme conditions assumed" (K.III, s265, p255) in Part III of Vol.III, it is not at all an accidental idea but a logical outcome of Marx's theoretical development of research from "Theories" to "Capital". For, it is connected with and presupposes, on the one hand, the investigation into the credit system in Part V of Vol.III, where the distinction and relation between overproduction of capital and plethora of capital are clearly observed, and on the other hand, the progress in the theory of the capitalistic law of population in Part VII of Vol.I, where the cyclical changes of absorption and formation of the relative surplus population come to be taken into consideration.

However this type of crisis theory focusing on "the absolute over-production of capital" is not sufficiently completed in regard to its full meaning and logical necessity, as it is formed in "Capital" for the first time. Corresponding to its incompleteness, there still remains also the excess commodity theory of crisis in "Capital". This type of crisis theory is an extension of Marx's attempts, as we have seen, in "Grundrisse" and "Theories" to develop the crisis theory of the anti-Classical school of Sismondi and Malthus, criticizing externally the limitations of the Classical school. It can be regarded as an anti-Classical residue in the crisis theory in "Capital". It seems to take intermediary factors or results of crises for causes. It has fundamental difficulty in proving the cyclical nature and logical necessity of general overproduction, in particular with relation to the working of the law of value, on the basis of which capital can adjust the incessant disequilibrium between supply and demand of various commodities as long as competitive capital accumulation goes on as a whole.

The essential weakness of the excess commodity theory comes from its basic view of looking for the difficulty of capital not within the process of production but rather in the process of circulation, outside of (or intermediary to) the processes

[1] In "The Marxian Theory of Crisis, Capital and the State" (Bulletin of the CSE Winter 1972), David Yaffe does not use this theory properly. He fails (on p.24) to relate the "absolute over-accumulation" of capital to the level of employment of labouring population which is here central to Marx's view. Though I agree with his criticism of excess commodity theories of crisis, I am afraid lest his positive explanation should obscure Marx's theoretical progress in the excess capital theory from "Grundrisse" to "Capital". The attempts of Yaffe and M. Cogoy (in "The fall of the Rate of Profit and the Theory of Accumulation in the Bulletin of the CSE, Winter, 1973) to deduce the notion of cyclical crises directly from the law of the tendential fall of profit rate seem to show still only the abstract need, not the logical inevitability, of cyclical crises for capital accumulation.

of production. In contrast, the excess capital theory shows how "the real barrier of capitalist production is capital itself" (K.III, s260,p250) moving through processes of both production and circulation. Marx's attempt to clarify the logical necessity of cyclical crises should thus be completed by developing the latter, not the former, type of crisis theory.[1]

The excess capital theory in "Capital" is, however, still incomplete in several points.

As we have mentioned, in comparison with "Theories", "Capital" comes to treat the changes of absorption and displacement processes of the relative surplus population in its theory of the capitalistic law of population. Marx no longer deals with only the mechanism of creation of the relative surplus population. For instance, he treats "The increased demand for labour-power that accompanies accumulation, the composition of capital remaining the same" in the first section of Chapter XXV (in English ed.), "the general law of capital accumulation", in Vol.I of "Capital" . But he does not fully make clear the theoretical necessity and meaning of this section. And he goes on to emphasize the "progressive production of a relative surplus population or industrial reserve army", that accompanies the "relative diminution of the variable part of capital simultaneously with the progress of accumulation", as 'the general law of accumulation' after the second section of the same chapter, rather independently from the discussion in the first section. The capitalistic law of population is described, as a result, as laying still too much stress on the progressive formation of surplus population.

It is possible that Marx was strongly impressed by the existence of various forms of a massive reserve army in the British economy of his day, while he cites them to illustrate his theory of relative surplus population. Thus this analysis of concrete forms of the reserve army is important for the concrete study of British capitalism of that period, it should also be noticed that these concrete forms of reserve army include not only the relative surplus population produced from inside capitalistic production but also the surplus population resulting from the decomposing processes of small commodity producers and peasants. If we compose systematically research levels of Principle, Stages Theory, and Analysis as Professor Uno suggests, we should not directly take into account the latter portion of surplus population in elucidating basic principle. In order to make clear the basic principle of capitalist economy, we must concentrate entirely on the law of motion of capitalistic production, without referring directly to the concrete relations with other various types of producers.

Besides, it seems theoretically improper not to consider the specific restriction of fixed capital, while treating the developing process of method of production under capitalist accumulation and its influence on the labouring class. In this sense, the theory of capital accumulation should have been placed not at the end of Vol.I but after "turnover of capital" of Vol.II, forming a theoretical part of reproduction of capital together with the theory of reproduction schema. Industrial capitalists have ordinarily fixed capitals already in their production processes, making them function as a part of profit-bringing capitals. And they convert surplus value into capital, successively, privately, and therefore in small and scattered scales, on the basis of these already existing equip-

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[1]Prof. Kouzo Uno has attempted to purify Marx's crisis theory in this direction in his "Principle of Political Economy" (2 vols. 1950, 52) and "Crisis Theory" (1953). This attempt has been supported by the works of his followers, including my "Credit and Crisis" (1973), a part of which is summarised here.

ments of production.[1] The accumulation of capital under these conditions proceeds normally in capital widening rather than capital deepening fashion, on the basis of already existing methods of production. Attempts to gain extra surplus value through adoption of superior methods of production are narrowly restricted, and undertaken only partially in such a process. Thus, in a period of prosperity, it is unlikely that capital will strive to produce relative surplus value and to create a relative surplus population by scrapping and replacing existing fixed capitals.[2]

Marx also says, when he gives the notion of "the absolute over-production of capital", that the expansion of relative surplus working-time "would not be feasible at any rate in the case when the demand for labour were so strong that there were a tendency for wages to rise" (K.III, S262, p251). If we reconsider purely in principle the process of capital accumulation in relation to existing fixed capital, the increase of demand for labour-power that accompanies the accumulation under the same composition of capital will appear not as an accidental, but as a necessary process predominant in periods of prosperity. "A steep and sudden fall in the general rate of profit" due to a rise in wages would no longer be a mere inference "under the extreme conditions assumed", but comes to be a necessary logical result of capitalist accumulation in the period of prosperity.[3] The fundamental weak point of capitalist production which must treat human labour-power as commodity, without being able to produce it as a commodity, comes here to be crucial to capital accumulation.

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[1] Even though the form of joint-stock capital made it possible to gather profits and idle funds for a new large-scale investment, the central parts of industrial capitals did not take this form until after the end of the 19th century, when the typical phases of cyclical crises had already changed, leaving a dead-weight of continuous excess-capital in industries. The monopolistic joint-stock companies were formed in order to escape partially this continuous difficulty of excess-capital as a whole. However, the functions of joint-stock capital or its capitalistic limitations cannot be taken into consideration here, while treating the principle of cyclical crises on the empirical basis of the capitalist economy of Marx's age.

[2] Particularly in the process of prosperity, where capitals can continue to increase their value using existing equipments of production, fundamental improvements in methods of production are difficult to be realized, because of restrictions, in detail as follows: (i) if these equipments are not yet fully depreciated, the cost of abandoning the remaining capital value comes to be a burden when they are to be renewed, (ii) even after depreciation, "machinery is most valuable for capital when its value = 0" (Gr. S652, p766) and so not readily scrapped as long as it is physically functionable, (iii) profits tend to be added to capital as fast as possible, rather than to be stored long enough to build up new systems of equipment or new factories. In contrast, in the process of depression, where existing equipments cannot fully function as capital to gain surplus value, these are reversed, and capitals are forced to strive for entire renewal of methods of production through scrapping and rebuilding of fixed capitals, in order to overcome the difficulties of capital accumulation.

[3] In the actual process of cyclical crises in the middle of the 19th century, rising prices of agricultural products such as cotton, wool etc. used to make difficulties for the accumulation of British industrial capital, together with a rising wage at the end of prosperity. British industrial capital used to over-accumulate actually in relation not only to labouring population but also to the inelastic supply of agricultural raw materials which were not produced inside its own production processes. In the domain of principle, where all the factors of production except labour power should be supposed to be produced by capital, such a concrete difficulty to British industrial capital must be abstracted and viewed as an over-accumulation of capital only in relation to the labouring population.

However, why cannot over-accumulated capital be left "unused" partially without causing a sharp crisis? Or, why cannot capital slow down the pace of accumulation as the profit rate falls, converting prosperity into stagnation without a drastic crisis? These questions still remain to be solved after we have proved the logical necessity for over-accumulation of capital to occur. An understanding of the working of competition through commodity markets and of the credit system among capitals is essential to answer the questions. Marx's contribution to this problem, in Part V of Vol.III of "Capital" is absolutely essential here, although it has been seldom treated as an indispensible part of Marxian crisis theory except in the Japanese Uno-school.

We cannot deny that the theoretical systematization of the credit mechanism which Marx attempted for the first time in Vol.III of "Capital", is far from complete. The credit theory, including business cycle theory, is clearly the most unfinished part in all the volumes of "Capital". In particular, the credit system is not yet fully abstracted as an inner mechanism of capitalistic production. Marx recognizes that the credit system is formed to utilize idle capitals or to shorten the unproductive circulation period in turnover of capital, as we have seen in "Grundrisse" and as we can see also in Vol.II of "Capital". However, when he observes the working of bank credit, he actually lays stress on "money capitalists" and other depositors, beside industrial or commercial capitalists. Though various sorts of depositors such as mere money capitalists do exist in a real capitalist economy, the principle of credit system should be abstracted from these outside factors in order to clarify the substantial function of the credit system to facilitate the setting in motion of idle elements of capitals which necessarily arise in the turnover of capitals. For the regular movement of the money market through business cycles is really determined essentially by the movements in the mutual utilization of these idle elements of capitals.

We must notice here that Marx's inclination to emphasize "moneyed capitalists" in credit theory comes not only from the insufficiency of theoretical abstraction but also from the presupposition of the formal theory of interest-bearing capital which originates from the theory of interest within the framework of "Capital in general" in "Grundrisse".[1] The credit system in principle ought to be regarded as a purely internal mechanism of capitalistic production not relying on outside money lenders or "moneyed capitalists", who do not have a substantial function to move capitalistic production unlike industrial or commercial capitalists. Therefore, the commercial credit which "the capitalists engaged in reproduction give to one another" in the form of bills of exchange should be treated as "the basis of the credit system". (K.III, S496, p479) Bank credit is given on this basis in the form of discounting bills of exchange brought by industrial and commercial capitalists depending on the funds formed by both the deposits of these capitalists and the return payments for the mature bills.[2] The ability of banks to expand credit elastically by means of issuing

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[1]The theory of interest, starting from the "moneyed capitalists" seems to come from the interest theory of the Classical school such as A. Smith or D. Ricardo which regarded interest mainly as an economic base for the "moneyed class" and which almost lacked a theory of the credit system.

[2]We must take here the substantial structure of the British money market at the middle of the 19th century as our basis of theoretical abstraction, just as we ought to take the typical cyclical crises of that period as the basis of abstraction for crisis theory in principle. The working of the capital market including the function of joint-stock capital still cannot be taken into account here. (see also fn 1, p12) The function of the credit system is then confined

bank notes or bankers bills is ultimately regulated by the movement of these funds from capitalists engaged in reproduction.

As Marx points out, "If we observe the cycles in which modern industry moves ...we shall find that a low rate of interest generally corresponds to periods of prosperity or extra profit, a rise in interest separates prosperity and its reverse, and a maximum of interest up to a point of extreme usury corresponds to the period of crisis." (K.III, S372, p360)

In the process of prosperity, "The ready flow and regularity of the returns, linked with extensive commercial credit, ensures the supply of loan capital in spite of the increased demand for it, and prevents the level of the rate of interest from rising". This is the only period during the course of the business cycle when "a relative abundance of loanable capital coincides with a real expansion of industrial capital". (K.III, S505, p488). This situation comes to change at the end of a period of prosperity when over-accumulation of capital occurs according to the excess capital theory.

Marx points out, now, in the context of the excess capital theory the remarkable interrelated changes among wages, profits and interest as follows: "The rising demand for labour-power can increase because the exploitation of labour takes place under especially favourable circumstances, but the rising demand for labour-power, and thus for variable capital, does not in itself increase the profit; it, on the contrary lowers it pro tanto. But the demand for variable capital, can nevertheless increase at the same time, thus also the demand for money-capital - which can raise the rate of interest. The market-price of labour-power then rises above its average, more than the average number of labourers are employed, and the rate of interest rises at the same time because under such circumstances the demand for money-capital rises...If wages should rise for some reason during an otherwise unfavourable state of business, the rise in wages would lower the rate of profit, but raise the rate of interest to the extent that it increased the demand for money capital". (K.III, S529, p513-4)

The rising demand for money capital in the face of a falling rate of profit, due to a rise in wages becomes an inevitable result of the capital accumulation process when the excess capital theory is properly extended as we have seen. However, if industrial and commercial capitals continue to sell their commodity products as before paying their mature bills and thus forming disposable funds used

(cont.) to the short-term mobilization of circulating capitals, and has nothing to do directly with the long-term investment of fixed capitals.
Even though I think that such a notion of credit system is essential in order to clarify Marx's crisis theory, I do not mean at all that such a concrete situation of credit system is the cause of the capitalistic crises. The excess capital theory of crisis shows clearly that the necessity of crisis comes from the fundamental difficulty for capital to treat human labour power as commodity. The restriction on the development of productivity due to the existing fixed capital forms also an important intermediary factor. We must notice, however, that the excess accumulation of capital comes to occur more and more not in a regular, periodic fashion but becomes a continuous difficulty for capitalism in the process of the imperialistic stage, where the financial system is also changed corresponding to the basic change in capital accumulation. Hence, it is essential to form a notion of credit system based on the empirical basis of Marx's time, not only because this serves to clarify Marx's own theory of credit and crisis, but also since the working of the credit system in relation to the regular and cyclical crises cannot be made clear in principle on any other empirical basis.

by banks in turn, there remains scope for banks to expand their credit elastically to meet the rising demand for money capital. And besides, in this case it is also possible that capitalists will reduce their investment because of the reduction in net profit, without any serious collapse in the chain of credit. Thus, in order to prove the theoretical necessity of a sharp crisis, a little more concretization seems indispensible.[1]

Marx emphasizes in several places how the speculative use of credit raises the rate of interest. "A high rate of interest can be paid (and this is done in part during times of speculation) not out of the profit, but out of the borrowed capital itself, and this can continue for a while". (K.III, S529, p513). "The supply of an article can fall below average, as it does when crop failures in corn, cotton etc. occur, and the demand for loan capital can increase because speculation in these commodities counts on further rise in prices and the easiest way to make them rise is to temporarily withdraw a portion of the supply from the market. But in order to pay for the purchased commodities without selling them, money is secured by means of the commercial 'bill of exchange operations'. In this case, the demand for loan capital increases, and the rate of interest can rise as a result of this attempt to artificially prevent the supply of this commodity from reaching the market. The higher rate of interest then reflects an artificial reduction in the supply of commodity-capital". (K.III, S530, p514)

Marx does not make clear why such speculative operations become so active and widespread especially at the end of prosperity periods. Nor does he attempt to clarify the relation between overproduction of capital and uprise of massive speculation. However, it is not so difficult to find out the logically necessary relation. When wages rise due to an over-accumulation of capital, this not only squeezes the general rate of profit but also necessarily affects market prices of commodity products in two ways. First: The prices of commodities produced by sectors having a lower organic composition of capital (i.e. more labour intensive sectors) must rise continuously as long as wage cost rises under equalization of profit rate, as Marx points out in Chapter XI of Vol.III of "Capital". Secondly: the increase of demand for means of consumption following the rise of wages may raise some prices of consumption goods or goods used to produce them if the supply of these goods can not be promptly adjusted, as is often the case with agricultural products.

In contrast to the middle of prosperity, where market price fluctuates only within a narrow range around steady prices of production based on a steady wage level while capital widening accumulation continues depending on a relative surplus population, at the end of prosperity, the market prices of some commodities thus necessarily come to rise as a result of over-accumulation of capital. Therefore, unusual stockpiling of these commodities is carried on, with logical necessity, by industrial capitals and in particular by commercial capitals fully utilizing the elasticity of credit system.

However, when used in such massive speculative operations, the elasticity of credit will be reduced. More and more commercial exchange bills are issued and brought to banks to be discounted. The maturity period of bills is prolonged and return payments become actually delayed or are made only by new borrowing. Along with rising demand for money-capital to meet additional payments for wages, such a speculative demand for money-capital never fails to tighten the money market through a relative diminution of reserve funds in banks which results in a rise

[1] Although I depend fundamentally on Professor Kouzo Uno's crisis theory, I cannot agree in this point with his inclination to omit the role of commercial capital and speculation in the principle of crisis.

in interest rates. The drain of gold reserves from the central bank in the central money market demonstrates this tendency of the credit system most strikingly at the critical point in the last stages of prosperity.

Thus, the overproduction of capital necessarily causes related triple difficulties to capital: going up of wages, downfall of profit rate, and upswing of interest rate. Difficulty of overproduction of capital in relation to labouring population come to have decisive expression in the shortage of loanable money-capital. The net profits for industrial and commercial capitalists is dreastically squeezed by a rise in both wages and interest. In particular, the tightening of credit is fatal for the speculative stock-piling operations facing also a general decline in real investment from net profits. It soon becomes not only difficult but also positively loss-making to maintain speculative stock-piling, paying rising costs of interest in these circumstances.

Sacrifice sales must begin in order to pay mature bills. Breakdowns of large scale speculative operations give the most concrete moment which turns prosperity into a sharp crisis. The conflict of the opposite movements in general rates of profit and interest thus brings about the collapse of the credit system, through the deepening of difficulty by the uneven development and breakdown of massive speculations which are also a necessary result of over-accumulation of capital.

The beginning of cyclical crises is usually signalled by the collapse of speculations among commercial capitals engaged in large-scale wholesale trade. Because, at the end of prosperity, the speculative stock-piling utilizing credit is developed most intensively and on the largest scale here, and therefore the shock of tightening credit or a rising rate of interest is also most serious here. And the collapse of speculations of these commercial capitals never fails to give a serious shock to both commodity market and money market.

Marx also points out this way of the beginning of crisis, saying, "Crises do not come to the surface, do not break out, in the retail business first, which deals with direct consumption, but in the sphere of wholesale trade, and of banking, which places the money-capital of society at the disposal of the former." (K.III, S316, p304). At the same time, more or less speculative over-trading not only by commercial capitals but also by industrial capitals on the basis of over-accumulation of capital come to be untenable and begin to break down. Collapse of speculative stock-piling will cause a sharp decline in the market prices of commodities which have been maintained and raised by speculative operations. The basis of credit relations, which have been maintained and expanded pre-supposing a certain level of market prices, comes to be destroyed. A chain reaction of insolvency appears. All the capitals and banks restrict new credit severely in order to secure their own reserves of payment, in spite of a sharp increase in demand for money capital to pay old debts.

Thus, the interest rate reaches its maximum again as soon as the new crisis sets in. "Credit suddenly stops then, payments are suspended, the reproduction process is paralysed...a superabundance of idle industrial capital appears side by side with an almost absolute absence of loan capital". (K.III,S505, p488). The collapse of commodity market and a general difficulty in selling occurs with the shrinkage and collapse of credit. The stoppage and collapse of credit disturb and shrink production throughout whole branches, for "the entire continuity of the reproduction process rests upon credit" (K.III, S506, p490) in capitalistic systems of production. Just as Marx describes the outcome of the "absolute overproduction of capital", "The chain of payment obligations due at specific dates is broken in a hundred places. The confusion is augmented by the attendant collapse of the credit system, which develops simultaneously with capital, and leads to violent and acute crises, to sudden and forcible depreciations, the actual stagnation and disruption of the process of reproduction and thus to a real falling off in reproduction" (K.III, S265, p254)

Employment of labourers must be also sharply reduced, with such a falling off in reproduction through the collapse of the credit system. A large number of labourers are forced to be unemployed. A sharp decline in wages occurs in reaction to the rise in wages at the end of prosperity. The consumption demand for labourers is extremely reduced. This completes the chain of difficulties in selling commodity products of capitals. The co-existence of a superabundance in idle industrial capital and an unemployed 'excess' labouring population becomes inevitable through the intermediation of the absolute shortage of loan capital. The value of capitals in the form of credit documents, commodities and physical factors of production come to be destroyed. This clearly shows in principle that the motion of capitalistic production driven to increase value of capital contains contradiction between its relation of production and its increase of productive power.

However, it must also be noticed that capitalistic production does not end its existence with a mere economic crisis. In principle, the phase of crisis necessarily changes into depression. The anarchic and uneven destruction of capitals gives more or less opportunity for some capitals to preserve a portion of their value. Reproduction under capital is resumed by such capitals. But it is not easy for capital to get out of the depression for the anarchic and uneven destruction of capitals during the crisis has caused a distorted proportionality between branches of production. Immediate readjustment of this is difficult because of the immobility of the existing fixed capital. The credit system is formed in principle to facilitate the mutual motion of circulating capitals, and is useless in mobilizing the value of fixed capitals existing in the production processes. Therefore, even though loanable money capital becomes plentiful reflecting the "contraction and paralysation of industrial capital". (K.III, S502, p485), it cannot play a positive role in removing the fundamental difficulty of depression. The superabundance of idle industrial capital, unused loan capital, and unemployed labouring population, or low rates of profit, interest and wages, co-exist, unable to combine in this period.

Throughout this period of depression, however, "the fall in prices and the competitive struggle would have driven every capitalist to lower the individual value of his total product below its general value by means of new machines, new and improved working methods, new combinations". (K.III, S265, p255) Besides, in contrast with the prosperity period, the existing fixed capitals are in general no longer profitable, and so they are urged to be depreciated in order to be renewed as soon as possible. When most capitals in the main branches of production come to depreciate a large proportion of the value of their fixed capitals and amass their own money capital sufficient to invest in new equipment, then they adopt new methods of production through renewals of fixed capitals. These renewals of fixed capitals are done competitively and hence simultaneously at the end of the depression.

Capitals which succeeded in adopting new methods of production become able to resume active accumulation even under the reduced levels of market prices of production. At the same time, the proportionality among branches of production is fundamentally readjusted through the process of renewals of fixed capitals, because capitals can move freely to invest the whole of their value into the most hopeful branches during that process. A distorted proportionality between branches of production is thus restored corresponding to new relations of production.

Not only these relations among capitals but also the productive relation between

between capital and wage labour is renewed. On the one hand, the value of labour power is reduced through improvements in methods of production, and the rate of surplus value is increased to extend the basis of accumulation of capital. On the other hand, the organic composition of capital is raised to create the relative surplus population, which forms the fundamental condition for capital to reach a higher level of accumulation of value than in the former period of prosperity. It shows clearly the historical character and alienated nature of the development of productive method under capital, that a rising composition of capital to form a relative surplus population is required and realized rather through depression when labour population has already been superabundant with respect to capital since crisis.

Once relations among capitals and the relation between capital and wage labour has been re-organised throughout, corresponding to the new value relations on the basis of the new level of productive power, capitals resume a prosperous expansion of production with a restored rate of profit. Trades of commodities can now be expanded smoothly, and the credit system which facilitates these trades, begins again to extend elastically as characteristic of the period of prosperity.

Thus the industrial cycle (or business cycle) composed of three phases of prosperity, crisis, and depression runs its same course anew. Each phase forms the cause of the successive phase in turn, and "the same vicious circle would be described once more under expanded conditions of production, with an expanded market and increased productive forces" (K.III, S265, p255). "This industrial cycle is of such a nature that the same circuit must reproduce itself, once the first impulse has been given." (K.III, S506, p489). The "life-cycle" of fixed capital in the essential branches of industry "furnishes a material basis of the periodic crisis" (K.III, S.185, p.189); in particular it is a decisive determinant of the time-length of the circuit of business cycles, for the simultaneous renewal of fixed capitals in the main branches gives the starting point for every new prosperity phase as we have seen.

The inner contradiction of capitalistic production, which comes from the deep difficulty of treating human labour power as commodity, and which bursts out in periodic crises through competition and credit among capitals, is given an actual solution in the course of industrial cycles. Nevertheless, it cannot be solved at all fundamentally in that course, and so, must become apparent repeatedly in these cycles. Cyclical crises not only reveal the contradiction in the motion of capital but also form a necessary part of the concrete mechanism of capitalist development. The supply of the labour power commodity, the basic condition for capital accumulation, is secured in principle through the concrete development of the capitalistic law of population in the form of business cycles.

Business cycles including periodic crises constitute, at the same time, the concrete mechanism to adjust value relations between capital and wage labourer and also among various commodity products, corresponding to the development of the productive power. The regulation of the values of commodities according to the labour quantities socially necessary to reproduce them, along with the adjustment of the allocation of social labour necessary to maintain the reproduction of commodities, is carried through actually in the course of industrial cycles. Thus, industrial cycles form the most inclusive mechanism to carry through the law of value as the law of motion of capital.

Therefore, the systematic development of value theory in "Capital" must include a crisis theory and its crisis theory should in turn concretely synthesize the concrete mechanisms of the law of value as the law of motion of capital. Hence, the crisis theory in "Capital" also summarizes in effect the fundamental critique against the Classical school where the necessity of general over-production or crisis was regarded as inconsistent with their law of value.

Even though still incomplete, the essential points necessary to complete the excess capital theory of crisis are already present in "Capital", as we have seen, through the theories of accumulation, profit, and the credit system. Apart from the concrete historical studies of crises which should belong to different upper levels of research as Stages Theory or Analysis of the recent capitalism, Marx's crisis theory can and should be completed in principle. To leave the incomplete parts of his theory untouched instead of attempting to complete them is no way of respecting the scientific achievements of "Capital". In particular, it is really essential to complete Marx's excess capital theory of crisis together with his credit theory, in order not merely to overcome the crucial limitations of both Classical and anti-Classical theory, but also to provide a sure theoretical standard for analysing the contradictory movement of capitalism with its changing phases of economic and social crises through world history and in our own age.

AN ANALYSIS OF SOUTH AFRICAN CAPITALISM - NEO-RICARDIANISM OR MARXISM?

Michael Williams

> "Capital only speaks of the system in its 'normal' form." (I, p260)*
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> "If, as the reader will have realized to his great dismay, the analysis of the actual intrinsic relations of the capitalist process of production is a very complicated matter and very extensive; if it is a work of science to resolve the visible, merely external movement into the true intrinsic movement, it is self-evident that conceptions which arise about the laws of production in the minds of agents of capitalist production and circulation will diverge drastically from these real laws and will merely be the conscious expression of the visible movements." (III,p307)

INTRODUCTION

In the past few years a number of writers have finally begun to take a challenging and long-overdue look at the question of South African colonialism of a special kind. Much of their work owes its inspiration to Harold Wolpe who has dealt with this topic at length in various publications, the most recent appearing in the summer edition of the CSEB.[2] The resurgence of working class militancy which is presently sweeping South Africa has rendered Wolpe's work a most timely event and deserves close study by all those wishing to advance the cause of liberation. However, while his work has undoubtedly raised many key questions there are a number of weaknesses at both the theoretical and empirical level which, I believe, have led to erroneous conclusions on his part. This paper will attempt to explore those weaknesses and in the process will show (1) how an analysis of the South African social formation which is not based on an understanding of the general laws of capitalist production must inevitably tend towards the kinds of conclusions and analyses put forward by Adam Smith and Ricardo (2) that the contradiction of capitalism in South Africa, as elsewhere, is capital itself.

*The notations I, II, and III refer to Capital, Volumes I, II and III. References to the three volumes of the Theories of Surplus-value are given by i, ii and iii.

I THE NOTION OF COLONIALISM OF A SPECIAL TYPE AND ITS CRITICISM

Despite substantial disagreement within the South African left, there still remains a surprising degree of uniformity over the characterisation of South Africa as a colony of a special type. According to this view, the relationship between the oppressed masses and the dominant white minority in South Africa reflects the typical pattern of relationships between the advanced capitalist countries and their colonial or semi-colonial dependencies.[3]

An early formulation of this view can be found in the Programme of the South African Communist Party, in which South Africa is described as "a special form of colonialism." The relevant passage reads: "On one level, that of 'White South Africa', there are all the features of an advanced capitalist state in its final stage of imperialism. ... But on another level, that of 'non-White South Africa', there are all the features of a colony. ... It is this combination of the worst features both of imperialism and of colonialism, within a single national frontier, which determines the special nature of the South African system, and has brought upon its rulers the justified hatred and contempt of progressive and democratic people throughout the world." (n.d. p26)

In much the same vein, the Unity Movement of South Africa has offered the following perspective: "From the point of view of the White minority, South Africa is an independent state and a highly industrialised one at that. It is by far the most advanced in the continent of Africa. Indeed in this respect it might be said that it is comparable to European states. From the point of view of the Black majority (four fifths of the population) South Africa is a colony, a slave colony, with all the barbarous oppression and exploitation that this connotes." (1969:p1)

This view was later upheld by Mankanda in the Workers Press. "For the 'non-white' majority", he wrote, "the country is much like any other semi-colony in Africa - very much worse from the 'legal' point of view, of course. For the 'White' minority, South Africa is like Canada, Australia, Britain or western Europe. It is, for all practical purposes, an extension or annexe of Britain, in particular, almost like an additional, vast, British country - with one main difference, for them, namely that oceans separate oppressor nations like Britain from the nations they oppress; but in South Africa the 'oppressor nation' sits immediately on the necks of the oppressed, regarding the oppressed people as the subject part of their 'White'-ruled 'nation'". (Dec 4, 1969)

A similar argument has also been advanced by André Gunder Frank, although the terms he uses are somewhat different. Alongside the advanced capitalist countries of Europe, North America, Japan and Australia, Frank situates South Africa as part of the world capitalist metropolis. He is quick to add, however, that this only applies to the "immigrant whites" as the "native population" suffers from the same satellite status as the underdeveloped countries. (Frank, 1969: p39)

There is no denying that South Africa is presently a highly industrialised country; such statistics as are available tend to confirm that South Africa is in many respects comparable to, or is fast moving into conformity with, the more advanced centres of the capitalist world. But whence the colonial element? If this refers to the outrages which capital perpetrates against the mass of workers then it can only be added that the term colonialism itself loses all historic significance, and we may just as easily look upon Britain in the 19th Century or even Germany under Hitler as a colony of a special type. It is as though capital needed redemption by having the worst of its features assigned to something which is not quite capitalist in character.

Colonialism of a 'normal' type, it must be remembered, does not merely arise from the fact that those who impose their rule over others are geographically separated; it is also defined by the specific position which different countries occupy in the reproduction of the world's aggregate social capital. It does not, therefore, become possible to effect some unique marriage between conditions of colonial domination and capitalist exploitation by simply doing away with the geographic element. The notion of colonialism of a special type would only begin to make sense if it could be shown that the way in which surplus-labour is pumped out of the 'exploited nation' in South Africa is qualitatively distinct from the process of surplus-value extraction which is carried out within the other metropolitan centres. And this is precisely what Wolpe has attempted to do.

For a start Wolpe criticises the above passage from the SACP programme, including a number of others, for failing "to identify the specific mode of exploitation and domination characteristic of internal colonialism which purports to differentiate it from class exploitation and domination." (Wolpe 1974: p4). This is the decisive question on which the internal colonial thesis either stands or falls and it is to Wolpe's credit for having raised it.

Wolpe has correctly shown that an analysis of capitalism in South Africa which does not place at its centre the concept of relations of production will necessarily resolve itself into vague and ambiguous formulations. He then sets out to demonstrate that the colonial aspect of the South African social formation arises from the restructuring and conservation of pre-capitalist African society upon which the dominant capitalist mode feeds. Consequently, the internal colonial thesis now has as its underlying basis the interrelationship between different modes of production within South Africa and is no longer predicated on the purely superstructural features of the system.

It is not at all clear from Wolpe's paper whether he is analysing a social formation in which the capitalist mode of production is still in the process of formation (where it is still a question of the transition from one mode to another) or whether the capitalist process of production may, in the words of Marx, be taken as "given". (iii, p475) With the destruction of the reserve economy he points to the fact that South Africa is rapidly moving "towards a single, capitalist mode of production..." and this transfers "the major contradiction from the relationship <u>between</u> different modes of production to the relations of production <u>within</u> capitalism." (Wolpe, 1972: p432) And finally he ends with the following: "The major contradiction of South African society <u>between</u> the capitalist mode of production and African pre-capitalist economies is giving way to a dominant contradiction <u>within</u> the capitalist economy." (p454)

If this is the case, it would be wrong to speak of the dominant mode of production as capitalist - South Africa would still represent a transitional society, from pre-capitalist to capitalist relations of production.

It was no doubt with these problems in mind that Marx stressed the need to differentiate between two historically different periods when analysing the nature of capital. Firstly, we find capital developing <u>before</u> the capitalist process of production exists, before wage labour is able to maintain and reproduce itself. In the second phase, capital is no longer the sediment of different social formations but develops on its own basis, according to its own specific laws. Once capital is the product of its own reproduction then - and this is crucial - "the contradictory, socially determined feature of its elements evolves, becomes reality <u>only in the process itself</u>, and this feature is the predominant characteristic of the process, which it turns precisely into that socially determined mode of production, <u>the capitalist process of production</u>." (iii. p491)

According to Wolpe the dominant contradiction of South African society is not yet to be found within the capitalist process of production. On the contrary, we are still witnessing the transfer of the contradiction from one sphere to another, from the relationships between different modes to relations within the capitalist mode.

For Wolpe, the capitalist mode of production cannot be considered apart from its relationship with the pre-capitalist reserve economies. From this he concludes that the analysis of South African capitalism must take as its starting point the relationship between "these two modes of production." (Wolpe, 1972: p431)

Now if the South African social formation does comprise a dominant capitalist and subordinate pre-capitalist mode then the relationship between the two can only be understood on the basis of the immanent laws and tendencies of the capitalist mode itself. Indeed, the essential requirement of a materialist analysis of South Africa is precisely first to locate and analyse the nature of the dominant mode of production upon which society is founded and then to use the understanding thus gained as the necessary basis for an analysis of the development of society as a whole. This is one of the crucial points which Marx had attempted to drive home in his Introduction to the Contribution to the Critique of Political Economy which Wolpe seems to have overlooked. And here we can do no better than to quote Marx himself, even at some length:

"Bourgeois society is the most advanced and complex historical organisation of production. The categories which express its relations, and an understanding of its structure, therefore, provide an insight into the structure and the relations of production of all formerly existing social formations the ruins and component elements of which were used in the creation of bourgeois society...

"Since bourgeois society is, moreover, only a contradictory form of development, it contains relations of earlier societies often merely in a very stunted form or even in the form of travesties, e.g., communal ownership. Thus, although it is true that the categories of bourgeois economy are valid for all other social formations, this has to be taken cum grano salis, for they may contain them in an advanced, stunted, caricatured, etc., form, that is always with substantial differences...

"For example, nothing seems more natural (in an analysis of capitalist society) than to begin with rent, landed property, since it is associated with the earth, the source of all production and all life, and with agriculture, the first form of production in all societies that have attained a measure of stability. But nothing would be more erroneous. There is in every social formation a particular branch of production which determines the position and importance of all the others, and the relations obtaining in this branch accordingly determine the relations of all other branches as well. It is as though light of a particular hue were cast upon everything, tinging all other colours and modifying their specific features...

"Capital is the economic power that dominates everything in bourgeois society. It must form both the point of departure and the conclusion and it has to be expounded before landed property. After analysing capital and landed property separately, their interconnection must be examined...

"The point at issue is not the role that various economic relations have played in the succession of various social formations appearing in the course of history... but their position within modern bourgeois society." (Marx 1971: pp210-3)[4]

Capital in South Africa is undeniably the economic power which has come to dominate everything. It has cast its own particular light over the entire fabric of society, tinging all relations and modifying their specific features, including those stunted and caricatured forms of communal property which were fashioned by the imperialists in the interests of capital. The interconnection between the capitalist process of production and the reserves can only be appreciated after we have understood the nature of capital, its immanent laws and tendencies.* The limitations of Wolpe's

*Wolpe's characterisation of the reserves as a mode of production will be taken up at the end of this paper, after we have analysed the inner nature of capital in South Africa. See Appendix.

analysis can be seen not only from his treatment of the relationship between the reserves and the capitalist "sector" but, more importantly, from the way in which he conceives the emergence of the dominant contradiction following the break-up of the reserve system. It is to these two aspects of Wolpe's analysis that we shall now turn.

II THE DEVELOPMENT OF CAPITALISM AND THE ROLE OF THE RESERVES

(i) The law of value and the reproduction of labour power

Central to Wolpe's internal-colonialism thesis is the notion of a work-force whose labour-power is partly reproduced in the non-capitalist reserves for the capitalist sector. In order to demonstrate how this condition benefits capital, he has undertaken a number of explanatory statements which require some comment before proceeding further. "In general", Wolpe writes, "commodities exchange at their value. The value of labour-power is determined in the same way as that of other commodities - by the amount of socially necessary labour time which has been expended on its production." (Wolpe 1974: p11)

It is certainly true that the magnitude of a commodity's value, including that of labour-power, is determined by the amount of socially necessary labour time which goes into its production. But it does not follow from this that commodities actually do exchange according to the magnitude of their values, whether in general or in each isolated case. "Only in exceptional circumstances", writes Marx, "are commodities exchanged at their value." (ii, p31)

Leaving aside the question of rent, merchants' capital, etc., the notion that commodities exchange at their value presupposes either that constant capital is equal to zero, "a case which is virtually impossible in capitalist production" (iii, p228), or that the organic composition of capital remains the same in all branches of production, an assumption which has validity only at a definite level of abstraction in the formulation of the concept of capital.

In volumes I and II of Capital, Marx assumes that commodities are sold at their values in order to show how value expands in the <u>direct process of production</u> and how it circulates in the <u>reproduction process</u>. But in passing to a higher stage in the analysis of the self-expansion of value - that is, in considering the process of capitalist production <u>as a whole</u> - it is necessary to show how simple value relations undergo important modifications. Indeed, it is at this point that Marx criticises Ricardo for his "arbitrary attempt to make concerete relations directly fit the simple relation of value..." (iii, p124), a method of procedure which, we will show, is not entirely alien to Wolpe.

Ricardo's attempt to bring the law of value into direct conformity with concrete circumstances led him into all sorts of confusions and lay him open to attack from his critics, including some of his alleged defenders, who sought to expunge the law of value from the analysis altogether. It is for this reason that Marx emphasised, time and again, that the general law of value must be dealt with by carefully tracing the intermediate and connecting links through which value relations make their appearance on the market, and <u>not</u> "by directly subordinating and immediately adapting the concrete to the abstract." (iii,p87)[5] The significance of Wolpe's inability to deal adequately with the law of value and its forms of mediation, that is, his failure to consider capitalist production as a whole, will become apparent as the analysis develops.

Following his restricted and even misleading assumption concerning the exchange of commodities, Wolpe then goes on to describe the different ways in which surplus-value can be increased: "There are a number of ways in which the proportion of the working day is allocated to necessary labour may be decreased. Thus, for example, the value of labour-power may be decreased or, again, the length of the working day may be increased and most importantly for the present argument, labour-power may be acquired at a cost below its value." (p11)

The first two ways of increasing the rate of exploitation outlined by Wolpe correspond to the forms of surplus-value dealt with in Volume I of Capital, namely 'relative' surplus-value (decreasing the value of labour-power) and absolute surplus-value (lengthening the working day). For the sake of brevity and for want of a better expression we will define the third method (the reduction of wages below the value of labour-power) as the production of archaic surplus-value.

At no time does Wolpe attempt to explain why it is that capitalists in certain branches of production will have recourse to one method of extracting surplus-value rather than another. If, as he has argued, the rate of surplus-value during the early period of industrialisation in South Africa - which he identifies as the 'gold mining' period - depended to a large extent on acquiring labour power at a cost below its value, then it is precisely this condition which needs to be explained and understood.

A more careful consideration of the way in which the law of value operates in South Africa would show that the gold mining industry is unable to produce surplus-value in its specifically relative form. In its capacity as the money-material, gold can in no way enter into individual or productive consumption. (II, p136) The gold-mining industry therefore "cannot produce any relative surplus-value and, in general, cannot produce that form of surplus-value which results from the growing productivity of industry as such ." If, due to an increase in the organic composition of capital, less labour time is required to produce gold, it cannot have "the slightest influence on wages, on the value of labour-power", since gold, in its capacity as money does not enter, either directly or indirectly, into the consumption of the workers. It is for this reason, Marx notes, that the producer of gold will seek, in practice, "to depress the wages of labour below its value, below its minimum." (iii pp349-50)[6]

(ii) The value of labour-power and the class-struggle

Marx by no means denies that surplus-value can be increased by acquiring labour-power at a cost below its value. "Surplus-value", he writes, "can be increased, without the extension of labour-time or the development of the productive power of labour, by forcing wages below their traditional level." (ii, p17)

This last method, however, does not exactly accord with the one cited by Wolpe. The main thrust of Wolpe's argument is that capitalists have been able to pay wages below the value of labour-power not by forcing wages below their 'traditional level' but by enabling the migrant workers' family to produce part of their means of subsistence in the reserves.

Proceeding from the assumption that commodities in general exchange at their value, he is compelled - when considering the abysmally low wages paid to mine-workers - to find some supplementary income to make up for the difference between actual wages received and the value of labour-power. In terms of his reckoning, the only way the capitalists are able to 'depress the wages of labour below its value' is by enabling the migrant's family to produce additional means of subsistence for which they receive no payment. While this arrangement undoubtedly benefits the capitalists, this should not prevent us from considering the possibility that even if the families of the migrant workers were paid for their production efforts, wages would still stand below the value of labour-power.

Wolpe, moreover, seems to hold to a very restricted notion of 'means of subsistence' as is evidenced in the following: "...since in determining the level of wages necessary for the subsistence of the migrant worker and his family, account is taken of the fact that the family is supported, to some extent, from the product of agricultural production in the Reserves, it becomes possible to fix wages at the level of subsistence of the individual worker." (1972: p434)

But who is to determine what the level of subsistence of the workers ought to be? After all, 'means of subsistence' in the Marxist sense does not depend "merely upon the physical, but also upon the historically developed social needs, which become second nature." (iii, p837) In addition to purely physiological considerations means of subsistence also depends on "the conditions under which, and consequently on the habits and degree of comfort in which, the class of free labourers has been formed." (I, p171; emphasis added)

Marx correctly points out that in the elaboration of the concept of capital it is sufficient to assume that "in a given country, at a given period, the average quantity of the means of subsistence necessary for the labourer is practically known." (ibid.) When dealing with the 'early period' of capitalist development in South Africa it is essential that we place the class struggle to the fore in ascertaining what was to become the 'historically developed social needs' of the workers who were being pressed off the land and into the service of capital. Both the capitalists and newly formed proletariat had very different ideas as to the 'degree of comfort' which was to be established as second nature. The squalid voice of capital speaks for itself: "With good government there should be an abundance of labour, and with an abundance of labour there will be no difficulty in cutting down wages, because it is preposterous to pay a Kaffir the present wages. He would be quite as well satisfied - in fact he would work longer - if you gave him half the amount. (Laughter) His wages are altogether disproportionate to his requirements. (Renewed laughter)." (Meeting of the Consolidated Gold Fields Company - Nov. 1899)

The brutal and bloody assault which the mine-owners waged against mine-workers on the Rand began soon after the proclamation of the gold-fields, proceeded with increasing ferocity throughout the early 1890s and finally culminated in the decision of the capitalists to band together and slash wages by thirty per cent![7] Only through the machinery of the Pass Law and by outlawing all attempts at organisation on the part of the workers could the mine-owners expect to maintain the previous supply of labour at the new reduced rate.

In the end, the mining capitalists were able to determine for themselves what the living standards of others ought to be only because they had prevented the working class from having a modicum of say in the matter. Thereafter they had the temerity to argue that the combined income of those labourers from wages and their reserve production would provide the workers and their families with their 'necessary means of subsistence'.

It must never be forgotten that the development of company mining in South Africa did not evolve out of a preceding phase of competitive industrial capitalism - from the start it took the form of monopoly capitalism in a colonial setting. Policed, voiceless, herded into compounds[8] and without enduring organisations of their own, the workers had very few opportunities to repel imperialist aggression. The rise of the diamond and gold mining industries resulted in the entrenchment of the migratory labour system, the intensification of racism, the shoring up of the so-called 'tribal' system, together with a whole range of measures designed to hold back the struggles of the workers by force.

(iii) The conflict between different capitals

Not only does Wolpe's analysis overlook the crucial significance of the class struggle in determining what was to become the socially determined needs of the workers, it also fails to deal with the conflict between different capitals, the outcome of which was to have decisive bearing on the nature of the accumulation process in South Africa. What Wolpe has not considered is that both the diamond and gold-mining capitalists were outrightly hostile towards any move on the part of the State to promote the development of industrial capital, a move which alone would have provided the capitalists with the lasting means of relative surplus-value extraction. It is misleading, therefore, when Wolpe informs us that "since the establishment of the Union of South Africa in 1910 (to go back no further) the State has been utilized at all times to secure and develop the capitalist mode of production." (Wolpe, 1972: p429)

When analysing the development of the capitalist mode of production it is insufficient to confine ourselves to reflections on the direct process of production. This, Marx warns, is a purely formal procedure since it ignores the way in which the total social capital is reproduced. (II p394) "In considering surplus-value as such, the original form of the product, hence of the surplus product, is of no consequence. It becomes important when considering the actual process of reproduction, partly in order to understand its forms, and partly in order to grasp the influence of luxury production, etc., on reproduction. Here is another example of how use-value as such acquires economic significance." (iii, p252)

But since Wolpe does not deal with capitalist production as a whole - as the unity of the direct process of production and the circulation process - he is unable to locate and describe the specific concrete forms which have grown out of the various phases of capitalist development in South Africa. It makes no difference to his analysis whether the direct outcome of the production process takes the form of luxuries, means of production or even money.

In order to avoid a formal approach it is essential that we analyse the development of the capitalist mode of production from the standpoint of the total social capital, bearing in mind that capital only becomes a self-generating process when there exists a determinate and mutually dependent relationship both within and between Departments I and IIa, that is, the departments which are able to produce and replace the elements of constant and variable capital. Regarding the production of luxuries - and this would apply to the diamond industry in South Africa - Marx emphasises that while the workers produce surplus-value for their masters, "their product, in the form in which it exists, cannot be transformed into capital, either constant or variable capital." (iii, p245) Similarly gold, in so far as it performs the function of money, represents "social labour fixed in a form in which...a part of the social wealth has been condemned to assume this unproductive form..." (II p136)[9] This means that the diamond and gold mining industries in South Africa must secure their necessary materials from the surplus-products of Departments I and IIa (even at the level of simple reproduction) without their products entering into the production process of either. (see II pp402-411)[10] By securing their control over the State, and by holding back the development of industrial capital, the mining capitalists effectively ensured that the largest concentrations of capital and labour were unable to make any material contribution towards the direct process of capitalist production.

If we go back a few years before the establishment of Union in 1910 we find that while the Transvaal Government and mining capitalists had joint interests in pressing the African people into the service of white society (by appropriating their land and effectively smashing their independent social organisation) little love was lost between them over the industrialisation question. A few weeks before the outbreak of the Anglo-Boer War, the Standard, the Government Gazette for the Transvaal, declared that it was the aim of the republic "to build up other industries on the back of the gold-mines." This, the paper explained, was being achieved by taxing the mines, giving specific encouragement to industry and "by the introduction of other industries, round which it has created a semi-protective wall." In a noteworthy passage the paper wrote: "All men cannot be gold-miners, nor can the State live by gold-mining alone. Somehow or other...manufactures have to be encouraged if the ultimate condition of the State is to be sound. Monopolies (in the form of protective tariffs and monopoly concessions) has its weak points: but they come most conveniently to Pretoria's hand. Its idea, where it is at all protective is to give the initial impetus to industry. ...Besides the Transvaal is no exception in a matter of pursuing a protective policy and seeking to develop and reserve the home market. At one time or another most states and most countries have trod the highway of protection, and have passed through the stage of high tariffs and better things. ...When protection and monopolies have served their end this State will get into line with other centres... 'Nations' it has been remarked by no less an authority than LIST, 'can without inconsistency, and should, change their system in proportion as they advance. At first by free trade with nations of higher culture, they emerge from barbarism and improve their agriculture; then by means of restrictions they give an impulse to manufacture; then finally by a gradual return to the principle of free-trade they maintain the supremacy they have acquired.' The Transvaal, it will be seen, is in the middle stage, and the Progressive need not be so impatient. He might spend the interval in getting information. He will find there is method, sound method, too, in Pretoria's policy." (Sept 2, 1899)[11]

The Transvaal 'republic' was in a particularly advantageous position to build industry on the back of the gold-miner's labour, and the reason for this lies in the social character of the money-material. In Chapter I of Capital, Marx explains why it is that the progressive development of the commodity producing world stamps gold as "the one privileged commodity with the character of money." (I p93) We need not revert to his explanation here in detail but simply urge South African Marxists to pay serious attention to this important and perhaps decisive chapter in Marx's critique of political economy. Suffice it to state that in the course of its development capitalist society must assign to a section of the international working-class the unenviable task of providing commodities with the material for the expression of their values. The reason why gold has come to serve as the money-material is because its <u>natural</u> substance approximates more closely than any other commodity to the <u>social</u> content of commodities, to wit, abstract, undifferentiated, and therefore equal human labour. (I,p89) In this way, <u>gold-digging</u>, a specific form of concrete labour, becomes the <u>medium</u> for expressing its opposite, human labour in the abstract. (I p58) And since commodities find their own value completely represented in gold, gold, as it comes out of the South African mines "is forthwith the direct incarnation of all human labour." (I p92) Supreme amongst commodities it is accorded the privilege of never having to enter into competitive struggles to corner markets - its place in the market is assured from the start. Gold cannot be overproduced, nor can tariff barriers or restrictive practices bar its entry into the circuit of capital. By tapping the product of the gold-miner's labour the Transvaal government was thus in a unique position to wrest from the metropolitan centres the materials necessary for the development of industrial capitalism in South Africa. Indian? Rent

Although the mine-owners in South Africa had few qualms about monopolising the recruitment of labour or checking the free movement of African workers, as far as their approach towards the economic links between Britain and South Africa was concerned, they all had the 'Manchester' outlook - strongly for free trade and against any form of economic nationalism. Towards the end of 1899 they joined hands with British imperialism in a war whose outcome ensured the dominance of mining capital in the economic life of the country for years to come.

Throughout the 'early period' the Chamber of Mines regarded itself as the exclusive preserve of capital accumulation, whose primary efforts were directed at pumping more gold from the bowels of the earth, more surplus-value out of the workers, in order to produce more gold and more surplus-value. Having ruthlessly suppressed all attempts on the part of the working class to organise for a higher standard of living and having done all in their power to prevent the development of industrial capital, the mining industry then had the impudence to look upon the women of the reserves as potential parasites who, oncefreed from reserve production, would be forced to live off the precious gold produced by their sons and husbands.

The role of the reserves in providing the mines with a migrant labour-force must be analysed with reference to the characteristics peculiar to the reproduction of the money-material.* At the same time, and as far as the development of capitalism within South Africa is concerned, we must also consider the extent to which this form of labour loses its significance in relation to capital's growing ability to reproduce, on its own basis, all the elements necessary for the production process, especially labour-power, "the most essential element of productive capital." (II p399) This leads us to the industrialisation of South Africa.

III THE INDUSTRIALISATION OF SOUTH AFRICA

> "Where there is no consumers' sovereignty, no bargaining power in the hands of labour, and little concern for vested interests and individual rights and liberties, the government can maintain a stable or only gradually rising standard of living and can use the surplus for industrial development or military strength and strategy, or for whatever other purpose the central authority may wish to use it. It is also able to a very large extent to determine the direction of investment in human beings ... This country...achieved its development in an authoritarian political and social framework, and it would seem that, unless conditions are exceptionally favourable or unless external aid can be obtained on a considerable scale, rapid development can be obtained by a country that starts from a low level more readily under an authoritarian form of government than under a democratic one." (S.P. Du Toit Viljoen, chairman of the South African Board of Trade and Industries, Finance and Trade Review, March 1960)

(i) Free traders and protectionists

The hegemony which mine-owners established over capitalist production did not go unchallenged. Amidst a clamour of uproar from the mining capitalists, the Nationalist (White)-Labour Pact Government of 1924 reintroduced protectionist measures, of which the Customs Tariff Commission stated: "...it is clear that a great deal of the industrial development which took place after 1925, and of the employment resulting therefrom, is directly due to the stimulus given by the protectionist policy inaugurated in that year." (U.G. No 5, 1936, p9)

Around this time amusing dialogues took place within the wolf-pack through the media, various meetings and in the debating chamber of Capital, the all-white parliament. With the aid of all manner of statistics and the unquestioning authority of economic experts, the free-trade bagmen held stridently forth against the evils of protectionism, identifying it with corruption and inefficiency. Sir Ernest Oppenheimer, distinguished member of the Anglo-American Company of South Africa and accomplished plunderer promptly declared mining to be the "true" primary industry whose vitality was steadily being sapped by the protected industries.[12] Hofmeyer, The Administrator of the Transvaal, ranted about the "hot-house growth of industries which would inevitably enhance costs and hamper both agriculture and mining", a view underlined by "the well known economist", Seebohm Rowntree, who advanced the sound economic argument that it was South Africa's "natural" destiny to pursue a policy designed to facilitate "the production of raw materials."[13] After all, industrialisation, as the former Minister of Railways well knew, ran counter to the "organic nature" of the country.[14]

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*This can only be dealt with after we have specified the inner contradiction of capital.

But if protectionism was good enough for the advanced capitalist countries then it was good enough for South Africa. As the Minister of Mines and Industries of the Pact Government announced in a cocky address: "There was no doubt that the time had arrived for real protection in order industrially to develop South Africa. Germany and other countries had been built up on protection. Local patriotism was needed to abolish the feeling that everything imported from abroad was superior to the local product."[15] When the wolves turn on each other, the truth comes out.

What was perhaps even more galling to the Chamber of Mines was the move on the part of the State in 1928 to establish the Iron and Steel Corporation (Iscor) which, together with the whole range of State sponsored enterprises which followed in the years to come, laid the basis for industrial capitalism in South Africa.[16] But protectionism by itself was hardly sufficient to sustain the industrialisation process - the working class, no less than industry, required "protection".

(ii) <u>The control over labour</u>

In 1948 the Nationalists finally captured the high places of politics and lost no time in tightening their grip on the working class. With each successive year legislation aimed at policing the work-force became more restrictive and increasingly retrograde. For the working class the restraints on their freedom of movement and association invited serious comparison with Nazi Germany, from the standpoint of capital accumulation it meant one of the highest rates of domestic 'saving' in the capitalist world. In 1947, the year before the Nat's political ascendancy, total domestic savings was less than 8 per cent of the gross domestic product. The trend rate advanced rapidly through the late nineteen-forties and into the fifties and by 1966 reached the level of roughly 24 percent. (i) Gross domestic saving presently constitutes 26.5 percent of the GDP. (Financial Mail, Aug 30, 1974)

In 1958, a few years before country wide demonstrations against the pass laws erupted, the government appointed a commission under the chairmanship of Du Toit Viljoen to enquire into all matters relating to the protection of industry. The commission was unanimous in its conclusion that industry must be protected at all costs. It rejected the concept of 'comparative advantage' upon which the free-traders had come to rest their case, and held that without specific encouragement to industry the underdeveloped countries would continue to "supplement the economies of the highly industrialised countries..." (U.G. No 36, 1958, p14)

None of this was new - similar arguments were being advanced as early as the 1890s. On this occasion, however, the commission also directed its attention to the type of labour organisation which it considered would best suit the requirements of industrial capitalism in South Africa. With an air of ruthless detachment it advanced the argument that the State had no less a role to play in the regulation of the labour force than it had in nurturing the industrialisation process. It specifically rejected the idea that the market alone should serve as the means by which labour was to be allocated from one branch of production to another and called on the State to exercise its authority in ensuring that the needs of industrialists were met. However: "The Commission appreciates that an organised system of labour by means of central and local labour bureaux has many advantages over a haphazard system, which involves the individual search for work, provided that these bureaux are organized on an efficient and sympathetic basis." (ibid., p32)

The commission left no doubt as to the nature of this "efficient and sympathetic" machinery which was to be effected. In short: "The system should be made to operate in as flexible a manner as possible, so that labour requirements can be met with as little delay and interchange of correspondence by industrialists..." (ibid) The commission thus envisaged what, for the working class, was to amount to a streamlined totalitarian nightmare in which the State and organised industry were to collaborate in the development of industrial capitalism.

While carrying out its assault on the working class to unprecedented heights, the Nationalists strengthened and widened the scope of protective measures designed to foster the country's industrial development. Import quotas, customs tariffs, subsidies, rebates and local content programmes followed hard on their political ascendancy. In the ten year period, 1938-48, the proportion of local to imported materials used in secondary industry increased by a mere two per cent: in the five year period, 1948-53, it rose sharply by nearly nine per cent, from 54.2% to 62.9%. (ii)

Despite victimisation, police harassment, and imprisonment, the struggle of the workers steadily mounted, culminating in the mass demonstrations and strikes which swept the country in 1960. The State responded in a manner which befits a country striving to qualify for membership into the world capitalist metropolis - unarmed workers, men and women, were fired upon and killed, mass arrests followed and all organisations representative of the people were outlawed. In the space of a few years a whole range of laws were introduced to keep down the workers with nothing short of State Terror.

Throughout the sixties the intensification of State Terror, protectionist policies together with large capital inflows all combined to produce a tremendous growth of industry. Secondary industry tended increasingly to outstrip mining and agriculture, for long the dominant sectors of the economy. (T.I) One of the most outstanding features of this period was the rapid rise in the rate of mechanisation. Capital was creating for itself its own reserve army of labour, its own "mass of human material always ready for exploitation." (I p632) This is shown by the following table (T.II) which expresses the number of employees per unit of machinery in private manufacturing.

I <u>Distribution of GDP</u> (%)

	1946	1960	1971
Primary Industries	25	26	19
Secondary "	21	26	31
Tertiary & Govt.	54	48	50

II <u>No. of Employees per R100,000 of Machinery - Private Manuf.</u> (constant prices)

	1957-58	1967-68
Total manufacturing	124	85
Food	140	92
Textiles	158	125
Metals	61	28
Metal products	225	152

The proportion of fixed investment in the economy rose at an exceptionally fast rate - capital was confronting the individual worker in an ever increasing and gigantic form. (TT.III & IV)

III <u>Percentage of GDP on fixed asset formation.</u>

	1960	1968	1969	1970	1971
South Africa	20.1	22.9	23.3	25.7	27.2
West Germany	24.0	23.1	24.1	26.4	26.7
France	20.2	24.9	25.0	25.6	25.8
Italy	22.1	19.8	20.7	21.2	20.0
Brazil	17.9	16.6	16.5	-	-

IV <u>Gross fixed capital formation per employee in manufacturing</u> (Rand)

	1960	1971
South Africa	182	455
United Kingdom	228	456

(Since the figures relating to South Africa exclude the highly capital intensive industries such as Iscor, this underestimates the contrast.)

The portion of net manufacturing output which could only serve as capital was growing far more rapidly than the portion which was exchanged against living labour. Alongside this tendency we should also consider the distribution of the work-force in the manufacturing sector. The two taken together would seem to indicate that the organic composition of capital was on the increase, although this can only provide us with a rough approximation.[17] (T.V)

V A: Composition of manufacturing, net output (%)
B: Distribution of workforce in manufacturing (%)

	1924-25 A	1924-25 B	1959-60 A	1959-60 B	1967-68 A	1967-68 B	1970 B
Food, drink, tobacco, textiles and clothing	41.0	40.4	31.2	35.7	27.4	33.5	33.4
Wood and furniture	6.9	8.0	4.5	7.7	3.9	7.2	7.4
Paper and printing	11.4	6.6	8.3	6.2	8.1	5.8	5.4
Chemicals	12.3	8.7	8.7	6.6	9.6	5.5	5.2
Non-metallic minerals	7.2	12.5	6.8	9.3	5.5	8.2	8.2
Metals, metal products, machinery electrical and transport equipment	17.7	18.8	32.7	28.9	36.8	33.5	34.2
Other	3.5	5.0	7.8	5.6	8.7	6.3	6.2

Although industry has shown a marked tendency towards capital intensive investment, the rapid rate of accumulation has led to a large increase in the size of the industrial labour force

VI No. of Employees in Mining, Private Manufacturing and Construction

	1924-25	1946	1960	1972
Mining	302,482	498,326	615,149	647,503
Private Manufacture & Const.	130,825	512,745	796,500	1,612,400

The above table conceals, amongst many other things, the distribution of work according to race. Over the years there has been a growing tendency for white workers to move into job categories related more to the realisation and administration of surplus-value than to its actual production. The following table gives a broad estimate of how far this process has been carried.

VII Employment in Private Manufacturing

	Production workers as % of total employees			Production workers as % of all production workers	
	total	Black	White	Black	White
1924-25	94.4	67.0	27.4	71.0	29.0
1956-57	84.4	67.3	17.1	79.8	20.2
1963-64	85.3	69.5	15.8	81.5	18.5

And even those white workers who are engaged in the direct process of production are not entirely divorced from supervisory work; there is hardly a white worker on the shop floor who does not keep a vigilant eye on black workers for his capitalist mentors. Marx rightly called such workers the industrial non-commissioned officers of capitalism (iii,p355) and explained that the need for this special class of workers - these sergeant majors who lord it over the proletariat with their swagger sticks - arises from the antagonistic character of capitalist production. (iii,p505) In South Africa the task of carrying out this necessary function for the capitalists has increasingly been assigned to the white workers, a task which has not entirely displeased them.

It is in mining that the capitalists have explicitly called for a clear division between those who produce surplus-value and those who supervise its extortion from the working-class. In his annual address the president of the Chamber of Mines announced that the time had come to ask the white worker to "assume a more supervisory role" in order "to release to the non-white the remainder of the tasks he formerly carried out. As time goes on, further steps could be taken. In asking union men on the mines (i.e. whites) to agree to changes along these lines, the industry has offered to guarantee that no white employees will be retrenched as a result of such changes." (The Banker, Sept 1971)

As the country's industrial development gathered momentum the mining capitalists came to regard this process with far less hostility than in the past, which is hardly surprising as a growing proportion of mining equipment could now be obtained more cheaply in South Africa than from abroad. By 1958 the Gold Producers' Committee of the Chamber of Mines conceded that the mining industry had ultimately benefited from the development of the iron and steel and metallurgical industries, the heavy chemical industry, the cement industry, and a number of others (U.G. 36/58, p17)

Following this dramatic turn-about in the Chamber of Mine's attitude, P.E. Rousseau - director of SASOL, one of the leading State enterprises - announced with smug pride: "In and after 1925 there was strong opposition to the Government's declared policy of establishing secondary industries in South Africa. This opposition came from the mining industry who was of the opinion that local industries would cause mining costs to soar, in that the mining industry would be compelled to purchase local supplies at exorbitant prices whereas they were able to import 'cheaper' material. Further opposition came from the organised trade which made its profit from the importation of overseas commodities and the distribution of such goods in South Africa. And in the last instance, overseas manufacturers protested against this policy. Experience has shown that all three were in some respects guilty of an error of judgement. The mines have discovered that the industrial development has in the long run been to their advantage. Commerce has learnt that its real turnover has increased...and the overseas countries have expanded their trade with South Africa - perhaps not in respect of the same commodities but rather in more highly specialised and more valuable articles." (Finance & Trade Review, Dec. 1959)

(iii) South Africa's imperialist ties

It hardly needs pointing out that direct military intervention by British imperialism at the turn of the century was not the result of some unfortunate oversight but must be seen rather in the context of the growing rivalry amongst different national capitals which had begun to emerge on the world scene. By contrast, the period after the 2nd World War brought with it conditions which were exceptionally favourable for capital. The defeat of the European proletarian movements together with the mass destruction of capital values laid the basis for a new and higher round of capital accumulation on a world scale.[18] Vast amounts of capital flowed from one metropolitan centre to another while relationships amongst the powers became increasingly amicable as the accumulation process revived. Now was the time, the Viljoen Commission declared, for the government to take deliberate steps "to encourage new industries in the Union by publicising overseas the advantages of the country in regard to industrial development and by actively encouraging foreign firms voluntarily to establish themselves in the Union", provided, of course, the State introduced sufficient safeguards to ensure that industrialisation would proceed at an undisturbed and accelerated pace. (U.G. No.36 1958 p25)

Foreign investors did not need much encouragement and capital rushed hungrily into business on a grand scale. Between 1956 and 1970 foreign investments in South Africa more than doubled (iii) and of this amount 73.6 percent was in the form of direct investments. (T.VIII) Formerly concentrated in mining and finance, most of the new investment since the war has gone into the manufacturing sector. (T.IX) (T.X)

Throughout the post-war period there has been a tendency for mining, industrial and financial capital to become increasingly enmeshed, with foreign and local capital

VIII Direct and Non-direct Investment as % of Foreign Liabilities.

	1956	1970
Direct Investment	61.4	73.6
Long-term	(82.9)	(82.7)
Non-direct Invest.	38.6	26.4
Long-term	(90.9	(87.5)

IX US & UK Direct Investment in Manufacturing (1971) % of their total investments by area

	S. Africa	Rest Africa	World
U.K.	65.4	27.0	59.0
U.S.	50.7	4.3	41.2

X Composition of U.K. Direct Investment in Manufacturing 1971 (%)

	South Africa	Australia	Rest of Africa	South & Central America
Food, drink, tobacco, textiles, leather, clothing, footwear	24.0	25.3	38.5	67.2
Metal manufactures; mechanical, instrument & electrical engineering, motor vehicle manufactures	44.3	34.5	12.5	9.9
Chemicals & allied products	13.8	14.7	21.4	4.9
Other	17.9	25.5	27.6	18.0

combining in a number of joint ventures. Unless we subscribe to the notion of 'ultra-imperialism' we should not discount the possibility of old rivalries re-emerging as competition amongst the metropolitan powers intensifies. Already an article in the Investors Chronicle and Stock Exchange Gazette of Britain has complained that while South Africa has by no means been unique in pursuing its protectionist policies it was altogether excessive and "perhaps unusual in the lengths to which restrictions are taken." Of particular annoyance was the local content programme which has been "driven up remorselessly" forcing manufacturers in Britain "to invest heavily in new production capacity inside the Republic in order to maintain their operations there." With a great sigh of irritation it also complained of the country's "severe exchange control, which places an embargo on the repatriation of virtually all directly invested capital....Several concerns have discovered the difficulty of withdrawing capital from South Africa only after they have invested heavily there." (Rogers, 1971: p30)

The above article carries with it no small measure of exaggeration; foreign investors have been doing very well out of the ruthless oppression of the South African working class and do not require all that much pressure to force them to maintain their exploitative presence. Nevertheless, if recent trends are anything to go by it would appear that South Africa's relative importance in the field of direct investments is on the decline. The average rate of return of direct U.S. investment in South Africa is now below the world average, and although Britain still enjoys a favourable rate of return from her South African investments, the amount has declined steadily in relation to world receipts, falling from 14.8 percent in 1967 to 9.6 percent in 1972 (iv).

(XI) Average rate of return of U.S. direct:

	A) investments overseas				B) overseas investment in Manufact.	
	1962	1970	1971	1972	1962	1972
South Africa	19.9	16.1	11.3	9.8	24.6	7.1
World	11.3	11.1	11.9	13.1	9.9	12.7
Rest of Africa	1.1	27.0	19.9	18.8	6.7	8.1
Brazil					10.5	14.8
South East Asia					14.8	14.9

South Africa, it seems, is becoming less attractive as an outlet for surplus-capital than other countries, particularly in those areas where the organic composition of capital is lower. Moreover, now that capitalism is once again becoming "over-ripe" in the metropolitan centres we are likely to witness a resumption of capital outflows from the developed to the more underdeveloped parts of the capitalist world, especially Africa, possibly the last refuge of rotten-ripe capital.

South Africa, of course, is no longer a mere recipient of foreign capital. The country's direct foreign investments rose from R 250 million in 1956 to R 1,050 million in 1972, a four-fold increase. (v) Sizeable amounts of capital are being invested abroad, and not only in the underdeveloped countries. South Africa presently ranks fifth in the world in terms of the size of its direct investment holdings in Britain.

XII Value of Direct Investments in Britain (£m)

	1965	1971
South Africa	20.9	108.4
France	40.2	80.4
Australia	4.5	29.2
South & Central America	20.6	23.5

As the world economic crisis deepens the South African bourgeoisie will reap enormous benefits from what will surely stand out as the greatest gold famine ever. Since the war, vast amounts of credit have been piling up on an increasingly fragile industrial base. "But as soon as credit is shaken - and this phase of necessity always appears in the modern industrial cycle - all the real wealth is to be actually and suddenly transformed into money, into gold... - a mad demand, which, however, grows necessarily out of the system itself." (III,p560)[19] With the advent of the next slump the price of gold will be driven up to levels unthought of even in today's world of currency uncertainties and speculation. The impetus given to capitalism in South Africa will create a greater surplus of capital and this, without doubt, will turn to Southern Africa as its natural home. Even now, with the world capitalist system reeling from the preliminary phases of the depression, the South African economy is experiencing an unprecedented boom. In the past year, 1973/74, the GNP increased by 10 percent in real terms, while real private fixed investment rose by 20 percent in manufacturing and by as much as 49 percent in mining. (Financial Mail, Aug 30, 1974) Thanks to its virtual monopoly of the money-commodity the economy of South Africa stands revealed as the growing fingernail on the moribund corpse of capital.

South Africa's economy is set up for imperialist ventures. The enormous concentration of capital and labour in a handful of financial and industrial concerns - which one commentator found "large even by international standards and giants in an economy still only one-seventh the size of Britain's" (vi) - has placed South Africa in a decidedly advantageous position in its quest to overwhelm and dominate the countries of Southern Africa. And it is precisely in this sphere that the makings of a South African imperialism have begun to show.

The content of trade between South Africa and Africa now closely resembles trade relations between developed and underdeveloped countries. In 1971, chemical products, machinery, electrical and transportation equipment alone constituted some 48 percent of total exports to Africa, while the corresponding items imported from Africa amounted to a mere 9 per cent of total African imports. In the same year, 78 percent of South Africa's total exports of machinery and related products went to Africa, as did 71 percent of its transportation equipment and 62 percent of its chemical products. (vii) Africa, moreover, is the only trading area which provides South Africa with a large and persistent balance of payments surplus on merchandise trade. From a deficit of R 50 million in 1961, the balance of trade has shifted starkly in favour of South Africa, rising to approximately R 150 million in 1971. (viii)

XIII Composition of Zambia's Merchandise Trade with South Africa 1970 (%)

	Exports	Imports
Food, animals, vegetable products, beverages and tobacco	.41	10.37
Chemicals	.58	18.25
Copper, Lead and Zinc products	88.83	.72
Iron and steel products	-	13.18
Other manufactures	2.35	16.38
Machinery and transport equipment	.03	35.31
Other	7.80	5.79
	100.00	100.00
Total Value	K 7,642,971	K 59,097,398

If South Africa's dreams of imperialist grandeur are to be fulfilled then it is in Africa, and in Africa alone, that they will materialise. Indeed, as soon as industry had learnt to stand on its own feet, on the back of the proletariat, it promptly set about engulfing neighbouring African territories.

As early as 1960, Professor Du Toit Viljoen began to urge the development of a common market in the sub-continent to strengthen and consolidate South Africa's growing economy. This, he said, should be brought about by keeping tariffs between Southern African countries as low as possible "and by the removal of all obstacles to the free flow of capital and business enterprise.." (Finance & Trade Review, March 1960, p39) And so Du Toit Viljoen, that high priest of South African protectionism who for years had been singing the virtues of import controls and high customs tariffs had finally come round to the view that South Africa had reached the 'third stage' projected in List's outline of economic development. And so it had. Trade agreements concluded in March 1967 between South Africa and Malawi specifically noted that the "arrangements...are designed to ensure that...trade... shall be as free and uninterrupted as possible." (Financial Mail, March 23, 1967) In December 1969, Lesotho, Botswana and Swaziland joined the Rand Currency Area after entering into a new customs union agreement with South Africa which the Financial Mail heralded as "a decidedly verligte agreement." (Dec 19, 1969)

The precise options open to these countries, especially land-locked Lesotho, was spelt out by Professor D. Cowan in an article entitled 'Towards a Common Market in Southern Africa'. The various countries could, he conceded, "impose duties more suited to their own individual needs; and they could protect their own infant industries". But should they have the effrontery to follow the very course which South Africa had been pursuing for almost half a century, well, South Africa "could, if she were so minded, make things very difficult.." (Optima, June 1967, p49) The cant of List rings out loud and clear.

South Africa's outward thrust into Africa has been ably dealt with by a number of opponents of the country's imperialist designs.[20] Unfortunately their analyses tend to suffer from an underconsumptionist bias. This is in keeping with the traditional approach to the contradiction of South African capitalism which invariably focusses on market rather than production relations. Lenin's stand against the Narodnik's serves as a reminder of the limitations of this persepective: "The wailing about the ruin of our industry due to the shortage of markets is nothing more than a thinly disguised manoeuvre of our capitalists, who in this way exert pressure on policy, identify (in humble avowal of their own 'impotence') the interests of their pockets with the interests of the 'country' and are capable of making the government pursue a policy of colonial conquest, and even of involving it in war for the sake of protecting such 'state' interests. The bottomless pit of Narodnik utopianism and Narodnik simplicity is needed for the acceptance of this wailing about markets - these crocodile tears of a quite firmly established and already conceited bourgeoisie - as proof of the 'impotence' of Russian capitalism!... 'the impoverishment of the masses of the people' (that indispensable point in all the Narodnik arguments about the market) not only does not hinder the development of capitalism, but, on the contrary, is the expression of that development, is a condition of capitalism and strengthens it." (Lenin, 1963: p102)

A notable exception to conventional South African wisdom is Wolpe, and this is in keeping with his emphasis on production relations. However, while Wolpe has stressed the importance of the concept of mode of production his analysis would seem to owe more to Ricardo than to Marx. This will best be explained by first turning to Marx's criticism of Smith and Ricardo in their efforts to deal with the tendency of the rate of profit to fall and then by examining how matters stand with regard to Wolpe's treatment of the contradiction of South African capitalism.

IV THE INNER CONTRADICTION OF CAPITAL.

(1) The tendency of the rate of profit to fall: Adam Smith and Ricardo.

Both Ricardo and Smith held to the view that profits would show a general tendency to decline because of a rise in wages. In the one case, because a shortage in the supply of workers would raise real wages at the expense of profits, in the other, because declining productivity in the agricultural sector would raise the cost of reproducing labour-power.

According to Adam Smith, the rising demand for labour which accompanies the accumulation process must inevitably shift the balance of market forces in favour of the working class. This, he argued, would lead to a continual rise in real wages and consequently to a fall in profits. In Smith's time, Marx noted, "the demand for labour did in fact grow at least in the same proportion in which capital was accumulated, because manufacture still predominated at that time and large-scale industry was only in its infancy." (iii p335)[21]

Marx did not deny that the contending forces of supply and demand could affect the rate of profit. He emphasised however, that "the rise and fall in the rate of profit - insofar as it is determined by the rise or fall of wages resulting from the conditions of demand and supply (in the labour market)... - has as little to do with the general law of the rise or fall in the profit rate as the rise or fall in the market prices of commodities has to do with the determination of value in general." (iii p312)

Ricardo did not think much of Smith's contention that capital would accumulate at the expense of profits by strengthening the bargaining power of the workers. He was not, as Marx humorously noted, "an optimist who believes such fairy-tales." (ii, p438) Ricardo, in fact, was of the view that the growing productivity of labour which accompanies the accumulation of capital would actually lead to a decline in the value of labour-power, thereby increasing the rate of surplus-value. This represented a considerable advance on Ricardo's part, moving him well beyond the limitations of Smith and his predecessors. As Marx explains: "It is possible that, reckoned in terms of use-values (quantity of commodities or money)...wages rise as productivity increases and yet the value of the wages may fall and vice versa. It is one of Ricardo's great merits that he examined relative or proportionate wages, and established them as a definite category. Up to this time, wages had always been regarded as something simple and consequently the worker was considered an animal. But here he is considered in his social relationships. The position of the classes to one another depends more on relative wages than on the absolute amoung of wages." (ii p419)

Nevertheless, despite gains in productivity the rate of profit, according to Ricardo, would ultimately fall because the cost of reproducing labour-power would rise, and this would happen because of diminishing returns in the agricultural sector. The decline in the worker's subsistence brought about by the increasing difficulty in producing food "would oblige him to demand more wages: and whatever increases wages, necessarily reduces profits." (Ricardo, 1966 p118)

Ricardo's error, as we now know, lay in his identification of the rate of surplus-value with the rate of profit. Thanks to this confusion, Ricardo "can only explain falling profits as a result of decreasing surplus-value, and therefore decreasing surplus labour, and consequently as a result of greater value or rising cost of the necessaries consumed by the worker, that is, increasing value of labour, although the real wages of the labourer may not rise but decline." (iii p106)

There is, of course, a more fundamental explanation for Ricardo's oversights. Although Ricardo went much further than any other political economist in analysing the conditions of capitalist production, he was only concerned with proclaiming them as the natural and "absolute forms of production". (iii p239) And if it was Ricardo's advanced position which led him away from Smith's preoccupation with the market, then equally it was his advanced position which forced him to take a retrograde step and turn away from capitalist production altogether.[22] After all, if the progressive growth in the productive power of social labour could not come into conflict with capital then it was natural that Ricardo, of all the classical economists, should have located the barrier of capitalist production in nature itself. If anything, Ricardo believed that the development of the productive forces would actually <u>check</u> the tendency of the rate of profit to fall. (Ricardo 1966, p120) His analysis <u>is</u> clearly diametrically opposed to Marx's.

(ii) The tendency of the rate of profit to fall: Marx

In contrast to Smith and Ricardo, Marx not only emphasised the crucial distinction between the rate of surplus-value and the rate of profit[23] he also showed that there generally existed a <u>necessary connection</u> between a rise in the rate of surplus-value and a fall in the rate of profit. (iii p212) However paradoxical and contrary this may seem to every day appearance it is nevertheless a paradox which lies at the very core of the capitalist process of production.

The production of relative surplus-value (one of the principal conditions for raising the rate of surplus value) depends on the development of the productive forces. But with the advance of capitalism "that part of value which the individual worker and even the working class creates in the form of variable capital will steadily decrease compared with the product of their past labour that confronts them as constant capital. The alienation and the antagonism between labour-power and the objective conditions of labour which have become independent in the form of capital, thereby grow continuously." (ii p416)[24] The rate of profit therefore has a tendency to fall, even if the rate of surplus-value rises "because the proportion of variable capital to constant capital decreases with the development of the productive power of labour. The rate of profit thus falls, <u>not because labour becomes less productive, but because it becomes more productive. Not because the worker is less exploited, but because he is more exploited</u>...". (ii p439) Nothing, Marx argued, could be more "absurd" than to explain the fall in the rate of profit by a rise in labour's share of the social product. (III p234) All true friends of the working class, he wrote, "have enough common sense to emphasise the fact that the proportional number of those who live on profit has increased with the development of capital." (iii, p313)[25]

(iii) The tendency of the rate of profit to fall: Wolpe

We have already explained that for Wolpe the crucial determinant of the rate of surplus-value during the gold-mining period lay in the preservation of the productive capacity of the Reserves. But over the years, as Wolpe has correctly shown, further capitalist development resulted in a "diminishing agricultural product" which not only became more unevenly distributed but less available to the wage-labourers who were being increasingly drawn into the industrialisation process. (Wolpe, 1972, p441) "The immediate result of the decline in the productive capacity of the pre-capitalist economies was a decrease in the agricultural product of the Reserves resulting, therefore, in a decrease of the contribution of the Reserves towards the subsistence necessary for the reproduction of the labour force. This threatened to reduce the rate of surplus value through pressure on wages and posed, for capital, the problem of preventing a fall in the level of profit." (p444, my own emphasis)

Disregarding the Ricardian overtones of this passage we need to point out that if we are to examine the influence which agriculture exerts on the value of labour-power then it is essential we deal with total agricultural production, and not a mere fraction of it. Alongside declining productivity in the reserves, account must be taken also of the productive capacity of the capitalist farms which, after all, supply the overwhelming bulk of agricultural produce.[26]

Since the war, agricultural production on the capitalist farms has increased substantially, and large sums have been spent on its equipment and mechanisation. Between 1947 and 1967 farming output increased by just over 4 per cent per annum in volume, which far exceeded the annual population growth rate of 2⅔ per cent. (ix) This steady growth in agricultural production has, to a large extent, been due to the rapid rise in mechanisation. Capitalist farmers have been buying expensive and sophisticated capital equipment, tractors, motor lorries and combine harvesters in an attempt to boost productivity. Between 1938 and 1971 total capital investment on farms increased from R 934 million to R 6,847 million. Over the same period the index volume of total crop and horticultural production rose from 100 to 333. (Financial Mail, Oct 13, 1972) In 1960 there were, on average, 11 workers employed in agriculture per tractor; by 1969 the number of workers per tractor had declined to 7. (x)

(XIV) Number of Tractors in Use in Agriculture - 1972
(total population in millions)

South Africa	Brazil	Rest of Africa	India
230,000	175,500	162,375	67,000
(22.9m)	(98.8)	(344.3)	(563.4)

Commenting on the fact that "agriculture has become a capital intensive undertaking employing progressively less labour per unit of the product", S. De Swardt, a keen observer of the South African agricultural scene, spelt out the benefits which lay in store for the industrial capitalists. Food, he argued, formed a large part of the urban worker's budget and by cheapening the elements which entered into the worker's subsistence, farmers would enable the industrial sector to develop "a healthy competitive position vis-a-vis its competitors in international trade." (xi) Or, as Marx would have put it: "There is immanent in capital an inclination and constant tendency to heighten the productiveness of labour, in order to cheapen commodities, and by such cheapening to cheapen the labourer himself." (I p319) This is the essence of relative surplus-value extraction.

It certainly would have been helpful if Wolpe had considered some of the developments which have taken place in agriculture outside the reserves, bearing in mind also that almost half of the entire agricultural product in South Africa is processed by secondary industry. Without further ado, we could then have confronted the crucial question of whether or not the rise of productivity on capitalist farms has enabled the capitalists to compensate for that portion of the workers' means of subsistence which had formerly been produced in the reserves. Wolpe does not answer this question, he does not even raise it. On the contrary, we are left with the distinct impression that capital accumulation has little bearing on the rate of exploitation in so far as it is able to cheapen the elements of productive capital. This is a curious approach to the subject of capitalist development.

XV Index of employment and physical volume of agricultural production
1958-59 - 1960-61 = 100

	Total employment	Total output	Food
1959	112	95	95
1969	104	138	142

XVI Index of employment and physical volume of manufacturing production
1958 = 100

	Total Employment	Total Output
1958	100	100
1969	168.6	230.0

(XVII) Index of per caput agricultural production
1952 - 1956 = 100

	South Africa		Total Africa		South America		World	
	total	food	total	food	total	food	total	food
1959	103	105	102	100	102	100	106	106
1969	117	125	102	98	100	103	110	112

As Wolpe sees it, it is precisely the changes which have occurred in the econmic conditions of the reserves during the period of rapid industrialisation which lie at the heart of labour-capital conflicts in South Africa. We find, on the one hand, workers striving to make good the loss of reserve production by fighting for higher wages while capitalists, on the other, are doing all in their power to maintain a rate of exploitation which, in previous years, owed its intensity to the preservation of the reserve system. The State responds to the growing pressure on wages by tightening its repressive control over labour, thereby providing the capitalists with a continued supply of cheap labour, only this time in a new form: not by ensuring that part of the worker's means of subsistence is reproduced in the reserves - which has become increasingly impossible - but by the "enforcement of low levels of subsistence." (Wolpe, 1972: p450) In short, Apartheid in the post war period must be seen as the specific mechanism which guarantees for the capitalists the reproduction of labour-power "not in general, but in a specific form, in the form of cheap labour-power." (p446)

I am not at all sure what Wolpe means by the reproduction of labour-power "in general" as opposed to its reproduction in the form of "cheap labour-power." From the standpoint of value-relations, capitalist production is in and of itself a cheap labour system. As Marx reminds us: "Capitalist production is inseparable from falling relative value of labour." (ii, p439)

Wolpe himself says as much when he informs us that "it is precisely the changes in the relationships between South African capitalism and non-capitalist modes of production in conditions of a rapid rise...in the organic composition of capital, that need to be analysed in the contemporary period." (Wolpe, 1974: p14, emphasis added) But would Wolpe deny that a decrease in the value of labour-power and an increase in the organic composition of capital are but different forms through which the progressive growth in the productive power of labour is expressed under capitalism? (see ii p596) If not, how would he square this with his earlier assertion that "the extension of the State's power over the residence and movement of the labour force, which adds to the State's repressive control over it (precisely, one feature of Apartheid) is a function of the economic changes in the Reserves which generate a threat to the cheapness of labour-power." (Wolpe, 1972, p447; emphasis added) If words mean anything at all, Wolpe is actually saying that as a result of declining productivity in the so-called non-capitalist sector, social relations of production which are essentially external to the capitalist mode of production infuse the latter with its own internal contradiction.

The contradiction of South African capitalism does not lie in those conditions which Ricardo believed to be governing agricultural production, nor does it originate in the market, in the buying and selling of commodities, as Smith held. The real contradiction of capitalist production is capital itself, a contradiction whose immediate origin lies in the direct process of production in which dead and living labour come face to face. Thereafter the contradiction is mediated in the circulation process, manifesting itself, first and foremost, in the tendency of the rate of profit to fall.

All that remains for us to examine is the specific modification which this law undergoes in the reproduction of the money-material. For the sake of simplicity we shall assume that gold alone is the circulating medium and that there is a uniform grade of ore throughout the industry.[27]

V THE INNER CONTRADICTION OF SOUTH AFRICAN CAPITAL

> "We see then, commodities are in love with money, but 'the course of true love never did run smooth'". (I, p107)
>
> "The chickens are coming home to roost. Faced almost from the word go with a shortage of Black South Africans willing to toil underground for low wages, the gold mines have gradually extended their agencies all over the sub-continent in search of labour. Now, heavily dependent on foreign labour, they have suddenly found they can no longer be sure of getting it." (Financial Mail, 13 Sept. 1974)
>
> "...South Africa needs all the goodwill it can get. An unconditional offer of aid is no guarantee of getting it from Frelimo. But it is better than sitting back and doing nothing. A no-strings R10 million outright grant and a 'soft' loan of, say R50 million repayable over 20 years would give immediate relief to Mozambique's hard pressed Balance of Payments and is an amount we could well afford. Provided in rands it would not come out of our foreign reserves and would in any case mostly flow back to South Africa's industries." (Financial Mail, 20 Sept. 1974; emphasis added)

(i) The tendency of the rate of profit to fall and the reproduction of the money-material

As noted, the tendency of the rate of profit to fall is bound up with the tendency of the organic composition of capital to rise, itself "only another expression for the increased productivity of labour." (ii p596) This is a process which takes place behind the backs of individual capitalists and by no means reflects a conscious decision on their part. As Marx explains: "No capitalist ever voluntarily introduces a new method of production, no matter how much more productive it may be, and how much it may increase the rate of surplus-value, so long as it reduces the rate of profit. Yet every such new method of production cheapens the commodities. Hence, the capitalist sells them originally above their prices of production...He pockets the difference between their costs of production and the market-prices of the same commodities produced at higher costs of production....But competition makes it general and subject to the general law. There follows a fall in the rate of profit (brought about by a general rise in the organic composition of capital) which is, therefore, wholly independent of the will of the capitalist." (III, p259)

This same law, Marx adds, applies to those industries which produce luxuries, notwithstanding the fact that they are unable, by their own efforts, to produce relative surplus-value. (III p259-60)[28] It is otherwise with gold capital.

In its capacity as the money-material gold forms an "exception" to the general rule that commodities must pass through the transformation into money - the moment gold is produced it is always in a directly exchangeable form. (I p110; II p471)[29] Gold-mining capitalists thus enjoy a "social monopoly" (I p69) and at no time need they enter into competition with other commodity producers over the disposal of their product.[30] We find, therefore, no immanent tendency within gold capital to extend the productive power of labour in order to cheapen commodity gold.

Since the money-material represents value in its "absolute form" (III p499) capitalists will always have an interest in packing as much labour into as little gold as possible. Thus although gold by nature does not have an invariable value - the mere fact that it is the embodiment of labour makes it potentially variable - it will nevertheless tend to possess "a more constant value than the average of other commodities." (Marx, 1904: p213)

There is also another reason why gold-mining capitalists will have a direct interest in maintaining an organic composition of capital which is lower than the social average. In Volume III Marx shows how "brother capitalists" distribute amongst themselves the total social surplus-value according to the size of their capital (that is, constant plus variable capital) and not according to the quantity of immediate labour which a given capital puts to work. This is a process which is brought about by the transformation of values into prices of production, enabling the individual capitals to make their appearance as component parts of the total social capital. All capitalists now have an equal claim, in proportion to the magnitude of their respective capitals, "to the common loot, the total surplus-value." (III p206) But in the case of gold-mining the value of its product is expressed directly "in kind", in its own material, making it "impossible" for gold to have a price, let alone a price of production. (iii p404; ii p201)[31] As long as the organic composition of gold capital stands below the social average, gold capitalists will earn a higher than average profit. In short, the gold-mining industry is in a unique position to reap the benefits of exploitation directly in accordance with the quantity of immediate labour which it employs.

It now becomes apparent - viewed from the standpoint of the inner nature of capital - just how important the gold-mining industry is for the development of industrial capital in South Africa, providing it, as it does, with a stabilising effect against the onset of the tendency of the rate of profit to fall. But the course of true love, to borrow from Shakespeare, never did run smooth.

It is not difficult to perceive the kind of mess capital would get itself into were it to accumulate on the basis of a constant organic composition of capital. Sooner or later a point would be reached when the available supply of labour would prove insufficient for its needs and wages would rise at the expense of profits. (I, p613) But capital in its final stages of development can overcome this problem (a problem constantly besetting its self-expansion during the mercantile and manufacturing stages) by the introduction of labour saving machinery. Capital is thus able to create for itself its own reserve army of labour, and this is why Marx assumes, when dealing with extended reproduction, "that labour-power is always available under the capitalist system of production...that the portion of the newly created money-capital capable of being converted into variable capital will always find at hand the labour-power into which it is to transform itself." (II p501)

He then goes on to explain that: "The gold producer can accumulate a portion of his golden surplus-value as virtual money-capital. As soon as it becomes sufficient in amount, he can transform it directly into new variable capital, without first having to sell his surplus-product. He can likewise convert it into elements of the constant capital. But in the latter case he must find at hand the material elements of his constant capital." (II p501)

But if it is to make full use of the advantages arising from a constant organic composition of capital, the mining industry will have to accumulate its golden surplus-value by feeding off an industrial reserve army to which it makes no contribution. Alternatively, the mining industry can render more labour fluent, without increasing the amount of labourers, by the introduction of labour-saving machinery. But in this case a reduction in the labour content of gold will lead directly to a fall in the rate of profit because (1) there will be no compensating reduction in the value of labour-power to offset any rise in the composition of capital (iii p312) (2) the value of gold will still be expressed in its own material, i.e. capitalists will still be directly dependent on the amount of labour employed for their rate of profit (3) productivity in gold-mining will affect "only the number of workers employed", leading inevitably towards "a reduction in the amount of surplus-value and hence in the rate of profit", even if no increase in the amount of constant capital takes place (iii p351) A fierce competitive struggle is therefore likely to arise between ordinary and gold capital over the industrial reserve army of labour, and the gold-capitalists are unlikely to prove a match against an industry which is capable of raising wages while at the same time reducing the value of labour-power.

Ideally, the most favourable situation for the two types of capital to co-exist is where the industrial sector is left to accumulate capital on the basis of its own reserve army while allowing the gold-mining capitalists to lay claim to a vast reserve of workers who have been isolated from the industrial sector. These workers would then be made to return, at the end of their contracts, to those barren wastelands set aside for their families, there to await the beck and call of golden moneybags. Thus isolated, the gold-mine worker would perform the sole economic function of providing the mining capitalists with their golden surplus-value, and the world capitalist system with its money-material.

The mere fact that the product of the gold miner's labour appears directly in the form of money would enable the capitalists to detach them from the industrial sector without disturbing the reproduction process. In the ordinary commodity world the formula for the circuit of capital is M-C...P...C'-M'. (see II p23) The wage labourer is therefore important for the circuit of capital to the extent that he buys back from the capitalist part of the commodities he himself has produced. (II p458) By contrast, the formula for the production of gold is M-C...P...M'. (see II p46) Gold-mining capitalists, therefore, need not sell back to the worker that portion of the product which represents the value of his labour-power. On the contrary: "If the capitalist is a producer of gold, then the variable portion of value - i.e., the equivalent in commodities which replaces for him the purchasing price of the labour - appears itself directly in the form of money and can therefore function anew as variable money-capital <u>without the circuitous route of a reflux.</u>" (II p448; emphasis added. See also II p326)

This means that the capitalists can force down wages to the bare minimum without having to concern themselves with the effects this might have on the "consuming power" of the workers. In theory gold-miners need not receive any cash payments at all. Owing to the fact that the variable capital of the mine-owners appears directly in the form of money, they can just as easily hold onto this money and purchase the 'means of subsistence' for the workers. As the producer of the money-material there is no necessity for the worker to constitute an integral part of the circulation process. The workers in the gold sector are important only in so far as they produce surplus-value for the capitalists, their wives and daughters are important only in so far as they manage to maintain, in their alloted "reserves", the living labour-power from which capital derives its surplus-value. It is in the production of the money-material that the essential relation between labour and capital stands revealed, stripped of all illusory appearances arising from the circulation process in which workers and capitalists confront one another as "equals".[32]

"Actually, the relation of one capitalist to the workers of another capitalist is none of our concern here. It only shows every capitalist's illusion, but alters nothing in the relation of capital in general to labour. Every capitalist knows this about his worker, that he does not relate to him as producer to consumer, and he therefore wishes to restrict his consumption, i.e. his ability to exchange, his wage, as much as possible. Of course he would like the workers of other capitalists to be the greatest consumers possible of his own commodity. But the relation of every capitalist to his own workers is the relation as such of capital and labour, the essential relation....Capital itself then regards demand by the worker - i.e. the payment of the wages on which this demand rests - not as a gain but as a loss. i.e. the immanent relation between capital and labour asserts itself." (Marx, 1973 p420)

(ii) The integration of different capitals

The rapid growth of industrial capital in South Africa since the war has not intensified, as might have been expected, rivalry between the industrial and gold-mining sectors. Competition between the two has virtually been eliminated by a process of internal industrial proletarianisation combined with an ever increasing absorption of African mine-workers drawn from neighbouring countries. Formerly located in South Africa, the gold-mine's "reserves" have, in the main, been shifted to South Africa's neo-colonies. As one article in the Banker put it: "Black wages in other South African industries are a good deal higher, so to continue finding cheap black labour the mines have had to recruit more and more workers from South Africa's poor neighbours like Mozambique and Lesotho...This ability to recruit foreign workers at low wages has been one of the most important factors preventing the gold mines' total wage bill from rising excessively." (The Banker, Sept. 1971, p1079) Excessively indeed!

XVIII Proportion of Black S. Africans on the Gold Fields. (%)

1936	1946	1956	1966	1969	1972	1973
52.2	41.3	34.7	34.1	31.4	23.8	21.4

XIX Black labour force on the S. African Gold mines (1973)

S. Africa	Botswana, Lesotho, Swaziland	Mozambique	Malawi
80,750	99,123	83,387	114,634

Both the mining and industrial sectors have benefited from this arrangement in more ways than one. The gold mines have been able to accumulate capital on the basis of a high labour content of gold without being forced to introduce labour saving devices on any ambitious scale. As one commentator observed: "over the years the (gold mining) industry has been slow to develop mechanisation underground, because it has so frequently been cheaper just to send in another ten Africans instead of inventing a machine." (Green, 1968: p60) The Financial Mail has recently ventured the calculation that even if the present wages of African mine-workers were to double, it would still be more advantageous to employ more Africans than to have recourse to labour saving machinery. (FM, 9 Feb. 1973)

Unhampered by any shortage of labour the mining-industry has managed to secure for itself a relatively comfortable position alongside the burgeoning industrial sector. It has provided industry with the foreign exchange without which much of its expansion would have proven impossible. Industry, in turn, has found an outlet for its merchandise and surplus capital, not accidently in many of the areas in which the mining industry touts for labour. In this way, capital is used not only to provide South Africa with additional profits but also to ensure the general impoverishment of the gold-mining industry's "reserve" areas..

The recent revolutionary successes of Frelimo in Mozambique and, hopefully, the emergence of revolutionary movements in Malawi and elsewhere, could well set in train a series of crippling blows from which South African capital might never recover. If neighbouring countries were to put a permanent stop to recruiting for the mines the South African economy would be in serious trouble. Unable to compete with the lure of the industrial sector, which is able to pay higher wages, the mining capitalists would be forced either to mechanise or, through a more rigorous implementation of the pass laws, to syphon off from the industrial reserve army a supply of workers adequate to its own needs. This would place an even greater strain on industry's development, compounded by the loss of its African markets in the liberated areas. It is unlikely, however, that the mining and industrial capitalists would engage in any significant rivalry over the labour supply - their interests are now so entangled that it is virtually impossible to tell where one begins and the other ends. Together they will stand and wage an all-out attack against the working class at home, upon whose shoulders the entire burden of capital's contradiction will rest. But already capital is meeting its resistance in the struggles of the South African working class awakening, once again, to a sense of its enormous power and strength. Capital in South Africa is fast approaching the crossroads.

Pass law note

This is not to suggest that even if the mining industry continues to secure an ample supply of labour from its reserves, industrial capital in South Africa will remain free from capital's central contradiction. Gold production does not do away with the law of the falling rate of profit. On the contrary, although the product of the gold-miner's labour has rendered the South African economy relatively immune from major slumps, and although it has given industry the wherewithal to develop at a rapid pace and on a high technical basis, by so doing it has accelerated rather than diminished the forces leading to the tendency of the rate of profit to fall. In this respect, the gold-mining industry may be regarded as the vehicle of this law and not its suspension.

(iii) The tendency of the rate of profit to fall, the extraction of archaic surplus-value and the class struggle

The tendency of the rate of profit to fall does not manifest itself in an absolute form, if it were to do so capitalist production would soon be brought to a head. There are, in fact, a number of different ways in which it can be delayed and held back, one of them being the "depression of wages below the value of labour-power." (III p230)

Although Marx regards this as "one of the most important factors checking the tendency of the rate of profit to fall", he only devotes a few lines to it in Capital, and for good reason. As he explains, the depression of wages below the value of labour-power "is mentioned here only empirically since...it has nothing to do with the general analysis of capital, but belongs in an analysis of competition, which is not presented in this work." (ibid.) This is not to suggest that the clash between workers and capitalists over wage-rates is of little importance to Marx. Quite the contrary, the struggle on the part of the workers to defend life and limb against the onslaught of capital remains one of the most pervasive features of the system, and Marx spent a good deal of his life upholding that struggle. But as he emphasised, time and time again, "a scientific analysis of competition is not possible, before we have a conception of the inner nature of capital..." (I p316)

Marx is clearly warning against the temptation of substituting for the analysis of capital an empirical treatment of the conflict between workers and capitalists over the distribution of the social product and, on this basis, of regarding the contradiction of capital as the competitive struggle itself. It is also clear that the class struggle, for Marx, meant far more than the competitive rivalry which takes place between workers and capitalists over the buying and selling of labour-power. Class conflict is the dynamism of all written history and it is for this very reason that Marx set about placing the modern class struggle on a scientific footing by an elaboration of the concept of capital and, above all, by a specification of its inner contradiction.[33]

Now that capital in South Africa is able to develop on its own basis, according to its own specific laws, it is absolutely essential that we approach the contradictory features of the system on the basis of an understanding of the inner nature of capital. Once we have grasped what capital is and how it works we can then understand why the bourgeoisie is exporting capital to its weaker neighbours, why it is striving to secure cheap raw materials through conditions of unequal exchange and, most important of all, why it is imposing low levels of subsistence on the working class at home. All this, and more, is being carried out with increasingly brutish vigour in an attempt to hold back the tendency of the rate of profit to fall.

A similar process is now under way in the other metropolitan centres. But in the end they will either have to break the power of the working-class movement or will themselves be broken. The value of labour-power can no longer be reduced by simply extending the productive power of labour; on the contrary, the development of the productive forces has once again come into sharp conflict with its narrow social foundation. Thus stands capital, poised to embark upon its most ruthless and barbarous assault against the workers whom it sets in motion, demonstrating again "that it is becoming senile and that it is more and more outlived." (III p257)

World capitalism is in the throes of its greatest crisis ever. The attack on the rights and living standards of the workers grows daily as intra-imperialist rivalry intensifies and the process of capital accumulation enters increasingly into contradiction with itself. More and more, the world bourgeoisie is placing archaic surplus-value extraction on the agenda, as it has already done in South Africa, not because labour has become less productive but because it has become more productive, not because the worker is less exploited, but because he is more exploited.

CONCLUSION

In the opening section we showed how Wolpe treats the "dominant contradiction" as though it were still being transferred from relationships between modes of production to relations within the capitalist mode, although he does not make it clear how far this process has been carried. But if Wolpe's work displays a lack of certainty then it is matched by the confidence and assuredness with which he locates the source of South Africa's shifting contradiction. However elusive the contradictory feature of South African capitalism, whatever its character and wherever it may reside, we can always trace it to diminishing productivity in the reserves. It does not help us, therefore, when Wolpe points to the fact that Apartheid is "a response to the principal contradiction between capital and cheap African labour..." (Wolpe, 1972, p447), since we are left with the view that the material basis underlying class conflict in South Africa will always have its ultimate origin in nature.

It is wrong to treat the reign of State Terror during the post-war period as if it were a response to an increase in the cost of reproducing labour-power which threatens to reduce the rate of surplus-value. In fact exactly the opposite is the case. The attack which the State has been steadily mounting against the living standards of the workers is more a response to an increase in the rate of exploitation than to its decline. Had Wolpe proceeded to analyse the development of capitalism in South Africa on the basis of the immanent laws of capitalist production he would have arrived at very different conclusions to the ones outlined in his paper. Apartheid would then have been seen for what it really is - a reaction to the inner contradiction of capital and not to conditions of production in the reserves. Instead, his analysis leads him to end his article on the following note:

> "Whether capitalism still has space (or time) for reform in South Africa is an issue which must be left to another occasion." (ibid, p454)

Our analysis, we trust, will force us to confront a question which is altogether different but nevertheless crucial: if the real barrier of capitalist development in South Africa is none other than capital itself how then, and by what means, is this contradiction to be resolved, which class is capable of resolving it, and on what basis?

This is the issue which we leave for discussion.

APPENDIX WOLPE'S CHARACTERISATION OF THE RESERVES AS A MODE OF PRODUCTION

> "...women remain alone in the Reserves to build the homes, till the land, rear the stock, bring up the children. They watch alone the ravages of drought, when the scraggy cows cease to provide the milk, when the few stock drop one by one because there is no grass on the veld, and all the streams have been lapped dry by the scorching sun. They watch alone the crops in the fields wither in the scorching sun, their labour of months blighted in a few days...Alone they bury their babies one by one and lastly their unknown lovers - their husbands, whose corpses alone are sent back to the Reserves. For the world of grinding machines has no use for men whose lungs are riddled with t.b. and miner's phthisis.
>
> "For miles around throughout the country one sees nobody but these women - young and yet stern-faced with lines of care on their faces. This one climbing the slope with a bucket of water on her head and, if lucky, a baby on her back; that one going up the hill with a heavy bundle of wood on her head...
>
> "In the ploughing season they are to be seen behind the span of oxen. In the cold winter months, alone with young girls and boys they reap the fields, load the wagons and bring in the harvest. A poor harvest! What else could it be? 'Bad farming methods of the native', is the official attitude of South Africa. But how could it be otherwise when the farming is left to women and children, when the whole task of home-building is on their shoulders?"
>
> (The Widows of the Reserves, by Phyllis Ntantala)

In an attempt to provide the theory of internal colonialism with a material basis, Wolpe seems to have taken his cue from a passage in Vol.II of Capital in which Marx touches briefly on the relationship between the capitalist and non-capitalist modes of production. This is the passage as it appears in Wolpe's paper: "Within its process of circulation, in which industrial capital functions either as money or as commodities, the circuit of industrial capital whether as money-capital or as commodity capital, crosses the commodity circulation of the most diverse modes of social production, so far as they produce commodities. No matter whether commodities are the output of production based on slavery, of peasants..., of state enterprise...or of half-savage hunting tribes, etc; - as commodities and money they come face to face with the money and commodities in which the industrial capital presents itself <u>and enter as such into its circuit</u>...The character of the process of production from which they originate is immaterial. They function as commodities in the market; and as commodities they enter into the circuit of industrial capital <u>as well as into the circulation of the surplus value incorporated into it</u>." "To replace them (i.e. the commodities entering the capitalist circuit in the above manner) they must be reproduced and to this extent the capitalist mode of production is conditioned on modes of production lying outside of its own stage of development." (II pp109-10, quoted in Wolpe, 1974, p10, emphasis mine)

The importance of the above for Wolpe's analysis becomes apparent when we consider the commentary that follows: "While in the above passage Marx's remarks are restricted to commodities which are also means of production, it seems clear that they apply equally to labour-power which is physically produced in a non-capitalist mode of production but which is converted into a commodity by its appearance on the capitalist labour market. It is this feature, the introduction into the capitalist circuit of production of labour-power physically produced in a non-capitalist economy, that denotes one important feature of imperialism...It is precisely this relationship which is the foundation of 'internal colonialism' in South Africa." (ibid.)

In the first place, Marx is not simply concerned with commodities from non-capitalist modes which enter into the circuit of capital as such, although this is the impression given by Wolpe's use of the text. What Marx, in fact, wrote was: " as commodities and money they come face to face with the money and commodities in which the industrial capital presents itself and enter as muchinto its circuit as into that of the surplus-value borne in the commodity-capital, provided the surplus-value is spent as revenue; hence they enter into both branches of circulation of commodity-capital." (II p110, emphasis mine)

Wolpe does not explain why he has chosen to disregard the distinction which Marx makes between uses of surplus-value. In terms of Wolpe's analysis, it makes no difference whether the mining-capitalists in South Africa were using their golden surplus-value to confront living labour-power as capital rather than revenue: in either case we would still have an internal colonial arrangement based on the exchange of commodities between the so-called non-capitalist and capitalist modes of production. But the distinction is crucial.

The point which Marx seems to be making is this: where a capitalist mode is dependent for its extended reproduction on commodities derived from a non-capitalist mode the latter will constantly be required to step up its production in keeping with the rate of accumulation, that is, the rate of conversion of surplus-value into additional elements of constant and variable capital. This, in turn, cannot have anything but an erosive effect on the non-capitalist mode, decomposing its non-capitalist basis and transforming it into a derived function of industrial capital. Indeed, as Marx goes on to say, at the point where Wolpe breaks off: "But it is the tendency of the capitalist mode of production to transform all production as much as possible into commodity production...The intervention of industrial capital promotes this transformation everywhere, but with it also the transformation of all direct producers into wage-labourers." (ibid)

Marx, of course, is addressing himself to the question of industrial capital. He is not concerned here, for example, with the different roles played by the commercial and interest-bearing forms of capital in the course of capitalist development, nor is he concerned with the intervention of landed property, an intervention which can exert a retarding influence on the conversion of the direct producers into landless wage-labourers. As Lenin observed when drawing a contrast between capitalism in agriculture and industry: "There cannot be any doubt that in agriculture the process of development of capitalism is immeasurably more complex and assumes incomparably more diverse forms...An absolutely propertyless agricultural labourer is a rarity...When small production is eliminated too greatly, the big landowners try to strengthen or revive it... Thus, within the limits of the capitalist mode of production it is impossible to count on small-scale production being entirely eliminated from agriculture, for the capitalists and agrarians themselves strive to revive it when the ruination of the peasantry has gone too far. Marx pointed to this rotation of concentration and parcellisation of the land in capitalist society as far back as 1850...The agricultural wage-labour of small cultivators (or what is the same thing, the agricultural labourer and day labourer with an allotment) is a phenomenon characteristic, more or less, of all capitalist countries." (Lenin, 1964: p111, 136) - (So much for Wolpe's criticism that Lenin and Marx assumed "that the effect of the emergence of capitalism as a dominant mode of production is the necessary and rapid disintegration of non-capitalist productive relations." (Wolpe, 1974: p7))

We should also remember that Marx is speaking of one of the tendencies of the capitalist mode of production. This does not preclude the possibility of capitalist society shoring up, for any number of reasons, non-capitalist relations of production by excluding them from the accumulation process, by using their commodities for the purpose of transforming surplus-value into revenue or by incorporating their commodities into what Marx calls the first section of the circulation of capital, that is, the M - C section of M - C...P...C' - M' (see II pp109,110)[34]

But as far as the gold-mining industry in South Africa was concerned this was clearly not the case. On the contrary, gold-mining capitalists were constantly extending their operations by exchanging their surplus-value against living labour drawn in ever increasing numbers from the reserves. The one-sided conversion of the gold-miner into a wage-labourer can be explained by the fact that we are dealing with gold and not industrial capital, a distinction which Marx had already made in the opening chapter of Volume II (see II p46).

In the main body of this paper we showed how Wolpe tends to treat the commodities of the different Departments which enter into the reproduction process as one undifferentiated mass, making it impossible, therefore, for him to grasp the "specificity" of gold capital. We further showed how the particular needs of gold capital differ from those of "ordinary industrial capital". Whereas industrial capital requires a reserve army of labour for its development, gold capital requires an army of labour in the reserves. The setting up of these reserves further presupposes the destruction of pre-capitalist African society, thereby compelling the African people to take up employment in the mines.

Wolpe, however, only begins to consider the break-up of "African redistributive economies" - that is, the so-called "African societies" of the reserves - when dealing with capitalist development since the 1930's. But the reserves of the gold-mining industry have not been destroyed, they have been transferred to South Africa's neo-colonies. Furthermore, unless we are to blur the distinction between surplus-value which is used as revenue, and surplus-value which is used as capital, we must conclude that those areas set aside for the maintenance of the mining industry's work-force were very much a part of the capitalist mode of production, however much the forms of appearance of reserve production attest to the contrary. What the women of the reserves were rearing and maintaining were the labourers themselves, the living repositories of commodity labour-power, the most essential element of productive capital. Besides, South Africa is no exception to the rule that this specific form of concrete labour which is foisted upon women under capitalism will always take place alongside the process of surplus-value extraction as it is carried out in the direct process of production, only now, in the case of gold mining, does this law present itself in its most striking and barbaric form.

In the second place, it is by no means clear from the passage cited by Wolpe that although "Marx's remarks are restricted to commodities which are also means of production...they apply equally to labour-power which is physically produced in a non-capitalist mode of production..."

Far from "restricting" his comments to commodities which take the form of means of production, Marx expressly includes those commodities produced in non-capitalist modes but which enter the circuit of capital in the form of means of subsistence. (II p110) What is clear from a reading of Capital is that Marx would have been exceedingly cautious about slotting in labour-power alongside, and on the same basis as, means of subsistence and means of production.

The mystification of capital, Marx warns, is brought about precisely "by enumerating the labourer's means of subsistence instead of his labour-power as an element of productive capital." (II p213; see also II p207, iii pp275-6) As he reminds us, over and over, the variable form of circulating capital "does not enter into the real labour process, but what does enter is living labour, which is bought with circulating capital, and which replaces it...What is really expended in the production of a commodity are raw materials, machinery, etc., and the living labour which sets them in motion." (iii p327)

There is a world of difference between a non-capitalist mode of social production whose commodities take the form of things, whether means of subsistence or means of production, and a community of people whose sole economic function it is to maintain intact, for Capital, the living labour-power which sets it in motion. How can Wolpe classify the Reserves as a distinct mode of production when the basis for its own reproduction is lacking, when, on his own admission, the labourers are unable to maintain any existence apart from the sale of their labour-power. We are not dealing here with migrant labour in general, but with a specific community of people whose social existence had been so shaped and moulded by the conquering imperialist powers that without taking their labour-power to the market the entire community would perish.

As early as 1914 - a date which is covered by Wolpe's delineation of 'the gold-mining period' - missionaries in the Ciskei were reporting that "the reserves were utterly dependent on the earnings remitted home by migrant miners and that the reserves were, in effect, being turned into mining villages." (SA Outlook, May 1972, p74) Although the missionaries undoubtedly had their own perverse axe to grind a "mining village" is nevertheless a more apt description of the reserves than a mode of production. The mining capitalists, of course, would like us to believe that pre-capitalist African society was being maintained, in the same way they would like us to believe that the wages of the mine-workers were adequate to meet their subsistence requirements. As one pompous fathead described it in the Chamber of Mines' journal:

> "Under this remarkable system of migratory labour the mine company accepts responsibility for the mineworker in sickness and in health, houses him, feeds him, pays him, perhaps not as much as a white miner would be paid, but, anyhow, enough to make the work sufficiently attractive for him to volunteer to do it in no uncertain numbers. Having seen what happens to a Native in Pimville and Sophiatown when he is cut adrift from his own folk and cast up on the white shore, I looked at the Natives working at the stope <u>and thanked heaven they were going back to their own people and were not fated to swell the threatening black tide of detribalisation." (The Mining Survey, March 1954 p33; emphasis added)</u>

First you deliberately destroy a person's society then you console yourself with the comforting notion that he may continue to shelter in its smouldering ruins.

Wolpe, I believe, is altogether wrong when contending that capital in South Africa was able to create for itself an internal colony by restructuring pre-capitalist African society while at the same time <u>conserving</u> its basis. The very restructuring of African society entailed its destruction. This much is clear, especially if we have understood that what was at stake for the African people was nothing less than the untrammelled use of land indelibly interwoven into the entire fabric of their society. Take away from them that use of land and the entire edifice falls apart.

The imperialists destroyed pre-capitalist African society. In its place they erected a travesty, a caricatured and stunted form of communal relations designed to uphold the imperialist initiative and, in its final shape, to satisfy the particular requirements of the golden capitalists of the Rand.

1 I would like to thank D. Yaffe for his tireless and indispensible assistance, an example of the internationalism which many of us on the left can learn from. I would also like to thank Dorcas Good for all her helpful comments and suggestions. And finally, a curse on all those who have hindered this paper.

2 References will be made to the paper which was first presented for discussion at a seminar of the Institute of Commonwealth Studies, 31 January 1974. As this paper is in many ways a further development of an earlier article, published in Economy and Society 1972, the two will be treated as interchangeable.

3 The African National Congress of South Africa has for long been a staunch upholder of this perspective. The Unique feature of South Africa, their programme informs us, "is that the exploiting nation is not as in the classical imperialist relationships, situated in a geographically distinct mother country, but is settled within the borders." (Forward to Freedom: Strategy, Tactics and Programme of the African National Congress of South Africa. ANC - nd. p12)

4 The above passage applies equally to all forms of property which preceded the emergence of the capitalist process of production. As Marx notes: "The commercial and interest-bearing forms of capital are older than industrial capital...In the course of its evolution, industrial capital must therefore subjugate these forms and transform them into derived or special functions of itself...Where capitalist production has developed all its manifold forms and has become the dominant mode of production, interest-bearing capital is dominated by industrial capital, and commercial capital becomes merely a form of industrial capital, derived from the circulation process. But both of them must first be destroyed as independent forms and subordinated to industrial capital." (iii, p468; emphasis added)

5 For a fuller and more substantial treatment of the law of value see "The Law of Value in Ricardo and Marx", by Geoffrey Pilling, in: Economy and Society, Vol I No 3, and 'Value and Price in Marx's Capital', by David Yaffe, in Revolutionary Communist, Journal of the Revolutionary Communist Group, Jan 1975.

6 This, of course, applies to all commodities which do not enter into the determination of the value of labour-power.

7 Looking back at the decision of the mining capitalists to put into operation their plan to reduce the overall wage-rates of the industry, J.P. Fitzpatric, one of the leading mine-owners on the Rand, explained as follows: "You must understand this, that the necessity for the reduction in the rate of wages arose from the fact that there was competition among ourselves and that little by little one employer bid against another until finally the average became too high and the whole industry took it in hand and tried again to make a fresh start. That is my recollection of it, and that was what prompted us to form the Native Labour Association. You see we could not pool the supply, so we pooled the demand. The employers agreed to divide the supply among themselves, that is, what they could get." (Evidence before the Transvaal Labour Commission, Feb. 1904, Cd. 1896, para 124)

8 Commenting on the compounds at Kimberley, where the workers were reported to be 'practically prisoners', the Pall Mall Gazette, 1891, noted that "it's lucky you have black labour handy. No white would stand this sort of thing for any wages under the sun." It failed to observe, however, that African workers were far from enthusiastic about the harsh conditions and degrading existence of the compound regimen. Those who tried to escape were tracked down and hounded, and some were shot. As the Morning Leader, 17 Dec. 1900, reported: "A lurid light has been thrown upon the compound system of the De Beers Company at Kimberley by an inquiry into the circumstances attending the death of Titsane, a native who was shot whilst attempting, with others, to escape from the Premier Mine,

Wesselton...The manager of the compound had placed five of the compound guards at the Major's disposal as a patrol, and consequently when the natives attempted to escape he thought it only fair to assist the other compound guards, so he instructed Sergt. Howard of his regiment to 'send down a few men to help round up these "boys"'. In all some 13 or 14 men of Her Majesty's army were engaged in this work, five of whom were Royal Artillerymen and three were Imperial Yeomanry. The Major meanwhile - to quote his ipsissima verba - 'watched the hunt after these boys'. The Major heard all three shots fired. One man was killed and two were wounded as the result of this 'hunt'. The verdict was to the effect that the evidence did not disclose by whom the fatal shot was fired...It may be said that this is an exceptional abomination, but it is not exceptional. It is normal."

9 Unlike the production of luxuries, gold represents a necessary deduction from the volume of social production (II p357), it represents "a part of the social wealth that must be sacrificed to the process of circulation." (II p136)

10 Although the money-material and luxuries have a number of characteristics in common - in opposition to the commodities of Departments I and IIa - this does not mean they always share the same characteristics. On the contrary, in its capacity as the money-material gold confronts the entire world of ordinary commodities, including luxuries, as the one exclusive commodity with the properties of money. This makes it all the more necessary, when dealing with capitalist development in South Africa, to pay careful attention to the roles played by the different commodities in the reproduction process. Without making such rigorous distinction much in our analysis will remain blurred and unclear.

11 Just how far the Transvaal had moved beyond the stage of 'barbarism' and into the 'middle stage' can be judged from the following report which appeared in the Standard in 1895: "...mission work begins at the wrong end - by clothing, feeding, and pampering an already lazy animal, and straight way removing hunger, that singular incentive which alone successfully compels a man to labour...it is in the direction of taxation, and in that direction alone, that the ultimate solution of the labour question lies. The sloth of the savage must be struck at its source, and its source is the stomach. Let him find it more difficult to satisfy his hunger, let his obligations to the State be increased, and he will be forced into the field and compelled to make himself useful. He wants, in short, to be disciplined in the School of Hunger and Necessity. Once hunger has taught him the dignity and necessity of labour, the Missionary may follow on with his scriptural persuasion." (Jan 5, 1895)

12/15 The Economist, June 5, 1926: Nov. 14, 1925; Aug. 28, 1926; Oct. 24, 1924.

16 Today, just over 50 per cent of gross domestic fixed investment is sponsored by the capitalist State through public authorities and corporations. (Financial Mail, 11 May, 1973)

17 The U.N. Survey of South Africa found it "extraordinary" that investment goods and metals should constitute so large a portion of manufacturing output. "In this respect", the report noted, "the pattern of South African industry is more like that of a country with an income level three times as high." (Economic Survey of Africa, Vol I, Republic of South Africa (n.d. - early 60's), p.192)

18 See 'On the Analysis of Imperialism in the Metropolitan Countries - the West German Example', by Elmar Altvater, Jurgen Hoffman, Wolfgang Scholler, Willi Semmler, in CSE Bulletin, Spring 1974.

19 "On the eve of the crisis, the bourgeoisie, with the self-sufficiency that springs from intoxicating prosperity, declares money to be a vain imagination. Commodities alone are money. But now the cry is everywhere: money alone is

a commodity! As the hart pants after fresh water, so pants his soul after money, the only wealth. In a crisis, the antithesis between commodities and their value-form, money, becomes heightened into an absolute contradiction." (I, p138)

20 See The South African Connection, by Ruth First, Jonathan Steele, Christabel Gurney, pp255-278. (Penguin - 1973)

21 "The laws which correspond to large-scale industry are not identical with those corresponding to manufacture. The latter constitutes merely a phase of development leading to the former." (iii p583)

22 "Those economists, therefore, who, like Ricardo, regard the capitalist mode of production as absolute, feel at this point that it creates a barrier itself, and for this reason attribute the barrier to Nature..." (III p237)

23 "...the rate of profit is, from the very beginning, different from the rate of surplus-value; since the rate of surplus-value is s/v and the rate of profit is s/c+v." (iii p482)

24 This passage has been modified slightly but by no means alters the context. See iii p302; p311.

25 Marx is clearly referring to the mass of surplus-value. As noted: "When speaking of the law of the falling rate of profit in the course of the development of capitalist production, we mean by profit, the total sum of surplus-value which is seized in the first place by industrial capitalist..." (ii p453)

26 It is also worth noting that as much as 70% of the total agricultural product in South Africa comes from 11% of all farming units. (Financial Mail, Oct. 13 1972)

27 The role of the South African State in diffusing differential rent across the industry and the role of gold as an anti-cyclical stabiliser (given a fixed currency exchange rate for gold), that is, the relation of gold to the trade cycle, will be dealt with on some other occasion. Although these are important issues which deserve serious consideration their analysis can only enhance without altering the fundamental relations which this paper seeks to unravel.

28 A number of writers have attempted to demonstrate that a rise in the organic composition of capital in the luxury goods industry can in no way affect the general rate of profit (see, for example, Sweezy, 1964 pp124-5), a view put forward by George Ramsay as early as the 1830's and specifically rejected by Marx. (iii pp349-50) Sweezy imagines he can prove his point by lumping together the money-commodity and luxuries in Department III and by making their "prices" equal to "unity". Luxuries are thereby elevated to the status of the money-commodity while the latter, in turn, is treated as an ordinary commodity which, like the others, has a 'price'. Sweezy seems to have overlooked the fact that the rate of profit in the luxury goods sector does not enter into the equalisation process of the general rate of profit for the simple reason that luxuries, in terms of his presentation of the subject, have effectively been prevented from having a price of production. Once it is accepted that Marx's reproduction schema (the framework in which Sweezy attempts to resolve the transformation of values into price of production) are already expressed in prices (see II, p397) then it follows that luxuries will fail to exert an influence on the average rate of profit; not because they do not enter into the production of other commodities but because Sweezy has arbitrarily held constant their simple prices (i.e. prices which reflect the magnitude of values before the transformation into prices of production). (I am grateful to David Yaffe for helping me to clarify my views on this subject. See 'Value and Price in Marx's Capital', already cited.) For an analysis of the influence of luxury production on the accumulation process, see 'Unproductive Labour for Capital', by Paul Bullock, in the CSEB, Autumn 1974.

29 Gold is "a commodity like other commodities, and at the same time it is not a commodity like other commodities." (Marx, 1973: p151)

30 It is little wonder that the gold-mining capitalists in South Africa were able to fashion for themselves, almost from the start, a formal structure adequate to the non-competitive character of the gold business. The entire industry is virtually governed by a collectivity of capitalists, and no major decision is carried out by any mining "company" without reference to the others. One former adviser to the Bank of England, Sir Henry Clay, came round to the view that the South African gold-mining industry offered the perfect example of a "rationalised" industry. "Through the group system of control of the separate mining companies", he wrote, "and the close co-operation of the whole industry through the Chamber of Mines and its subsidiary services, it has substituted for the blind selection by competition of the fittest to survive, a conscious and deliberate choice of methods, equipment, areas and personnel on the basis of an extremely detailed comparative study of results. The experience of the industry is continuously analysed; periodic returns, which serve to measure every factor in costs that can be distinguished are received from every unit and circulated to every unit; so that the individual mine-manager is able to check his results against those of colleagues in other mines, and the controlling authority has continuously before it the divergencies of experience that point to the technical and administrative needs of the industry."(quoted in Katzen 1964, p9)
The ability of the mining capitalists to organise their industry along non-competitive lines has its origin in the social character of the money-material. This, however, has not prevented various commentators from using the experience of the Chamber of Mines as an ideal to which other capitalists should aspire. In 1933, while the world capitalist system was still reeling from the devastating impact of the Great Crash, Hartley Withers saw in the structure of the goldmining industry the key to the future of capitalism. In sombre terms he announced: "If laissez faire is indeed dead, and industry in future is to be planned and organized by some controlling body, the example set by the Rand Gold-Fields deserves close study by all who are trying to grope their way to systems of reconstruction designed to meet the new conditions of today." (The Times, 20 June, 1933)

31 In his search for a commodity whose price would remain invariant to a rise or fall in wages, Ricardo was in the habit of treating gold as a commodity into which enters the average "composition" of capital (although he regarded this as a simplifying assumption which need not accord with reality). (Ricardo, 1966, p45) Marx not only viewed this problem as "relatively insignificant" (iii p333) but, in the manner presented by Ricardo, as "absurd". As noted: "The price of the commodity which serves as a measure of value and hence as money, does not exist at all, because otherwise, apart from the commodity which serves as money I would need a second commodity to serve as money - a double measure of values...There can therefore be no talk of a rise or fall in the price of money." (ii p201)

32 Whereas the final phase in the ordinary circuit, C' - M', conceals the underlying process from which C' emerged, in the actual production of M' itself, that is, in the production of gold, this process now stands revealed. All we need do is compare the quantity of gold advanced with the quantity produced to demonstrate that the profit of the capitalist has its origin in production and not in circulation. As Hegel might have said: essence is revealed in the production of the absolute.

33 "For them (the Ricardians) the most fundamental question is how the income generated by production is shared between capitalists and workers. Marx also had something to say about this. 'The habit of representing surplus-value and

value of labour power as fractions of the value created - a habit that originates in the capitalist mode of production itself...conceals the very transaction that characterizes capital, namely the exchange of variable capital for living labour power and the consequent exclusion of the labourer from the product.' It also conceals the central dynamic of capitalist production. It is not the antagonism for the share of the net product that underlies the contradictions of capitalist production, as the radical Ricardians would have it. It is the constant requirement to increase the exploitation of labour as investment takes place in order that sufficient profits can be produced to compensate for the tendency of the rate of profit to fall." (Yaffe, 1973, p49)

34 One of the ways in which industrial capital can benefit from small-scale peasant production is indicated by Marx in Vol.III, of 'Capital', p.786

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(i) Union Acceptance: Scope for Investment, Nov 1969, pp84-5

(ii) Industrial Census, 1946-47, 1951-52, 1953-54, Bureau of Census and Statistics. U.G. No 36/58, p18

(iii) Quarterly Bulletin of the South African Reserve Bank (SARB), June 1974, s-64.

(iv) Trade and Industry, June 13, 1974, p556

(v) SARB, June 1974, s-66, s-67.

(vi) South Africa: a Special Report, The Times, Oct 21, 1968

(vii) Foreign Trade Statistics, Vol I, 1971, Pretoria, pp 137, 129, 141.

(viii) 1961: Foreign Trade Statistics, Vols I & II, 1961, pp 208, 255; Vol I, 1971, pp 137, 141

ix) Agre-kon, Quarterly Review of the Department of Agricultural Economics and Marketing, July 1971, p23

(x) U.N. Statistical Yearbook, 1969, p92; 1973, p97: South African Statistics, 1972, Department of Statistics, Pretoria, G-4

(xi) Agre-kon, Jan 1969, pp15-16

(I) South African Statistics, 1972, V-13. Primary Industries: Agriculture, Forestry and Fishing, Mining. Secondary Industries: Manufacturing, Electricity, Gas and Water, Construction (Contractors).

(II) Ibid, L-6, 8/9, 14/15. During the period 1958-68 consumer prices (excluding food and housing) increased at an annual average rate of 2.1%. Over the same period wholesale prices of manufactured goods produced in South Africa rose at an average rate of 1.7% per annum, while imported manufactures increased at an average annual rate of 1.6%. (SARB, March 1969, s-73) To be on the safe side I have deflated the price of machinery at the rate of 2.2% per annum.

(III) South Africa, 1960: Suppl. to SARB, June 1971, p30; 1968-71: SARB, June 1974, s-68,75. Estimates based on present U.N. system of National Accounts. West Germany, France, Italy, Brazil: U.N. Yearbook of National Accounts Statistics, 1972, Vol I, pp 384, 352, 580 & 106.

(IV) South Africa 1960: State of South Africa Year Book 1971, p241; Suppl. to SARB June 1971, p30; South African Statistics, 1972 G-6; SARB June 1974 s-75. United Kingdom 1960: Annual Abstract of Statistics 1962, pp 103,238; Monthly Digest of Statistics, June 1974, pp 11,18 (1960: £1 = R 2; 1971 £1 = R 1.7)

(V) 1924-25: Union Statistics for Fifty years, Bureau of Census and Statistics, Pretoria, G-10,13, L3-26 (Laundry and Dry Cleaning excluded). 1959-70: S.A. Stat. 1972, L-18; G-6-10.

(VI) Mining, 1924: Untion Statistics, G-4; 1946: Statistical Year Book, Bureau of Statistics, Pretoria, G-5; 1972: South African Statistics 1972, G-5. Manufacturing and construction 1924-5: Union Statistics, G-6; 1946: Statistical Year Book 1966, G-6,11; 1960: State of South Africa Yearbook 1971, p241; 1972: S.A. Stat. 1972, G-6,11.

(VII) 1924-25: Union Statistics G-6-9; 1956-64: S.A. Stat 1970, H-48-9.

(VIII) SARB Dec 1971, p18.

(IX-X) U.K. Trade and Industry, Nov 15, 1973, pp372-3 (excluding oil, banking and Insurance). U.S., Survey of Current Business, U.S. Dept. of Commerce, Sept 1973, pp 28-9.
Survey of Current Business, Aug 1964, p10; Nov 1972, p30; Sept 1973, p26 (preliminary).

(XI) Survey of Current Business, Aug 1963, pp18-19; Sept 1973, pp26-7 (preliminary). Japan not included.

(XII) Trade and Industry, Nov 15, 1973, p374.

(XIII) Annual Statement of External Trade 1970, Central Statistical Office, Lusaka pp 374-469, pp26-28, pD8.

(XIV) U.N. Statistical Yearbook 1973, pp97,67-70.

(XV) S.A. Stat. 1972, G-4, I-31; Report on Agric. & Pastoral Production 1964-65, Dept. of Stat., Table 1.1, (arithmetic error for 1964 accounted for). Employment includes both regular and casual employees.

(XVI) SARB, Dec 1970, s-71-72.

(XVII) Food and Agricultural Organisation of the U.N., Production Yearbook, Vol 24, 1971, pp 28, 31, 32

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NOTES ON THE PROFITS SQUEEZE

Andrew Glyn

With profitability perhaps the key indicator of the depth of the capitalist crisis the importance of clarity over the conceptual questions involved in measuring profitability does not need to be stressed. For example MP's on the Left of the Labour Party have eagerly seized on the arguments of some academics as to the illusory nature of the profits squeeze in the UK in order to deny the need, in capitalist terms, of massive state handouts to industry. This note focusses on these conceptual questions of measurement. While reasserting the reality of the profits squeeze described in Glyn and Sutcliffe,(4) no attempt is made here to take up the more fundamental questions of the theoretical adequacy of our analysis.

1 The share of profits before tax

The point of measuring the share of pre-tax profits - the ratio of profits to profits plus wages - is to examine the relation between wages paid and profits appropriated from production abstracting from the immediate impact of government intervention in the form of profits taxation, investment incentives etc. Clearly these aspects of state activity are of great importance for both the incentive and ability to accumulate. But the movement in the pre-tax share gives an indication of the extent to which the weakness of one country's capital, in relation to other capitals and to its own working class, is putting pressure on its ability to accumulate.

It has been suggested by Sargent(15) that the reduction in the pre-tax share in the main was the result rather than the cause of the government's reduction in the burden of profits taxation. The argument is that a reduction in profits taxation enables capitalists to cut prices (relative to wage costs) in order to expand world market shares, while still maintaining an acceptable rate of profit. Certainly if taxation had not been reduced then British capitalists would have been compelled to charge higher prices in some markets if they were to receive an acceptable rate of profit in the long-run. This would inevitably have been reflected in even faster shrinking markets; but slightly slower falls in pre-tax margins. But during the 1950's and early 1960's when there was little decline in post-tax profitability (see below) British capital was losing markets at a tremendous rate - hardly consistent with the implication of Sargent's argument that the reduction of the pre-tax margin was 'surrendering unwanted ground'. Obviously the interrelation between pre-tax profit shares, taxation and market shares is complex, and it would be wrong to suggest that shifts in the pre-tax share are perfectly related with shifts in competitive strength. But we certainly stick to our interpretation that the fall in pre-tax margins in the fifties and early sixties was, along with shrinking market shares, an indicator of the pressure on British capital; the impact of this pressure on accumulation was then modified deliberately by the reduction in the tax burden on profits. In any case the much more dramatic fall in the pre-tax profit share from the mid-sixties on, since it was paralleled by a fall in post-tax profitability, clearly had nothing to do with reduced taxation

The main conceptual problem in calculating the pre-tax profit share is the basic one of whether profits should be calculated on the basis of historic or replacement cost. The value transferred to the product from fixed capital, which must be regarded as a cost when the year's profit is reckoned, must be the appropriate part of the replacement cost, rather than the historic cost, of the asset. For the profit on the year's production must be reckoned after allowing for the maintenance of the physical capacity of the firm. It is not quite so generally realised that the question of whether stock appreciation should be included in profits involves precisely the same considerations. The accountant's traditional definition of profits is calculated on the basis of the historic costs of inputs. So, if for example, a firm holds three month's worth of stocks, profits will be calculated on the basis of the costs of materials three month's previously (similarly if the average age of the fixed capital stock is five years, historic cost depreciation will reflect the price of assets five years earlier). The exclusion of stock appreciation from profits amounts to no more than reckoning profits on the basis of what inputs cost at the time the sales were made; this automatically allows for the replacement of inputs which were actually bought earlier, and at lower prices in an inflationary situation.

Now it is perfectly correct that if profits are calculated at replacement cost, and such replacement costs are rising, then the money value of the same physical capacity will have risen and this is as true of the fixed capital as of the stocks (the increased money value of which constitutes stock appreciation). If the costs of materials, fixed capital etc. have been rising at the same rate as other prices, then this capital gain, which is not included in the flow of profits at replacement cost is purely 'nominal'.

Godley and Wood's assertion that even these nominal capital gains should be regarded as profits amount to the fatuous argument that if capitalists so regard them and borrow a corresponding amount to finance their consumption or taxation, and if they can increase their future profits sufficiently to pay the interest on the borrowing, then they are in the same position as if the stock appreciation had been ordinary profits. But obviously it is precisely the higher future profits which finance the consumption or taxation and not the stock appreciation.

If the prices of the commodities comprising stocks and fixed capital are rising faster than prices generally then a part of the capital gain does represent a 'real' increase in the value of capital, over and above that generated in production and reflected in replacement cost profits. We discuss below in section 3 how such real capital gains should be taken into account in analysing the rate of profit. But in considering the distribution of the year's product between workers and capitalists they should be excluded because capital gains, real or otherwise, cannot be regarded as part of the value of what is produced during the period.

Hughes (7: pp8-10) claims that our figures exaggerate the fall in the pre-tax profit share by our inclusion of financial companies which, according to national accounting conventions have negative profits. As we argued (4: p240) it would be best to include only that part of these negative profits which in effect represent the costs in terms of salaries of the servicing of industrial by financial capital. But in any case we showed (4;p240) that to exclude them all makes very little difference to the trend. To include all income received by financial companies, including interest on the national debt held by banks etc., as Hughes does in one of his tables, is perfectly correct from the point of view of the total income received by industrial and financial capital, but is irrelevant, as Hughes admits, to the profitability of production.

It seems to be generally accepted that the facts we gave on the fall in the pre-tax share are correct. Burgess and Webb (1: p10) found that the various series they examined were "consistent with the view that there has been a marked and persistent decline in pre-tax profit shares since the mid 1950s", and they remark on the "acceleration in the rate of decline which appears to have occurred in the second half of the 1960s."

2 The share of profits post-tax

Although we dealt extensively with the reduced tax burden on profits (Appendix F) we did not specifically calculate post-tax profit shares. It is a useful concept since it shows the proportion of the product appropriated directly by the capitalists after the pre-tax share has been modified by government intervention. What cannot be concluded is that the rest goes to the workers for that ignores the share taken by the government in the form of taxation (I deal briefly in section 4 below with how government expenditure fits in with this).

The most detailed analysis of the declining burden of company taxation (reflecting both tax rates on profits and the complex of investment incentives) was carried out by King in a study of the manufacturing sector. He concluded (8:p10) that "while there has been a long-run decline in the share of pre-tax profits, this has coincided with changes in taxes and investment incentives which have left the share after tax practically unchanged." He later shows that this is only correct if both capital consumption and, more importantly, stock appreciation are left in profits. We have already repeated the arguments as to the necessity for subtracting both. King suggests that it would be correct to include in profits any stock appreciation which represents a 'real gain' in terms of consumer prices. This has nothing to do with the distribution of the product (since real stock appreciation is not part of the product), though as I argue below, it is correct to take account of real capital gains (though not in terms of consumer prices) in assessing profitability. But in any case these actually became relevant only in 1973, whilst King leaves in all stock appreciation (which up till 1973 was all 'nominal' gain). He also argues that the CSO's estimates of capital consumption are excessive since no account is taken of the improvement in the machines used as replacement. From the point of view of the distribution of the product as use-value it is certainly true that it is the replacement of capacity, rather than maintenance of value that is relevant, and it may be the case that the prices used to calculate capital consumption are too high because they fail to allow fully for improved performance of machinery etc. But if this was so, there is no reason to suppose that this distorts the trend in the profit share, rather than its level. It is also important to note that in measuring profitability it is necessary to deduct from the value of the gross product that part required to keep the value of capital intact, rather than that required to keep capacity intact. So, since he is explicitly using the post-tax share as a proxy for profitability, King's point is irrelevant to his own argument. Indeed it is quite likely that the CSO's estimates of capital consumption underestimate the upward trend (and therefore the downward trend in profitability) by ignoring the reduction in economic lives of assets which casual observation suggests is occurring.

Our own estimates of the decline in the tax burden on profits in the fifties and early sixties are confirmed very graphically by King's own figures (when we do deduct SA and CC in the correct fashion). The ratio of taxes to manufacturing profits, after SA and CC, fell from 41.4% in 1956 to 27.5% in 1964 - and this left the post-tax share steady despite the rapid fall in the pre-tax share. But thereafter the rapid fall in the pre-tax share was no longer compensated by cuts in taxation so that a five year average of the post-tax share (after SA and CC) falls from more than 20% in 1966 to less than 15% in 1970.[1] Given the huge fall (from 19.0% to 12.6%) between the two cyclically comparable years of 1962 and 1970 it is hard to see any justification for King's assertion that we were misled by what was mainly a cyclical phenomenon.[2]

King's calculations (Table 3) do bring out very clearly the enormous quantitative importance of stock appreciation. It comprised 60% of taxable profits in manufacturing in 1970 and so prevented the effective tax rate on genuine profits (i.e.

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[1] One minor detail of King's calculations leads to the fall being understated. He deducts SET premiums received from value added in the denominator of his profit share at the end of the period. This gives a kind of market price concept of value added rather than the relevant factor cost measure.

[2] The fall would be slightly less if account was taken of the fall in the real burden of taxation which results from faster inflation reducing the real value of taxes paid in arrears.

after SA) from continuing to fall in the 1960s in lines with the cuts in tax rates and more generous investment incentives. In a sense this increase in SA frustrated the (continuation of the) government's earlier policy of offsetting falls in the pre-tax share by cuts in profits taxation.

Merrett and Sykes (Financial Times 30.9.74) stress the fact that companies are being taxed on stock appreciation which represents no real profit. While this is true they fail to point out that the tax allowances granted to companies far outweigh the capital consumption estimates of the CSO; for 1964 and 1973 the figures are:-

	1964	1973	
Tax allowances	3040	5070	Source: Blue Book 1963-73 T.59 & p.116
CC	1084	2732	(the situation between these 2 years was confused by investment grants)

This reflects the freedom to write off very large proportions of the cost of assets in early years (since 1972 100% under the free depreciation system). This means that, with a growing capital stock, tax allowances even at historic cost, enormously exceed true depreciation, as reckoned by the CSO at replacement cost. So in fact in 1973 the tax allowances actually nearly exceed true depreciation <u>plus</u> stock appreciation. It should be emphasised, though, that this does depend upon the capital stock growing; with a stationary stock, tax allowances would be equal to depreciation and further the effect is exaggerated by the fact that free depreciation has only recently been introduced. So the correct way to view the increase in stock appreciation is that it has wiped out the benefit that companies were receiving earlier from tax allowances which were in excess of depreciation.

It is important to be clear that the tax concessions for investment mean effectively that the post-tax rate of profit on a project is equal to the pre-tax rate. In the case of free depreciation an investment project costing £100 allows the company to set off £100 against tax in the year in question. If the tax rate is 50% the company reduces its tax bill by £50 as a result of the investment. In effect its contribution to the project is half (i.e. £50). Subsequently half of the profits go to the government in taxation. So the capitalist effectively puts up half the money and takes half the profits. This leaves the rate of profit equal pre-tax to post-tax, though the capitalist only has in effect a half stake in the project. He does however keep <u>all the control</u>. It is clear that if profits were reinvested, free depreciation would cancel out the corporation tax. With one hand the government would remove half profits, but with the other give them back as investment incentives. Capital would accumulate at the same rate, with the same (post-tax) rate of profit, and under the same control as if there was no tax or incentive. Only to the extent that the capitalist class consumes part of post-tax profits - so that the government does not contribute to accumulation as much as it takes in taxation - will it incur any corporate taxation.

In the real world there are further complications - tax is paid in arrears which reduces the effective rate; investment in some areas receives an extra grant from the government; share holders may have to pay additional income tax or capital gains tax. But even so tax concessions more or less nullify the effect of corporation tax on the rate of profit on new investment and post-tax profits include the government's contribution to building up the capital stock. All these calculations ignore the burden of indirect taxation on expenditure out of company profits: this should be subtracted if the post-tax share of profits is in fact going to measure the share of the product appropriated by the capitalists. The ratio of taxes on expenditure to GDP at factor cost rose as follows:-

1955	1960	1964	1970[*]
13.6	12.7	13.4	17.7

If we deduct indirect taxation from the post-tax profit share estimated by King we get a proportionately sharper fall between 1962 and 1970 - from 16.81% to 10.7%

3 The rate of Profit

The rate, rather than the share, of profits is the decisive variable as far as accumulation is concerned. For it measures the ability to accumulate in proportion to the existing capital stock (rather than in proportion to current output as does the profit share) as well as the incentive to invest in productive capital.

In the absence of the complications caused by inflation discussed below, the rate of profit (P/K) can be algebraically decomposed into the share of profits (P/Y) before or after tax) and the output/capital ratio (Y/K). Accordingly the decline in the profit share is reflected in a proportionately greater or smaller decline in the profit rate depending on shifts in K/Y (I have argued elsewhere (2) that K/Y is an indicator of the ratio of dead to living labour). As we said (4:p236) the ratio of K/Y for the company sector as a whole has been rising (and revisions to the data have reinforced this conclusion) since the fifties; in fact we somewhat overestimated the increase since we took the ratio of the capital stock (fixed assets and stocks) at market prices to value added at factor cost - clearly both should be measured consistently in order to approximate as closely as possible to the 'value' relation. Measuring both at market prices the ratio rose from 1.69 in 1958 to 2.02 in 1970 (cyclically comparable years); so the rate of profit fell faster than the share of profits over this period.

Yaffe would expect to find a much greater proportional rise in the ratio of dead labour to living "productive" labour (i.e. excluding labour in the commercial and financial sectors). While a somewhat faster rise has almost certainly occurred, its significance depends on whether the distinction <u>within the capitalist sector</u> between productive and unproductive labour is felt to be a helpful one (see Harrison,(6))

Some of the problems of measurement of the profit rate connected with inflation

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[*]For the economy as a whole the weight of indirect taxation can be subtraced by dividing post-tax profits by GDP at market prices (GDPm) rather than factor cost (GDPf), or by scaling down the share in GDP at factor cost by the indirect tax burden: GDPm=GDPf x (1+T) where T is the indirect tax rate, so $\frac{X}{GDPm} \quad \frac{X}{GDPf} \quad \frac{L}{1+T}$
For an individual industry it cannote be assumed that the weight of indirect taxation on the products of that industry bears any relation to the weight of indirect taxation on the commodities purchased out of profits, so it would be necessary to use the second method of scaling down the share in factor cost by the tax burden on, say, GDP as a whole (or investment). If there is a change in indirect taxes on the product of the particular industry all the evidence is that it will be passed on to the consumer in the form of higher prices; although the ratio of profits to total proceeds (including indirect taxes) will fall (assuming only the absolute increase in tax passed on) this does not have much significance since 'real profits' (in terms of general purchasing power) and the rate of profit will not be affected. So to secure a consistent series profits should be taken as a proportion of GDP at factor cost in that industry and scaled down by the economy-wide tax burden. Only in the very unlikely case of the indirect tax on that industry not being passed on would it be correct to take the share of the (reduced) profits as a percentage of the (unchanged) GDP at market prices, and further scale it down by the aggregate tax burden.

are relatively straightforward and have already been dealt with. Obviously the money value of capital must be based on the replacement cost of the assets concerned, not at the historic cost traditionally favoured by the accountant, and this also applies to depreciation. Further, on the assumption that the price of stocks is rising no faster than other prices, deducting stock appreciation from the accountant's measure of profits yields an estimate of the real rate of profit:

The rate of profit in monetary terms is given by the increase in the money value of the capital (given by profits earned and nominal capital gains)

$$r = \frac{C(1+\dot{p})+E}{C} - 1 = E/C+\dot{p}$$

Where C is the beginning year money value of assets, E the profits earned during the year (at end-year prices) and based on replacement cost of stocks and fixed assets, and $\dot{p}$ is the average price increase of all assets.

To get the 'real' rate of profit (R), the proportionate increase in the 'real' value of capital, it is necessary to deflate the end year money capital

$$R = \frac{C(1+\dot{p})+E}{C(1+\dot{p}} - 1 = E/C(1+\dot{p})$$

In this simple case of all asset prices rising at the same rate the real rate of profit is given by the flow of money profits, deflated to bring them to base year prices (since the assumption that the flow is reckoned at end-year prices is rather implausible - unless it is argued that the inclusion of returns on profits earned and reinvested early in the year amounts to the same thing - it would probably be better to deflate by the average price increase during the year as compared with the beginning of the year). Stock appreciation, which is an element of $\dot{p}C$ just like appreciation of fixed assets, should not be included when measuring the real rate of profit. But strictly speaking there should be some deflation of genuine profit from sales earned during the year.[*]

The attempts to measure the rate of profit which have been made all aim at the real rate, which is the decisive variable as far as the ability to accumulate is concerned (obviously if the monetary or nominal interest rate is regarded as the cost of borrowing money capital then the capitalist would compare this with his prospective monetary rate of profit, but it is clearest to keep the whole analysis in 'real' terms i.e. comparing the real interest and profit rates). Some of these attempts fail to take out stock appreciation from profits and to revalue capital, in which case neither the monetary nor the real rate is measured. So the figures calculated by Panic and Close (13) (and quoted approvingly by Hughes (7)) are completely useless except as typifying the misleading estimates commonly made by accountants. For stock appreciation rose from nothing in 1962 to one third of post-tax profits in 1970 (on King's (8) calculations) so that leaving it in profits enormously understates the downward trend in the real profit rate. Moreover no attempt is made in these calculations to correct asset valuation and depreciation for historic cost accounting. Calculations by the Monopolies Commission (reported in Burgess and Webb (1: T4) - which apply to all the operations of large British manufacturing companies - show that failure to adjust to replacement cost leads to an overstatement of the profit rate of less than one tenth in the early fifties, increasing to one fifth in the early sixties and accelerating to two fifths by 1970. Adjusting these Monopolies Commission figures roughly to take out stock appreciation yields a fall in the pre-tax profit rate of about two fifths between 1962 and 1970 (practically identical proportionately to the fall over the same period which we calculated (4: T C1) from the Blue Book figures for the British operations of all companies). With the effective tax

[*] This may seem quite trivial. But if prices are rising by 20% p.a., deflation by the average increase of 10% would reduce the profit rate by 1?10.

rate virtually unchanged in the 1960s (given the increasing weight of SA) the fall in the post-tax rate is similar to that of the pretax rate.

The situation becomes slightly more complex if the assets comprising the capital rise at a different rate to the average price index considered appropriate for deflating money profits. For example, the price of cash assets does not rise in line with inflation. This leads to a 'real' capital loss as far as the capitalists owning the company are concerned. While industrial capitalists do have substantial holdings of cash, and more particularly financial assets in the form of credits extended to customers, these holdings are more or less offset by receipts of trade credit from other capitalists - these can be consolidated out as far as private capital as a whole goes - and from other sectors (like the public corporations) and other credits (like unpaid tax). In 1970 for example quoted industrial and commercial companies extended £800m of net trade credit; but owed the government £2200m tax while holding £1200m cash assets. So that 'net', private industrial capital holds a negligible amount of financial assets-real capital losses on the holdings of these assets are offset by the real capital gains in terms of reduced real valuation of debts. Accordingly, for industrial capital as a whole, it does little harm to ignore holdings of financial assets (we return later to the division of profit between shareholders and lenders).

The general problem which does arise when prices are increasing at different rates is to decide which is the relevant price index by which to deflate the increase in the money value of capital. Here the distinction between use value and exchange value is decisive. From the point of view of the shareholders' command over consumer goods it is clear that the deflator should be the consumers' price index. But such a procedure (as suggested by King) would be based on the mystification that capitalists' consumption is the driving force behind accumulation. The estimate of capital in terms of the potential stock of use values for capitalists' consumption which it could be exchanged for is irrelevant[*] Deflating by the average price index for capital (fixed assets, stocks, monetary assets) would of necessity eliminate the possibility of real capital gains or losses-price rises cannot increase the value of something in terms of itself. Viewing the process as the accumulation of use-values - or productive capacity - this procedure is appropriate; it would show the potential rate of accumulation of productive capacity and this is relevant to the competitive position of the particular capital. This procedure for calculating the real rate of profit, eliminating all real capital gains or losses, is the equivalent of the procedure suggested above for calculating the share of profits in output excluding all capital gains or losses.

But obviously the driving force of accumulation is accumulation of exchange value rather than use-value. This does not imply that, after all, the monetary rate of profit should be used - an expansion of the price of assets in line with general inflation does not imply an accumulation of exchange value - merely an increase in its price-form. Rather it suggests that the monetary profit rate should be deflated by an overall price index for production as a whole, expressing the increase in the money-price form of value. When deflated in this way the real rate of profit would be reckoned in terms of generalised monetary command over commodities including real capital gains on the particular commodities held.

[*] The Accountancy profession's recommendation (see Accountancy March 1973) for inflation accounting appears to be aiming at this approach; but it is completely confused for instead of adjusting all assets for own price changes, and then deflating by the consumer price index, they simply adjust depreciation and assets for changes in the CPI. This in fact corresponds to no meaningful concept of depreciation or value of capital.

Between 1962 and 1972 prices of both private non-dwelling investment and of stocks rose about 1% p.a. less than the market price index of GDP. So that the procedure we adopted (4) when estimating the real rate of profit of simply taking out all capital gains in fact exaggerates the real rate of profit by about 1 percentage point, in terms of general purchasing power. I look at the position since 1973 below.

Although the rate of profit received should include these real capital gains, they are not the result of production - rather they result simply from holding stocks. The rate of profit from employing the capital productively should exclude these gains, so for some purposes this measure (which amounts to deflating by the average price for capital) is the best.

It is a commonplace in company finance textbooks that shareholders benefit if corporations borrow, provided the interest paid is less than the rate of profit earned on the borrowed finance. It is intuitively obvious that the real rate of profit appropriated by shareholders is the difference between the real rate of profit earned on total capital, and the real rate of interest (the interest rate less inflation). Another way of putting this is that the shareholders benefit from the reduction in the real value of their debts - or again that shareholders gain from the appreciation of physical assets financed by borrowing. Now the acceleration of inflation in recent years, even though accompanied by a substantial rise in interest rates on new borrowing, has led to a large reduction in the average real rate of interest on total borrowing (including bonds issued years previously at low nominal rates of interest). This has meant that the rate of profit earned by shareholders has not fallen nearly so much as the rate of profit on total capital. Unpublished calculations by John Kay suggest more or less no fall in the shareholders' rate of profit between 1962 and 1970, in contrast to the fall of two-fifths for the overall rate of profit. But the question immediately arises as to the significance of the division of the total profit between interest and shareholders' returns. Long-term bonds are held by very much the same individuals and institutions as ordinary shares; it would be more or less true to say that the shareholders as such are gaining what they lose as bondholders and very little effect on accumulation would be expected. It is true that lending to corporations via deposits with banks is more widely dispersed; so that there may be some redistribution from the less wealthy with possible implications for accumulation, but it should be remembered that the main effects of the accelerating inflation have been for bondholders whose interest rate is not adjusted. A relative gain for shareholders might be expected to increase retained profits rather than distributions (dividends plus interest), but in the case of falling profitability it was more or less inevitable that most of the fall would be reflected in reduced retained profits (4: p122).[*]

Burgess and Webb (1: p17) conclude that 'all the series indicate that the rate of return on capital has experienced a secular decline, at least throughout the fifties, whether profitability is measured before or after tax," our more critical analysis which discards the mystifying series which do not take proper account of inflation, reinforces this conclusion.

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[*]Perhaps the most important aspect of this question is the enormous increase in borrowing by companies which has further accelerated since. As Merrett & Sykes point out (9) - payments of interest to the banks by industrial and commercial companies rose hugely between 1970 and 1973. But given that real rates of interest were negative in the long-run shareholders stood to gain enormously from this borrowing, but in the short-run it imposed severe liquidity problems. This is the other side of the maintenance of bourgeois personal incomes (See 4:pp116-7).

4 The share of wages after tax

Whereas the share of wages before tax mirrors the behaviour of the share of profits this is clearly not true for post-tax wages; for the tax burdens on profits and on wages are relevant. As a number of people have pointed out (eg. Yaffe, 17: p55) the share of wages and salaries after deducting income tax and national insurance contributions actually fell a good deal over the same period which saw a considerable increase in the pre-tax share.[*] In fact we should go further than these calculations and deduct indirect taxation levied on wage and salary earners as well (we have done this by assuming that all take-home wages and salaries are spent on consumption:

% of NDP at factor cost	1955	1964	1970
Wages and salaries before tax	73.3	74.5	78.8
After direct taxes	64.5	63.0	61.5
After direct and indirect taxes	55.6	53.6	50.2

So in contrast to a 5½ point rise in the pre-tax share, there is a 5½ point fall after all taxes, reflecting a growing burden of indirect as well as direct taxation. Again Yaffe would point to an even sharper fall in the share of net wages of "productive" workers; however the usefulness of excluding a particular group of workers' wages from the calculation has to be demonstrated, rather than merely being asserted. In any case the fact that post-tax wages fell as a share, through the rise in taxation, in no way refutes, as Yaffe suggests (17: p57) the thesis that money wage increases were putting pressure on profitability. Again there are mutual interrelationships between the share of wages pre-tax and taxation on wages; increasing share of wages pre-tax provoked higher taxation on workers in order to redistribute resources back to capital (and to hold back demand for balance of payments reasons) and this in turn (as Turner, Jackson, and Wilkinson argue (16)) provokes higher money wage claims which puts more pressure on pre-tax profits. To oversimplify, if money wages could have been held back pre-tax profitability would have been improved, removing the need for increasing the tax burden on workers.

But if the shares of profits and wages have both fallen, where has all the national income gone? The answer obviously is higher taxation, required to finance both a higher share of government expenditure, and as a counterpart to the reduced balance of payments deficit (which fell from almost 3% of GDP in 1964 to virtually nothing in 1970) and changes in the terms of trade. But there is more to be said on the question of this government expenditure. There is no justification for analysing the share of national product going to the working class solely in terms of take-home pay. Much of government expenditure - on health, education, social services, welfare payments (like unemployment pay), council house subsidies etc. - is undeniably required to reproduce the working class at the going material level. If we add appropriate parts (reflecting the weight of wage and salary earners in the working population) of this type of expenditure[**] to wages and

[*]Nulty (11) has suggested that these figures conceal a rise in the share of managerial, technical and professional salaries, due to much faster rates of salary increase, and a fall in the share of manual and lower-paid white-collar groups. This is not supported by independent evidence, but does suggest some discrepancy between DEP employment and earnings figures on the one hand, and National accounts figures on the other.

[**]To be precise: 92.5% (to allow for the self-employed) of current expenditure on housing, health, education and other social services, half expenditure on fire services, one quarter of the expenditure on roads, plus current grants to persons (pensions etc.) net of tax, and consumption of social service means of production.

salaries net of taxation we find that far from a fall in the share of the net national product accruing to labour, there has actually been a rise - from 69.3% in 1955 to 73.7% in 1972 (which happens to exactly match the rise 4½% in the share of wages pre-tax). Obviously these calculations are very rough, and different definitions of government expenditure on the working class could be taken, but they would show the same general tendency.

It seems clearest to treat such state expenditures as part of the value of labour power.[*] Yaffe, however, treats them not as tending to reduce the rate of surplus value, but rather as being paid for out of an increased rate of surplus value. But the conceptual treatment of these expenditures does not affect the basic role they have played. Reflecting both the requirement for a more efficient labour force, and the pressure from workers for better social services, they have represented a burden for capital in addition to that imposed by rises in take-home pay. It would have required a faster rate of productivity increase than the capitalists were able to secure for profitability to have been maintained in the face of these improvements in workers' living standards.

Finally mention should be made of the TUC figures reproduced in Turner (16: p81) which claim to show a bigger fall in the post-tax share of wages than of profits in the period up to 1968. These figures have no bearing on the central question of profitability of production for they refer to total company income, including income from overseas and from holding government bonds. They are also distorted by including the transitional tax year of 1965. Nor could they possibly disprove, as Palmer (12) seems to suggest that wage increase formed one aspect of the process which has led to the decline in profitability.

5 American Evidence

Nordhaus (10) shows how, for non-financial corporations in the USA, the share and rate of profit before tax fell by more than one third between the mid-sixties and 1973; and that in 1973, which saw very rapid growth in the USA, the rate and share of profit was no higher than in the extreme slump year of 1958. The fall of profitability, as in the U.K., was compounded in recent years by the rise in effective tax rate as a result of increased stock appreciation. Nordhaus points out (10: p190) that profits from 1968 fell below what would be expected on the basis of the earlier relationships to cost movements - the shortfall of profits being as large as one quarter in 1971 (the year the dollar devalued) and still being one sixth in 1973.

Nordhaus wants to explain the decline in the profit share by the fall in the 'cost of capital' - the return required by the owners of capital - leading to substitution of capital for labour and consequent decline in profitability (according to a neo-classical production function). It turns out that the supposed fall in

[*] In the case of use-values produced by the capitalist sector and purchased by the state, eg drugs, this is clear enough, and the alternative treatment, of including individual purchases of aspirins as part of the value of labour-power and not state purchases of valium, is peculiar. When the use-values are produced by the state sector then part of the value created in the capitalist sector is used, via taxation, to pay for them. Regardless of whether these use-values 'cost' the state only the paid labour involved in their production, eg doctors' services, or the total labour expended, eg electricity consumed in hospitals, it is the total labour which must be regarded as entering into the value of labour power. When attempting to estimate approximately the money equivalent of the value of labour power from national income statistics the fact that much state production is reckoned at cost price, excluding any 'profit' element, will result in a systematical underestimate of the value of labour power relative to surplus value if such state production is proportionately more important in workers' consumption than in capitalists' consumption and accumulation. (See Rowthorn (14))

the cost of capital in the last four years depends entirely on assuming that the stock market took account of stock appreciation. Since share prices did not fall in line with profits after stock appreciation we are meant to believe that this reflected a lower required return for shareholders which was transmitted, presumably through faster accumulation bidding up wages, into a lower rate of profit. Presumably Nordhaus would have us believe that now the stock market has crumbled it will be so expensive to get capital that the rate of profit will miraculously be restored. All the bourgeoisie needs is a period of gloom and all will be well! To use share prices as a reliable measure of what return is required on investment is absurd, since share prices are so dominated by expectations. Moreover the more plausible causation is that governments have kept interest rates down as part of the process of propping up investment in face of falling profits.

It is of some interest to note that in the UK whereas the cost of capital (measured in a rather more sophisticated way than Nordhaus) fell at the end of the fifties no further decline occurred in the sixties when profitability really crumbled (see Glyn, (3)).

6 The Story since 1970

After deduction of capital consumption and stock appreciation the share of profits in value added rose slightly between 1970 and 1972 (from 11.8% to 12.3%), but fell further in 1973 to 10.9% reflecting a doubling in the rate of stock appreciation. With stock appreciation more than doubling again the share fell to about 4.1% in the second quarter of 1974,[*] (the negative figure in the first quarter was affected by the 3-day week).

The very rapid increase in the price of stocks during 1973 and 1974 certainly yielded some real gains in terms of potential command over commodities for individual capitalists holding stocks. During 1973 the price of stocks rose by 15.6%, the price of private non-dwelling investment (the closest we have to an index for the capital stock) by 13.8% and the deflator for total final expenditure by 11½%. So given the weights of stocks and fixed assets in total capital of 0.22, 0.78, the average price of commodities comprising capital rose by 14.1%. This gives a real gain, as compared with the TFE deflator of 2½%. So the fall in the pre-tax rate of profit, excluding capital gains, from 5.7% in 1972 to 5.0% in 1973 (or to 4¾% if profits are deflated to beginning year prices) becomes an increase of one half including real capital gains. But this real gain does not flow from the productive employment of capital, and it is not realisable for the capitalist class as a whole. Since it is automatically 'tied up' in existing stocks it adds nothing to the potential for accumulation of capacity, which is thus best measured by the straight-forward profit rate excluding capital gains. Finally since it is merely a revaluation of capital, and provides for no expansion of capacity, 'real' stock appreciation leads to a fall in the <u>rate</u> of profit subsequently. That is provided the real gain is permanent and <u>unless</u> it is accompanied by a corresponding increase in the <u>flow</u> of <u>real</u> profits such as Godley and Wood (5) quite arbitrarily assume <u>to follow</u>.

My thanks to Phil Armstrong, John Harrison and Bob Sutcliffe for comments.

[*]Profits before stock appreciation were £2410m; total stock appreciation was £1707, and assuming that the company sector accounted for 80.9% as in 1973, company SA was £1391m. Assuming the same ratio of capital consumption to value added as in 1973 gives a figure of £750m for the company sector. So profits after CC and SA were around £289m.

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UNPRODUCTIVE LABOUR AND HOUSEWORK AGAIN

Ian Gough and John Harrison

1 In his recent paper (1) Paul Bullock arrives at what he considers to be the 'correct definition' of productive labour. It certainly represents an improvement on his last (2), not least in its greater clarity. More important, he has now refined his concept of productive labour in what we predicted was the only consistent way: that is, labour employed by capital to produce the material elements of constant and variable capital. Labour producing luxuries, even though it is employed by capital, is unproductive according to him. This is the formulation termed 'neo-Smithian' in Gough (3) because it expresses precisely the distinction between labour which abets and labour which hinders the process of accumulation, which was Adam Smith's reason for using the concept in the first place (4). Our critique of his paper is in three parts. After an initial comment on absolute and relative surplus value, we consider the implications of his analysis for the state sector, housework and commercial workers, at the same time putting forward a contrary position of our own.

2 The major portion of his paper is devoted to illustrating, with the help of generous quotations from Marx, what is already common knowledge: (a) that the use value of commodities is relevant to Marx's analysis of reproduction contained in Capital, II, (b) that luxury goods do not enter directly or indirectly into the value of labour power, and hence a reduction in their value (following an improve-

ment in the productivity of their production) will not increase surplus value elsewhere in the economy; (c) that therefore the greater the share of the labour force engaged in luxury production the slower the rate of accumulation of capital, cet. par. In passing we should note two things here. First, insofar as increasing productivity reduces the number of workers which a certain quantity of capital employs, it immediately reduces the amount of surplus value produced, whether this takes place in departments I, II, or III. It is only at a later stage, in further rounds of production that the beneficial effects of such a change in departments I and II on the value of labour power and hence on relative surplus value is recorded. Only then does the difference emerge between the position of these departments and department III in the capitalist process of production as a whole. Second, the terms 'absolute' and 'relative' can only be applied to changes in the mass and rate of surplus value and not to their absolute levels. The mass of surplus value depends on both the total amount of value produced (which in turn depends on the number of labourers and the length of the working day) and the value of labour power (which depends on the real subsistence level and the productivity of labour directly or indirectly engaged in producing the means of subsistence). Since it is in principle impossible to know the amount of surplus value produced without specifying both the length of the working day and the productivity of labour it is conceptual nonsense to talk about a given mass of surplus value constituting either absolute or relative surplus value. The terms can only have meaning when comparing different quantities of surplus value produced at different points in time and analysing the changes that have taken place between these points in time. (If, for instance, the only change was a lengthening of the working day, then it would make sense to say that all the increase in surplus value took an absolute form). Similarly it is strictly nonsense to talk about workers in different departments producing either absolute or relative surplus value.

Nevertheless it is clear enough what Bullock means and, although points (a) to (c) above are generally well known, he is correct to reemphasise their importance. One can envisage a capitalist economy suddenly diverted totally to arms production. Though surplus value will have been produced, there will be no material basis for any further rounds of production (5). The luxury/non-luxury distinction is clearly of paramount importance in Marxist political economy, not only for the reasons Bullock gives but also because the conditions of production within the luxury sector do not enter into the determination of the general rate of profit, a fact which Bullock does not yet accept (6). However, though Marx devoted parts of several volumes to his analysis of reproduction and the process of capitalist production as a whole, he nowhere formally redefines his categories of productive and unproductive labour in the way Bullock proposes. One might have thought that somewhere in these volumes of writings he would have mentioned the relevance of this to his treatment of productive labour. Once again Bullock is unable to show that he did. But this is not an important objection to Bullock's argument. Formal exegesis has after all a strictly limited role in the development of Marxist theory. There are more fundamental criticisms to be made.

3 If it is the reproduction of capital that is the object of study, then in any real economic formation the role of other sectors outside the capitalist sector must be considered. It is an important fact today that teachers, health workers, research and development scientists etc all produce goods and services which contribute to the material reproduction of the use values which function as constant and variable capital. Just as there are some workers employed by capital and producing surplus value, who do not contribute to relative increases in surplus value, so there are other workers not employed by capital, therefore not producing surplus value themselves, who do contribute to relative increases in surplus value in a way that is materially identical (producing in less labour time use values which enter directly or indirectly into the means of subsistence of workers in the capitalist sector). It was these workers that were rather

loosely labelled 'indirectly productive of surplus value' in Gough (7). Rowthorn (8) has demonstrated how this is effected in the case of state workers in education. So long as they perform surplus labour, ie, so long as the labour content of the products they receive is less than the labour they actually perform, then this may be transferred to the capitalist sector where it appears as surplus value apparently originating there. This type of analysis can be applied to all state workers producing inputs to constant and variable capital. Any rise in the productivity of such workers will, cet. par., increase the amount of surplus labour transferred. As an example of the way that such a rise in productivity in the state sector may, contrary to Bullock's assertion, benefit capital; consider a state run health service financed by taxation. To keep things simple assume it uses no non-labour means of production and that its services are only used by labour employed in the capitalist sector. If an increase in productivity occurs here then the same service can be provided by fewer health workers. Taxation can therefore be reduced. If the tax is levied directly on capital then the gain to capital is immediate. If the tax is levied on the working class then capital can cut pre-tax wages without affecting post-tax wages or real consumption levels. In either case post-tax profits rise. The labour-time required to maintain and reproduce labour-power has been reduced, and hence capital can appropriate more surplus labour. The effect, for capital, is equivalent to a rise in productivity in the production of toothpaste or beef.
If the production of relative increases in surplus value is the key to 'the most adequate definition' of productive labour, any consistent materialist analysis must take these groups into account when examining the conditions for the appropriation of surplus labour by capital in an economic formation in which some elements entering, directly or indirectly, into workers' consumption are produced outside the capitalist sector.

4 Turning to the other important non-capitalist sector - housework - we would like to take up Bullock's criticisms of the analysis put forward in Harrison (9). first, he argues that "the housewife does not belong to a 'mode' of production: an autonomous mode which has its own laws of development and which is not dependent on other modes, is not to be found here"(1: p13).
The disagreement here is clearly about the definition of the concept of a mode of production. We are using the term to refer to any set of social relations within which production can take place. For it to be possible for production to take place under a specific set of social relations it is not necessary that production under these relations be capable of reproduction (both materially and in terms of reproducing the social relations) independent of other production carried on under a different set of social relations. Indeed it is specifically argued in the case of housework that the mode of production is not capable of self-reproduction but relies on the existence of other modes of production within the economic formation for its reproduction. This use of the term thus involves a distinction between a mode of production and an economic formation. An economic formation is a combination of one or more modes of production articulated (combined) together in such a way as to constitute a self-reproducing whole.

To give just one illustration: Bullock argues that "the labour enacted by housewives that is essential for capital, but which cannot fall under the capital relation, is the reproduction of living labour itself. If capital were to take over the production of this, then it would no longer be capital, but slavery proper" (1: p13). If this is correct then capitalist production relations proper (ie those obtaining in the capitalist sector: commodity exchange including labour-power, the exercise of authority in the production process by the capitalist, etc) are not self-reproducing, because they are not themselves capable of materially reproducing the free labourer. If procreation is carried out under housework production relations then we have an economic formation composed of two modes of production (capitalist and housework), neither of which are capable of self-reproduction, but

which, articulated together in a certain manner, comprise a self-reproducing whole.
Now all this is merely outlining our conception of a mode of production rather than arguing for the superiority of this definition of the concept over any other. Bullock is, of course, entitled to stipulatively define a mode of production in any way he likes and thus, for example, to apply the term 'capitalist mode of production' to the total economic formation (capitalist production and housework) outlined above. We would argue that our concept is a more adequate one, but in this context that would be essentially irrelevant. The basic point is that housework is unquestionably carried out under different 'immediate' production relations to those obtaining in the capitalist sector and the relationship between these two sectors is a legitimate and important area for study. Whether you consider this an analysis of relations within one mode of production or of the articulation of two modes of production in no way alters the fact that it needs analysing.

Bullock, rather than attacking the context of the analysis, largely confines his criticisms to the interpretation of certain concepts in Harrison (10) (mode of production value, value of labour power). Even if he were right about the correct definition of all these concepts he would not have invalidated the substantive analysis, but only have established that the exposition of it was confused. He not only fails to present even the beginnings of an alternative analysis of the appropriation of surplus household labour but also, by confining his criticisms to Harrison's supposed misunderstanding of Marx's categories, fails to attack the substantive analysis at all. It would in fact be easy to rephrase the analysis in terms of Bullock's (mis)conception of these basic concepts without amending its essential content in the least.
This can be seen clearly in relation to Bullock's second criticism, which is that the value of labour-power should be understood, not as the socially necessary labour time that would be required to produce the entire means of subsistence within the capitalist sector, but as that required to produce only that part of the means of subsistence which is actually produced within the capitalist sector - so that use values provided by housework do not enter into the value of labour power. The substantive content of the argument would be completely unaffected by adopting Bullock's definition of the value of labour power. Capital would still benefit from the existence of surplus household labour in the same way - by being able to pay lower wages to obtain labour power of a given quality (ie enjoying a given real consumption level). Instead of describing the mechanism by which capital appropriates this surplus labour as the payment of wages below the value of labour power we would describe it as the holding down of the value of labour-power to a level below that which would obtain for the same quality of labour-power in a situation where no surplus labour was performed in the house.
This does not mean that we agree with Bullock's definition or that we think either definition of the value of labour-power is equally adequate in general, but merely that the disagreement is irrelevant to the particular substantive issue involved here.
Third, Bullock argues that "There is no evidence to suggest that the unmarried worker, who is not 'domesticated' receives higher wages than the married or domesticated single worker. But this is consistent with Harrison's suggestions that domestic activities are a force for reducing wages" (1: p13). It is just about consistent with his 'suggestions' (under some rather specific assumptions) but it is certainly not entailed by them.
Most married workers have children. Thus the beneficial effects of housework on their living standards (ie the proportion of surplus household labour which accrues directly to them) is offset by the proportion of their wage which is spent on commodities for the children (and inputs to that part of housework which

accrues to the children). We cannot say, a priori, which effect will be larger. A single worker who does housework, of course, obtains a higher consumption level than his workmate who does not. He probably also needs a higher level because he is working longer hours, and so his labour-power is undergoing more wear and tear. It is, in general, a choice which they both have, closely analogous to optional overtime in the capitalist sector. We presume Bullock does not think that the fact that some workers opt to do overtime while others do not constitutes an empirical falsification of the law of value. Similarly the fact that some workers obtain higher consumption levels because they do housework in no way invalidates our general analysis.

It is strange that Bullock, who attacks our position on unproductive labour for supposedly conflating different levels of abstraction in Marx's analysis, should attempt to refute an argument presented at a very high level of abstraction by means of a crude empirical observation.

Clearly capital attempts to obtain an adequate supply of labour-power (both quantitatively and qualitatively) as cheaply as possible. Since married and single workers compete with each other on the labour market as sellers, and individual capitals compete as buyers, there is a tendency for a single wage level, common to both married and single workers, to be established. To the extent that surplus labour is performed in housework this level will be below that required to provide an adequate level of subsistence to maintain and reproduce the labour force. To the extent that the failure of the market to differentiate between married and single workers presents problems for the reproduction of the mode of production in general, and the free labourer in particular, the state steps in with transfer payments within the working class to reduce the differentials in real consumption levels. The fact that transfers tend to be away from single workers towards married workers with children indicates that, in general, the cost of having children tend to exceed the gains from housework.

Fourth, Bullock asserts that there is no mechanism at work by which an average social labour time of housework evolves, and which further assures the commensurability of this labour time with that of the productive (sic) worker" (1:p13). Harrison dealt with this point in some detail in a footnote and, since Bullock provides no specific objections to that, we can see no point in repeating the arguments here.

Fifth, He argues that our position that housework affords certain positive benefits for capital "conceals the antagonism between capitalism and all other use value production, and fails to explain the absorption of so many of the housewive's tasks by capital" (1:p. 14) and that "this process [of the absorption of housework by capital] depends on the level of accumulation at any time" (1:p13).

We agree with the last point. There is a tendency for capital to take over the production of certain use values which were previously only produced within the home. The extent to which this tendency manifests itself is determined largely by the ryhthm of accumulation. The mechanism is as follows: when the accumulation process exhausts the reserve army and starts to exert an upward pressure on wage levels capital will begin to employ more women to aleviate the shortage of labour power and hold down wage levels. The resulting increase in working class spending power, combined with less time available for housework, will create a demand for commodities to replace use values previously produced in the home. Capital will thus find it profitable to move into the production of these articles.

However there is also a tendency for capital to maintain the housework mode of production, based on its ability to appropriate surplus labour performed there and thus, by obtaining a given quality of labour power at a lower wage, make more profit. This tendency will manifest itself most powerfully when the ryhthm of accumulation is increasing, rather than exhausting, the reserve army. Without recognising this tendency it is hard to explain why capital has not almost completely displaced the sphere of domestic production, as it has the other non-capitalist modes of production within which it was formed (Feudalism, petty commodity production).

Bullock is guilty of an undialectical approach in focusing on one tendency to a total exclusion of the other.

5 Bullock's contribution to the debate over the place of commercial workers is limited to little more than an assertion that Marx was right. There is little reference or challenge to the basis of the distinction between production and circulation activities derived in Gough (3), viz. that labour required to produce use values and that labour required because the use values take a commodity form. The implications of introducing such a historical perspective are not discussed, nor has the analysis in Harrison (10) been answered. It has been more or less ignored. The assertion that 'part of Harrison's puzzlement' about supervisory workers derives from a desire to formally allocate them to one category or another empirically is ridiculous given the position on double class membership in Harrison (9). Supervisory workers do occupy a contradictory position, but we do not need to regard them as only partially productive to analyse this. It is because, although in the sphere of circulation they sell their labour power like other workers, in the sphere of production they exercise authority and control over some workers whilst themselves being subject to the discipline of the capitalist. More generally, it is no use just asserting that our position blurs the (admittedly very important) analytic distinction between production proper and circulation. It is not at all clear that this distinction relies on defining circulation workers as unproductive of value.
The only substantive argument that Bullock produces is the fact that capital struggles to reduce the time of circulation and that therefore, unlike production time, it is clearly a barrier to value creation. Of course capital struggles to reduce the labour time involved in circulating each unit of a commodity, just as it struggles to reduce the labour time involved in producing a unit. Every capital struggles to reduce unit costs in any way possible. Just as obviously every capital seeks to increase total labour time expended by each worker in both production and circulation - again to reduce unit costs. This hardly establishes that one activity is productive of value and the other not. What is required is a theoretical defence of the <u>definition</u> - which is ultimately the definition of value: hence the importance of the issue. Statements that 'clearly' (sic) the wages of circulation, supervisory or state-employed workers are a claim on surplus value rather than a source of surplus value do not advance the debate one millimetre.
It is interesting to note in passing that, although Bullock makes no reference to the difficulties concerning the law of value outlined in Harrison (10), his new recruits to the category of unproductive labour - department III production workers - <u>do</u> in his view create value and (absolute) surplus value. He also quotes Marx with approval to the effect that the labour required to maintain and reproduce these workers counts as part of the necessary labour performed by the working class (1: p5); hence they are to be treated in the same way as production workers in departments I and II when calculating the rate of exploitation. His new definition of unproductive labour thus breaks with Marx's view that <u>all</u> unproductive workers produce neither value nor surplus value and that the cost of their maintenance and reproduction should be treated as part of surplus value.

6 A wrangle over which groups of workers are productive and which unproductive can degenerate into a purely terminological dispute. We agree that it is important to distinguish luxury and non-luxury production, and if Bullock cares to designate workers in the former sector as 'unproductive' that is fine. It is the substantive analysis that we are concerned with. Here there are two major differences. One is whether value should be defined in such a way as to include the labour of circulation and supervisory workers employed by capital. The other is how to treat labour not employed by capital but producing use values which enter, directly or indirectly, into the means of subsistence of workers in the

capitalist sector.
To clarify the issues let us distinguish the following eight categories of labour:

	Departments I and II		Department III	
	production	circulation	production	circulation
Capitalist mode	1	2	3	4
Other modes	5	6	7	8

For Bullock only category 1 is productive in the fullest sense, that is productive of 'absolute' and 'relative' increases in surplus value. Categories 2-8 are unproductive. We have argued, however, that circulation workers in category 2 are also 'productive' on this score. Furthermore, categories 3 and 4 are productive of 'absolute' increases in surplus value, and categories 5 and 6 are productive of surplus labour which is transferred to the capitalist sector, appearing there as surplus value. It is time we rejected Marx's simple dichotomy and used terms that are more precisely definable. Certainly this is necessary if a relevant political analysis of the class structure of advanced capitalist societies is to be achieved.

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AUTOPSY ON BRITISH LEYLAND

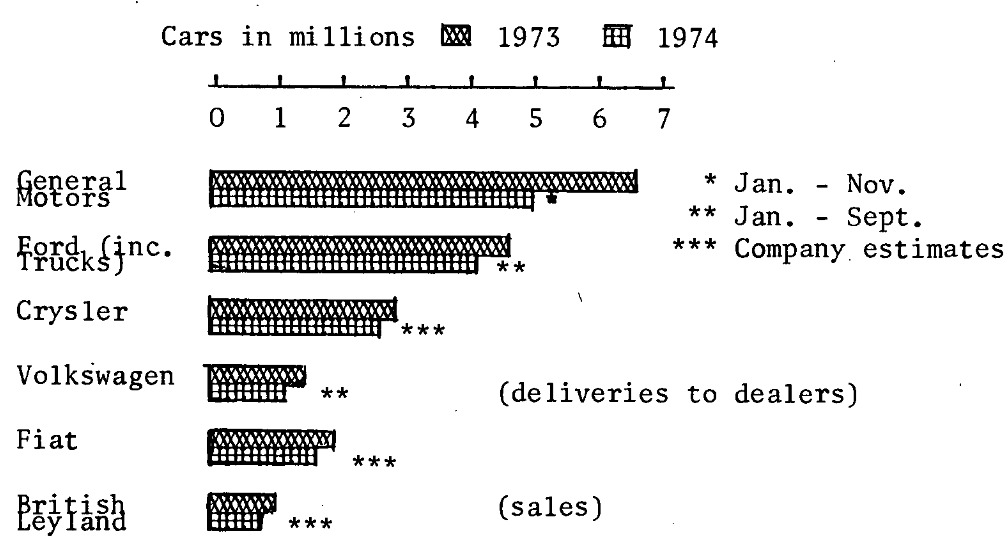
John Harrison and Bob Sutcliffe

1 THE STATE OF THE WORLD MOTOR MARKET

There has been a world-wide decline of one quarter to one third in the market for cars since the increase in oil prices in December 1973. This means that all car companies are at the very least having severe short term difficulties. It is not yet possible to say what the eventual effect of the higher oil prices will be. For one thing not all the rises in the retail price of petrol resulting from the crude oil price increase have yet appeared; when they do they will make things worse. But on the other hand the supply shortages of petrol in late 73 and early 74 were temporary; there is a strong tendency for consumers to substitute low petrol consumption cars for high consumption ones; and with general inflation racing ahead the relative price of petrol might eventually decline, though this is very unlikely.

The short term results of the decline in the total market and the uncertainty of the overall situation have been widespread and extremely dramatic. The necessary decline in production is being effected in different ways. In the US General Motors, Ford and Chrysler have cut production by means of redundancies, long lay-offs and temporary factory closures. GM and Fords have both partially or completely closed about half of their assembly plants for periods of 2 - 4 weeks during the last four months. At the end of 1974 the American motor corporations had between them announced plans for the indefinite laying-off of 135,000 workers in order to implement a cutback in production in excess of 20 percent. In Italy in October Fiat 70 percent of its work force on a three day week. This move was replaced in December by an agreement with the unions involving an equivalent cutback in production through extended shutdowns at Christmas and Easter. In Germany since the beginning of 1974 Volkswagen have laid off 10,000 workers and through periods of short time working have lost 60 days of production during the year. Ford and Opel have also had extensive shut-downs, have stopped recruitment and are implementing plans for early retirements. In France the car market held up better until about October when a sudden decline developed. Citroen by November still had plans to lay-off only 2000 workers.

HOW CAR COMPANIES CUT OUTPUT



The French car industry however has been hit particularly hard from a financial point of view. The serious financial situation forced the government sponsored take-over of Citroen by Peugot in December and the merger of Berliet and Saviem (lorries) and the injection of a total of £130 million cash to both to stave off bankruptcy. Both Fiat and Volkswagen have reported large losses which almost certainly underestimate their financial problems which will certainly be intensified in the case of Fiat by the agreement to guarantee jobs during 1975 and to pay almost full wages during shut-downs. The Dutch manufacturer Daf only survived through being taken over by the Swedish Volvo company.

The situation is changing so fast that it is impossible to obtain a very clear overall picture. But the tendencies which seem to be universal are a sharp drop in the market, a drop in production which is so far less than this, rapidly growing financial problems, large scale redundancies and lay-offs combined with factory closures. The diagram on page 1 gives a rough idea of the extent of the cut in output for the major producers.

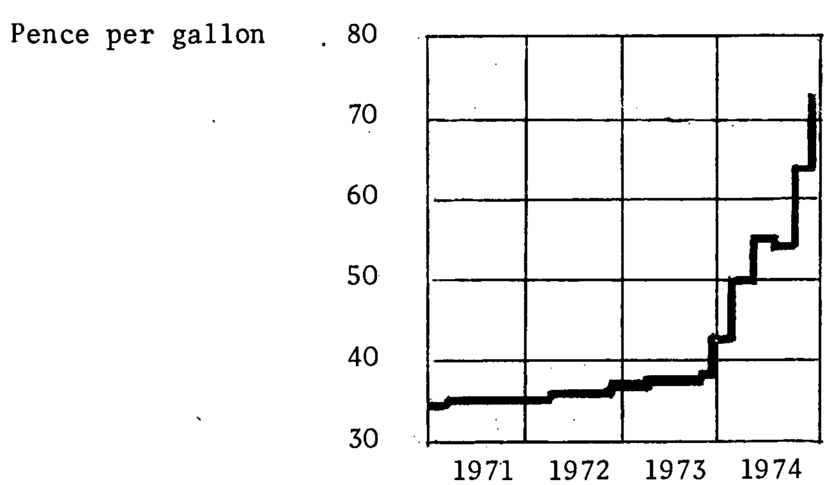
In addition in the last three months of 1974 there was substantial evidence that the situation was very suddenly and sharply deteriorating. Both US and French sales figures show a sudden marked acceleration in the rate of decline. And the production cutbacks had not eliminated an unacceptable level of stocks. On November 1 recorded stocks in the United States reached 69 days' supply (Chrysler had 108 days') which is the highest level on record. Fiat's in October had 300,000 cars in stock, about three months' supply at the then prevailing level of sales. It also began to look as if earlier optimistic expectations in some firms that the production of smaller low petrol consumption models would offer some protection were not being fulfilled. Volkswagens US sales fell much more sharply than in any other market in spite of competing with higher consumption models. And the stocks of the US manufacturers themselves were particularly concentrated in the smaller low-consumption models for which the initial boom in demand now petered out very quickly.

The only section of the market which has so far survived the rigours of the oil crisis is ironically the highest consumption cars at the luxury end of the market - Mercedes Benz, Daimler (and in UK Jaguar) etc. - which partly perhaps reflects high demand for these cars in the deserts of Arabia.

2 THE UK MOTOR MARKET

The situation in the UK market in 1974 is especially difficult to analyse because it is complicated by the three day week coming at the same time as the oil price increase, and following Barber's December '73 budget H.P. controls which have reduced the demand for cars. Also the increase in the price of petrol continued in stages throughout the year and rose by nearly one third in the last two months of the year

PETROL (4 Star - London)



Dates of increase

1971 21 Feb
1972 29 Apr. 9 Dec.
1973 29 Apr. 4 Oct. 15 Dec.
1974 12 Feb. 1 Apr. 18 Nov

(Decrease 29 Jul. 1974 = VAT reduction)

Sales seem to have fallen by more or less the world wide average. This fall was concentrated in the 'middle' range of the market - 'mini-cars' and luxury cars were least affected (Table 1), though this did not prevent the bankruptcy of Aston Martin's in December or major financial troubles for Jensen. Production fell less than sales (Table 2). The UK manufacturers' share of the market rose in the early part of 1974, but in recent months the share of imports has gone up very fast; over the year as a whole there was very little changes (Tables 3 & 4). The overall figures are deceptive since the market for cars is divided into two halves which behave differently: the private market which is very affected by relative prices etc. and the fleet car market (government, police, companies, car hire firms) which is in the short run less affected by economic conditions and which almost invariably buys British (only one local police force has so far bought Volvo and was much criticised).

Tables 1 & 2

1 Decline in the UK car market by size and BLMC Model (% change in sales Jan-Oct 74 on year earlier)

Class	Total	BLMC model	
Mini	-2	Mini	-2
Small	-24	Allegro	-21
Medium	-30	Marina	-27
		Maxi	-30
Coupes/Sports	-39	Triumph	-44
Executive		Rover	-23
		Triumph	-21
Luxury	-19	Jaguar	+31
		Triumph Stag	nil
		Range	-17

2 Falls per quarter 1974 as % equivalent quarter 1973

	Quarter 1st	2nd	3rd
Passenger			
Production	81	99	89
Sales	68	76	99
Exports	88	99	108
Commercial			
Production	85	101	112

Tables 3 & 4

1 Share of UK Vehicle Sales

	Jan-Nov 73	Jan-Nov 74	Nov 74
Passenger			
BLMC	31.80	32.97	29.53
Ford	22.46	22.60	20.19
All Imports	27.49	27.77	35.64
Commercial*			
BLMC	25.86	27.74	n.a.
Ford	29.44	29.49	n.a.

*Jan to Oct

4 Share of UK Production

	Jan-Oct 73	Jan-Nov 74
BLMC		
Cars	50.12	49.04
Com. Vehicles	32.80	30.67
Fords		
Cars	25.63	32.44
Com. Vehicles	23.94	31.40

3 THE ECONOMIC IMPORTANCE OF BLMC

BLMC was formed in 1968 from a merger of Stokes' Leyland lorry manufacturers and the British Motor Corporation, itself the result of the Austin Morris merger of 1953 and subsequent accretion of various specialist car producers (Rover, Jaguar, MG to BMC, Triumph to Leyland).

It has foreign subsidiaries in Austria, Belgium, Denmark, France, Holland, Italy, Norway, Sweden, Switzerland, USA, Canada, S. Africa, Ghana, Kenya, Tanzania, Malawi, Zaire, Zambia, India, Australia, Spain. It is the only British owned car producers in the UK, all the rest being US subsidiaries. It is the 7th largest private British company by turnover (£1.281/1.864m in 1972/3), the largest by employment (204,149 in 1972/3). It is the largest British exporting company (424m in 1972/3). Its exports represent over 40% of British car exports and 4% of total manufacturing exports. It is also one of the two largest commercial vehicle manufacturers in Britain; the other is Ford. Both produce about 31% of total production.

4 BLMC'S PRODUCTION AND SHARE OF THE MARKET

The production and sales of BLMC are summarised in Tables 1, 3 and 4. The pattern of the British car market in the 1970s has been for all British companies to lose ground to imports. BLMC continued to lose its share up to the middle of 1973; it then rose and during 1974 rose fast for the first 2 months and then collapsed again and fluctuated sharply for the rest of the year (for the annual figures see Table 3). It is more difficult (almost impossible) to say what is happening to BLMC's position in the export market.

It is impossible to prove anything firmly about the current level of BLMC's stocks from these figures. They are believed to have been very low at the end of 1973; but at present BLMC is carefully guarding what has happened to stocks since then. This caginess suggests that if anything they are higher than they want, since their public position is that they can sell all the cars they can produce - the line they took throughout the last Cowley dispute in April in order to promote a return to work. There are many reports that BLMC does have high unsold stocks not in the UK but in Europe - stories of fields full of BLMC cars and of ability of car brokers to pick up easily large lots of BLMC cars on the European market. These cannot be used for the English market (left hand drive) but some may be in such bad shape that they have to be brought back for rectification soon and so could in principle have the steering changed too. It is dangerous to base too much on these rumours but they are widespread. If Leyland didn't have large stocks it would be exceptional (see section 1).

5 PROFITABILITY

In every year since its formation BLMC has declared a profit; but almost certainly in every year it has been in real terms unprofitable. The declared profit is overstated for two reasons: (1) depreciation of capital is calculated on historic and not current cost of the assets; and (2) a large and growing part of its declared profit is merely the result of the revaluation of its stocks of materials and finished vehicles; it always maintains a certain level of stock and hence this 'profit' is unrealisable.

These are the figures for declared profit before and after tax with, for the last 3 years, extra depreciation and stock appreciation subtracted from them to give real profit (the calculations are approximate but done in the same way each year)

	1968	1969	1970	1971	1972	1973	1974
Declared profit before tax	37.9	40.4	3.9	32.4	31.9	51.3	-13.4*
Declared profit after tax	20.3	20.8	2.3	18.4	21.1	27.9	-22.4
Extra depreciation					13.0	17.5	20.0
Stock appreciation					18.8	35.0	70.0
Approximate real profit after tax					-10.9	-24.6	-112.4

*In this year BLMC only declared a profit by omitting £15.7m 'extraordinary loss' on its Australian operations.

BMLC is therefore a loss making company and has been making losses on an increasing scale. It has been faced with a substantial rise in unit costs resulting from both lower production - there are major economies of scale in car production - and continued big rises in input costs (steel, rubber, electricity). It has also experienced severe difficulties with some of its foreign subsidiaries (notably in Spain, South Africa and Australia). All this indicates that the only way BLMC could have survived would have been through an enormous increase in the rate of exploitation of the labour force. This could have been achieved in three basic ways: (1) by new investment; (2) by raising productivity in its existing operations; (3) by keeping down wages in relation to the prices of its output.

By 1973 it was clear that new investment could not have helped much (since the investment programme announced the year before (for 5 years later extended to 7 and in principle infinitely extendable) was concentrated in the specialist car branches. In any case, when depreciation is calculated correctly, the whole programme was barely enough to maintain the company's existing capital. The effort therefore had to be concentrated on the second two points, and especially the greater intensity of labour (which amounts to lower manning levels and speed-up). There is little doubt that this will remain the conclusion of the Labour government's inquiry into the company now being conducted by Ryder.

A further important factor in relation to productivity is days lost through strikes and resulting lay-offs. BLMC lost 11.5m man-hours in 1973 and 23.9m in 1974. These are much higher than the figures for other motor companies though some of the losses in 1974 were probably provided by the management as an alternative to redundancies in the face of falling demand. Even so, the losses must have significantly raised costs per unit of output. Some indication (on a crude empirical level) of the centrality of BLMC in the British class struggle can be seen in the fact that total days lost through strikes in the UK in 1973 were 7m. (i.e. about 56m man-hours). This figure does not include lay-offs but the ratio of numbers laid off to numbers on strike in the economy as a whole is much smaller than for BLMC.

For 6 years BLMC survived its non-profitability without being forced into bankruptcy. Companies can make losses for some time without bankruptcy as long as they can maintain a cash flow sufficient to pay their bills. There are various ways of doing this: borrowing money from banks and elsewhere, delaying re-investment, delaying payment of bills and demanding accelerated payments of bills owing to them. All these affect their liquidity situation and it is that rather than profitability which determines whether they have to go bankrupt. Most of these methods have been used by BLMC.

The crisis facing the motor industry severely depressed share prices for all motor companies. Between 1968 and 1974 motors and mortor distributors' share prices fell from 100% to less than 40% of the Financial Times share index - which itself fell by a historically unprecedented two thirds from mid '72 to late '74. BLMC, facing severe profitability and liquidity problems, was particularly badly hit. By late '74 its shares had fallen to around 7p. This meant that the market value of the company was £40-50m (compared with a nominal capital value of real assets of £511m) and raising cash by a further share issue was impossible.

6 LIQUIDITY

In December 1970 the liquidity situation of the company (roughly speaking its level of liquid assets relative to its short term liabilities) was desperate and the company was very nearly forced into bankruptcy. After that the situation improved for a while and improved very sharply during 1973 (Sept '72 - Sept '73). In September 1972 net liquid assets were 14.7m and in September 1973 £50.7m.

This improvement was brought about as follows:

1 Very slightly more money was borrowed from the banks. The level of overdraft was £91.2m in Sept 1972 and £92m in Sept 1973. Also BLMC expanded enormously its financial department and went to great efforts to use whatever balances it did have to maximum advantage, which helped it get a good return on its short term assets. Insofar as BLMC made real profits it was from financial activities not from making cars.

2 Very little investment was undertaken by the company between 1970 and 1973. The 5-year investment programme announced in 1973 was soon stretched out to 7 years. At least in the early stages it was to be financed from loans from the banks. In October 1973 facilities of up to £150m of additional overdraft facilities existed to finance investment (planned to be £100m in 1973/74).

3 Most important, BLMC stopped paying many of its bills. Its total trading debt to other companies went up £100m - from 262m in September 1972 to £363m in September 1973 - an increase 3 times bigger than its total improvement in liquidity. At the same time debts owed to BLMC only went up by £18m. BLMC became notorious as a non-payer of bills and for using ruthless methods to get its debtors to pay up fast. But this advantage could not go on forever. With a worsening economic situation its suppliers were hitting financial troubles, some of them facing bankruptcy if BLMC didn't pay up. So this was a once for all gain.

The company would not have survived the three-day week without all these measures. As it was it made things very bad. By the end of March a net liquid assets figure of £50.7m had been converted into about minus £40m, a worsening of £90m in 6 months. It was financed by increased overdraft facilities; but these were negotiated not for helping liquidity as such but to finance the investment programme.

By the end of the three day week it was obvious that the company had not very long to live in its existing state. The management made a series of new moves. One was the offensive against the trade unions, the most dramatic example of which was the attempt to victimise Alan Thornett in Cowley. This dispute led to the splitting of the TGWU branch in Cowley in which the union bureaucracy participated. This was very much less than BLMC needed but they paraded the 'defeat of the left' in Cowley as part of their second strategy - an appeal to the banks for a massive new loan. It was obvious, however, that the banks were very sceptical of the credit worthiness of the company. The third possibility, therefore, was to raise the required cash from the oil producers themselves. Negotiations led to an offer in the Autumn by the Saudi Arabian government to put up the necessary money but they demanded a British government guarantee of this loan which the government was unwilling to give. Through all this the fourth possibility was becoming increasingly likely - some kind of rescue operation organised by the Labour government. Talks about this began quite early in the year but only became serious when it was clear that none of the other options were working out. The announcement in December that the government were to guarantee short term loans and 'take a stake' in the company was not it seems the result of an immediate final liquidity crisis for the company, but rather the result of a leak about the talks from inside the company (and which is now the subject of an investigation by the management). This accounts for the extreme vagueness of Wedgewood Benn's statement and for the sudden removal of Ryder from his post in Reed International to conduct the inquiry into the empire of his fellow 'super-manager' Stokes.

The story of the BLMC management's attempt to make British Leyland into a profitable company is now over and has ended in a disastrous failure. It was well on the way to failure long before the three day week and the oil price increase decisively accelerated it. But the story of British Leyland is far from over. Its problems as an unprofitable section of British capital have now been handed over to the state and to capital as a whole as represented by Wedgewood Benn and his industrial advisors. It is now they who share with the BLMC management the task of restoring the company to profitability. The government's interest in no way therefore reduces the problems facing British Leyland workers at whose expense the management and government will continue to try and solve the company's problems. The struggle which this leads to continues of course daily. But a major event in it will come with the report of Ryder's study team which will in all likelihood report in March. Leyland workers should be prepared for this report to recommend very major closures and redundancies in the company. The Ryder group will already have available for study Leyland's own existing plans for a reorganisation of production (disclosed by the Workers' Press, 30 & 31 July 1974). These plans include cuts in off-line relief time, sickness and absentee relief, reduction in the number of inspection operations, rectifiers driving their cars and work study for all departments which have not yet been studied. These plans imply something in the order of 13,000 redundancies.

In addition, there is much speculation about speeding up the existing priority of the company to concentrate on specialist car production and cut down on the mass-model production. The survival of the Austin-Morris division is by no means a certainty. We will, if appropriate, report in the next issue of the Bulletin on recent developments in the company including the report of the Ryder investigation. The 'final solution' which the Government proposes must be influenced by the growing numbers of other companies also demanding government finance on a huge scale, the latest example at the time of writing being Burmah Oil. The Government is likely to become increasingly resistant to these growing demands from the 'undead' of British capitalism.

Marxian Economic Theory, MEGHNAD DESAI (Gray-Mills Publishing Ltd. 1974) £1.90

Reviewed by Makoto Itoh

I

This book, written as a contribution to the course on Marxian Economics at the London School of Economics, consists of nineteen compact chapters. These chapters seem to be divided into three parts.

In the first part, the author summarises the main theoretical points in Marx's 'Capital'. Starting by differentiating Marx's value theory from that of Ricardo, and from neoclassical theory (chap.II), he goes on to explain the mechanism of creation of surplus value as a social process (chap.IV). An exposition of the theory of the circuit of capital (chap.V), the reproduction scheme (chap.VI), and profit theory (chap.VII) follows. In the second part of the book (chaps.VII-XII) he treats the transformation problem criticising Marx, Bortkiewicz, and recent discussants including Samuelson and Morishima. In the last part of the book (from chap.XIII), the author deals with the dynamics of capitalist economy, from the standpoint of expanded reproduction scheme. He appreciates Rosa Luxemburg's approach. Following this he attempts to consider the theoretical role of the law of the falling rate of profit (chap.XVII-XVIII). The final chapter shows the contemporary relevance of Marxian economics.

Unlike Samuelson and Morishima, he does not treat Marx's theory in the light of neoclassical theory, but tries to make clear the core of that theory itself as social science. Even his criticism of Marx is to be seen as an attempt to strengthen Marxian economics. Marxian economics is the basis of Marxism. It must not be confused with political assertion or ideology. It can be or should be corrected and developed through criticism as social science, and as a result, enable us to understand the basis of Marxian political propositions more easily.

II

In this book the author emphasizes that the purpose of Marx's value theory is to unmask the social relationships in capitalist society. Marx's theory of value is essential to understand that surplus labour is expropriated by capitalists in the form of surplus value as long as labour power is sold as a commodity, bought and used by capital. It makes clear the historical relations of exploitation of labourers under their legally 'free' status.

We can easily see that the author's treatment of the transformation problem is based on such an understanding of value theory. He admits, on the one hand, that labour-time necessary to produce commodities can be related to prices of production, as solved mathematically by Bortkiewicz, or more generally by Winternitz and May. But on the other, he tries to attack the problem by dividing the theoretical dimensions between the 'Invisible Value Domain' and the 'Visible Price Domain'.

This latter approach is suggestive of the recent achievements of a group of Japanese Marxian economists. For example, the several contributors to "Principles of Political Economy" (ed. K. Suzuki, I, 1960, II, 1962), attempting to develop the theory of Professor Kouzo Uno, are trying to solve the problem by segregating the theoretical dimensions in a similar way. According to them, in the theoretical domain where we observe the process of capitalist production, focusing on the social relation between capitalist and labourer, we must necessarily lay bare the social substance of value as quantities of social labour. The central problem in this domain is obviously the social relation of surplus value versus value of labour power. But when we come to the domain where we observe competition among many capitals, we must clarify the motion of individual capitals trading through visible price relations. A theoretical relation between capital and capital, including the theory of prices of production, can be developed without direct reference to labour quantities. The social meaning of prices of production as the distribution form of surplus labour is to be shown in the construction of those two theoretical domains.

Most discussions on the transformation problem have tended to confuse the theoretical dimensions between these different domains. And as a result, the theoretical relation between the first two volumes and the last, third volume of "Capital" has often been supposed to show mainly how exchange relations of commodity products can consistently change from equal labour quantity ratios, under value relations, to unequal labour quantity ratios through the relations of prices of production.

As Desai points out, even Marx himself did not fully make clear the dimensional difference between two theoretical domains. I think this weakness is due to the residue, or mixture, of weak points of the classical theory of value in the system of "Capital", in spite of its unique theoretical development based on theory of value form. Critics of Marx, inclusing Samuelson, often attack Marx's value theory after reducing it to a set of propositions similar to those of Ricardo. Desai's anti-critique is persuasive in pointing out this unfair treatment.

Nevertheless, it seems to me that even after making clear the difference of logical dimensions, the problem still remains how to develop the concept of value through them. Is the author not too hasty when he says Marx's value theory cannot do 'the multiple tasks of providing a theory of prices, a theory of resource allocation and a theory of social relations in a capitalist economy' (p.65)? In my view, the invisible social relation of quantities of embodied labour time does not in itself form value relations. Labour quantities become the social substance of value relations when covered by the value form of commodities, which take price relations in the visible surface of circulation. It is still quite possible to understand price relations, including prices of production, as developed forms of value. And though resource allocation in capitalist society is of course changed only through visible price relations, invisible changes in the social relation of labour quantities must always attend these. It is also needless to say that changes in the social relation of labour quantities between capitalist and labourer necessarily affect price relations among commodity products. Therefore we had better not give up using and elaborating the value concept through various theoretical dimensions.

Consideration of the circuit of capital in this book, a remarkable attempt to approach a long neglected problem may also be suggestive for the development of the value concept. Value of capital in its circuit must take the various forms of money, commodity and living labour together with dead labour as factors of production, in turn. We cannot say that in its metamorphosis and movement, value of capital exists only in invisible labour quantity, and not in visible money or commodity form.

III

The third part of this book, dealing with theory of extended reproduction and accumulation, seems to leave more room for discussion and reconsideration.

I cannot agree with the author's theoretical sympathy with Rosa Luxemburg. Because Rosa Luxemburg was not correct in considering the reproduction scheme in the circuit of money capital, instead of in the circuit of commodity capital as Marx. The apparent difficulty of realization, which according to her logic, becomes in effect, inevitable for extended reproduction in general, comes also from this mistreatment.

The task of Marx's reproduction scheme is only to show that the fundamental material conditions of reproduction, which are common to all the forms of societies, can be fulfilled also under capitalist economy, if capital can buy and use labour power as a commodity. It must be noticed that, in the theory of the reproduction scheme, the reproduction of labour power or the dynamic change of the production relation between capitalist and labourer is not treated. Many attempts including that of Rosa Luxemburg to deduce the necessity of economic crises and, further, imperialism from this abstract theory of reproduction scheme have met with little success. We must be aware of this history of misusage of the reproduction scheme.

At the same time, I don't think the author is persuasive in saying that Marx's law of the tendential fall of the profit rate is important in order to reveal the contradiction of 'the growing disparity' between the productive capacity and the actual output (p.104). Why does the law of the falling rate of profit resulting from the rising organic composition of capital, prevent a full realization of productive capacity of capital? In my view, the law itself is not so 'crucial' for an understanding and completion of crisis theory in Marx's "Capital".

I would like to suggest here that we had better appreciate more fully the importance of the theory of capitalist accumulation in the first volume, and the corresponding dynamic theory of profit and interest in the third volume of "Capital", in order to clarify the principle of dynamic capital accumulation, repeating cyclical economic crises. For I believe that we can find, even though still incomplete, a fairly consistent attempt by Marx to build up an excess capital theory of crisis through these parts (I am preparing an essay to discuss this point in detail) that is deduced neither from the reproduction scheme nor from the law of the tendential fall in the rate of profit. Even just for the sake of consistency, the author ought to have developed the dynamic theory based on Marx's theory of capitalist accumulation, elucidating the dynamic change in the labour market. As he tried to make clear in the former parts of this book, the essential problem for Marxian theory was to reveal the social relation between capitalist and wage labourer.

Anyway, it is high time to push forward the attempt to revive Marxian economics as the basis of social science in the western world, which is presently facing a deep social crisis. I expect that the author's contribution in this book will be warmly received and followed up by sincere debates in that direction.

Economic Growth and Social Equity in Developing Countries, Irma Adelman and Cynthia Taft Morris (London, Oxford University Press, 1974) £5.75

Reviewed by J.A. Kregel

"The frightening implication of the present work is that hundreds of millions of desperately poor people throughout the world have been hurt rather than helped by economic development. Unless their destinies become a major and explicit focus of development policy in the 1970s and 1980s, economic development may serve merely to promote social injustice." (p.192)

This is the authors' own assessment of their empirical enquiry into the relations between economic growth and political and economic equality in developing countries. It is, without question, an assessment that contradicts the inherent beliefs of the majority of anglo-saxon students of the causes of and the solutions to the embarrassing existence of the third world. Despite their candour in the face of their statistical regression results and their admission that 'marxian theory' might provide a more comprehensible explanation of the plight of developing countries, the authors stop short of stating the ultimate implication of their findings: that development agencies may have other 'interests' in mind than the 'destinies' of the 'hundreds of millions' that populate the third world, that these agencies serve the interests of those who create and fund them.

The results presented in this book will not surprise readers already acquainted with marxian theory or the large french literature on development based in that approach. For the remaining majority of academic economists the only conscience-saving resort will be to question (and perhaps rightly so) the data and its manipulation, as well as the methodology. For, as the authors point out, "in inferring dynamic relationships from cross-section data, of course, we assume in effect that the average country traits associated with successive development levels represent the path of change of a typical underdeveloped country undergoing economic growth." (p.188) All except strict followers of Rostow will find this an easy route of escape from facing up to the authors' 'frightening' conclusions.

Stone Age Economics, H. Sahlins. Reviewed by Barbara Bradby

In the beginning, says Sahlins, man was homo non economicus. In the 'original affluent society', needs were satisfied because needs were few. Abundance, not scarcity was the norm to which nature was expected to conform by man. Production was primarily for use, and exchange played a subordinate role. The dominant mode was the Domestic Mode of Production (DMP), which was possessed of a 'centrifugal force' causing households to disperse, in the absence of institutional checks. This meant that by any standard one cares to name, land and labour resources were underused, even to the extent of a sometimes chronic 'household failure' to produce customary requirements. There exists however, an 'impulse to surplus labour' which shows itself as an apparently miraculous deviation from a regression line. Economic intensity, and the spread of variation in household production are functions of the strength of collateral kinship bonds in a society. The wider and stronger these are the greater will be the variation in household production within that society and the higher will be the 'surplus tendency'. So the principal contradiction in primitive society comes to be that between the centripetal force holding family members together, and the centrifugal force dispersing them. For those who do not see the primitive in their own lives, an ethnographic illustration may bring it home:

"Thus the same Bemba who define a relative as someone to whom you give food also define a witch as someone "who comes and sits in your house and says, "I expect you are going to cook soon. What a fine lot of meat you have today," or "I expect the beer will be ready this afternoon', or some such remark." (Richards)

Sooner or later, the reader must begin to wonder what century we are in. The book's title, and the frequent references to neolithic economies suggest a historical approach, but there is no explanation of how twentieth century field studies of the vestiges of aboriginal economies that have survived centuries of colonialism and world trade can be a substitute for direct historical evidence. Unless the greatest care is taken, a historical telescoping effect ensues from a methodology like that of Sahlins. Twentieth century 'primitive' economies apart from the odd 'undiscovered' tribe in the Amazon basin, are often not as primitive as they seem to the undiscerning civilised eye. In fact, inhabitants of primitive economies I have seen myself, are more aware of the meaning of the law of value than many mystified economists, and what is more are capable of using it to their own advantage. The law of value implies that it is impossible to make primitive people 'use their resources better' (the aim of much developmentist economic anthropology) which is to say, work harder and take up less space, simply through exchanging with them. The converse of this is that the 'original state of affluence' described by Sahlins may be less aboriginal than he assumes. Little hints in the text about metal axes and manufactured cloth may mean that vast amounts of labour time are actually being saved in these present day communities by the importing of manufactured goods in exchange for a few peanuts. But however aboriginal the state of affluence found in some of these anthropological studies may be, a sharp distinction must obviously be drawn between these economies and peasant economies, where affluence and leisure have disappeared completely, and where the producers must fun fastiin order to stay in the same spot, or if they are lucky, to get out of it completely. Presumably the DMP would be the dominant mode of production in peasant economies as well, but nowhere does Sahlins give us any clue as to how we could differentiate these two types, nor does he explain exactly why he thinks there is a necessary connection between the organisation of production in household units and the underuse of resources. The contradiction between centripetal and centrifugal tendencies mentioned above might or might not result in underproduction, depending on how great was the social paranoia about relatives.

While one should perhaps be grateful for the attempt to use marxist terms in a positive way to characterise pre-capitalist economies, Sahlins' use of the concept of mode of production, seems to have little to do with that of Marx. Marx was not ignorant of the fact that in pre-capitalist societies "the specific mode of labour ...is always family labour and often communal labour" (PCEF p.94). The mode of production is consequent upon the 'original unity between a specific form of community or tribal unit and the property in nature connected with it'. The individual family only relates to the objective conditions of production by means of the community, and it is the form of this relationship which will determine the mode of production and enable us to distinguish one from another. Sahlins' use of 'mode of production' appears to be a sort of 'category-mistake'. It might be excusable if there were any analysis of the social relations at the interior of the household unit; as used, it is an attempt to define the mode of production in terms of the individuals that constitute it, rather than in terms of the organisation of society. What makes the mode of production specific and determinate can only be the social relations of the individuals who live under it, together with their relationship as community or as individuals to the land. Marx puts a lot of emphasis on this latter aspect in Pre-Capitalist Formations, but not because he is concentrating on a merely legal aspect, as he is accused of by Meillassoux. Property as an established legal relation is only one form in which man's relationship to the land may be expressed. It may be wrong to think of some tribes as holding the land in communal 'property', when what we really mean is that property simply does not exist.

All the pre-capitalist modes described by Marx may be thought of as 'domestic', if the mode is to be defined only in terms of the units of production, although Sahlins' idea probably has most in common with Marx's 'Germanic' mode. A further difficulty would be that of deciding how many modes of production we are living in here and now. Is the persistence of the family as an essential productive and reproductive unit under capitalism to be thought of in terms of the maintenance by capitalism of a pre-capitalist mode? In that case, the conquering of this pre-capitalist airlock might occur on "Brave New World" lines. It seems more realistic to analyse the family, not as a mode of production in itself, but rather as a spontaneous social organisation, which is utilised and transformed in different ways by different modes of production.

Sahlins' contribution to the debate on Mauss's 'L'esprit du don', is interesting, and to the uninitiated, has the advantage of being common-sensical, though smacking of economic reductionism. I propose to pass over this and the succeeding essay on 'the sociology of primitive exchange', since the last chapter in the book, on Exchange Value and Primitive Trade, while using marxist terminology, is so preposterously bourgeois that it should not go unnoticed, especially since this book is getting fashionable around the IDS.

The crucial example of the chapter is taken from Pospisil and has to do with the prices of axes in Melanesia. "before 1945, when iron axes had to be brought from the coastal people, the customary price was 10 Km for an axe. The coming of the white man and the resulting increase and direct supply of axes, reduced the old price to half the former amount. The process is still going on and the actual price in 1956 tended to fall below the customary price of 5Km per axe" (Pospisil, 1958, pp.122-3).

The latest report from Pospisil says that by 1959 an axe could be had for only 2Km. Now if we leave out the words 'and the resulting increase and direct supply of axes' from the paragraph quoted, we have a classic illustration of the workings of the law of value. The socially necessary labour time needed to produce an axe is drastically reduced by the accumulation of capital and the social division of labour, with the result that the native producers in Melanesia are smashed out of existence in fifteen years although they have probably been producing axes since the Iron Age. Population will be made redundant and there will soon be 'openings for investment' in Melanesia. But Sahlins' confusion mounts. As he takes it for granted that this example 'proves' that 'exchange value' (which occasionally slips into 'price' in the text) is determined by supply and demand, he is then totally mystified by how these laws can achieve their miraculous effects in the absence of all the conditions specified in the models of perfect competition. In his own words, "No doubt examples of such sensitivity to supply and demand could be multiplied ...Nothing really is explained by remarking that exchange value in primitive trade corresponds to supply/demand. For the competitive mechanisms by which supply and demand are understood to determine price in the market place do not exist in primitive trade. It becomes far more mysterious that exchange ratios should respond to supply and demand than that they remain unaffected." (p.297)

The subsequent "Primitive theory of Exchange Value" that is developed is therefore built on a house of cards. The theory is actually not one of exchange value in any sense, but of the mechanisms by which prices are established in primitive trade where the buyers and sellers do not compete among each other. Models are presented of reciprocal 'overbalancing' and 'generosity' in trading, which after a series of rounds where the visitor always gains by the exchange with the host, result in the implicit establishing of an equilibrium price.

I am aware that I am judging this book on criteria that are taken from outside its intended frame of reference. Sahlins is interested in doing battle with the 'formalist' economic anthropologists who analyse "the supply sensitivity of a fish market in the late afternoon - not to mention the appreciation of mother's milk as 'enterprise capital'" (p.279). If the question being asked is the old one of why models of capitalist economies are inapplicable to primitive economies, a thought that has struck many a liberal bourgeois on his fieldwork without ever leading him to question the applicability of his models to his own society, then this book is going to be a walkover for anyone who has read PCEF or the Introduction to the Grundrisse. But the wealth of anthropological evidence presented in support of his claims, and in particular the notes on kinship and reciprocity appended to Chapter 5, as also the bibliography, should be of use to anyone interested in doing serious analysis in this field.

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*UNDERDEVELOPMENT AND INDUSTRIALISATION IN TANZANIA, Justinian Rweyemamu (Oxf. Univ. Press 1974) ISBN 0 19 572268 X £5.00

*DISASTER IN CHILE: ALLENDE'S STRATEGY AND WHY IT FAILED, Ed. Les Evans (Pathfinder Press NY 1974) LCCC No. 73-93631 Pb £1.25

*THE UNSTABLE ECONOMY. BOOMS AND RECESSION IN THE US SINCE 1945, Victor Perle (Lawrence & Wishart 1973) ISBN 0-85315-274-8 Pb £2.00

*SOCIALISM AND THE CHALLENGE OF WAR. IDEAS AND POLITICS IN BRITAIN 1912-1918, J.M. Winter (Routledge & Kegan Paul 7/74) ISBN 0 7100 7839 0 Hb £5.50

*OIL AND WORLD POWER, P.R. Odell (Penguin 1974) ISBN 0 14 02.1169 1 Pb 60p

LUSITANIA, Colin Simpson (Penguin 1974) ISBN 0 14 00.3793 4 Pb 50p

THE REBEL CHURCH IN LATIN AMERICA, A. Gheerbrant (Penguin 1974) ISBN 0 14 02.1801 7 Pb 75p

A CONCISE HISTORY OF EAST ASIA, C.P. Fitzgerald (Penguin 1974) ISBN 0 14 02.1782 7 Pb 85p

A HISTORY OF THE PEOPLE'S DEMOCRACIES, Francois Fejtö (Penguin 1974) ISBN 0 14 02.1712 6 Pb 95p

INISHKILLANE, Hugh Brody (Penguin 1974) ISBN 0 14 02.1602 2 Pb 60p

HOW ISRAEL LOST ITS SOUL, Maxim Ghilan (Penguin Books 1974) ISBN 0 14 02.1788 6 Pb 60p

WILL THORNE, CONSTRUCTIVE MILITANT, EA & GH Radice (George Allen & Unwin 1974) ISBN 0 04 923065 4 Hb £3.60

ONE NATION? HOUSING AND CONSERVATIVE POLICY, Stewart Lansley & Guy Fiegehen, Fabian Tract 432 (Fabian Society 9/74) ISBN 7163 0432 5 45p

WORKING POWER, Giles Radice Fabian Tract 431 (Fabian Society 9/74) ISBN 7163 0431 7 25p

REDISTRIBUTION WITH GROWTH, Hollis Chenery et al (Oxf. Univ. Press. Published for the World Bank and Inst. of Development Studies 10/74) ISBN 0 19 920070 X Pb £1.40

INDUSTRIAL STRUCTURE & MARKET CONDUCT, J.F. Pickering (Martin Robertson & Co. 10/74) ISBN 0 85520 039 1 Pb £2.95

*WOMEN, RESISTANCE AND REVOLUTION, Sheila Rowbotham (Penguin 9/74) ISBN 0 14 02 1615 4 Pb 60p

STATE HOLDING COMPANIES, Donald Roy (Fabian Society 9/74) ISBN 7163 2040 1 Pb 30p

LIBYA - THE ELUSIVE REVOLUTION, Ruth First (Penguin 1974) ISBN 0 14 041 040 6 Pb 70p

ARABIA WITHOUT SULTANS, Fred Halliday (Penguin 1974) ISBN 0 14 02 1818 1 Pb £1.00

*THE FISCAL CRISIS OF THE STATE, James O'Connor (St Martin's Press NY 3/73) Cat. No. 72-95747 Pb $3.95, Hb $9.95

*THE CONSERVATIVE NATION, Andrew Gamble (Routledge & Kegan Paul 9/74) ISBN 0 7100 8008 5 Hb £4.95

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THE GOOD SOLDIER SVEJK AND HIS FORTUNES IN THE WORLD WAR, Jaroslav Hasek (Penguin 9/74) ISBN 0 14 00 3568 0 Pb £1.25

THE QUANTITY OF MONEY, H. Visser (Martin Robertson 10/74) ISBN 0 85520 070 7 £2.85 Pb, £5.50 Hb

TRADE POLICY AND ECONOMIC WELFARE, W.M. Corden (Oxf. Books (UP) 10/74 ISBN 0 19 828 401 2 Pb £2.75

*CRISIS IN SOCIALIST PLANNING, J. Marczewski (Pall Mall Press 9/74) 73-15190 Hb £8.00

BOOKS FOR REVIEW (i.e. those not marked * in books'received')

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The type of review will clearly depend on the standard and interest of the book. All reviews should include a short synopis of contents of the book (10-20 lines)   DAVID YAFFE (Reviews Editor)

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