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THE ECONOMIC ROLE OF THE STATE

by

STEPHEN JAY ROSE

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of the requirements for the degree of Doctor
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This manuscript has been read and accepted for the Graduate Faculty in Economics in satisfaction of the dissertation requirement for the degree of Doctor of Philosophy.

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TO FRANCA

TABLE OF CONTENTS

	Page
Chapter I: Introduction	2
PART I: MARXIST THEORY OF THE STATE	7
Chapter II: A Theory of the Capitalist State	9
1 The Reason for the Existence of the Capitalist State	12
2 The Organization of the Capitalist State	17
3 The Functions of the State	24
A Prevention of the Revolutionary Organization of the Proletariat	27
B Regulating Capitalist Competition	30
C State Provision of Goods and Services	34
D State International Policies	37
PART II: MARXIAN ECONOMIC THEORY	41
Chapter III: Marxian Value Theory	43
1 The Necessity of Using a Value Theory for Studying the Capitalist State	43
2 Fundamentals of Marx's Labor Theory of Value	46
3 The Division of the Surplus Value Pool	61
4 Productive and Unproductive Labor	68
Chapter IV: The Contradictions of Capitalism	74
1 The Realization and Other Crises	77
2 Surplus Labor Army	93
3 The Law of the Tendency for the Profit Rate to Fall	100
PART III: CLASSIFYING STATE ACTIVITY--THE LOCATION OF THE STATE IN THE REPRODUCTION AND CIRCULATION OF CAPITAL	109
Chapter V: Money Inflows	111
A Taxation	111
B Public Debt	121
C Inflationary Finance	127

	Page
Chapter VI: Money Outflows	134
A State Purchase From Private Capital	134
B Government Services	144
C Transfer Payments	151
PART IV: THE STATE AND THE ECONOMY: THE IMPACT OF STATE ACTIVITY ON THE CONTRADICTIONS OF CAPITALISM	158
Chapter VII: The State and the Realization Crises	161
1 Debt	162
2 Imperialism	164
3 Public Consumption	167
4 State Regulation of the Business Cycle	172
Chapter VIII: The State and the Profit Rate	183
A Imperialism	184
B State Provision of Services	188
C The Secular Tendency for the Profit Rate to Fall	191
Chapter IX: The State and the Surplus Labor Army	195
Conclusion	209
Bibliography	216

CHAPTER I

INTRODUCTION

CHAPTER I

INTRODUCTION

Throughout his works, Marx never systematically analyzed the impact of state activities on the functioning of the capitalist economy. This omission was not important since the direct state role was small in the nineteenth century. However, in the twentieth century, the state (federal, state, and local) sector has grown considerably. In every major capitalist country today, the state directly employs at least 15 percent of the labor force and indirectly accounts for another large portion of income generated through transfer payments and government purchases from private firms.¹ In addition, the national government has the responsibility of counteracting economic downturns. Its ability to perform this task, as elaborated by John Maynard Keynes² and refined by many writers after Keynes, depends upon the judicious use of monetary and fiscal policies.

¹For figures on the increased role of the U.S. state, see James O'Connor, "The Fiscal Crisis of the State," Socialist Revolution, No. 1 (1970), 14-16.

²The General Theory of Employment, Interest and Money (New York, Chicago and Burlingame: Harcourt, Brace and World, Inc., 1964).

The recent resurgence of Marxism has resulted in a great deal of attention being directed towards analyzing state economic policy. In the last ten years, there have been four major books written on this subject from a Marxist perspective. They are: Monopoly Capital by Paul Baran and Paul Sweezy;³ Marx and Keynes by Paul Mattick;⁴ The Fiscal Crisis of the State by James O'Connor;⁵ and The Unstable Economy by Victor Perlo.^{6, 7} In addition, a new international journal on the Marxist theory of the state, Working Papers on the Kapitalistate, was formed in 1973.

All the above books fail to adequately ground their theories in Marxian value theory. This thesis proposes to correct this flaw. The major proposition of this work is: an understanding of Marx's labor theory of value is necessary for an understanding of the economic impact of state

³Monopoly Capital (New York and London: Monthly Review Press, 1966).

⁴Marx and Keynes (Boston: Porter Sargent Publisher, 1969).

⁵The Fiscal Crisis of the State (New York: St. Martin's Press, 1973).

⁶The Unstable Economy (New York: International Publishers, 1973).

⁷These books are complemented by two recent works on the political role of the state: Ralph Miliband, The State in Capitalist Society (New York: Basic Books, 1969) and Nicos Poulantzas, Political Power and Social Classes (London: New Left Books, 1973).

activities. Hence, each state action will be analyzed with respect to its impact on the creation and circulation of value and surplus value.

One of the most important problems facing Marxists is understanding the stimulatory effect of state military spending. Many scholars have merely used the Keynesian concept of increasing effective demand which places the analysis in the sphere of exchange (or consumption). A correct analysis must show how this expenditure affects the production process, particularly the production of surplus value.⁸

For Marxists, "the historical functions of the state are not originally inherent within it, but must be the results of crises of social production, mediated by class struggles and conflicts between fractions of the ruling class."⁹ In order to analyze the roles of the modern state, one must have a thorough understanding of the capitalist economy, the way in which it tends towards crises, and the tools that are available to the state to act on the economy.

⁸Bob Rowthorn in "Vulgar Economy (Part II)," Bulletin of the Conference of Socialist Economists (Spring 1973), 1-11, argues that the difference between bourgeois and Marxist theory is that the former uses the circulation arena as a basis on which to build their political models while the latter uses the production arena.

⁹Elmar Altvater, "State Interventionism (I)," Kapitalistate, No. 1 (1973), 103.

This thesis thus consists of four parts. The first part discusses the general role of the state in a capitalist society. It shows why Marxists define the capitalist state as a class state--an instrument of the dictatorship of the bourgeoisie. It defines and gives the limits to state powers.

The second part presents Marxian economic theory. The first chapter of this part discusses Marx's labor theory of value and the reasons value theory is a necessary starting point. The second chapter analyzes the three major contradictions of capitalist production: the realization problem, the tendency for the profit rate to fall, and the creation of a surplus labor army. These three contradictions are the basis on which most state policies are formed.

The third part discusses the specific ways in which the state affects the economy through its revenue and expenditures policies. First, the most important concept with respect to the state's ability to raise money is class tax incidence which answers the question of which class and under what conditions supports the capitalist state. As part of this discussion, I take up the limitations of debt financing of state activities. Second, state expenditures fall into three main categories: state purchases from private capital, direct state provision of services, and transfer payments. The difference between these categories revolves around the

realization of surplus value. Only state purchases realize surplus value produced in the private market.

Finally, the fourth part discusses how the state counteracts the three contradictions discussed in the second part. The state, however, is not able to deal with all three contradictions at the same time. Under certain circumstances, policies aimed at easing the negative effects of one contradiction intensify another. Here, I argue that during the 1950's and 1960's state attempts to counteract the long run realization problem was the primary factor influencing state policy. This factor is most responsible for the large growth in direct state intervention into the economy.

PART I
MARXIST THEORY OF THE STATE

CHAPTER II

A THEORY OF THE CAPITALIST STATE

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A THEORY OF THE CAPITALIST STATE

In order to understand the economic role of the capitalist state, it is necessary to understand the more fundamental relation of the state to the reproduction of capitalist society taken as a whole. The state's economic functions are derived from its position in the social formation. Further, certain contradictions and limitations on state activities can only be understood from an analysis of the mode of production and the state's position in it.

This analysis will provide a clear understanding of why the state does what it does as well as what the state can potentially do. To the extent that some writers omit this step and move directly into an analysis of the economic activities of the state, their works constitute merely a catalogue of the state's activities; no rationale is given why these particular activities are chosen. For example, many commentators have taken the concept of the state as the 'executive committee of the bourgeoisie' to mean that the state acts always in the direct and immediate interests of the capitalist class. There are many problems with this interpretation. When the state is

responsible for concessions given to the proletariat-- e.g., the eight-hour day, better safety conditions, lower taxes, etc.--Marxist economists should then show how these actions are in the immediate interests of the bourgeoisie. Similarly, those theorists do not adequately explain why parliamentary democracy is the 'perfect shell' (Lenin) for capitalism. Finally, when a labor party does win control over the state, an analysis must show how this happened and demonstrate what the particular constraints on that administration are.

The task of this chapter is to develop concretely and precisely the notion that the capitalist state is a class state--i.e., that it is a social institution which perpetuates and legitimates class rule.¹ The primary contradiction that underlies state action is the need for the state to present itself as acting in the general interest while at the same time being an instrument for class domination. This implies that it guarantee social cohesion and stability and assume responsibility for regulating and organizing production.

¹Class rule is defined as a unified set of social structures that allows one group of people to exercise control over the use of the means of production. Associated with that control are other institutions and ideology that mirror their dominance and ensure that this group consumes a disproportionate share of the output of society.

The analysis developed here will focus on the general role of the state in modern capitalist societies. It may not apply equally well to all states. The specific roles that a state exercises in a given country are determined by the specific history of the class struggle and the economic development of that country, and by the relative position of that country in the world capitalist arena. Finally, the functions that the capitalist state assumes obviously, change with the development of capitalism. With a change in the material conditions, new arrangements must be established--ideology, institutions, and laws--to allow the state to respond in new ways.

This chapter will be divided into three sections. The first section will deal with the question of why a state must exist under capitalism. The primary characteristics of the capitalist state will then be developed out of the answer to this question. In the second section, the organization of the capitalist state will be analyzed with some discussion of the limitations on the state and the various contradictions inherent in the state performing its tasks. The third section will explore the major roles of the capitalist state in four specific areas: (1) preventing the organization of the working class; (2) regulating capitalist competition; (3) providing necessary social services; and (4) representing national capital in the international arena.

Section 1: The Reason for the Existence of the Capitalist State

The state is

the product of a society at a particular stage of development; it is the admission that this society has involved itself in insoluble self-contradiction and is cleft into irreconcilable antagonisms which it is powerless to exercise. But in order that these antagonisms, classes with conflicting economic interests, shall not consume themselves and society in fruitless struggle, a power, apparently standing above society, has become necessary to moderate the conflict and keep it within bounds of 'order'; and this power, arisen out of society, but placing itself above it and increasingly alienating itself from it, is the state.²

The capitalist state is based upon territorial divisions and must contain the following elements: (1) a permanent bureaucracy; (2) a developed apparatus of force and coercion; and (3) no means of self-support other than its ability to tax and contract for loans.³ It represents the interests of the bourgeoisie as a whole. Capital, however, is divided into individual units with particularized interests. Hence, the state must have power over all the

²Frederick Engels, The Origins of the Family, Private Property and the State (New York: International Publishers, 1972), p. 155.

³V. I. Lenin, The State (New York: New Century Publishers, no date), p. 8.

separate units of capital to insure that the interests of the class as a whole are pursued rather than those of a small segment of capital. As Marx and Engles say in The German Ideology:

And of this very contradiction between the interest of the individual and that of the community the latter takes an independent form as the State, divorced from real interest of individual and community, and at the same time as an illusory communal life, always based, however, on the real ties existing in every family and tribal conglomeration. . .and especially, as we shall enlarge upon later, on the classes. . . . It follows from this that all struggles within the State, the struggle between democracy, aristocracy, and monarch, the struggle for the franchise, etc. etc. are merely illusory forms in which the real struggles of different classes are fought out among one another. . . . Just because individuals seek only their particular interest, which for them does not coincide with their communal interest, the latter will be imposed on them as an interest "alien" to them and "independent" of them as in its turn a particular, peculiar "general" interest: or they themselves must remain with this discord, as in democracy. On the other hand, too, the practical struggle of these particular interests, which constantly really counter to the common and illusory communal interests, makes practical intervention and control necessary through the illusory "general" interest in the form of the State.⁴

⁴The German Ideology (New York: International Publishers, 1970), p. 53. Cf. also

"...Through the emancipation of private property from the community, the State has become a separate entity, beside and outside civil society; but it is nothing more than the form of organization which the bourgeois necessarily adopt both for internal and external purposes, for the mutual guarantee of their property and interests. . . .

Since the State is the form in which the individuals of a ruling class assert their common interests, and in which the whole civil society is epitomised, it follows that the State mediates in the formation of all common institutions and that the institutions receive a political form."--p. 80.

Hence, as I previously argued, the primary contradiction underlying all state actions is the necessity to present itself as acting in the general interest while at the same time being an instrument for class domination.⁵ The goal of the state is "system maintenance" or "to ensure the reproduction of social classes." The specific way in which it attempts to fulfill this function is by attempting to bring about "social cohesion."⁶ Therefore, the state interjects itself into the class struggle in order to make that struggle less intense and less dangerous to the reproduction of the system. In addition, it performs certain functions to ensure the general social and physical reproduction of society. The full implications of these points will be explored in the next two sections of this chapter.

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State activity should not be conceived as always promoting the direct economic interests of the bourgeoisie.⁷

⁵As J. O'Connor in The Fiscal Crisis of the State (New York: St. Martin's Press, 1973) points out on the economic level, this takes the form of the contradiction between the needs of accumulation and legitimation.

⁶The term social cohesion is derived from the work of Nicos Poulantzas in his book, Political Power and Social Classes (London: New Left Books, 1973). Although he does not use this exact term, it is similar to terms that he employs. Many of the ideas that will be developed in this chapter can also be found in his work.

⁷Cf. discussion in Chapter VI on how the state works on the profit rate and total sum of profits.

The state does guarantee the profits of the capitalist class by ensuring the social prerequisites of the accumulation process as a whole. However, this does not mean that the State's economic policies are the proximate cause of high profits. Precisely because it is an institution of social cohesion and represents the general interest of the bourgeois as a class, it may act to decrease the realized incomes of capitalists individually and as a whole.^{8, 9}

Still, the state is not oblivious to the economic interests of the capitalist class. The primary way the

⁸The notion that state activity does not have to improve the economic position of the bourgeoisie has been expressed before--cf., Richard Edwards and Arthur MacEwan, "A Radical Approach to Economics," AER Proceedings, 60:352 (1970); and Ernest Mandel, Marxist Economic Theory (New York and London: Monthly Review Press, 1968). In fact, Bluestone in "Capitalism and Poverty in America: A Discussion," Monthly Review 24 (June, 1972), suggests that the state acts in such a way as to aid the immediate economic interests of labor and the poor.

⁹A lot of struggle occurs precisely around the definition of the political interests of the ruling class. One interpretation of McGovern's campaign and his economic reforms is to view it as an attack (by members and representatives of the bourgeoisie) on the present U.S. State as not serving the political interest of the capitalist class. According to this view, the Nixon administration was too openly pro-business; the people were seeing their lives and government dominated by wealthy individuals and large corporations. They were left with no remedy within the system. The ideology of capitalism is fairness and this was presenting itself as a situation of unfairness. Hence, state power was struggled over around the issue of reform and redistribution of income.

capitalist system works is through the generation of surplus value (cf. Chapter 3). If this process breaks down either through state-initiated activity or through endogenously produced crises, normal reproduction and stability are endangered. Everyone looks to the state to respond and rectify the situation.¹⁰ In such circumstance, the state must act to re-establish the basis for the production and realization of surplus value.

In a narrow sense then, the state can be viewed as being a neutral institution, as most bourgeois theorists claim. Certain states' slogans reflect this claim to neutrality--e.g., the "we the people. . ." of the preamble to the American Constitution, and the famous French phrase, "liberty, equality and fraternity." But this narrow perspective only sees one side of the underlying contradiction of the capitalist state--the state as representing an illusory "common interest." It abstracts the state from the social context in which it functions.¹¹

¹⁰Raford Boddy and James Crotty in their excellent paper, "Class Conflict and Macro Policy" (unpublished mimeo) argue that the state has taken over the role of regulating and controlling the capitalist business cycle. Some of the implications that are drawn from this will be discussed in Chapter VII.

¹¹For example, bourgeois theorists cite progressive taxation and increasing public education as evidence of a progressive state. They fail to say that neither of these factors has had a significant effect on income distribution in capitalist countries.

In conclusion, it should be noted that one cannot 'prove' the existence of antagonistic classes by looking just at the state. To the degree that the state is directly controlled by the bourgeoisie, the basis for liberal reform--freeing the state from this control so that it can better serve the interests of all--is laid. Classes and their objective relations are determined in the economic base directly and are only reflected in the state imperfectly.¹²

Section 2: The Organization of the Capitalist State

Throughout Marx's and Engels' writings, the state is presented as "independent of," "alien," "outside," or "above" the community (civil society). In other words, the capitalist state presents itself as autonomous from the economic base. This autonomy is necessary because

¹²It is interesting to note that this situation--the state representing itself as being class neutral--is unique with respect to the role of the state in other modes of production. In these other modes, the state has a much more direct connection with the dominant class--e.g., socialism/proletariat state, feudalism/religious autocracy, and slavery/direct rule by masters.

there is no other way for individual capitalists to protect their common class interest. The state must be relatively free of direct control by individual members of that class lest they assert their individual, not communal, interest.

The autonomy of the state is another reflection of the state representing the general interest. The state must be free of the economic base if it is to be able to regulate it and stand outside class struggle. To insure that its interest will be served, the ruling class limits this autonomy in four ways--making it relative instead of absolute.

First and foremost, the state does not have control over the means of production. It cannot independently provide the material conditions for the reproduction of society. In most countries, the state's acquiring this control is forbidden except under very specific conditions. Thus, the state cannot serve as an instrument of social cohesion if it follows a policy that is in too strong opposition to the interests of the capitalist class.

As will be shown shortly, the state, under certain circumstances, gives concessions to non-capitalist classes, usually when the class struggle is intense, in an attempt

to coopt that struggle. However, if reforms continue, the capitalists will be forced to respond to protect their economic interests. In addition, market forces will lead to the failure of firms and the disruption of production.

This situation is not stable. The people will blame the state for their troubles and demand a change in state policies. Under all circumstances but one, the state will be forced to change its policies. The only exception occurs when the state apparatus is controlled by a revolutionary party actively preparing for civil war.¹³

Second, the state operates within a context of the given social relations. As Lenin observed, there can be no equality between the exploiters and the exploited. Due to higher education and social grooming, many members of the bourgeoisie become high government officials.¹⁴ In many situations, the dominated classes are excluded from participating in the political process or actively discouraged. Finally, direct bribery or indirect bribery through political contributions is a constant activity of large capitalists.¹⁵

¹³The recent overthrow of the Chilean government of Allende demonstrates what happens to a revolutionary party that has control over the state apparatus and does not prepare the masses for revolution.

¹⁴Cf. G. William Domhoff, Who Rules America (Englewood Cliffs, New Jersey: Prentice Hall, 1968).

¹⁵In the U.S., large corporations give money to both parties.

In addition, an ideology that is consonant with these social relations is widespread. As Marx and Engels put it: "The ideas of the ruling class are in every epoch the ruling ideas, i.e., the class which is the ruling material force of society, is at the same time its ruling intellectual force."¹⁶ Because of their domination of the media, the bourgeoisie is constantly able to deceive the working class into supporting programs that benefit capital.

Third, many other social institutions have power bases--for example, church, media, and fraternal/sororal organizations. In addition, there are divisions within the complete state apparatus--the military, the bureaucracy, and numerous state and local jurisdictions.¹⁷ During times of crisis, the federal state can be directly attacked in an attempt made to overthrow it. Many of the above institutions can be mobilized against the state.¹⁸

¹⁶German Ideology, p. 64.

¹⁷The position of a given country in the world capitalist order should also be included here. The threat of direct military intervention by a foreign power can play an important role.

¹⁸In the 20th century, there have been many internal civil wars fought to overthrow a progressive state--e.g., Spain, in 1936, Italy immediately after WW I, and many countries in Latin America.

Fourth, the state must be supported to carry out its activities. The capitalist state is stripped of independent means for self-support and must rely on taxes and loans. This dependence means that it is unable to embark on new major programs without widespread public support. Even with such support, the bourgeoisie may be still able to block a new program by denying loan support for the state.¹⁹

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The omnipotence of "wealth" is thus more secure in a democratic republic, since it does not de-pend on the poor political shell of capitalism. A democratic republic is the best possible political shell for capitalism, and therefore, once capital has gained control. . . of this very best shell, it establishes its power so securely so firmly, that no change, either of persons, or institutions, or parties in the bourgeois republic can shake it.²⁰

These words by Lenin reflect the Marxist position that parliamentary democracy is the best form of organization for the capitalist state. As has been argued above, the function of the state is to ensure social cohesion by claiming to represent the general interest of the whole society. Also, it must be able to mediate the class struggle. What better way could there be to accomplish these ends than to have representation in the state apparatus determined by universal suffrage?

¹⁹ Rudolf Goldscheid, "A Sociological Approach to the Problem of Public Finance," in Classics in the Theory of Public Finance, Musgrave and Peacock, eds. (New York: MacMillan, 1958), p. 203.

²⁰ V. I. Lenin, State and Revolution (New York: International Publishers, 1969), p. 14.

In addition, bourgeois ideology is perfectly mirrored in this form of organization. Capitalism developed out of feudalism. One of the first and most important political struggles of the transition was to take away the personal privileges of the old landlord class. Similarly, the development of the proletariat was based on the destruction of personal servitude. The basic principles of the bourgeoisie are "freedom, equality, property, and Bentham":

Freedom because both buyer and seller of a commodity, say of labor-power, are constrained only by their own free will. They contract as free agents, and the agreement they come to, is but the form in which they give legal expression to their common will. Equality, because each enters into relation with the other, as with a simple owner of commodities, and they exchange equivalent for equivalent. Property, because each disposes only of what is his own. And Bentham, because each looks only to himself. The only force that brings them together and puts them in relation with each other, is the selfishness, the gain and the private interests of each.²¹

Supposedly irrelevant in the political process, class status is also supposedly meaningless in the legal arena.

²¹Karl Marx, Capital, 3 volumes, ed. by Frederick Engels (New York: International Publishers, 1967) I, p. 176. Hereafter cited in the text as Capital. Several Marxists have postulated that the difference between bourgeois and Marxist theorists is that the former use the exchange process as an analog for their theory while the latter use the production process.

An elaborate system of rules and institutions develops based on abstract and "universal" principles of freedom, equality, etc. Only human weakness and greed undermine their effectiveness. Liberal reform wishes to return to these principles and ensure their proper application. By doing so, the class basis of capitalism is treated as an irrelevant factor.

This organization separates the political, ideological and economic class struggles from one another. It denies that the total effect of social institutions on workers comes from class relations. It makes people struggle as individuals or in small groups around particularized and parochial interests which leads to divisions within the working class making it more difficult for it to fight as a united body against capital. It is precisely this last result that guarantees that the democratic capitalist state with limited autonomy serves the political interests of the bourgeoisie.

However, this does not mean that parliamentary democracy is without contradictions. Since the state does have power, different capital units compete to have the state act in their behalf. This process supposedly guarantees that the interests of the whole capitalist class are

advanced. As O'Connor has shown in The Fiscal Crisis of the State, this type of "interest-group" politics is inefficient and undermines overall state planning and fiscal strength. In addition, the apparent autonomy of the state is undercut in the public mind; a common belief arises that there is much collusion between business and government.

Finally, in spite of all the inequities, the working class, through a labor party, can win control over the state apparatus. In office, they can use state power against the immediate economic interests of the bourgeoisie. As discussed above, there are strict limitations as to how far these policies can be pursued.

Section 3: The Functions of the State

As an institution for social cohesion under capitalism, the state assumes four major roles; (1) it attempts to prevent the revolutionary organization of the working class; (2) it regulates capitalist competition; (3) it provides certain necessary services; and (4) it is the representative of domestic capital in the international arena. Each of these roles must be analyzed with respect to the primary contradiction underlying state activity--the

necessity for the state to present itself as acting in the general interest while at the same time being an instrument for class domination.

But, before discussing the functions of the state, it is necessary to list the powers that it does have. These powers fall into three groupings--judicial/legislative, military/police, and economic.

The state is responsible for setting up the laws of the land. These laws codify the conditions necessary for the smooth running of the system of private property relations. The struggle around the formation of these rules was an important battle in capitalism's drive to free itself from the feudal barriers. New rules were necessary to establish clearly the new property and social relations. The history of contract law, bankruptcy, etc., is a history of the development of the definitions of the precise way in which people could interact. Capitalism found it necessary to specify the rights and responsibilities of all involved parties. These rights do not come from abstract principles but are based on the particular property relations of capitalism.

The power to enforce its enactments over the working class and individual (and foreign) capitalists is a

necessary condition for the state to be effective in performing its functions. Its legislative and judicial systems must have recognized validity. The basis of this validity lies in the state's police and military might. It is this power that guarantees that order will be maintained and property protected.

The development of capitalism has led to the state's taking exclusive control over the organized means of violence. At one time, many state functions were partially provided privately. In the U.S. in the late 19th and early 20th centuries, Pinkerton armies fought workers on strike. Also during this period, company towns existed in which the main law-making and judicial bodies were not public institutions. However, as production became more interdependent, the state, as representing the generalized interest of the bourgeois class, had to become the sole 'independent' arbiter over the particularized interests of competing capital units. Without power, the state cannot perform its functions; without the domination of organized power, it cannot represent the general interest over independently powerful particularized interests.

It should also be noted that force and violence take many forms, not always systematically organized. The whole

thrust of Marx's analysis shows that the apparently free worker is compelled to sell his/her labor power. This coercion is predicated on the existence of poverty and starvation. In addition, in the production process itself, workers are continually in a repressive environment. However, the major systematized repressive apparatus of courts, jails, police, and army are concentrated in the state.

Finally, the state has economic power. It hires many workers, buys from private industries, regulates money and credit markets, collects taxes and in general affects the business climate. The state takes responsibility for the organization and reorganization of the economy. Its policies have large effects on the size of total output and the distribution of that output between classes.

(A) Prevention of the Revolutionary Organization of the Proletariat

The capitalist state attempts to govern with the consent of the working class; it consciously tries to develop working class loyalty to itself. It does this in two ways: (1) by arbitrating conflicts between capital and labor and enforcing its decisions, and (2) by providing support services for members of the working class.

The nature of capitalist competition makes it impossible for individual employers to give major concessions to their workers. Without a way for concessions to be given in a systematic, orderly fashion, the working class would be driven to organize. Hence, all major changes in work conditions--the length of the working day, occupational health and safety, minimum wage--have been granted through the state.

Similarly, the State plays a significant role in regulating and controlling capital/labor relations. Unions are recognized by law and all forms of their activity are carefully specified. In addition, federal arbitration and mediation panels are intended to facilitate negotiations. Finally, in many countries, the state has intervened even more directly in the form of incomes policies (in the U.S., this is called wage-price controls).

The purpose of these procedures is to present the nature of social change as a reasoned bargaining process between competing interests with the government as umpire working for the best interests of all involved. As Michael Zweig has said: "It is essential that legislation be the proximate source of reform, thereby masking the real source, class struggle, thereby making that struggle less likely and less understood."²² Hence the working class is

²²"History of the U.S. State" (mimeo, no date), p. 5.

encouraged to turn to the state to air its grievance and expect some sort of relief.

Another result of this process is that working class struggles against the capitalist appear directed against the state and society as a whole. This illusion provides the rationale for the use of the state's judicial and military apparatus against the working class.²³

Whenever the state acts as arbitrator, it may either repress the working class or concede to their demands. Its decision depends upon the concrete historical circumstances and the balance of class forces present at the time. When the state decides in favor of capital, the full force of state power usually stands behind the decision. When the state decides in favor of labor, capitalists, because of their control over the means of production and because of their dominance of state legislative and regulatory agencies,²⁴ can weaken the impact of the decision. Even when the state takes up a working class demand, it interprets it in the least dileterious manner

²³There is a long history of this form of state intervention. Cf. "Soldiers and Strikes," United Front Press pamphlet, no date. Lenin in The Proletarian Revolution and Renegade Kautsky (Moscow: Progress Publishers, 1934), says: "There is not a single state, however, democratic, which has no loopholes or reservations in its constitution guaranteeing the bourgeoisie the possibility of dispatching troops against the workers, of proclaiming martial law and so forth" (p. 21).

²⁴Marx cites protective legislation and how it could not be implemented because of lack of funds for staffing.

to capital.²⁵ The class basis of the state is so pronounced that even a victory of the working class is hollow, and protracted struggle is necessary to ensure its implementation.

In addition, the state relates in a second way to the working class through the provision of services. The state has assumed the responsibility for supporting 'non-working' sectors of the working class (cf. Chapter IX for further discussion). At one time, other social institutions mainly provided these functions if they were done at all. But as contemporary capitalism has developed in the advanced capitalist countries, the state has expanded its coordinating function to include these activities. In fact, in many countries today, the state has a verbal commitment to provide jobs for the unemployed.

(B) Regulating Capitalist Competition

"The state does not substitute for the competitive arena, but rather is aligned next to it."²⁶ The state's

²⁵Cf. Weinstein, Corporate Ideal in a Liberal State (Boston: Beacon Press, 1967), on capital's backing of working class demands and transforming them in such a way to meet their own ends.

²⁶Elmar Altvater, "Notes on Some Problems of State Interventionism (I), Kapitalistate, 1 (1973), p. 99.

primary function in this area is as collective law and standard maker. The essential element in the formation of laws is the concept "equality of conditions." Each capitalist tries to exploit his workers as much as possible. The state answers "the cry of the capitalist for equality in the conditions of competition, i.e., for equal restraint on all exploitation of labor" (Capital I, p. 270). Otherwise, since "capital is reckless of the health or length of life of the laborer" (Capital I, p. 270), the workers will be forced to organize to protect their living standards.

Equality of conditions applies to more than just the way in which capital confronts labor. The state establishes production and business standards--patent regulation, minimum product quality standards, regulation of fraudulent business practices, pollution control, etc. It attempts to ensure that no one capitalist has a unique advantage over the rest. There may be honesty among thieves, but it is not enough to ensure normal or expanded reproduction. For this, a state is necessary.

Equal opportunity, not equality, characterizes capitalism. The reforms to upgrade production that the state imposes require a greater outlay of capital and "hasten

the decline of the smaller master and the concentration of capital" (Capital I, p. 477). This places the state in a contradictory role with respect to small capital and the petit-bourgeoisie. On the one hand, the government wishes to ensure the loyalty of these sectors and gives concessions to them (e.g., Small Business Administration and its practices in the U.S.); while, on the other hand, policies are instituted which destroy the economic foundation of these peoples' lives.

In addition to these roles, the state is also an arena for intra-capitalist class struggles. Since the participants have equal social claim to power (they come from the same class), the outcome is dependent on the relative mobilization of political power. Thus anti-trust legislation in the U.S. has consistently been used by one large firm against another. Similarly, there is much competition for government contracts and special tax relief.

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A second major function that the state performs in this area is the coordination of production process. The state's provision of services will be covered in the next subsection; here, the question is regulation. The state

monitors pure monopolies and ensures that they receive the normal rate of profit for large capital. Similarly, the state grants subsidies to some industries. These measures guarantee normal profits at specified levels of price and output.

In addition, many state activities may complement the needs of capital or in fact be direct gifts. For example, U.S. land grants to the railroads were necessary for private expansion in this area. Similarly, the provision of an extensive network of roads (which will be discussed in the next subsection) makes automobile travel easier.²⁷

Finally, the state is responsible for crisis prevention--combatting and attempting to rectify breakdowns in the social system of production. The purpose of Keynesian analysis is to provide the monetary and fiscal tools to pursue this policy. This role places the state directly in the capital/labor struggle. Thus, in order to prevent capitalist crises, the government must underwrite profits.

²⁷Cf. Fiscal Crisis, Chapter 4, on complementary state investments.

(C) State Provision of Goods and Services

Most state activities originate in the state's coordinative, regulative, and repressive roles discussed above. The nature of these programs implies that they cannot be provided privately--they reflect the "common interest." Similarly, they are not consumed individually but represent society's collective consumption.

However, these state programs have large economic effects. In Chapter VI, a distinction will be developed between state purchases from the private sector and activities undertaken by the state itself. Expenditures on the latter type programs are deductions from capitalists' profits and workers' wages. Hence, expansion of these programs potentially undermines capital expansion. However, when the state purchases goods or services from private capital, it is organizing a form of collective that expands the demand for the output of capital (cf. further discussion in Chapter VI).

Another explanation of direct state provision of goods and services is non-profitability. This must be explained on three levels. First, Marx discusses state projects that require large initial capital investments and whose return comes over a long period of time.²⁸

²⁸A typical passage is "undertakings requiring a long working period and hence a large investment of capital for a long time such as the building of roads, canals, etc., are not carried out on a capitalist basis at all, but rather at communal or state expense" (Capital II, 233).

These activities, such as major infrastructure costs of roads, are too costly for private capital.²⁹ The state, as an expression of the collective interest, assumes the responsibility of providing these activities.

Second, industries producing some essential good or service sometimes become unprofitable with no prospects of this changing, either because of poor management, competition from abroad, or technology that creates a new product that undermines the consumption base of the declining industry. Faced with potential bankruptcies and disputation of services, the state frees capital of this dead weight.³⁰

Third, the state may take over a sector that is providing a necessary service to the working class but at a very high price. This rarest case of state provision of services often pits one sector of capital against capital as a whole. The most prominent example of this phenomena is the socialization of health care. Interestingly, the people who lose the most by this policy, doctors, are not capitalists but petit commodity producers. However, even supposing that massive working class sentiment could

²⁹There are exceptions to this pattern--e.g., railroad construction in the 19th century.

³⁰Cf. Fiscal Crisis, Chapter 7 on nationalizations.

possibly force a section of capital to be nationalized-- e.g., public utilities--such nationalizations historically have not changed relations at the point of production. These firms operate in a capitalist market and are controlled and run by the same sort of managers that are at the helm of private concerns.

And finally, the way in which the state becomes an active provider of a service is based on the ideological content of the activity. This means that when an activity must be presented as being performed for the general public good, it is inappropriate for capital to provide the service on the market. In addition, in order to ensure that enough of this activity is consumed, it must be subsidized. The prime examples of this type of state programs are education and health care.

Milton Friedman has pointed out that it is not necessary for the state to be the provided of education. A minimum amount of education could be ensured by giving educational grants, having education be mandatory, and providing it privately. There has been no move in this direction because the leading spokespeople for the bourgeoisie understand the need for the "relatively neutral

state" to provide education. If education were provided on the basis that Friedman suggests, the class nature of differences in quality would be much more apparent. There would be a strict hierarchy of schools based on cost. Class reproduction would rigidify, and the myth that capitalism is meritocracy exploded.³¹

The needs of the productive process determines how much education will be provided. Spring³² has shown that leading sectors of the bourgeoisie were the spearhead of the drive for compulsory mass education in order to rationalize training costs and also to use the schools increasingly as an important socializer of bourgeois values and ideology.³³

(D) State International Policies

Our final category is the state's role in the international arena in the competition between national bourgeoisies. This activity most closely fits into state provision of a service. However, I present it here as a separate category because of its importance in the contemporary world.

³¹Educational tracking does exist today. It comes about because of housing segregation on the basis of class.

³²Joel Spring, Education and the Rise of the Corporate State (Boston: Beacon Press, 1972).

³³Cf. Samuel Bowles and Herbert Gintis, Alienation and Inequality (New York: Harper Colophon Books, forthcoming).

The primary basis for this role is the state's control over the massive apparatus of organized force. In the world arena, it is quite clear that "political power comes from the barrel of a gun." In addition, the state mobilizes people at home to support its international politics. This activity is very important because the state, representing the general interest, is in a very good position to organize patriotism and the resulting national identification has always been a force used to pacify internal class struggle.

A secondary basis for the state's role in this area is the need to have organized, regulated trading procedures. The state represents the interests of capital in general when it arranges international monetary affairs including balance of payments adjustments. International trade has been an area of great intra-capitalist class struggle. State policies, such as tariffs, trade barriers, tax write-offs, currency re-evaluations, etc., usually have different effects on different sectors of capital--some benefit, some lose. Hence, the process through which the state decides the "general interest" is characterized by struggle between different capital units.

In contemporary capitalist society, the largest capital units are multi-national in character. Hence, in addition to their great domestic economic power, they have another lever to ensure that their interests are furthered by state actions. Because they are able to transfer resources between countries, they can threaten to shut down local facilities in response to adverse government decisions.³⁴

There are, however, many contradictions to the state's international practices. First, international constraints may constrain domestic policy options, particularly in the monetary area. A strongly negative balance of payments position inhibits expansionary monetary policy because interest rates would fall, causing the outflow of capital and thus exacerbating the balance of payments crisis.³⁵

Second, there are great direct and indirect expenses necessary to defend the international investments of domestic capital. The U.S. has a standing army of considerable size with troops stationed throughout the world. This military machine must be supported by taxes from wages and profits and creates a large drain on the U.S. balance of payments accounts.

³⁴ Stephen Hymer, "Internationalization of Capital," Journal of Economic Issues, 6, No. 1 (1972), p. 91.

³⁵ There are many cases of this. Read Herbert Stein, Fiscal Revolution In America (Chicago: Chicago Univ. Press, 1969), on the history of the U.S. state during the 1950's and 1960's.

Third, wars are inevitable. In response to foreign domination, national liberation struggles have begun throughout the world in dozens of countries. The long and valiant struggle of the people of Southeast Asia (particularly Viet Nam) has demonstrated that the U.S., the greatest capitalist power in the world today, is not invincible. In addition, wars between various imperialist powers have occurred regularly and remain a distinct possibility in the near future.

Finally, the class nature of the state is most clearly evident in its international policies. As Lenin noted, "In no bourgeois state, not even in the most democratic, is it [foreign policy] conducted openly."³⁶ The secrecy is necessary because only capitalist interest is involved here; workers gain nothing. They are only asked to support these efforts through their taxes and to be ready to be soldiers during the war. It is no puzzle then why anti-imperialist consciousness develops in response to expansionist state policies.

³⁶V. I. Lenin, The State (New York: New Century Publishers, no date).

PART II

MARXIAN ECONOMIC THEORY

CHAPTER III

MARXIAN VALUE THEORY

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MARXIAN VALUE THEORY

In the Introduction, I emphasized that this work would be firmly rooted in Marx's labor theory of value. My reasons for this procedure will be discussed in the first section of this chapter. The rest of the chapter is a brief presentation of Marxian value theory. The rest of the thesis draws on this theoretical framework. The second part of the chapter will be divided into three sections: basic principles of Marx's labor theory of value, the division of the surplus value pool among capitalists, and the distinction between productive and unproductive labor.

Section I: The Necessity of Using a Value Theory for Studying The Capitalist State

Dialectical analysis posits that an understanding of any single social institution--like the state--can only be attained by first studying the total social context in which that institution exists and the role that institution plays in the social whole. Hence, in order to understand the economic functions of the capitalist state and the impact of state activity on the economy, it is necessary to

study the functioning of the capitalist economy. Then, state activity can be placed in its appropriate position and evaluated accordingly.

For Marx, the crucial factors of capitalism center around the division of society into classes. Class interests are fundamentally antagonistic. Therefore, the purpose of social, and particularly economic, categories is to uncover the social relations involved--i.e., to show how different classes are connected and, hence, give the basis for their interaction. The categories should define the content and give the limits of the social struggle. They should be able to show the specific interests of each of the social classes involved and the way these interests conflict with one another. The Marxian theory of contradictions and inevitability of crisis under capitalism is precisely the attempt to define concretely the nature of the class struggle.¹

Marx's value theory provides the basis for understanding the crucial elements that determine the development

¹It should be clear that social scientific categories can only be applied to a specific mode of production. The categories that Marx develops in his works and that will be used here are only applicable to capitalism.

of capitalist society. In Marx's terms, value theory uncovers the basic "laws of motion" of capitalism. Its major focus is on how change is generated--on which forces affect the origin, and development of society and its institutions.

Value theory is not a price theory as such. It attempts to show what forces are acting on (Marx uses the terms "compels" and coerces") individual capitalists and laborers. For example, workers are free in a double sense--they lack both personal ties and means of production. Because of this last "freedom", they must enter into a wage labor relation--they must sell their labor power--in order to support themselves and their families.

Specifically, Marx's value theory exposes how the incomes of each of the major classes are derived and how they are connected with one another. This analysis is accomplished through his theory of surplus value--the capitalist appropriation of unpaid labor time.² This appropriation is the most fundamental relationship of capitalism.³

²Marx considered this discovery his major achievement.

³"The specific economic form in which unpaid surplus labor is pumped out of direct producers determines the relationship of rulers and ruled as it grows out of production directly and in turn reacts upon it as a determining element. Upon this, however, is founded the entire formation of the economic community which grows up out of production relations themselves thereby simultaneously its specific political form." Karl Marx, Capital, 3 volumes, ed. by Frederick Engels (New York: International Publishers, 1967) III, 791. Hereafter cited in the text as Capital.

The power of each class and the basis of class struggle between and within classes are rooted in this social process.⁴

Without showing the inner connection between the incomes of each class, there can be no understanding of class relations and no basis for class struggle.⁵ Thus, bourgeois economists, working without Marx's concept of value, erect a theory based on harmony rather than conflict. For example, the invisible hand concept holds that each individual's (not class's) interest is in concert with the interests of society in general.

Section 2: Fundamentals of Marx's Labor Theory of Value

Marx begins his analysis of capitalism with a discussion of the commodity. The first sentence of Capital reads: "The wealth of those societies in which the capitalist

⁴Marx wrote about four major classes--capitalist, proletariat, landlord, and petit bourgeois. He also showed the division of the capitalist class into three major fractions--industrial, commercial, and financial--and the proletariat into productive and unproductive labor.

⁵Marx commented on classical economists by showing that in their theory "different revenues do not stand in any hostile connection because they have no inner connection whatsoever." Karl Marx, Theories of Surplus Value, 3 Parts (Moscow: Progress Publishers, Part I, 1963; Part II, 1968; Part III, 1971), III, 503. Hereafter cited in the text as TSV.

mode of production prevails, presents itself as an immense accumulation of commodities" (Capital I, p. 35). In the Introduction to Capital, Marx calls the commodity the 'cell form' of capitalism. It contains within it the simplest synthesis of the form and contradictions of capitalism.⁶

Marx defines a commodity as a product of labor that is produced for the market and has a use for the final consumer. A commodity need not be a material object but can be a service--e.g., a barber giving a haircut. The following would not be commodities according to this definition: air--not a product of labor; a homemade article of clothing--a product not exchanged, land--not a product of labor.

A commodity has three 'values.' It has value because part of society's labor power was expended on its production. It also has both use and exchange values. Use value is based on the material properties of objects--how much satisfaction a particular object affords a particular consumer. On the other hand, exchange value is dependent on the social setting in which the commodity is exchanged. It is not something absolute or a property of things, but

⁶Cf. For further discussion of this point, Martin Nicholas, Forward, Grundrisse, by Karl Marx (Middlesex, England: Penguin Books, 1973), pp. 38-9.

it is "only something relative, the relation of things to social labor, social labor based on private exchange, in which things are defined not as independent entities, but as mere expressions of social production" (TSV III, p.130). "In other words, the value of a commodity obtains independent and definite expression by taking the form of exchange value" (Capital I, p. 60).

Since capitalism is characterized by production for the market, we must understand how these exchange relations reflect and are based on social relations. The forces which affect exchange value play a crucial role in determining the development of capitalist society.

In order to determine the quantitative relationships in exchange--how much wheat exchanges for how many yards of linen--one must find a common element. Any measure serves precisely this function--one pound of feathers and one pound of iron possess the same quantity of mass. Use value considerations do not suffice because they do not possess any measurable, definable, objective common element. Marx locates the common elements of commodities in the fact that they are all products of labor.

But all labor is not the same nor is production carried out under identical circumstances. Because of

their differences, Marx finds a two-fold character in the labor employed in commodity production. First, there is concrete labor--the specific work of sewing, forging, stamping, etc. It is this type of labor that is associated with the use value of a commodity. The second form of labor is abstract labor. This quality of labor derives its existence from the fact the expenditure of labor is part of society's total labor pool. This labor pool consists of the labor power of all workers and their various skills. This total pool can be broken up into units of simple labor time. This unit is based on the laboring activity of an unskilled worker under average conditions of production. Skilled labor time or labor working with advanced conditions of production must be evaluated more highly. Hence, skilled labor is weighted as a multiple of simple labor time.

Abstract labor, in the form of socially simple labor time or "socially necessary labor time," is the common measure that is the basis of the exchange value of commodities. Two qualifications must be added. First, abstract labor is based on the average conditions of production. The output of a firm with a backwards technique will not be evaluated according to the socially simple labor time embodied in it. It will, however, be evaluated at the socially necessary labor time of firms which operate

under average conditions. These average conditions change over time.

Second, even labor expended under average conditions may not be realized at its full value. If all weavers with the same technology produce more cloth than is desired under the existing state of demand, then part of each weaver's labor is redundant and will not realize its full value. Too much of society's labor power has been expended in weaving relative to other activities. This result is exposed in the market via the pricing mechanism. Market prices temporarily become different from their labor-time-determined value. In this case, the selling price of cloth will be lower than the amount of socially simple labor time embodied in its production.⁷

Use value considerations--the state of demand--are instrumental in determining the allocation of social labor power to the various sectors of production: they affect price, not value.⁸ A misallocation of labor power

⁷In this example, we assume that goods normally sell at their value. This is a necessary assumption at this point in the development of the theory. At a later point, we will see that this assumption is no longer valid. Cf., Capital I, footnote p. 167.

⁸This situation applies strictly with constant returns to scale. With non-constant returns, the level of social demand determines how much output and how much per unit labor time is required. In these circumstances, demand has an affect on the exchange value of a commodity.

will be exposed by price changes and lead to capital movements between sectors to adjust the situation.

The next step in Marx's exposition is to explore the exchange of commodities between independent commodity owners. This exchange is fundamentally characterized by an exchange of equivalents--i.e., the socially necessary labor time embodied in each good is equal. If equal amounts of labor time are not exchanged, then one bargainer has gotten the better of the other: one side has given up less labor time in return for more.

This fact means that no value can be produced in the exchange process. Value is produced in production: it can be slightly redistributed in exchange. There is no reason, however, to assume that there is a systematic pattern by which a certain group of people are able to continually give up less labor time for more.⁹ In other words, profit cannot be based on exchange relations. The origin of profit must be in production and must be based on an exchange of equivalents.

⁹It will be shown later that this is not strictly true. Commercial outlets buy goods from manufacturers at less than their value and then sell them to the public at their value. This intermediary function only means that commercial capital is able to share in the surplus value produced in production. The final sale occurs according to value considerations.

In further analyzing the exchange process, we find that money is necessary to facilitate the exchange of commodities between people. In a barter economy, goods develop exchange ratios with each other. Any one good can be put into a quantitative relation with all other goods. Any good has the potential of becoming a money commodity. A money commodity is a universally accepted social standard to exchange goods. If I have apples and want wheat, I do not have to find someone who has wheat and wants apples. I can exchange my apples with any one who wants them and has enough of the money commodity. I know that I can use that money to buy the wheat that I desired.

With the development of commodity circulation, money becomes more than just a medium of circulation. Other roles include: (1) measures of value. It fixes value in a monetary form. A given amount of labor power of a given type becomes associated with a certain amount of money; (2) standard of price. It provides the mechanism for social labor to be allocated to the various sectors of production with the variation of price from value; (3) means of payment for all goods, debts and claims; (4) store of value. It represents control over labor power and commodities. A person does not have to use money immediately but can wait and plan to use it at a later date. I will show later how these roles contain certain contradictions and can lead to several different types of money crises.

Having laid these basis of the exchange relations of capitalism, Marx then develops his theory of surplus value. The classical economists had tried unsuccessfully to develop an analysis of the origin of profits with a labor theory of value without employing a theory of exploitation. It seemed that if eight hours of labor were employed, that labor had to be paid eight hours worth of value. Marx solved this problem by developing the distinction between labor and labor power. It is not eight hours of labor that is being bought but the labor power of eight hours. The expenditure of the eight hours of labor is the use value of that labor power. The exchange value of the labor power is determined just like any other commodity--by the socially necessary labor time needed to reproduce that commodity.

The wage--the exchange value of labor power--is the monetary expression of the labor time embodied in the commodities to reproduce the working class. It is not an individual wage but a family wage. It includes the costs of raising and training the future labor force. Marx did not believe that wages tended towards a biological subsistence level. He said that the wage contains a moral or historical element. Hence, the 'subsistence wage' is a relative term applying to the specific society in which it is set. Because it is not a fixed standard, the concept of subsistence is set by the struggle between capital and labor.

Under capitalism, the labor time represented by the wage must be less than the labor time expended during a normal working day. Yet, the worker works the whole day and adds value to the product throughout the day. The difference between the total value added and the value represented by the daily wage is appropriated by the capitalist: Marx calls this value difference surplus value.

In other words, the working day can be divided into two parts. The first part represents the wage--paid labor time; the second part is unpaid labor time--surplus value. The first part is the source of income of labor while the second that of the capitalists. All capitalist income is the appropriation of unpaid labor time. The ratio of surplus value to the wage is defined as the rate of surplus value or the rate of exploitation. Exploitation is defined simply by the fact that the total output of the direct producers is not completely appropriated by themselves.

The production process includes more than just the use of labor. The other requirements are: raw materials, instruments, machines, fuels, and land. They are a necessary part in the making of the final output. All these factors, except land, are commodities; land is not a product of labor.

Marx divided the outlays a capitalist must make in order to initiate production into three types. The first type is the money paid as rent and interest on borrowed capital. The factors affecting these amounts will be discussed in the next section of this chapter. The second type is the money paid out as wages. And finally the third amount represents purchases of goods from other capitalists or independent entrepreneurs.

The last two types of outlays Marx calls variable and constant capital. The difference between the two types is that in the case of variable capital, the value added to the product is different from the value advanced; in the case of constant capital, it is not. The value of the items of constant capital is merely transferred to the product. An object can transfer no more value than it contains.

The production of goods and services require a certain amount of labor expended. Some of it is direct or 'living'; some of it is embodied in past products. If a machine lasts 100 days and is involved in the production of 10,000 articles, then the socially-necessary labor embodied producing that machine is part of the socially necessary labor time to produce the whole 10,000 articles. Hence, the value of the machine is spread out evenly over the sum of

ten thousand articles. The confusing element in this process is that a machine lasts over a long period of time and many production periods.¹⁰ It functions as a whole throughout the entire period but gives up its value piecemeal.

It is only that portion of the outlays that is spent on wage labor that leads to surplus value. The constant capital elements are labelled capital because they are necessary to the production process. Land is necessary but is not a product of labor; hence, it does not add value to the product. The value of a commodity, the socially necessary labor time embodied in its production is equal to the sum of constant and variable capital and surplus value. The ratio of constant to variable capital is called the organic composition of capital.

There are two ways to increase the amount of surplus value--absolute and relative surplus value. Absolute surplus value is created when the length of the working day is increased with the exchange value of the labor power remaining constant or increasing less than the increase in the value added. Relative surplus value concerns the division of the working day between capital and labor. The capitalists struggle to decrease the paid portion of the working day and hence increase the unpaid portion.

¹⁰The impact of this time factor on capitalist production will be discussed in the section 3 of this chapter.

Capitalists can garner relative surplus value in three ways. First, the labor time embodied in the commodities which workers are accustomed to consuming can decrease. This can lead to a decrease in the amount of paid labor time. In fact, the number of use values in the worker's consumption bundle can even increase as long as the labor time represented in that expanded bundle is less than it previously was.

Second, the intensity of the working day can be increased over its average level--more output produced in the same time. This means that more value is produced while the exchange value of the labor power has remained the same. This excess value is appropriated as increased surplus value. It should be noted that this factor only applies to increasing the intensity over its average level. If all firms increase the intensity of the working day equally, this heightened level becomes the new average and no firm reaps relative surplus value.

Third, an individual capitalist can introduce new technology that embodies less labor time in each unit of output. Goods sell at a value representing the average conditions of production. If a firm is more efficient than this average, then that efficiency leads to extra profit; its production costs will be less than the monetary value

of the socially necessary labor time required for that output. In value terms, this excess stems from the fact that the labor employed in this firm becomes unique and hence is evaluated more heavily--it creates more value in the same amount of time.¹¹

Marx comments on this phenomenon as follows:

Machinery produces relative surplus-value; not only by directly depreciating the value of labour-power, and by indirectly cheapening the same through cheapening the commodities that enter into its reproduction, but also, when it is first introduced sporadically into an industry, by converting the labour employed by the owner of that machinery, into labour of a higher degree and greater efficacy, by raising the social value of the article produced above its individual value, and thus enabling the capitalist to replace the value of a day's labour-power by a smaller portion of the value of a day's product. During this transition period, when the use of machinery is a sort of monopoly, the profits are therefore exceptional, and the capitalist endeavours to exploit thoroughly 'the sunny time of this his first love,' by prolonging the working-day as much as possible. The magnitude of the profit whets his appetite for more profit. (Capital I, p. 406)

As can be seen from the above example, it is in the interest of the individual capitalist to innovate. The edge is two-sided: extra profit if you are first and less profit if someone else innovates first and undersells your

¹¹"The exceptionally productive labour operates as intensified labour; it creates in equal periods of time greater values than average social labour of the same kind" (Capital I, p. 318).

product. For Marx, technology meant the replacement of labor by machinery--a replacement of variable by constant capital--resulting in less labor time used for the production of the same article. This can only occur through accumulation or expanded reproduction--the transformation of part of last period's surplus value into variable and constant capital.

The fact that it is the capitalist who decides whether to invest (they are the initiators of production under capitalism) gives the impression it is they who are saving--abstaining from consumption or waiting--and hence merit a return for this act. This justifying of capitalism by its very own institutions is absurd. Everything that has been produced has been done so by laborers. The means of production that confront labor as the property of the capitalist are nothing but the product of labor. "The capitalist can advance the worker nothing except what he has taken previously from the worker" (TSV III, p. 93).

The accumulation process leads to several consequences. First, the amount of capital that is needed to begin an endeavor increases. (Marx calls this phenomena the 'concentration of capital'). This increase occurs because technology expands the production process and enlarges the social

division of labor. More labor and more machines are employed by individual capital units.

Second, large firms are usually able to incorporate new innovations more easily because of their easier access to credit and other mechanisms. Hence, smaller firms are increasingly driven out of production. Marx calls this phenomenon 'centralization of capital'--the increased share of output of an industry by fewer and fewer firms.

Another consequence of the accumulation process is that the organic composition of capital rises--the share of constant capital increases. This means that the relative demand for labor decreases. In fact, unless there is a period of great accumulation, Marx postulates that the absolute demand for labor, which is relative to the existing amount of capital, will not be enough to employ all labor. Marx describes how labor is alternatively attracted and repelled from production. The net result of extended reproduction is the creation of a surplus labor army (or reserved army of the unemployed).¹² Though its size may vary,

¹² "There are two tendencies which constantly cut across one another; firstly, to employ as little labor as possible, in order to produce the same or a greater quantity of commodities, in order to produce the same or greater net produce, surplus-value, net revenue; secondly, to employ the largest possible number of workers (although as few as possible in proportion to the quantity of commodities produced by them), because--at a given level of productivity--the mass of surplus-value and of surplus-product grows with the amount of labor employed. The one tendency throws the laborers on the streets and makes a part of the population redundant, the other absorbs them again and extends wage-slavery absolutely, so that the lot of the worker is always fluctuating but he never escapes from it" (TSV II, p. 573).

there is always a pool of laborers looking for employment (cf. Chapter IV for further discussion).

It is important to note that the revenues (incomes) of each of the social classes are merely claims to a portion of the output; they are not in themselves a source of value (as Smith postulated). There are no a priori laws concerning the distribution of the revenues. Hence, where there are equal rights, struggle decides. But one result is necessary--the social relations of production must be reproduced at the end of each production period. The working class must be left with nothing to sell but their labor power while the capitalists have capital available to hire labor in the next period.

Section 3: The Division of the Surplus Value Pool

Throughout the first two volumes of Capital, there is no mention of profit, Marx's sole concern being the interaction between collective capital and the working class. Hence, surplus value is an abstract category; profit is the monetary expression of surplus value, and it is profit that is realized in actuality in the market.

Profit though must be transformed into a profit rate. Capitalists wish to maximize their total amount of profits and they do this by investing their capital where the profit rate is highest. As a first approximation, the profit rate can be defined as the ratio of surplus value realized

to capital advanced--the sum of constant and variable capital. If goods sell at their value, then industries with a different amount of capital advanced and the same rate of surplus value will have different profit rates and hence realize different quantities of surplus value. The industries with a lower organic composition of capital--i.e., more labor intensive--will realize more profits.

There is no reason for capitalists to voluntarily accept a lower return on their capital. Capital will always have the tendency--unless there are some sort of barriers--to flow from low profit sectors to high ones. This results in the transformation of the profit rate into a general rate of profit. This general rate will be the rate that all industries move towards. At any given moment in time, some industries will have higher profit rates than others. Similarly, at any moment, different firms, even within the same industry, will have different rates of profit. It is the prospect of making higher returns that causes the flow of capital.

Another aspect concerning the average rate of profit concerns time. Profit rates must be equalized for a given amount of capital advanced over a given period of time. A problem arises because some portions of constant capital last more than one production period and because different

production and circulation processes occur over differing time periods. To explain their differences, Marx develops the distinction between fixed and circulating capital. The latter transfers its entire value during one production period; the former does so over several periods. By combining fixed and circulating capital effects with the effect of the time of production and circulation, Marx develops the notion of turnover time. This concept enables one to get a measure of the capital needed for production in an industry for a given time period, such as a year. It is against this measure that equal rates of profit must be calculated. Any inequalities will be worked out by movements of capital between industries.

This factor explains why a product such as wine will sell at a price greater than the value of the labor embodied in its production. While the wine ages the capital tied up must be drawing an appropriate amount of profit to it. The reason that this occurs is that "commodities are not exchanged simply as commodities, but as products of capital, which claim participation in the total amount of surplus-value, proportional to their magnitude..." (Capital III, p. 175).

This process results in value being transformed into price. As shown above, goods cannot sell at their value and still realize equal profit rates. The movement of capital causes commodities to sell at their "price of production." This equals cost price--wages plus the monetary representation of the value transferred by constant capital--plus the general rate of profit on the total amount of capital advanced adjusted for turnover effects.

It is important to realize that new surplus value is not created by this process. Its distribution among capitalists has changed such that each capitalist receives a return in proportion to the capital he/she advances. Hence, the position of the working class with respect to collective capital has not changed. The average rate of profit is the sum of surplus value extracted in production over the total amount of capital advanced.

Surplus value is not realized necessarily where it is created. This will only happen in industries that have the average organic composition of capital and average turnover time. What has changed is the precise composition of what is produced.

As a product of this analysis, Marx refers to capitalists as "hostile brothers" or to the process as "capitalist

communism." They are brothers to the extent they share in the benefits of exploiting the working class. They are hostile to the degree that each individual capitalist is at all times trying to maximize his/her share of the surplus value pool. This universal effort imposes the laws of value.

So far my analysis has only dealt with industrial capital. There are, however, other branches of capital--commercial and financial--and in addition rent to the owners of land. The revenues of these groups come from the pool of surplus value created in production: the industrial capitalist appropriates it and then shares it with these other sectors. As far as the working class is concerned, this factor does not change their relation to production. It does, however, provide a basis for divisions within the dominant classes--landlord and capitalist. At certain points in history, the working class has been able to use this to its advantage by allying with one fraction to make changes in its interest--e.g., the Ten Hours Bill was passed in England with the help of the landlords. However, the interests of the dominant classes are fundamentally in harmony, and they will stand together during times of a crisis.

Rent (a much more important problem in Marx's time than at the present) derives its claim to a share of society's output because it represents a payment to the monopoly ownership of a condition of production.¹³ There is no labor added by the land or the landlord, hence, there can be no value added. For the present study, it is unnecessary to show the value relations that lead to rent. The important fact is that rent is a subtraction from the surplus value pool and that collective capital would just as soon have the state collect rent and use it for collective purposes as give it to the landlords. Also, rent is an historical category; a change in the conditions of production can lead to a diminution in its importance. To some degree, this reduction has occurred with the development of agri-business. Locational rent still remains an important category, particularly in the urban environment.

¹³"Just as your ownership of one condition of production--capital, materialized labor--enables you to appropriate a certain quantity of unpaid labor from the workers, so my ownership of the other condition of production, the land, etc., enables me to intercept and divert away from you and the entire capitalist class, that part of unpaid labor which is excessive to your average profit" (TSV II, p. 40).

Industrial capital could sell its own products. However, it is more efficient for a form of capital to specialize in this function. In return for providing this function, commercial capital demands part of the surplus value created in production. Commercial activities add value to the product only to the degree that transporting, storing, and showing the goods are necessary to the smooth flowing of goods to consumers. All other expenses of selling commodities--e.g., advertising, displaying, and excess salespeople--do not add value and are paid for out of the surplus value pool. These activities reduce the turnover time of capital and thus allow more surplus value to be appropriated for a given amount of capital in a given amount of time.

Interest-bearing capital is the return to capital in a disguised form.¹⁴ With the development of the commodity economy, capital in the form of money develops a use value--that of being able to create surplus value. For a share of the surplus value pool, a person will lend his/her money to an industrial capitalist.¹⁵ Hence, industrial profit is

¹⁴Marx refers to interest-bearing capital as the most fetishistic form of capital. It is totally divorced from the production process and its source--unpaid labor time. It appears to come out of money as money and not out of a certain set of social relations. Cf. Addenda, TSV III, for further discussion on this point.

¹⁵ This process should not be confused with usury--lending for the purpose of consumption--which is a remnant of an earlier mode of production.

divided into two parts--interest and profit of enterprise. The latter term represents that part of the surplus value that forms the revenue of the capitalist active in the production process.¹⁶ There are no natural determinants of the rate of interest or of its share of the surplus value generated. In cases which put capitalist against capitalist, it is struggle and bargaining--supply and demand--that decides.

Section 4: Productive and Unproductive Labor

Another important distinction which reveals the capitalist social relations and the movement by which value circulates is the difference between productive and unproductive labor. Productive labor produces surplus value.¹⁷ It is exchanged directly with capital; that is, it is used directly in commodity production and is in a capital-wage labor relation. It reproduces the fund from which it can be rehired in the next period.

¹⁶Due to this division of labor within the capitalist class, it appears that profit of enterprise is a wage of supervision rather than the appropriation of unpaid labor time.

¹⁷"Productive labor is therefore labor which reproduces for the laborer only the previously determined value of his labor, but as an activity creating value increases the value of capital; in other words, which confronts the laborer himself with the values it has created in the form of capital" (TSV I, p. 397).

By contrast, unproductive labor is not exchanged with capital but with revenue--i.e., the incomes of the working class and bourgeoisie.¹⁸ Money spent on this exchange decreases, rather than increases, an individual's wealth. It does not create the fund to re-use this activity in the next period, nor does it lead to surplus value.

The difference between productive and unproductive labor is always determined from the viewpoint of the possessor of money. It is important to note that the material characteristics of the labor are of not significance.¹⁹ Only the economic relationship involved is determinant.

An example cited by Marx conveys the full meaning of the issues involved. If I hire a seamstress to come to my home to make a pair of pants, her labor vis-à-vis me is unproductive. It does not increase my wealth. The fund from which I can hire her labor again is not produced. If I go to a tailoring shop and have the same woman make me the same pair of pants, her labor is now productive. My

¹⁸"This also establishes absolutely what unproductive labor is. It is labor which is not exchanged with capital, but directly with revenue, that is, with wages and profit (including of course the various categories of those who share co-partners in the capitalist's profit, such as interest and rent)" (TSV I, p. 157).

¹⁹"These definitions are therefore not derived from the material characteristics of labor (neither from the nature of its product nor from the particular character of the labor as concrete labor), but from the definite social form, the social relations of production, within which the labor is realized" (TSV I, p. 157).

expenditure of money to buy the pants is still unproductive for me. However, her labor vis-a-vis the owner of the store is productive. The owner employs her labor power and sells the product for a profit. The fund to rehire her labor is reproduced and a surplus is realized. It is very important to realize that there are two relationships involved in this case--one productive and one unproductive.

A form of labor that is in a capital/labor relation but is unproductive is the labor power employed by merchant's and finance capital. Labor can only be productive if its use leads to the creation of value and surplus value. These sectors of capital are 'unproductive' of value; hence, the labor employed in them cannot be productive.²⁰

The final form of unproductive labor is the labor of independent commodity producers. In-home industry and peasant production, both the wage and the surplus labor time are realized by the owner/laborer. Marx clearly says that labor must be directly subsumed under capital in order to be productive. When Milton sold "Paradise Lost" to a publishing house for five pounds, his labor was not productive of surplus value even though the firm ended up making large profits. This case is an example of simple commodity exchange where one party got the better of the deal. If

²⁰ For further discussion of this issue, cf. Ian Gough, "Marx and Productive Labor," New Left Review, 76 (1972), pp. 47-72.

Milton had had a contract with the firm to write the poem, he then would have been a productive laborer.

Marx shows that the advance of industry makes it possible to hire more unproductive labor. However, such hiring is only a potential because it implies that money formerly used as capital is now being used as revenue. This is contradictory because capitalist production is based on the continual expansion of value not on its being expended on personal consumption.

What is the importance of this distinction? Marx says: "Productive labor is only a concise term for the whole relationship and the form and manner in which labor-power figures in the capitalist production process. The distinction from other types of labor is however of the greatest importance, since this distinction expresses precisely the specific form of the labor on which the whole capitalist mode of production and capital itself is based" (TSV I, p. 396).

Under capitalism, the health of the economy is dependent on the investing of large units of capital. This investment stimulates much added income and employment. The unproductive forms of capital can only share in the surplus value created by productive labor, since they cannot independently initiate production. The crucial initiating factor is the employment of productive capital.

For this reason, Marx stressed the difference. He wished to identify the critical levers on which the economy turned. An understanding of productive labor--what it is and what forces affect it--is crucial for an understanding of capitalism. The rest of the economy falls and rises with the movements of this factor.

CHAPTER IV

THE CONTRADICTIONS OF CAPITALISM

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One of Marx's major contributions to the understanding of capitalism is his analysis of the contradictions and crisis tendency of capitalist production. His concept reveals the effects of capital development on different social classes and fractions of classes. These effects lay the material base for different social groupings to organize individually or in coalitions to counteract the forces working against its/their interests.

It is important to note that, though Marx in places believed in a ten year capitalist business cycle,¹ he at all times talks about laying the foundations for the potentiality of different types of crises. "The factors which turn this possibility of crisis into [an actual] crisis are not contained in this form itself; it only implies that the framework for a crisis exists" (TSV II, p. 509).

His approach is not simply mechanistic. In his view, the activity of social classes underlies events; there is no

¹Capital I, p. 632, and Capital III, Part V.

necessary way in which they must act and interact. Hence, there always exists the possibility of forestalling the impact of the contradictions that are present.

Crises are one form of response to certain situations that arise under capitalism. There are two fundamental types of crises. First, on the systemic level, crises are the forcible unification of relationships that have become disconnected--e.g., the separation of production and sale, liquidity problems, etc. Second, crises result from certain aspects of the class struggle. In the capital-labor relationship, for example, crises can serve the function of disciplining the working class. Or again, in intra-capitalist class struggles, crises may lead to the further domination of large over small capital. (All of these points will be explained in further depth in the body of this chapter.) Because large capital has control over the means of production, they who can initiate a breakdown in production--a crisis--if they view their interests as being endangered.

There are many contradictions inherent in capitalism in crisis. The production process is interrupted; profits are very low during the downturn with many capitalists losing greatly. In addition, the possibility of revolutionary proletarian activity is high. For these reasons,

collective capital would rather avoid large crises and try to find other mechanisms for fulfilling the functions that crises perform.

One alternative is to turn towards the state. As an institution of social cohesion, the state can assume the responsibility of avoiding crises while simultaneously re-establishing the conditions under which 'normal' production can resume. This responsibility requires the state to take on many coordination functions and to intervene in the class struggle. The state must develop the power, know-how, and recognized social status for this role.

In most cases, the state is "forced" to act in the interests of the capitalist class. As stated above and in Chapters I and II, the dominant class has control over the means of production. They must be 'satisfied' before they will initiate production. This situation, however, does not apply uniformly; the dominant class does not win all of its struggles. In the face of concerted working class political activity, the bourgeoisie may be forced to concede certain gains to the working class. They do this reluctantly and will constantly attempt to rescind these concessions.

This chapter will systematically discuss the inherent contradictions and counteracting forces of capitalism. This analysis will expose the critical areas around which class interests conflict. The major themes that will be analyzed are: the realization and other crises, the surplus labor army, and the law of the tendency for the profit rate to fall. In Part IV, there will be an analysis concerning the specific ways in which the state acts in relation to these three areas.

Section 1: The Realization and Other Crises

All pre-capitalist crises stem from natural disasters--flood, draught, disease, famine, etc.² These natural causes, which affect the use values of objects and people directly, can underlie capitalist crises, but capitalist crises can be caused by other factors. The ultimate basis for all capitalist crises lies in the fact that production is social while ownership is private. "The immediate purpose of capitalist production is not 'the possession of other goods,' but the appropriation of value, of money, of abstract wealth" (TSV II, p. 503).

²"In a situation where men produce for themselves, there are indeed no crises, but neither is there capitalist production" (TSV II, p. 501).

This separation between exchange and use value considerations can result in the stoppage of production independent of the technical base.

For this reason, Marx says that capitalism is characterized by production for exchange rather than use and that it exhibits a "boundless thirst" for surplus labor time. There is no limit to the desire to increase one's wealth. This insatiable appetite leads to capitalism's technologically progressive elements and to a continuous expansionary tendency to include the whole world in the capitalist market.

The analysis of crises, as the analysis of capitalist production in general, begins by looking directly at the commodity form. Attention therefore must be focussed on Marx's discussion of the relative and equivalent forms of value in Chapter I of Volume I of Capital. In these definitions, Marx abstracts from universalized commodity production and looks directly at the exchange of goods between independent commodity producers. These people come to market to exchange the product of their labor with other goods. Trading establishes a relationship between an individual's labor and all other labor. A fixed quantitative relation develops between an individual's output--which represents a certain amount of that person's labor time--and all other articles on the market. Marx labels the

value of the output of the individual who comes to market the "relative form of value." The value of the products received in exchange is called the "equivalent form of value." These definitions are determined from the point of view of the commodity possessor. One person's relative form is another's equivalent form.

Marx cites three peculiarities in this form of exchange. First, "use-value becomes the form of manifestation, the phenomenal form of its opposite value" (Capital I, p. 56). Thus, an individual's output--the product of part of social labor expended for exchange--relates to the use values that that individual consumes; he/she is interested in the use that product will afford him/her. Use value relates to exchange value. "The second peculiarity of the equivalent form is that concrete labor becomes the form under which its opposite, abstract human labor manifests itself" (Capital I, p. 58). An individual's labor, which becomes expressed as abstract social labor in the process of exchange, faces the concrete labor embodied in the products that it is being exchanged for. Similarly, the third peculiarity is that "the labor of private individuals takes the form of its opposite, labor directly social in its form" (Capital I, p. 59).

A few more linkages must be exposed before it can be shown how these peculiarities become the source of contradictions. Simple commodity circulation takes the form C-M-C. An individual comes to market with a commodity to sell. He/she sells it and buys other commodities with the money obtained in the original sale. "The money becomes [the] transient equivalent-form, the use-value of which the equivalent-form is to be found in the bodies of other commodities" (Capital I, p. 111). This process, however, is not barter. There are two separate acts-- first, the sale and then the purchase. They need not occur simultaneously; there can be an interval of any length between the two acts.³

The basis for the potentiality is now established:

If the split between the sale and the purchase becomes too pronounced, the intimate connection between them, their oneness, asserts itself by producing--a crisis. The anti-thesis, use-value and value; the contradictions that private labor is bound to manifest itself as direct social labor, that a particularized concrete kind of labor has to pass for abstract human labor; the contradiction between the personification of objects and the representation of persons by things; all these antitheses and contradictions, which are immanent in commodities, assert themselves, and develop

³"No one can sell unless someone else purchases. But no one is forthwith bound to purchase because he has just sold" (Capital I, p. 113).

their modes of motion, in the antithetical passes of the metamorphosis of a commodity. These modes therefore imply the possibility, and no more than the possibility, of crises. The conversion of this mere possibility into a reality is the result of a long series of relations, that, from our present standpoint of simple circulation, has as yet no existence (Capital I, p. 114).

The above quote is taken from the point of view of the circulation process. From the point of view of production, it appears that:

The difficulty of transform the commodity--the particular product of individual labor--into its opposite, money, i.e., abstract general social labor, lies in the fact that money is not the particular product of individual labor, and that the person who has effected a sale, who therefore has commodities in the form of money, is not compelled to buy again at once, to transfer the money again into a particular product of individual labor... Crisis is nothing but the forcible assertion of the unity of phases of the production process which have become independent of each other... The factors which turn this possibility of crisis into (an actual) crisis are not contained in this form itself; it only implies that the framework for a crisis exists. (TSV II, p. 509)

The capitalist production process is then really two separate processes. Surplus value is created in production, but it must be 'realized' in circulation. It is necessary for both stages to be completed for smooth capitalist reproduction to occur. The separation of these acts--

production and sale--means that the possibility exists of a lack of continuity or a break to occur. In fact, Marx says that all equalizations are only accidental--production does not take place under a conscious plan under capitalism. In most circumstances, disequilibria will not be critical and appropriate adjustments will occur. However, there can be cases in which a break becomes critical, resulting in a crisis.

One type of crisis is the realization crisis. Goods are produced but cannot be sold at a price high enough to bring an adequate return, if they bring any return at all. The value of these goods cannot be 'realized' in the circulation process. There are two ways in which this can come about: One, the working class does not have enough income to buy enough goods on the market; and capitalist consumption does not make up the difference (Cf. TSV II, p. 468). Thus, a disproportion appears between what capitalists consume and invest. Two, workers get too much; capital does not get enough and stops investing at the going rate of return. Workers are laid off and cannot purchase the goods that have been produced in the previous production period.

With respect to the first type of realization crisis, Marx says: "The ultimate reason for all real crises always

remains the poverty and restricted consumption of the masses as opposed to the drive of capitalist production to develop the productive forces as though only the absolute consuming power of society constituted their limit" (Capital III, p. 484). This is part of a continuing theme that capitalists produce without regard to the limits of the market such that production outstrips demand.

In order to fully understand the issues involved, we must look at the circulation models that Marx discussed in Volume II of Capital. He divides all productive activities into two major sectors--consumer and means of production (raw materials and machinery). Within the consumer goods sector, there is a further division between goods that are consumed by the working class and luxury goods, those commodities consumed by the capitalist class.

Marx shows quite clearly the conditions under which production can be reproduced on the same scale ("simple reproduction") or reproduced on an expanded scale. The surplus value appropriated from the working class can either go to capitalist consumption or to expanded reproduction (accumulation). As long as the proper proportions between these two amounts are maintained, there are no a priori reasons for the production process to be interrupted.

However, this process contains contradictory elements. If capitalists increase their personal consumption in the form of luxury goods or unproductive labor in the form of personal services, it negates the whole thrust of capitalism. Marx says: "If it is finally said that the capitalists have only to exchange and consume their commodities among themselves, then the entire nature of the capitalist mode of production is lost sight of; and also forgotten is the fact that it is a matter of expanding the value of the capital, not consuming it" (Capital III, p. 257).

Hence Marx takes the position that:

If too large a part of surplus-labor is embodied directly in luxuries, then clearly, accumulation and the rate of profit will stagnate, because too small a part is reconverted into capital. If too small a part (of surplus labor) is embodied in luxuries, then the accumulation of capital (that is, of that part of the surplus product which can in kind serve as capital again) will proceed more rapidly than the increase in population, and the rate of profit will fall, unless a foreign market for the necessities exists. (TSV III, p. 246)⁴

When talking about overproduction of commodities and overproduction of capital, Marx says: "Defined more closely, this means nothing more than that too much has been produced for the purpose of enrichment, or that too great a

⁴Also--"Then a crisis could only be explained as the result of a disproportion of production in various branches of the economy, and as a result of a disproportion between the consumption of the capitalists and their accumulation" (Capital III, p. 484).

part of the product is intended not for consumption as revenue, but for making more money (for accumulation)" (TSV II, p. 534).

It is important to emphasize that this problem is intermittent rather than continual: "overproduction does not call forth a constant fall in profit, but periodic overproduction recurs constantly" (TSV II, p. 468). Its periodicity means that capitalism can restructure itself on a new basis in order to ensure reproduction. If overproduction were constant, then this type of realization problem would only get worse throughout the course of the capitalist business cycle.

A constant tension causes capital to try to maintain the proper proportions between consumption and investment.⁴ One outlet is the foreign market. Another possibility is to have the state play an active role. The state can try to compensate for a lack of demand by deficit spending and for a lack of investment by trying to encourage investment in any way that it can (see Chapter VII for further discussion). In addition, the state plays an important role in the factors that influence foreign trade and expansion.

⁴For further discussion on this issue, cf. Ernest Mandel, Marxist Economic Theory (New York and London: Monthly Review Press, 1962) Chapter 11.

The second type of realization crisis stems from workers having too much. This type of crisis has two roots--based in the capitalist business cycle and the other on the contradiction caused by increasing technology.

The capitalist business cycle reflects the changing balance of class forces. During a boom, the workers' position vis-à-vis capital is relatively good. Jobs are plentiful, wages are high, and labor discipline is harder to maintain. Rather than continue to invest and have their profit margins deteriorate further,⁵ capitalists withhold their capital and wait until conditions are better. The workers that are dismissed are no longer able to purchase their share of the consumer goods on the market. The value of the goods cannot be realized in sale. As a result, production contracts. In addition, the capital that was invested in large quantities during the upswing cannot transfer its value to products that have no buyers. This factor potentially can lead to the downfall of many capitalists and the still further contraction of production.

⁵Raford Boddy and James Crotty in "Class Conflict and Macro Policy," Review of Radical Political Economics, forthcoming, show that the ratio of profits to wages declines during the second half of the capitalist upswing. This data is for the U.S. in the post-WW II period.

Marx says of this form of the realization problem:

It is sheer tautology to say that crises are caused by scarcity of effective consumption, or of effective consumption. The capitalist system does not know any other modes of consumption than effective ones, except that of sub forma pauperis or of the swindler. That commodities are unsaleable means only that no effective purchasers have been found for them,.... But if one were to attempt to give this tautology the semblance of a profounder justification by saying that the working-class receives too small a portion of its own product and the evil would be remedied as soon as it receives a larger share of it and its wages increase in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working-class actually gets a larger share of that part of the annual product which is intended for consumption. (Capital II, pp. 410-11)

The final form of the realization crises is a manifestation of the contradiction between the forces of production and the relations of production. As technology develops, it becomes easier to provide the "necessities" of life--individual commodities embody less labor time. One option might be for workers to enjoy the fruits of this increased technology in the form of increased leisure time. If technology advances quickly enough, it might be possible for them to consume an increased quantity of goods and still work less.

However, this result is contrary to the class nature of capitalist society. A reduced working day means that

there is less of an opportunity for capital to appropriate unpaid labor time. Hence, it is necessary for capital to translate this new technology into a pattern consistent with maintaining its dominance. One way to do this is to convince the working class of the necessity of consuming more and more goods. This procedure will allow work discipline to remain high; the workers will feel that they have to work hard and long in order to purchase the goods that are now considered necessities.⁶

Because of technology, the added use values consumed by the working class may represent the same, slightly more or slightly less labor time than the former necessities. The right balance must be struck. If the working class gets too much, increase will undercut the profitability of capital. Also if the workers are too satisfied, their affluence will partially undermine their subservience to capital at the point of production.

Capitalism gets around this problem by having the state increase its consumption. If workers are convinced that state activity--like defense and the space budget--is in their interest, then they will conceive of this activity as part of their consumption basket--a part that they consume collectively rather than individually. They

⁶One of the functions of the sales effort is to yield this result.

will be 'willing' to pay for this use value in the form of taxes. This adjustment in their consumption basket helps to solve the problem (for further discussion of this point, cf. Chapter VII).

Marx summarizes this phenomena in a famous statement in Volume III of Capital. He says:

The real barrier of capitalist production is capital itself. It is that capital and its self-expansion appear as the starting and the closing point, the motive and the purpose of production; the production is only production for capital and not vice versa, the means of production are not mere means for a constant expansion of the living process of the society of producers. The limits within which the preservation and self-expansion of the value of capital resting on the expropriation and pauperization of the great mass of producers can alone more--these limits come continually into conflict with the methods of productions employed by capital for its purpose, which drive towards unlimited extension of production, towards production as an end in itself, towards unconditional development of the social productivity of labor. The means--unconditional development of the productive forces of society--comes continually into conflict with the limited purpose, the self-expansion of the existing capital. The capitalist mode of production is, for this reason, a historical means of developing the material forces of production and creating an appropriate world-market and is, at the same time a continual conflict between this its historical task and its own corresponding relations of social production. (Capital III, p. 250)

Marx also discusses the basis for other types of crises. He classifies them in relation to their effect on the circulation of capital (cf. TSV II, pp. 513-15). For this analysis, he uses the commodity form of capital circulation--c'-m'-c' (cf. Capital II, Chapter 3). The output of one production period must be sold before another production process can begin. There are two steps--first sale then purchase.

There are four ways in which a capital circuit can be interrupted. These lay the basis for the possibility of crises, especially when the good involved is central to the economy. First, demand may not be great enough relative to supply. This deficiency causes the price of a commodity to fall and less money to return to the capitalist than expected; an absolute loss may even be incurred. This process undercuts the feasibility of the second stage of the circuit. There may not be enough capital to re-initiate production.

Second, the value of raw materials may change. A shift can be caused by a natural calamity such as a drought, bad harvest, etc. "The proportions in which the money has to be reconverted into the various component parts of capital in order to continue production, are upset" (TSV II, p. 515). Laborers must be fired because

there are not enough materials to keep the same number of workers active and there is not enough capital to pay for the added cost of raw materials and to hire the same labor force. Reproduction cannot be repeated on the same scale and part of the fixed capital lies idle.

Third, there can be a change in the value of consumer goods. This means that workers will have to spend more money in order to consume the same amount of the affected commodities. This change will be particularly important if the commodity is crucial to the subsistence of the working class: workers will have less to spend on other commodities. With demand down, the producers of the other commodities will be forced to lay off workers and further aggravate the crisis-tendency. In addition, workers will attempt to increase their wages to offset the increase in price. Their success will tend to decrease the rate of surplus value and may lead to a response on the part of the bourgeoisie--a capital strike.

Fourth, "At a given moment, the supply of all commodities can be greater than the demand for all commodities, since the demand for the general commodity, money, exchange value, is greater than the demand for all particular commodities; in other words the motive to turn the commodity

into money, to realize its exchange-value, prevails over the motive to transform the commodity again into use-value" (TSV II, p. 505). People who are afraid a crisis is about to begin will try to hoard which causes a perspective crisis to escalate into a full blown one.

In addition to these types of crises, there is another associated with credit relations. Money is loaned out under a specific time constraint. The borrower expects to pay his/her debts by producing and selling commodities before the debt is due. If there is a delay, even if the value and price of the involved commodities do not change, he/she may have to default on the loan. (In modern terminology, this is called a liquidity problem.) The lender in the first case may be a borrower in another. Hence, the failure to repay the first loan will result in further failures.^{6, 7}

⁶This presentation only establishes the possibility of a crisis of this sort. It does not discuss all the relationships that involved in the loaning of capital.

⁷Marx argued that there were three basic errors that classical economists made that obscured the inevitability of crises under capitalism: (1) treating exchange as barter; (2) equating capital or commodity circulation; and (3) viewing money merely as an intermediary in exchange and not also as a store of value.

Section 2: Surplus Labor Army

The surplus labor army, or reserved army of the unemployed, is caused by three different factors, (1) the accumulation process and the increasing organic composition of capital; (2) the need for a ready labor force for expanding production; and (3) the need for a disciplining mechanism on the working class. Each of these forces must be analyzed separately and in depth. This will lay the basis for understanding how the state affects the size and composition of this reserve pool.

(1) Marx postulated that the accumulation process would necessarily lead to the creation of a reserved army of the unemployed. In the last chapter, I explained that the capitalists' unceasing search to increase their profits leads them to innovate. The dominant, but not the only form of innovations, is the replacement of direct labor by machines. This results in an increase in the ratio of constant to variable capital. Given the same level of production and capital, this means that machines replace labor.

Marx treats the growth of machinery and technology as "a victory of man over the forces of Nature, but in the hands of capital, makes man the slave of those forces. . ." (Capital I, p. 441). This enslavement has many facets.

First, the increased division of labor undermines the skilled craftsperson--one person is no longer responsible for an entire production process. Second, associated with this change is the decreased need for the direct producers to use their own ingenuity. "Intelligence in production expands in one direction, because it vanishes in many others" (Capital I, p. 361). Third, the apparent lightness of the work is countered by the increasing intensity under which labor operates. Workers do a few simple operations many times in quick succession. Fourth, the tempo of the production process is controlled by the machines, not the workers. The workers lose much of the direct control that they have over how they work. All these factors contribute to the increasing alienation of the direct producers from this vital life process.⁸

In addition, machines compete with workers for their jobs. New technology embodies less labor and must necessarily employ less living labor than it replaces. However, accumulation is expanded reproduction and it is possible that, during an upswing in the business cycles, the expansion

⁸Cf. Work In America: Report of a Special Task Force To The Secretary of Health, Education, and Welfare (Cambridge, Massachusetts and London, England: MIT Press, no date).

of this factor may cause the demand for labor to remain the same or increase. However, during periods other than the boom part of the cycle, Marx postulated that accumulation would lead to the absolute decrease in the demand for labor and hence the formation of the surplus labor army. Marx calls this phenomenon the general law of capitalist accumulation. It is based on the fact that the existing level of capital will not employ all the available labor power--it is relative not absolute.

(2) There must be a ready pool labor for expansion to proceed smoothly. As the economy develops, laborers with varying skills must be present to fill the newly opening slots. This activity requires planning; and the state is in the best position to coordinate it.

These factors alone need not require a surplus labor force. Good planning could lead to new workers entering the labor force in the proportions that they are needed. However, capitalist expansion is uneven with periods of depression, stagnation and boom. The boom period requires a large pool of available extra labor and cannot occur without this reserve as a precondition.

(3) In order to understand how the surplus labor army is a disciplining mechanism on the working class, a review of the purpose of capitalist production is necessary.

Capitalists wish to maximize the total amount of realized surplus value. This mass of surplus value is equal to the rate of exploitation ($S' = \frac{\text{the amount of surplus value}}{\text{the amount of variable capital}} \times \text{the number of workers exploited}$) ^{times the wage.} S' is determined by the length of the working day, the intensity of the labor process, the productivity of labor, and the wage demands of the working class.

Hence, the total mass of surplus value need not be at its maximum when the maximum number of workers are being employed. A decrease in the number employed can be more than offset by an increase in the rate of exploitation. I will discuss how this can come about in a moment.

Another important factor is time. Capitalists wish to maximize their realized surplus value over a long time span. Maximizing surplus value in one period may lead to its fall in the next. This policy may yield less total surplus value than one which did not originally maximize the amount of realized surplus value. This condition can only come about if there is a relationship between the two periods such that the surplus value realized in one period can affect the amount realized in the next.

We can only understand these two cases by examining closely the capital/labor class struggle. Under all conditions, capital dominates labor (and justifies that domination with an elaborate ideology). But this is not total--workers can organize, demand, get better conditions, and increase their share of the working day. Workers' economic class struggle takes many forms. The wage bargain is the central one but also included are: length of the working day, labor intensity (speed-up), and health and safety issues. Workers' victories on any of these issues means less surplus value available to capital.

Capitalists need a permanent surplus labor army to undermine the strength of the working class. When jobs are plentiful, there is a tendency for wages to be high and for work conditions to improve. Capitalists tend to be bid up wages, each trying to attract labor. Working conditions tend to improve because when workers can change jobs relatively easily, it is difficult to enforce "management prerogatives."

In order to make laborers work more than the necessary labor time--to work surplus labor time--they must be convinced that their alternatives are few. Poverty must be a visible reminder to the working class of the consequences of not following capitalist orders. Workers have to know

that it is not easy to transfer to 'good' jobs; they must be convinced to accept their lot.

The process of enforcing labor discipline does not usually result in one steady rate of employment and unemployment. Capitalism, with individual investors acting separately, is not planned enough. Instead, a business cycle results. The size of the reserve army of the unemployed swells and contracts with the varying movements of the cycle. The specific movements of the cycle and its generation of the surplus labor army will be discussed in the next section.

Many contradictions grow out of the existence of a large surplus labor army. First, surplus value is not being generated because these people are not employed. Second, these workers must be kept alive, and thus they absorb value that they do not create. The bourgeoisie tries to have the working class absorb this cost rather than pay for it themselves out of the surplus value pool. Third, unemployed workers can become a potentially revolutionary force. This possibility increases during times when the surplus army swells with people who have been working regularly over extended periods. Finally, fourth, laborers are consumers and unemployed workers with little income tend to accentuate the realization problem.

Implicit in this analysis is the role of the state. It can try to coordinate the size of the reserve army and work to avoid any crises that may be associated with its existence, particularly when it is responsible for trying to smooth out the capitalist business cycle. This function implies that the state plays an active role in the labor disciplining process (cf. Chapter VII).

The surplus labor army and the capitalist business cycle need not always exist. Historically specific periods occur in which a capitalist society undergoes extended boom periods. These periods must be characterized by labor not demanding a great share of output. They must be 'relatively' satisfied with what they have and 'convinced' that it is not correct for them to demand more. In other words, mechanisms for labor discipline exist other than the threat of unemployment--e.g., strong repressive state, or pervasive ideology of individual self-discipline and restraint. Also, there is usually a high degree of coordination between capitalists (through the state) to insure that extended reproduction can occur smoothly. Case examples (which will not be discussed in detail here) include: fascist regimes, the West German and Japanese economies in the post-WW II period.

Section 3: The Law of the Tendency for the Profit Rate To Fall

In fully elaborating the consequences of capitalist accumulation, Marx shows that the same forces that lead to the surplus labor army lead to a tendency for the profit rate to fall. He calls it only a tendency because there are factors that counteract the fall. Marx, however, is very adamant in saying that the forces causing the fall will eventually predominate.

The basis for this law lies in the increasing organic composition of social capital. In the preceding chapter, I showed that individual capitalists continually try to innovate. Innovation leads to the increasing use of machines and a rising organic composition of capital for all industries.

The formula for the average profit rate (p') is:
 $p' = s/(c + v)$ (where s = surplus value, c = constant capital, and v = variable capital). Assuming the ratio of $(c + v)$ to advanced capital does not change, then by dividing the top and bottom by v , we get: $p' = s'/(c' + 1)$ (where s' = rate of surplus value, and c' = the organic composition of capital). If s' remains constant, then p' moves in the opposite direction from c' .

The fall in the profit rate is caused by increasing technology and productivity--the capability of producing material wealth (use values) increases greatly. The fall however, does not mean the size of the surplus value pool shrinks. Quite the contrary, this pool is ever expanding. The percentage increase in total social capital is much greater than the percentage fall in the profit rate. Another way to explain this concept is to look at the exploitation of labor. The surplus value pool equals the rate of ^{times the wage.} exploitation times the number of workers exploited/ Over time, the number of workers employed goes up due to population increase and expansion of capital throughout the world. Similarly, (as will be shown shortly), s' tends to increase.

This increased surplus value pool lays the basis for the expansion of the capitalist class. However, the demands of the accumulation process also increase. As production expands, new innovations require large amounts of capital. The final use of this increased pool is for increased personal consumption by the bourgeoisie in the form of goods, services, and unproductive labor. This unproductive labor will not take the form of personal servants but rather as increased lower, middle and upper management and increased government bureaucracy.

Marx cites six counteracting influences. He says that each is caused by the same factors that lead to the increase in c' . For this reason, he calls this low not absolute but only a tendency. The influences that Marx cites are: increasing intensity of exploitation, depression of wages below the value of labor power, cheapening the elements of constant capital, relative over-population, foreign trade, and an increase in stock capital.

These factors can be broken down into three types: First, there is an attempt to increase s' . Increasing technology means that less labor time is embodied in the production of consumer goods meant for the working class (sector II). Hence, if workers get paid the same (or even an increased) real wage, their income will represent less labor time and leave more labor time to go to the capitalists as surplus value. This result can also be accomplished through the expansion of the market through foreign trade. Due to differences in natural (e.g., fertility, climate) conditions, it is easier--embodies less labor time--to produce and transport different commodities in different countries. Hence, the same consumer basket will embody less labor time.

This factor alone may not be enough for the capitalists. They then will try to increase the length of the working day and its intensity. They also will try to drive wages down. Capitalists always try to do these things and increase their efforts when they see a deterioration in their profit rates.

Second, there is an attempt to cheapen the elements of constant capital. This will mean that, even though there is a much greater use of machinery, in value terms, the organic composition of capital will rise less rapidly.

This effect can come about in several different ways: (1) technology can result in less time being embodied in the production of means of production (sector I: raw materials and machines; (2) a change in the technique of production can be physically capital-saving. This innovation leads to a reduction in c' ; (3) foreign trade can be influential in the cheapening of the raw materials used in production.

Third, the ways in which the surplus value pool is divided can lessen the effects of the reduced ratio of total surplus value to total social capital. In the last chapter, I showed that the surplus value appropriated from the working class is divided into profit of enterprise and

return to interest-bearing capital. (This leaves out the share that goes to commercial capital. At this point, this factor does not have an effect.) As capitalism develops, the corporation develops and becomes the dominant form of organization. Corporate stock requires a return that is on the same level as interest-bearing capital. However, full share of profit of enterprise need not be realized. (It is realized in the form of high salaries to high corporate executives.) Hence, the decreased rate of profit will be hidden by the declining need to pay out profit of enterprise.

On the basis of the strength of the counter-acting influences, some people--e.g., Sweezy in Theory of Capitalist Development⁹--have postulated that there is no basis for the law at all. Marx, however, was very adamant that the law did in fact persist. He felt that the counteracting forces themselves further led to an increasing c' . In addition, he noted that there was no limit to the rise in c' while there was none on s' . S' is determined by the division of the working day. The paid portion cannot be expected to fall to zero or even close to zero. As c' continued to tend to rise over time, the counteracting forces that affect s' cannot continue to play an important role.

⁹The Theory of Capitalist Development (1942; rpt. New York and London: Modern Reader Paperbacks, 1968).

The dangers associated with the falling rate of profit are revealed in the capitalist business cycle. When profits are high, capitalist start to invest; they order lots of machinery and raw materials. This investment leads to an expansion in the means of production sector (sector I). Labor is attracted to production. Market demand increases due to the increased purchases of workers and capitalists.

As the boom continues, workers are able to increase their wages and better their working conditions. This improvement for workers leads to a fall in the rates of surplus value and profit. One response by capital is to have machines replace direct labor. This change repels labor from the production process and leads to an increased level of unemployment.

As the boom continues further, two forces lead to the tendency for the profit rate to fall. The first has already been discussed: the increased demands of the working class. The second is the increase in c' . Innovation and investment during the course of the upswing means that there is a lot of capital demanding its fair share of the surplus value pool that is being created.¹⁰

¹⁰This is called an overaccumulation of capital (cf. further discussion in Chapter VII).

The crash appears as a realization problem. The vast investment that has occurred during the boom has lead to a large number of commodities coming onto the market. At some point, individual capitalists are going to cut back on their production. This retrenchment can occur because they feel that their profit rates are too low and withhold their capital waiting for better times, or because they feel that the market for their product is saturated. Their actions result in decreasing demand by capitalists and workers, who are being laid off. These developments trigger a snowball reaction with many markets becoming glutted. As debts come due, they cannot be repaid because commodity values are not being realized. The money market collapses at precisely the time when there is surplus capital--embodied in machinery, surplus products--on the market and unsold, and surplus population--a large number of unemployed people.

The downturn will continue until there is a reorganization of production. At the start of the downturn, there is too much capital demanding its share of the surplus value pool. A "slaughtering of capital values" must occur before the profit rate can turn up again. Production can be reinitiated by those people who have stored capital value or who accumulate it by appropriating surplus labor time during the course of the downturn.

Another consequence of the falling rate of profit concerns the movement of capital. Under capitalism, the rate of profit determines this movement which need not be confined to one country. The more mobile capital is internationally, the greater will be the impact of different p 's between countries. This factor played an important role in the decline of Britain from its dominant position in the 19th century. Capital left Britain resulting in the competitive decline of British industry.

PART III

CLASSIFYING STATE ACTIVITY--
THE LOCATION OF THE STATE IN THE REPRODUCTION
AND CIRCULATION OF CAPITAL

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The purpose of this part will be to analyze the impact of different state revenue and expenditure policies. The fundamental questions are--who pays and who benefits? These questions must be answered in terms of their effect on the reproduction of classes. In Chapter V, each method of state finance will be examined with respect to which class pays. In addition, I will show that the act of paying taxes to the government can affect the pre-tax distribution for revenues. In Chapter VI, the impact of direct state activities--provisions of services, purchases from private capital and transfer payments--will be explored. These State programs will be categorized according to their direct and indirect effects on the creation of surplus value.

CHAPTER V

MONEY INFLOWS

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The state finances its activities in four ways: through (1) taxation, (2) borrowing, (3) printing money, and (4) charging fees for governmental services. The most important of these mechanisms and the one which makes the other three possible, is taxation. Under capitalism, the government is prohibited from supporting itself by running its own enterprises (cf. discussion in Chapter II). But through its ability to levy taxes, the government gains ample collateral on which to borrow money.

A. Taxation

Both capitalists, individually and through their firms, and laborers appear to support the state. But this appearance may not be accurate--taxes are but one link in the distributional chain. It is possible for changes in wages and prices to offset taxes paid at a given point. For instance, taxes on workers might be offset by increases in wages. Therefore, these taxes would in reality be borne by capital. Conversely, corporate income taxes and other taxes on capital might

be passed on the working class in the form of higher prices. Thus shifting the burden to labor.¹

A correct approach to tax incidence must root itself in the labor theory of value. Chapter III, showed that wages are determined by the labor time necessary to reproduce the working class. These wages include "historical and moral" elements that are determined by the level of social productivity and class struggle. Prices, on the other hand, are determined by the socially necessary labor time adjusted to equalize the rate of profit--resulting in "prices of production."

In the era of large capital, the profit rate is not equalized between all capital units.² Instead, the larger ones end up with greater profit rates than the smaller ones. This inequity means that the surplus value pool is not divided in proportion to the amount of capital advanced. This conclusion, however, no more negates the labor theory of value than does the existence of "prices of production." In both cases, surplus value is not appropriated where it is produced. As Marx says:

¹Some people say that these taxes can also be passed backwards in the form of lower wages. This proposition is un-Marxist in that it does not base wages on the concept of exchange value of labor power which is determined outside the confines of an individual capital-labor relation.

²This comes about because of the changed nature of capitalist competition. Large capital units can restrict entry--hence, slow up capital flows equalizing profit rates.

"The monopoly price of certain commodities would merely transfer a portion of the profit of the other commodity-producers to the commodities having the monopoly price" (Capital III, p. 861).

As Baran and Sweezy point out:

...In the older theories--and here we include Marxian as well as classical and neoclassical economics--...it followed that the burden of financing government must fall on the surplus-receiving classes; part of what they would otherwise consume or add to their capital goes to the state through taxation... The interests of the rich and powerful it seemed clear, were best served by limiting government, as nearly as possible, to the role of policeman...³

In this situation, any taxes that workers pay are passed back to capital in the form of higher wages with the result that the exchange value of labor power--representing workers' after-tax purchasing power--remains unchanged.

Some contemporary Marxists still adhere to this position. For instance, David Yaffe says: "Taxation would have to be counted as part of the surplus-value produced by production workers and only the net real wages after tax of productive workers could be regarded as variable

³Paul Baran and Paul Sweezy, Monopoly Capital (New York and London: Monthly Review Press, 1966), pp. 142-43.

capital"⁴ [*italics in original*]. This analysis assumes that capital pays for all state services. This situation may have applied when real wages were very low and state activity consisted of policing and complementary investment activity. However, given the multiplicity of functions and size of the modern state, this argument is no longer valid.

Therefore, taxes on workers do, in fact, constitute payments for services rendered by the state; a portion of state activities has become part of the bundle of goods that determine the exchange value of labor power. This formulation directly links state revenue policies to the labor process.

Since taxes are compulsory payments, it is quite possible for workers to contribute more than the costs of the services they receive. In this situation, three possibilities exist. First, workers can pass their relatively high taxes back to capital by winning wage increases. Second, they can be forced to shoulder this added load as a burden necessary to sustain the country. They are

⁴Yaffe, "The Crisis of Profitability: A Critique of the Glyn-Sutcliffe Thesis," New Left Review, June 1973, 50. Cf. also "This public sector is distinguished from the other two sectors by the fact that all its activities are financed by channeling increasing parts of the surplus value produced in the private sector into the public sector by the mechanisms of taxation, ever increasing public debt, and inflation." H. Neuendorff and U. Roedel, "Investigation of the Functions of Public Science and Technology Policy in the Federal Republic of Germany as a Capitalist System," Kapitalistate, No. 1 (1973), p. 30.

compelled by circumstance and publicity to accept their lot. Finally, they can fight directly against the state to lower their taxes.

Taxes on capital also represent payments for government services. And capital must pay for all state expenses that the working class does not.⁵ Capital faces the same three options as labor: try to pass the taxes on in the form of higher prices; pay them; or, fight government to reduce the tax burden.

But, O'Connor argues that taxes are predominantly paid for by the working class:

And with the tax shelter and loopholes available to monopoly capitalists, the whole system is based, in effect, on the exploitation of the working and small-business classes, particularly monopoly sector workers whose taxable incomes are relatively high.⁶

He classified this as the government "indirectly appropriating surplus value"--activities which serve capital are paid for by the working class. He also calls this "tax exploitation."

⁵This is not completely true. It is possible to throw these expenses onto other classes or export them abroad. During the 1960's, due to the dominance of the U.S. over the other advanced capitalist countries, the U.S. was able to shift some of the costs of the Viet Nam War to Europe by printing and exporting dollars. The IMF arrangements permitted this to occur because the dollar was accepted as a universal currency, as "good as gold."

⁶O'Connor, Fiscal Crisis, p. 208.

However, this analysis too must be rejected as the general case. It attributes too much power to capital--they never lose any part of the class struggle. They pass their taxes on and use the state budget to their own ends. This conclusion, in fact, violates the contradiction that O'Connor himself establishes as underlying all state actions--the contradiction between accumulation and legitimacy.

It is necessary to further analyze the corporations' ability to pass on taxes. Increased taxes, in general, do not affect the value of products unless the tax revenues are used to provide services which are part of the socially necessary labor time of production--e.g., sanitation services. Assuming a generalized average profit rate, increased taxes, applied uniformly, will change the stratification of after-tax profit rates. In order to maintain the same relative profit rates, taxes must not be applied uniformly,⁷ or else prices will rise for firms with greater than the average profit rate and fall for firms with lower than the average profit rate (assuming price stability);⁸ all firms will end up with lower after-tax profit rates. With inflation

⁷In this situation, the state aids in the transformation of surplus value from small to large capital.

⁸See Capital III, Chapter VI.

the relative price of the output of large firms will increase vis-à-vis the output of small firms.

It must be concluded that corporations cannot effectively pass on their taxes. Large corporations may be able to maintain high prices and profits for a short time, say for a matter of years. This ability usually is not generalized but depends on specific market control and shortages with slow capital flows. When this condition is generalized, it is primarily due to the state of the business cycle--i.e., the level of the class struggle--and not to corporate ability to pass on their taxes. High taxes on capital affect the class struggle by squeezing capital's profit margins. This factor becomes significant when it exacerbates the crisis tendencies endemic to capitalist production.

To the degree that prices increase, workers respond by demanding increased money wages. Inflation, then, tends to benefit capital because wages rise after prices. However, it would be a mistake to argue that workers are exploited twice--once in production and once in exchange (due to artificially high prices). Workers are exploited but once--in production.⁹ The wage they receive reflects existing prices.

⁹Exploitation in exchange can only occur differentially. If for some reason, one sector of the labor force is forced to pay higher prices in the market, its exchange value of labor power is reduced. This sector's wages, however, are determined by the exchange value of labor power in general with the normal prevailing prices.

A few more words are necessary concerning the taxes that workers pay. Since the state does not provide necessary consumer goods, the first determinant of the amount of taxes workers pay is the level of social productivity. The working class will not sacrifice its personal standard of living to support large state budgets. The second determinant revolves around the connection between taxes paid and the uses to which they are put. Workers will support services that they benefit from if their cost is not prohibitive relative to social productivity.¹⁰ The third determinant is the share of taxes that capital bears. Notions of tax equity--everyone bearing the tax burden in proportion to their ability to pay--are quite strong in struggles around taxation. Finally, unusual circumstances may lead to a rapid rise in taxes. During wartime, workers keep their wage demands relatively low, allowing a relatively great increase in taxes at the expense of their consumption: wage and price controls may even be necessary and accepted to ensure this result.

¹⁰There is much evidence for this position. In many localities, bond issues must be approved by the electorate. Similarly, in a study by the National League of Cities (Urban Observatory Report, "City Taxes and Services," August, 1971), workers in high taxed areas preferred increased taxes and more services to decreased taxes and decreased services. Obviously, they preferred increased services for the same taxes.

State taxation policy, independent of its expenditure policy, can have indirect effects on capital accumulation.¹¹ In some circumstances, taxes can affect the value of products sold on the market. For example, tariffs bar lower valued commodities. When taxes are levied on workers' consumption goods, like food, the exchange value of labor power is higher than it need be.¹² Special tax abatements can encourage greater investments in particular industries¹³ and areas because their after-tax profit rate is affected. Corporations have been successful in reducing their local taxes by inducing different political jurisdictions (within the same region or between regions) to offer them tax breaks to locate in their areas. Most of this differential taxation reflects the division of the surplus value pool between different capital units; in most cases, it reinforces the differing profit rates between large and small capital.

¹¹A complete Marxist theory of public finance would analyze each type of tax and its inter- and intra-class effects.

¹²Historically, there has been much struggle over tariff policy. Marx showed how the abolition of the Corn Laws pitted industrial capital against the old landed aristocracy.

¹³Arnold Harburger, "Taxation Resource Allocation and Welfare" in The Role of Direct and Indirect Taxes in the Federal Revenue System, National Bureau for Economic Research and The Brookings Institute (Princeton: Princeton Univ. Press, 1964).

The government in formulating its tax policies must consider many factors. The approximate size of the state budget is determined by the necessity for the state to perform certain activities (the factors that affect this will be discussed in Part IV) and by its ability to raise money. The state makes the class incidence decision by balancing the needs of accumulation against the need for the state to appear to represent the "public interest." The state may talk about this problem, publicly, as a conflict between encouraging the private sector and its incentives and insuring fairness in taxation--everyone should pull his load.¹⁴ The real decision, however, is not made on the basis either of theoretical consideration nor of public rhetoric but on an evaluation of the array of class forces and the attendant struggle that will ensue over a given state taxation policy.

In summary, class tax incidence is most directly related to the taxes workers and capitalists pay. Both can theoretically pass their taxes on to the other (obviously not both at the same time). Empirically, to see if a new tax is being passed on, the benefits provided by the tax must be allocated, and then an after-tax comparison in

¹⁴There is a great deal of literature concerning the principles upon which taxes should be levied. It starts with Adam Smith's Four Principles and revolves around the discussion of the difference between the ability to pay and the benefit approaches.

value terms must be made. It is impossible to measure the incidence of an existing tax. Once the tax is passed on, it reverts to being paid by the class that is being directly taxed. Any future changes in prices reflect the class struggle and the particular events of that time. The only way that tax incidence can change is through a change in the tax rates.

B. Public Debt

The public debt must be divided into three components: (1) marketable federal debt for general revenue; (2) non-marketable federal debt; and (3) local and special federal debt. Each of these forms has a different effect on capital accumulation and must be analyzed separately.

(1) Federal debt played a crucial role in the early capitalism of the eighteenth and nineteenth centuries. In this period of primitive (original) accumulation, the debt was used to channel money away from consumption and the landlord class to the rising bourgeoisie.¹⁵ However, once capital had achieved its domination over the production process, the debt became a hindrance to capital accumulation. Hence, much of the debt was retired and new

¹⁵Marx called the public debt "one of the most powerful levers of primitive accumulation" (Capital I, p. 754).

debt was created only during emergencies.¹⁶ This development was further reinforced when debt management began to be used as an instrument of credit control and economic stimulation or relaxation. (Chapter VII will show debt accomplishes these tasks.)

Federal debt is a hindrance to capital accumulation because it constitutes fictitious rather than productive capital;¹⁷ it does not lead to its own self-expansion. Federal debt for general revenue is used for (collective) consumption and hence resembles a usury relationship. The interest payments and principal must be paid out of revenues generated in future production periods. These charges intensify the problem of the state maintaining all its functions without increasing taxes on capital or decreasing services which benefit capital.¹⁸ The only alternatives are increasing taxes on or reducing state activities which benefit labor. These policies are

¹⁶Cf. O'Connor, 188ff and Manuel Gottlieb, "Political Economy of the Public Debt," Public Finance, 11 (1960), 265, for data and further references. Debt was often used when the state was attempting to hide the costs of current operations--e.g., a potentially unpopular war.

¹⁷Cf. Capital III, p. 463.

¹⁸O'Connor calls this the "fiscal crisis of the state."

likely to be met with working class resistance and will compromise the state's legitimacy.

The fictitious character of the capital in national debt generates several other contradictions. First, since it is non-productive capital, it does not lead to the future expansion of the surplus value pool. As a future claim on that pool, it is a force accentuating the tendency for the profit rate to fall (cf. further discussion in Chapter VIII). Second, when this debt is issued, it competes with productive capital for available interest-bearing capital. Except during periods of idle capital, this competition draws capital values away from productive investment.¹⁹ It is interesting to note that Hoover's first solution to the onset of the depression (which was later Roosevelt's campaign plan K) was to balance the budget. He advocated this plan so that capital would not be drawn away from private productive uses. A third contradiction is that there is an inflationary potential to debt financing. As Baran notes, "deficit financing of government expenditures is bound to increase continuously the ratio of cash or near-cash in the hands of the public to currently produced marketable output."²⁰ In the U.S., this analysis

¹⁹This argument is currently being made against Ford's planned budget deficits.

²⁰Baran, The Political Economy of Growth (New York and London: Monthly Review Press, 1957), p. 124.

has become increasingly true given the dramatic shortening in the average length of the debt held.²¹ Fourth, there may be international effects associated with balance of payment crises and international flow of funds in response to differing interest rates between countries.

(2) Non-marketable federal debt consists of savings bonds and inter-agency loans (called special issues in the U.S.). Savings bonds are a form of debt held predominantly by the working class. Instead of depositing their money in banks, the working class gives it to the government to use. In either case, they get a return on their deposits. In times of emergency, like war, the government attempts to convince people of the necessity of foregoing individual consumption to meet the pressing needs of the nation. Under these conditions, the state "forces" workers to save more; it also tries to decrease the demand for personal consumption items to free labor power to produce war material.

Except during emergencies (when the government is in the best position to try to inhibit workers consumption), this form of finance is limited in its scope. First of all, the government is prohibited from really effectively taking

²¹O'Connor, 192.

on banking functions. Private banks want to ensure that most savings will be under their control, since savings provide them with much of their working capital. If the state were permitted to expand its banking activities, the amount of money going to banks would radically decrease.

Interagency loans are cash flow manipulations that allow monies that have been appropriated or collected for a specific purpose to be used for general governmental needs.²² This manipulation may enable the state to change its overall class tax incidence. In the earlier discussion of taxes, incidence was linked to the use to which specific tax revenues were being put. Interagency loans obscure this connection; money is collected for one use--e.g., social security taxes--and then is transferred to the general revenue fund. If the incidence of the former tax is different from the latter, then the overall class incidence has shifted.

These loans easily transform themselves into inflationary finance. Agency-held debt does not inhibit the agency from spending money in accordance with its authorization. The net effect is that the government has issued

²²A better measure of the government deficit--i.e., its overall monetary transactions with the public--is the consolidated cash budget.

and IOU to itself and used that as an asset to back up the printing of money by the national treasury.

(3) The final form of debt is non-federal debt (state and local) and special federal--e.g., Export-Import Bank, Federal National Mortgage Association in the U.S.²³--and local debt--e.g., Turnpike bonds, quasi-public organizations like the Port Authority of New York and New Jersey. This debt differs from the above two types in that it is tied directly to particular activities and is not used for general expenditures.²⁴ These projects require large initial investments and last for many years.

When the debt is incurred it provides a consumption facility--e.g., roads or schools; the state enters into a usury relation with capital in the same way an individual does when he/she obtains a mortgage or a loan for a consumer durable. When the debt is used to finance part of a production facility for which the state charges a fee, this process resembles a constant capital outlay obtained with loaned money. When corporations engage in such financing the return on the loan is paid for out of the

²³There are 40 such agencies. Cf. O'Connor, 200, footnote 41.

²⁴State and local governments have separate capital and operating budgets. Interest charges and repayment of old debt is a component of the operating budget. The governments cannot run operating deficits because they do not have any power over the monetary supply.

surplus value pool. However, since the state is not involved in a surplus-value generating activity,²⁵ this type of debt is also a usury relation and the money advanced does not function as productive capital.

Finally, when the state guarantees a loan, it is merely providing a free insurance policy for the capital involved. This insurance allows for lower interest rates and forces the state to pay for all defaults. The use to which the loan is being put determines whether or not it will generate the funds to repay it--i.e., whether or not it will be productive capital. When the money is used as productive capital--e.g., providing loans for productive capitalists²⁶--the state is shifting part of the cost of the loan from the capital involved to itself. Hence, this cost, which would otherwise be a capital expense, is borne out of general tax revenues and is partially borne by the working class. When the loan is used for consumption, the stage encourages the purchase of consumer durables.

C. Inflationary Finance

The third source of state revenue is inflationary finance--the exercise of state power to print money. In

²⁵This will be demonstrated in the next chapter.

²⁶This was called the Reconstruction Finance Corporation when it was used during the 1930's in the U.S.

the U.S., the Federal Reserve System accomplishes this by monetizing Treasury debt; the Treasury issues a bond and the Federal opens a checking account for the government.²⁷ The net effect is that the government has borrowed from itself and created new money. Since a great deal of outstanding debt exists, the Fed can create money by monetizing this debt; these are called open market operations. With a fractional reserve banking system, an increase in "high-power" money by the Fed leads to a multiple expansion of the total money supply. The Fed has additional ways of affecting the money supply--reserve requirements, discounting, and regulation Q--, but open market operations are the primary tool.

Marx's discussion on money is limited. His most extensive writings are Chapter Two of The Contribution to the Critique of Political Economy and Part Four of Volume III of Capital. In the former work, he deals with commodity money and symbols of commodity money. While he starts the latter work with: "An exhaustive analysis of the credit system and of the instruments which it creates for its own use

²⁷Marx ridiculed the fact that the Fed makes money on this deal. He said: "Is there anything more absurd, for instance, than the Bank of England (1797-1817)--whose notes have credit only thanks to the state--taking payment from the state, i.e., from the public, in the form of interest on government loans, for the power granted it by the state to transform these same notes from paper into money and then to lend it back to the state" (Capital III, p. 542).

(credit-money, etc.) lies beyond our plan" (Capital III, p. 400). However, this part of Capital is rich in its discussion of the role of credit and of the accumulation of money and real capital.

When paper money is redeemable--i.e., directly based on commodity money--the value of it is directly proportional to the amount printed. As Marx says:

...If the paper money exceed its proper limit, which is the amount in gold coins of like denomination that can actually be current, it would, apart from the danger of falling into general disrepute, represent only the quantity of gold, which, in accordance with the laws of circulation of commodities, is required, and is alone capable of being represented by paper. If the quantity of paper money issued be double what it ought to be, then, as a matter of fact, \$1 would be the money-name not of 1/4 ounce, but of 1/8 ounce of gold (Capital I, p. 128).

Hence, the printing of money under these circumstances debases the currency. This policy is equivalent to an increase in taxes. In actuality each dollar in people's hands is worth less. It is as if all purchases were taxed proportionally at the rate of inflation. The effect of this sort of finance is to have the state initiate an increasingly greater proportion of society's productive activity.

However, the expansion of credit money also leads to an increase in productive capital. The inflationary impact is muted because new output is supplied to absorb the extra

demand created by the increased money supply. When all the new money is used for consumption and does not lead to an increase in production, full inflationary impact will follow. This situation occurs when production is already at near capacity and the increase in money is used to bid resources from one use to another.

During periods of crisis, a different set of conditions apply. Under these circumstances, credit is not accepted; cash is the only medium in use. Increases in the money supply are hoarded or used to pay outstanding debts rather than to increase either consumption or production. Just as the expansion of credit and production go hand-in-hand, so too do the destruction of commodity values and outstanding loans. As Marx notes: "The entire artificial system of forced expansion of the reproduction process cannot, of course, be remedied by having some bank, like the Bank of England, give to all the swindlers the deficient capital by means of its paper and having it buy up all the depreciated commodities at their old nominal value" (Capital III, p. 490).

There are several contradictions, however, to the use of inflationary finance.

First, inflation tends to feed on itself. Rising prices cause a fall in real wages--i.e., rising prices tend

to cause a fall in the exchange value of labor power. The working class will then respond to this by demanding higher wages. Capital, in turn, will be able to further increase their prices with the result an uncontrolled wage-price spiral.

Second, debtor/creditor relations are disturbed; creditors get repaid in money that is worth less. In response to this, the interest rate raises. This change causes a further fall in value to all existing interest-bearing claims.

Third, the ability of corporations to remain "liquid" and to expand is undermined. Although inflation has a tendency to increase total profits, the costs of expansion also rise. The cash flow that had been generated in previous periods for expansion based on stable prices is not enough to purchase large fixed capital expenses. These goods transfer their value to the output over many production periods but the money to buy them must first be advanced. In order to expand, corporations must borrow money precisely at the time when the cost (the interest rate) is highest. They are forced to choose between two unpleasant options--lending short for long term projects or committing themselves to long-term high-interest debts. In any case, the potential for a liquidity crunch is very great.

Fourth, there may be important international effects associated with balance of payments problems. Over the last thirty years, the U.S. has exported a huge number of dollars. When the dollar was strong, this outflow was not a contradictory process and enabled U.S. corporations to greatly expand. The willingness of foreigners to hold or accept dollars is now threatened if the U.S. inflation rate is greater than that of other major currencies.

CHAPTER VI

MONEY OUTFLOWS

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Government expenditures can be classified in three major categories--costs of services provided by the government, purchases from private firms, and transfer payments including subsidies. Each of these categories will be discussed separately in terms of its effect on the circulation and expansion of capital. This determination is crucial because it provides the basis for understanding the net effect of state activity on the economy. In a capitalist society, the most important factor concerning growth and development is how an activity affects the generation and realization of surplus value.

A. State Purchase from Private Capital

Government purchases of products from private capital--e.g., military hardware, office supplies, highways, etc.--realize surplus value. The output is produced for exchange and has a clear use; the labor time that goes into the production of these goods is productive vis-à-vis the capitalist in that industry.¹

¹Elmar Altvater, "Notes on Some Problems of State Interventionism (I)," Kapitalistate, No. 1 (1973), p. 105.

As was discussed in Chapter III, there are two relationships existing in every act of consumption--the relationship of consumer to laborer and that of capitalist to laborer. In this situation, the nature of the product, in its historical context, means it is not consumed individually. The government, in this case, is a collective consumer; it takes a bit of money from many people and uses it to buy a product. In circulation terms, it is as if each person purchases a minute fraction of the output. Neither class tax incidence nor the use to which the government puts this output affects this determination.²

The determinants of how much of society's total labor power will be allocated for the production of such collectively consumed goods are different from those that regulate the total output of breakfast cereals. With individual consumption goods, each individual has direct control over which specific commodities he/she will consume.³ This is not the case with respect to collective consumption. Here, the decision to consume is made by the state. Organized

²These issues become important in understanding the state's impact on the accumulation process. This will be discussed in the next chapter.

³The control is less direct concerning the amount of all goods a consumer can purchase. This amount is determined most directly by control over 'dollar votes'--i.e., a person's class position and the level of the class struggle. In addition, mass consuming habits are somewhat imposed on everyone.

group action is necessary to change a decision. The decision will be based on the level and content of government activities and class tax incidence.

The second relationship involved is that of the laborer to the capitalist of the government-contracted firm. This labor is productive labor; it produces surplus value. The capital is expended on commodity production and leads to its self-expansion during the process of production, unlike merchant's or finance capital which only aids in the circulation and realization of already-produced commodities, which are paid for out of the surplus value fund.

Several authors have claimed that government purchases are unproductive and subtract from the surplus value fund. This question is important because it bears directly on the role of the state in the development of the capitalist economy. If these theorists are correct, the size of the government budget is an impediment, a negative limit, to capitalist production--production which is based on and initiated by the generation of surplus value.

Most of the authors who take this position understand this contradiction. As Mattick states: "the state will... thus threaten to become itself the vehicle for the destruction of the market economy."⁴ However, he and others posit

⁴Paul Mattick, Marx and Keynes (Boston: Porter Sargent Publisher, 1969), p. 153. Cf. also "if this trend [increased state share of GNP] continues there must come a time when the non-profit sector outweighs the profitable sector and therewith endangers the latter's existence" (p. 163).

that the state's activities are necessary to the immediate generation and realization of surplus value and, hence, must be carried out.

The argument that this type of state consumption is unproductive takes three forms. Each of these must be analyzed separately in order to justify the position that is advocated here.

O'Connor⁵ and Mattick⁶ argue that, since the government by its sovereignty has called forth this production, neither a market relation nor a value relation exists. Without the disciplining force of the market, there are supposedly no mechanisms to impose labor values on the product. The evidence to support this claim is that the work conditions of firms producing for government are less intense, wage increases are more easily granted, and inefficiency and waste are common, and profit margin is guaranteed.

There are, however, several ways in which market discipline is imposed on these firms. They all revolve around the fact that the government represents collective capital

⁵Personal communication.

⁶Mattick, p. 151. He says: "The private sector must realize its profits through market transactions. The public sector operates independently of the market."

and the general public. O'Connor's analysis presupposes that people either do not feel that they are paying for state projects or that they have no power to change things. Hence they don't protest excessive costs. This analysis portrays the working class as always defeated and not as an active initiator of struggles to protect their interests. On the contrary, workers do feel that they are paying and are very concerned that the government is misusing their hard-earned money. Recent scandals and state attempts to regulate more closely the activities of those firms with which it deals are recent manifestations of this concern.

In addition, if labor in these industries were less alienating and coercive, then it would set an example for other industries and would provide a lever for working class struggle. Collective capital, through the legislature, would attack this situation by saying that these industries were inefficient and exert direct pressure to have these work conditions conform more closely to that in the private sector. Similarly, if workers here were better paid relative to their skills, it would be a bad example for other capital-labor relations.

There are other ways in which market discipline is imposed on these firms. First, competitive bidding is

usual on most government projects. Second, if the rate of profit is higher than the average rate, more firms will try to compete for government projects. This is indeed what is happening and the competition is both economic and political. Third, there is the effect of turnover. The most cited example of why the public sector is a favored sector is the use of cost-plus contracts which supposedly remove the incentive from capitalists to produce efficiently. However these contracts do not include the time of production as a variable for increased payments. In order to maximize realized profits over a given time period (minimize the amount of capital advance needed to realize a given amount of surplus value in a given time period), it is in the capitalist's interest to try to produce as quickly as possible.

Finally, there are indeed short-run inequalities between different capitals of the same size. In the past, firms dealing most closely with the government have had a sort of "preferred" status, but this status has not been as uniform as critics have argued. Many contracts have had to be renegotiated in the face of losses. Lockheed in the U.S. and Rolls Royce in Britain are two dramatic examples of this trend. The disclosure of gross inefficiency and poor planning has led to public uproar. But

that uproar is not different than the uproar about unsafe Corvairs after millions had been bought. In fact F-4 jets may be the most efficient machines in the world, but it is not the material characteristics of the output which determine the economic relations involved.

However, even if these differences persist, the basic economic relations are not changed--commodities are produced and surplus value realized. All it means is that certain firms are able to enjoy a monopoly position and reap higher than average profits (relative to the profit rate of other capitals of similar size). In the present era of large capital units, there is much manipulation that appears as "extra-market" competition in the traditional sense of "market."

A variation of the lack of market relation is presented by Offe.⁷ He regards all labor as unproductive which is called into being by its "concrete result." He says that "it [labor expended on state purchases] is deployed with regard to its use-value and the use-value of its performance and not, as is the case of abstract labor, with regard to

⁷Claus Offe, "The Abolition of Market Control and the Problem of Legitimacy (I)," Kapitalistate, No. 1 (1973), p. 109.

its exchange value, where use-value is not the primary fact, but only a necessary by-product."⁸

Offe misunderstands the use value pole of the commodity form. He denigrates it to a secondary position--"a necessary by-product." As was discussed in Chapter IV, the possibility of a crisis exists because of the lack of direct connection between production and sale; production of surplus value does not exist unless it is realized in sale. There is a dialectical unity between production and consumption. All production must be initiated both with consideration to exchange and use value. It does not matter whether production is intended for the anonymous market or is contracted for directly by the state, a capitalist firm, or an individual.

The second form of this position is presented by Paul Mattick and Claus Offe. They argue that, since the government is a consumer and not a producer, surplus value cannot be produced. Mattick says: "Like consumption in general, 'public consumption' does not add to the formation

⁸Offe, p. 109.

of capital."⁹ Offe repeats the same point--"what is expended is not capital and the result is not surplus value production, but value consumption."¹⁰

It is very true what is expended is revenue, not capital. But that does not mean that surplus value has not been produced and realized. Without seeing the double relationship involved in every act of consumption, one cannot see how the same labor is both productive (with respect to the capitalist) and unproductive (with respect to the consumer). When I buy a coat, I expend my revenue; but surplus value is realized from the point of view of the coat manufacturer. The same situation applies during any act of state consumption.

Finally, Bullock posits that government activities which constitute capitalist consumption does not realize surplus value. He says that from the point of view of the individual capitalist, surplus value is realized but not from the perspective of capital in general. Hence, surplus

⁹Mattick, p. 160.

¹⁰Offe, p. 114.

value is just being redistributed. He bases his argument on the fact that the motive force of capitalism is the expansion of value. Capitalist consumption is a deduction from the surplus value pool available for future use as capital. Therefore, he concludes that such government spending cannot be truly productive.

This argument is similar to the last one in that consumption is presented as a negative factor to capital accumulation. An analysis of Bullock's arguments shows that surplus value cannot exist under the conditions he states. He posits that capitalists can only generate surplus value from productive workers and can only realize it by their consumption. But since these workers can only consume an amount equivalent to their wages, surplus value cannot be realized. The unity of production and consumption means that, of the total value produced, capitalists appropriate a significant portion for their consumption and future accumulation. As was discussed in Chapter IV (and will be elaborated on in Chapter VII), there must be a proper balance between capitalist consumption and accumulation. Without that, the value that is produced (including surplus value) cannot be realized.

In summary, it has been argued here that the government is a collective consumer and that both capitalists and workers support that consumption. When this consumption takes the form of purchases from private capital, surplus value is realized for that capitalist and hence for the capitalist class as a whole.

B. Government Services

Government services include all activities performed by government employees. The major areas of activity are administration and regulation--police, army, and courts; provision of social services--education, health care and sanitation; and research and development. From the point of view of capital circulation the income received by state workers comes from the revenue of wage earners and capitalists.¹² These activities decrease the immediate surplus value pool and cannot be the driving force of capitalist production.

¹²As Marx puts it: "The income of the state good-for-nothings is part of profit and wages.... It therefore does not increase the product existing as profit and wages, but only determines how much of it they [state workers] consume, and how much is consumed by the laborers and capitalists themselves" (TSV I, p. 235).

Some Marxist theorists¹³ have argued that any activity that provides use values,¹⁴ particularly use values to the working class, is productive with the surplus value produced transferred to private capital. This process is accomplished through the reduction of money wages in the private sector. Since these state services are part of the exchange value of labor power, they must be provided. If they were provided by capital, then all other capitalists would have to increase their workers' wages to allow for profit to be made in this industry. Hence, the lower price level due to non-profit state production allows private capital to increase the exploitation of their workers. This increased exploitation only occurs, it is argued, because surplus value has been produced in the government-run sector; this process is merely a further extension of the transformation of value into price and the realization of surplus in areas other than where it is produced.

¹³John Harrison, "Productive and Unproductive Labor in Marx's Political Economy," Bulletin of the Conference of Socialist Economists, (Autumn, 1973). Also, Boddy, personal communication.

¹⁴This excludes mere regulatory expenses which merely aid in the circulation of value and goods.

This analysis misrepresents the concept of productive labor.¹⁵ Productive labor is primarily a social relation between wage labor and capital. State facilities are run by a command hierarchy and under work conditions similar to those in private firms. However, the primary relation is labor-to-state and not labor-to-capital. When state workers go on strike, they withhold their ability to create use values, not their ability to create surplus value. This basic difference is also reflected in the fact that capital does not flow into the state area in accordance with its profitability which is the mechanism through which value is transformed into price. Any changes in the exploitation of state workers or of the organic composition of state capital do not directly affect the average rate of profit, as they do with all forms of private productive capitals. These differences mean that this form of production lies outside the realm in which the surplus labor time of the direct producers is appropriated by private capital.¹⁶

¹⁵It should be noted that Harrison also considers housework productive labor. For a good critiques of this position, see David Jaffe, "The Marxian Theory of Crisis, Capital, and the State," Bulletin of the Conference of Socialist and Economists (Winter 1972) p. 5.

¹⁶This does not rule out the possibility of capitalism existing in the Soviet Union. There, the primary mechanism by which surplus labor time is appropriated is through state allocation of capital rather than through private capital ownership. Cf. Red Papers No. 7, by the Revolutionary Union.

The purpose of these state activities is to shape the environment in which capital and labor interact. As was discussed in Chapter II, the state is responsible for ensuring the necessary social conditions for capitalist production; in many cases, because capital cannot manage them profitably, the state must provide these services itself. But, state takeover does not automatically make these activities profitable again. In fact, it does not matter if the state collects more in fees than it expends, or makes a "profit" on its operations.¹⁷ Since this profit is not used as capital but as a revenue source for state consumption, these activities must still be considered unproductive.¹⁸ Historically, state takeover of these services has occurred because they were essential services that were not being produced in sufficient enough quantity. As Boddy has noted, "there is a market answer, but that answer is wrong for collective capital."¹⁹ "Because of the inability, or reluctance, of the mass of workers to pay for this type of service, capital proper does not take root in this sphere so easily."²⁰

¹⁷The state is rarely allowed to do this.

¹⁸If this were the dominant form in which capital was generated, then state activity would be productive.

¹⁹Personal communication.

²⁰Bullock, p. 14.

The indirect impact of these state activities should not, however, be underestimated. Though research expenses are unproductive, for example, technological advance is crucial to the accumulation process. Similarly, by providing important use values to the working class, the state even directly affects the class struggle over the division of the working day. Further, because state takeovers do lead to lower prices, certain sectors of capital may favor specific nationalizations as a means of increasing (or maintaining) the rate of exploitation of their own workers. Nationalizations will be, however, limited because capital understands that an attack on one form of property is an attack on all forms,²¹ and because they limit the sphere in which capital can expand. Finally, state regulatory and police functions, including the costs of maintaining a foreign empire, are necessary for the continued survival of the capitalist system.

O'Connor argues that state provision of services results in socializing monopoly capital's costs.²² Activities

²¹Theories of Surplus Value II, p. 45.

²²O'Connor, Fiscal Crisis, Chapters 4 through 6.

expanded under state direction decrease capitalist expenses and are supported by revenues which come from both labor and capital.

He is wrong, however, when he attributes all the benefits to capital and all the costs to labor. In every case that he cites, workers benefit too. For example, to posit that education's only function is to socialize training costs is a mistake. Education is viewed as an important consumption good by the working class. In fact, one pair of Marxist theorists²³ argue that education adds to the exchange value of labor power without increasing its value-forming potential, indicating that it is a pure consumption good.

However, the state does play an important role in providing the environment in which capitalist accumulation can occur. For example, highway building and subsidies for suburban development encourage the use of cars and other consumer durables.²⁴ In addition, specific state projects may benefit particular individual capitals; urban renewal maintains the value of downtown properties. In addition,

²³Harmut Nevendorff and Ulrich Rodel, "Investigation of the Functions of Public Science and Technology Policy in the Federal Republic of Germany as a Capitalist System," Kapitalistate 1 (1973), pp. 29-35.

²⁴Cf. Lawrence Sawers, "Urban Form and the Mode of Production," Review of Radical Political Economics (Forthcoming).

as production becomes more interdependent and as more use values become available (due to the increased application of technology), collective consumption grows faster than individual consumption. Much of this collective consumption is provided directly by the state in such areas as teacher services and sanitation. However, the larger part of this collective consumption is the state organizing the consumption of the output of private capital--hospital equipment, textbooks, construction projects, and armaments, etc.

Capital gains from state projects in two additional ways. First, economizing on capital expenses occurs whenever capital's share of state projects is less than the sum that all capitals would have to spend if they had to purchase or produce these activities privately. The best examples of this economy are training expenses and research and development. Secondly, through state finance, capital is able to shift some of its costs to the working class. The working class may pay a greater proportion of income to the state in taxes than they receive in services. This last factor, however, is an empirical question on which O'Connor takes a position without adequate demonstration.

One last point must be made with respect to state provision of services: these activities need not always be kept under government control. As has been emphasized, capital generally opposes the state being involved in productive activities. But, as was shown in Chapter II, there are strong reasons for the state to take on particular projects. However, through the progress of time and technology, historical circumstances may change so that private capital can once again perform these functions.²⁵

C. Transfer Payments

The final category of state expenditures is transfer payments. These include payments to non-workers and subsidies to producers. Since there is neither production nor purchase of commodities in this process, surplus value is neither generated nor realized; these transfers are unproductive expenditures. The money that is raised to support these activities is deducted from the revenues of capitalists and "working" members of the working class.

²⁵ There are many examples of this throughout the capitalist world. In the U.S., after World War II, the state sold state built factories to private capital; there has been the conversion to private capital of functions formerly performed by the Atomic Energy Commission and the communications satellite network. In Germany, the Volkswagen Company changed from a state to a private enterprise. In Britain, some of the nationalized steel industries were returned to private hands.

Confusion with respect to the income received by "non-workers", however, is common. As shown earlier, there is no relation between labor advanced--that which is used in the production process--and the income received. Wages are determined by the need to keep workers alive and by the level of the class struggle. With respect to non-workers, the case is very similar. These non-workers are a necessary product of capitalist production and must be kept alive to insure the normal reproduction of class relations. Their income is determined by the struggles that they conduct²⁶ and by the way in which their situation affects other worker-capitalist struggles. For example, if normal state retirement payments are too low, then active workers will struggle for better pension plans from the corporations they work for.

These support programs, however, represent a victory for the working class. Before they existed, members of the surplus labor army supported themselves by charity, illegal activity, or attachment to an extended family which had some working members. The other alternatives were to return to the land, if possible, to emigrate, or die. As

²⁶Frances Fox Piven and Richard Cloward in Regulating the Poor (New York: Pantheon Books, 1971) have shown that the level of welfare payments is directly correlated with their level of struggle. In the late 1960's, there was a dramatic rise of the National Welfare Rights Organization in the U.S. and Claimants unions in Britain.

the worker's movement developed, these non-workers increasingly refused to accept these meager options.²⁸ Capitalists responded by "brib[ing] the working with more or less hidden doles and, by making their condition momentarily bearable, to break their revolutionary power."²⁹ The state, representing the collective interest of capital, organized these "bribing" programs.

Capital works through the state to transform this working class victory into a form that does not endanger its power.³⁰ It accomplished this transformation by demeaning this method of income payment. This demeaning is further reinforced by the systematic correlation of this division with other divisions like racism, sexism, and anti-foreigner feelings. This results in the division of the working class and its allies, making effective struggle more difficult.

Capital is also successful in shifting some of the costs of supporting these non-workers to the rest of the

²⁸In underdeveloped countries with less developed workers movements, these programs are either non-existent or not enforced.

²⁹Engels, Marx-Engels Werke, VII, p. 247. Cited in forward of Grundrisse (Middlesex, England: Penquin Books, 1973) translated by M. Nicolaus.

³⁰The business community was very active in promoting and determining the form of the U.S. Social Security system. Cf. O'Connor, p. 138; and Weinstein, The Corporate Ideal in the Liberal State (Boston: Beacon Press, 1968).

working class.³¹ These programs are presented as a form of social insurance rather than as a tax-transfer system. This is meant to ensure the close connection between use and taxes paid. Hence, workers are more "willing" to forego present wage and consumption demands, that is, to pay a large proportion of this tax, since the system is organized in this way. Similarly, other forms of assistance, like welfare, are paid out of local tax receipts in which the class tax incidence falls heaviest on workers.³²

The second type of transfer payment is tax subsidies and price supports. As Mattick notes, "Governments, of course, cannot subsidize anything; they can only see to it that one part of the economy subsidizes another."³³ The costs needed to realize a given amount of surplus value (after-taxes) become less in the affected industries. This draws capital in or keeps it there. The net effect is to insure that a given level of production will be forthcoming and that the capital invested receives at least the average rate of profit.

³¹Referring to the costs of supporting paupers, Marx says: "it enters into the faux frais of capitalist production; but capital knows how to throw these, for the most part, from its own shoulders on to those of the working class and the lower middle class" (Capital I, p. 644).

³²Cf. Elliot Sclar, et al. "The Rich Get Rich, The Poor Pay Taxes," mimeo, no date.

³³Mattick, p. 143.

Since these policies benefit individual capitals, they may be in conflict with the interest of all other capitals. For example, price supports in agriculture can lead to higher food prices. Hence, the money wages all other capitalists must pay their workers, to maintain the exchange value of their labor power, is higher than it would be if these subsidies were not in effect. In addition, these policies can be a method of payment to non-capitalist, non-proletarian classes in order to ensure their political loyalty, such as loans to small businessmen.

It is possible that these programs affect the size of the surplus value pool by socializing capitalist costs. As Altvater notes:

As a rule subsidies have the character of being surplus distributed by the state and no longer by competition. They ensure the maintenance of an average rate of profit by every capital unit. Naturally, subsidies can come from the revenue created by wage-laborers, in which case they lower the living conditions of the working class to the benefit of capital units.³⁴

Here, the important factor is class tax incidence. The advent of the subsidy increases the realized rate of profit in the involved industry. Capital flows into this industry and thus leads to a sharing of this gain.

³⁴Altvater, p. 106, footnote 24.

This situation can only be reversed if the working class can increase their wages.

PART IV

THE STATE AND THE ECONOMY: THE IMPACT OF STATE
ACTIVITY ON THE CONTRADICTIONS OF CAPITALISM

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The state was presented in Chapter II as an institution of social cohesion which means economically, that the state (1) provides services to complement private production; (2) mediates and regulates inter-and intra-class struggles; and (3) tries to avoid or counteract those forces which tend to bring about a crisis. This part of the thesis focusses on the third role--on precisely how the state is able to counteract contradictory tendencies within capitalism and on the factors which limit the state's effectiveness in performing this role.

As Altvater has noted:

It becomes clear that the historical functions of the state are not originally inherent within it, but must be the results of crises of social production, mediated by class struggles and conflicts between fractions of the ruling class.¹

Hence, the state develops new activities or expands old ones in response to the domestic and international situation it faces.

¹Altvater, "State Interventionism (I)," p. 103.

The most important factor influencing state policy in the recent past has been the long run realization problem (presented in Chapter IV), which is reflected in the increased state share of GNP. Chapter VII focusses on how this policy tends to counteract this problem, in the short run, by controlling the business cycle.

Chapter VIII deals with how the state affects the tendency of the profit rate to fall. In the short run, the state attempts to aid the production and realization of surplus value, which is counterposed to the state's presentation of itself as acting in the general interest. Some state policies squeeze the profit rate and others aid it. However, in the long run, the basic underlying secular tendency for the profit rate to fall, leads to a great crisis (which creates the conditions for future accumulation). The state, in the past, has been unable to prevent this, and as of January, 1975, the capitalist world seems on the brink of another deep crisis. This chapter will discuss the ways in which the state can respond.

Finally, Chapter IX discusses the state's efforts to regulate and contain the surplus labor army. However, to the degree that the size of the reserve army varies with changes in the business cycle, potential state activity is discussed in Chapters VI and VII.

CHAPTER VII

THE STATE AND THE REALIZATION CRISIS

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The realization problem as defined in Chapter IV stems from the contradiction between the forces of production--the level of productive capability--and the relations of production--the class structure. There are two primary manifestations of this contradiction. First, labor discipline--i.e., working an adequate number of surplus labor hours with a high degree of intensity throughout the working day--must be maintained even though increased technology makes it possible to provide the same (or greater) use value with less labor time. Second, social demand is not great enough to clear the market at prices allowing for expanded reproduction, because workers do not receive enough income to buy all the output, and capitalist consumption and productive investment do not take up the slack. Capital accumulates faster than the surplus value can be extracted and realized from the working class.¹ Since the additional return on further investment is too low, capital must flow to other outlets--e.g., abroad.

¹Cf. Mattick, Marx and Keynes and Jaffe, "The Marxian Theory of Crisis, Capital and the State," Bulletin of the Conference of Economists (Winter 1972) p. 5.

This chapter contains four sections. The first three--(1) the growth of debt, (2) imperialist expansion, and (3) the growth of public consumption--concentrate on responses to the long run realization problem. The first two sections analyze events that occur primarily outside the state but with state supervision. The last section--(4) the state and the business cycle--focusses on short run responses and the state's attempt to control that cycle.

(1) Debt

Debt represents a usury (rather than productive) capital relationship; which means that surplus value is not produced. The exception to this is money loaned to capitalists for production purposes. In this situation, the debt is really a disguised form of temporary ownership entitling the loan holder to part of the surplus value produced. But other debt, consumer, government and foreign debt is capital advanced for the purpose of consumption. In many cases, this allows for the purchase of expensive commodities that last for many years. Hence, a portion of social capital is used to facilitate consumption rather than initiate production.

Marx commented on consumer debt as follows:

The English, for example, are forced to lend their capital to other countries in order to create a market for their commodities. Overproduction, the credit system, etc., are means by which capitalist production seeks to break through its own barriers and to produce over and above its own limits (TSV III, p. 122).

Debt postpones the crisis of overaccumulated capital in two ways, by providing a market for capitalistically-produced output, and by drawing capital away from commodity production. Hence, the level of accumulation of capital is not directly related to the supply of commodities.

However, this postponement intensifies the crisis when it eventually does occur because debt financing does not proceed in an orderly fashion; interest and principle payments do not remain a low and stable proportion of total income. Instead, these payments tend to increase as a porportion of total income.² This squeezes workers' ability to maintain their standard of living; and more debts become unfeasible without cutting into workers' necessary consumption. A crisis serves the function of destroying a large proportion of these debts, other alternatives being inflation or increased wages. Inflation wipes

²Cf. Business Week, October 12, 1974, on the growth of debt in the U.S.

out the debt but does so by destroying capital values, and new debt can only be issued with very high interest rates. Thus, this policy merely forestalls, and then intensifies, the crisis. Increased workers' wages reduce the surplus value pool from which capital draws its returns. As Monthly Review has noted, the "Keynesian chickens must come home to roost."

In the post-World War II period, the state was complicit in the formation of large consumer-type debts, by organizing debts for collective consumption, which originates in special federal borrowing, local capital budgets, and federal deficits,³ by establishing and regulating the banking system to ensure an adequate money supply for debt creation and re-payments, by guaranteeing several forms of private debt--particularly mortgage debt.

(2) Imperialism

Marxist writers have concentrated on the study of imperialism.⁴ Marx himself said that the creation of a world market was one of the "Three Cardinal Principles

³The stimulatory effect (and hence its partial self-financing) of the federal deficit will be discussed in section 4 of this chapter.

⁴Although Lenin was not the first to write on the subject, his work, Imperialism: The Highest Stage of Capitalism, is considered a classic on the subject. Cf. also, Kemp, Theories of Imperialism (London: D. Dobson, 1967), for a modern review.

of Capitalism" (Capital III, p. 266), and many scholars have investigated the effects of imperialism on the development of countries other than the advanced capitalist countries.⁵

Imperialism counteracts the long run realization problem in two fundamental ways--by expanding the market and by providing an outlet for the export of capital. A positive balance of trade represents an exchange of incomes with other countries generated by domestic production. Hence, domestic production and accumulation can proceed at a rapid pace without being limited by the level of domestic purchasing power alone.

Capital is exported when the profit rate on investments abroad exceeds the profit rate on additional local investment in sufficient amounts to compensate for added risk. Most of the production that is generated by this capital is intended for foreign markets, which represents reduction in the production of commodities for domestic consumption.

However, repatriated profits exceed net capital outflows. These profits come from surplus value appropriated and realized from a previous production period. A portion of this money is used for capitalist consumption and

⁵ See Tamas Szentes, The Political Economy of Underdevelopment (Budapest: Akademia Kiado, 1971).

collective consumption (via taxes). Another portion is used to employ sales and administrative personnel, which represents intra-(multi-national) corporation cash flows. In both these cases, the money does not function as capital; instead, it represents the transfer of purchasing power to the home country.

Imperialism also counterbalances the tendency for the profit rate to fall. The factors affecting this will be discussed in the next chapter.

As discussed in Chapter II, the national government is the organizer and guarantor of domestic capital's foreign expansion because of the state's monopoly control over organized means of force. Individual firms may have important separate dealings with foreign countries but, ultimately, their ability to pursue their goals is based on state power, and the state's role in establishing trading relations, tariff and monetary affairs; protecting trading routes and foreign property owned by domestic capital; granting loans and other aid for infra-structure projects, and ensuring the continuance of "friendly" political regimes.

(3) Public Consumption

All government expenditures--payments for state-run services, regulatory agencies, government purchases and transfer payment--are treated in this study as activities collectively consumed by workers and capitalists, and supported by both. To support this consumption, workers must sell their labor power. As they work longer (to support this collective consumption over and above their individual consumption), they work more surplus labor hours.

Capital also must pay to support state activities. This form of capitalist consumption represents a deduction from the surplus value pool and reduces the pressure toward overaccumulation. Since capitalism is not based on consumption, capitalists want to ensure that either the activities they are paying for are necessary for the survival (and expansion) of the capitalist system or that these costs will be supported by the working class. If the bourgeoisie is forced to pay more than they receive in benefits, accumulation will be retarded. Hence, the class tax incidence has an important bearing on the effects of public consumption.

Labor discipline, though, is only one side of the long run realization problem; capitalist production must also expand its market for commodities by state purchases (or contracts) with private capital. Since these purchases

realize surplus value as shown in Chapter VI, state organization of collective consumption expands production into new areas in which labor is productive from the point of view of capital.

With state services the situation is different because they involve a transfer of tax money to state workers. Although these workers consume products, most of which are products of capital, this expansion of the division of labor is accomplished by the addition of unproductive workers. Although labor discipline of productive workers has been strengthened through their support of state activities, the capitalist market has not been enlarged. There merely has been a transfer of revenue to state workers.

The case is similar with transfer payments to non-workers. However, since a large portion of these people could not be productive workers--e.g., elderly, disabled, and mothers of young children--the social division of labor is not affected; labor discipline is the only factor involved.

Two more factors affect state choice of activities. First, the state does not undertake projects that compete

with private capital because this would have contracting, rather than expanding, effect on capital accumulation. Instead of goods or services being provided by capital and realizing surplus value, the state would provide them with no surplus value realized. Nationalizations are exceptions to this but are based on specific historical circumstances (cf. discussion in the next section of this chapter).

Second, the state, in its role of general coordinator, pursues policies that facilitate consumption of the goods/services of private capital.⁶ For example, government construction of a massive nation-wide highway system encourages use of the automobile. More generally, Sawers has argued that this and other government programs have been very influential in the rapid growth of suburbanization in the U.S.⁷ In addition, the encouragement of single family housing leads to a large demand for consumer durables like washers and dryers, many of which lie idle for long periods at a time.

The above analysis helps explain why military and space spending have played such an important role in the

⁶O'Connor calls this complementary investment. Cf. Fiscal Crisis, Chapters 4 and 5.

⁷Lawrence Sawers, "Suburbanization and Monopoly Capitalism," Review of Radical Political Economics, (forthcoming).

growth of the state sector. First, in the international arena, military power is essential to establish and protect economic power. The best-equipped nation will always use its superior position to the advantage of its own bourgeoisie. Second, a large portion of the expenditures are purchased from private capital--e.g., all weapons and munitions. Third, these programs do not compete with private capital nor do they substitute for any workers' personal consumption. Fourth, although there have been no class tax incidence studies, the working class pays a significant share of supporting the state military machine. Fifth, the U.S. state has been able to greatly expand this form of collective consumption without having the costs fall primarily on capital. Sixth, a reason verbally stated by John Foster Dulles (then U.S. Secretary of State) and George Kennan in the early post-World War II period, is that a U.S. arms build-up would require the Soviet Union to do the same. It was argued that this would put a strain on the Russian economy and retard its development.

It should be noted that this policy does not guarantee that the long run realization problem can be avoided. There are three factors which limit the effectiveness of the state's "reorganization" of production.

The first is a limit to how much the working class will be willing to consume collectively. This historically specific relation depends upon: (a) the specific content of state activities, (b) the level of social productivity, and (c) the amount and share of taxes that capital is paying-- i.e., all the factors that influence class tax incidence. Except for unusual circumstances, the working class will demand a standard of living commensurate with the level of productivity. Large increases in collective consumption which do not add to personal consumption will eventually meet with working class resistance. The alternative is to have the class tax incidence shift to capital which will be a drain on the surplus value pool and on accumulation.

The second is that a high level of military expenditure can hinder the development of new technology into non-military production.⁸ Hence countries without high military costs can incorporate technological advances in other areas of commodity production more easily than countries with huge military machines. This cost of imperialism detracts from the ability of the most militarily committed country to compete on the world market.

⁸This argument was originally put forward by Seymour Melman in Pentagon Capitalism (New York: McGraw Hill, 1970).

The third limitation is the contradictions over the legitimacy of the state organizing a greater proportion of total production. As a result, issues over distribution become more explicitly political. When the state becomes the proximate cause of great business profits, the class-neutrality of the state is undercut and liberal forces demand that these productive activities be state-owned and run. Because this would narrow the sphere open to productive investments and further accumulation, it is unacceptable to capital, which must defend its right to high profits and control over the nation's productive capacity.

(4) State Regulation of the Business Cycle

The business cycle (or profits or crisis cycle) expresses the movements of the three basic contradictions of capitalism. The cycle varies according to the level of accumulation--capital's ability to invest profitably. This ability is reflected in changes in the profit rate. The profit rate, in turn, is determined by class struggle over the rate of exploitation and by the organic composition of capital. Crises are necessary in that they "forcibly unite" relationships that have become disjointed (cf. discussion in Chapter IV). They serve the twin functions of labor discipline and slaughtering of capital values.

They allow capital to be reorganized; large amounts of debt and large numbers of inefficient producers (which all claim part of the surplus value pool) are wiped out.

The state has tried to anticipate the cycle in order to smooth it out. This means that the state has at different times tried to contract or expand production. The crucial theoretical problem is whether the state is able to expand production; this will determine whether the state can permanently prevent capitalist crises.

The state will not contract production over a long period of time; this contradicts its social role of advancing the general interest and is not in the interest of either major class. It does try to manage downturns because it feels that this policy stabilizes the long term expansion of capital and production.

Historically, in the U.S., during the post-World War II period, downturns have been initiated in response to inflation.⁹ The state did not allow the money supply to expand fast enough to keep pace with expanding production and prices. This policy restricted credit availability and combined with fiscal measures to cause a reduction in investment.

⁹Cf. Herbert Stein, The Fiscal Revolution in America (Chicago: Chicago Univ. Press, 1969), particularly on the Eisenhower years.

It is important to note that these inflations were defensive responses on the part of capital. Boddy and Crotty have shown that, during these inflationary periods, the share of profits of GNP was declining.¹⁰ Therefore, these state-managed recessions were objectively in the interests of capital and were used as labor disciplining mechanisms.¹¹ In addition, recessions result in the further centralization and concentration of capital. When money is tight, only the best customers, i.e., large capital, has access to it. Hence, they are able to buy out many small and medium sized firms during this period.

The state must be careful to control the degree of the downturn so as to not precipitate a crisis. The immediate effect of any recession is a reduction of the surplus value pool. To ensure that this does not lead to the failing of large numbers of firms, in emergencies, the state becomes lender of last resort for major firms that are in danger of bankruptcy. It also nationalizes those firms that have little prospect of regaining a profitable position and attempts to coordinate its purchasing

¹⁰"Class Conflict and Macro Policy." The government statistics that they cite are not the best measures. However, they can be used to indicate the direction of short term movements.

¹¹Each recession in the U.S. up until 1969 was characterized by decreasing wage demands, Cf. Fortune, February, 1974.

policies to help ailing industries, In all these ways, the state is trying to reorganize capital¹² and avoid disproportionality problems. And if the recession deepens, the state is forced its policies towards stimulation rather than contraction.

There are two other factors that can stop the state from pursuing restrictive policies. First, the necessities of imperialism have precedence over cycle maintenance. It is impossible to conduct a war and contract the economy at the same time.¹³ This could occur only if taxes were increased to cover all the war costs. However, if unemployment was high, the state would be unable to extract these taxes from the working class. Second, a strong working class movement may make it politically unfeasible for the state to manage a recession by not allowing a popularly-elected state to purposely cause unemployment.

In order to evaluate the state's ability to expand production, we must answer three questions: (1) what are the forces that are causing the downturn? (2) how, in class terms, can this situation be rectified? and (3) how can the state do this?

¹²In Japan, this coordinating function of the state has been highly developed. The Bank of Japan consciously controls the funds that are made available to different capital units. It is willing, in fact encourages, to let unprofitable firms go under.

¹³In the mid to late 1960's in the U.S. cycle maintenance would have implied a recession, but the war effort made this impossible.

There are two types of cyclical downturns. The first one is associated with the class struggle over the division of the working day. During the boom part of the cycle, unemployment decreases and wages are bid up with accumulation proceeding at a rapid pace. But a recession is needed to take the steam out of wage increases and re-establishes a high rate of exploitation. Some bourgeois politicians try to avoid this type of fluctuation by forging a "social contract" between capital and labor--each agreeing to a given share of the total output. This policy is usually untenable for long periods because the class struggle cannot be confined to such narrow and controlled boundaries. For example, the struggle over work conditions, e.g., speed-up, is a constant one that cannot be controlled by legislation.

The second type of crisis-tendency arises from the tendency for the profit rate to fall, which has been called here the tendency for capital to overaccumulate. This means that capital (and capital claims like debt) expands more quickly than the surplus value pool. The crisis can be forestalled if new outlets for profitable expansion can be found or if the rate of exploitation can be increased. The latter policy is only short-run because it does not impede the future accumulation of capital and there is a limit to how high the rate of exploitation can go.¹⁴ The

¹⁴Cf. Capital III, p. 247.

export of capital lays a firm foundation for expansion because of the possibility of exploiting new masses of workers and because the rate of exploitation capital can impose on all workers can be maintained at a high level for a long period of time. This situation existed in the 1950's and 1960's in the form of the huge growth in imperialist ventures throughout the continents of Africa, Asia, and Latin America, and in the form of the rebuilding of Europe after the devastation of the war. But the contemporary world crisis indicates the limits of this expansion. Europe, which has been rebuilt since the middle 1960's, represents expanded worldwide social capital competing for the available surplus value pool. And, the countries of the Third World are struggling within and against the domination of imperialism. Hence, these policies are reaching their limit in counteracting the tendency for the profit rate to fall. An analysis of the nature and the depth of the present downturn is beyond the scope of this work.

The content of state programs is therefore dependent on which types of forces are causing the crisis. In all situations, the state will try to elevate the rate of surplus value. It also tries to reduce the number of capital claims and coordinate the smooth interaction between the

two major sectors of the economy--capital goods and consumer goods. I will now analyze state monetary and fiscal policies. The ability of the state to change the nature of social capital will be discussed in Section 3 of the next chapter.

State monetary policy affects credit markets and the interest rate. By converting near money--treasury bonds--into "cash," the state hopes to reduce the costs of future investment. This helps expand production because interest charges represent the share of the surplus value pool that reverts to the holders of interest-bearing capital; a lower interest rate means that a greater share is available for profit of enterprise. Put another way, "profit here assumes the pure form of interest, undertakings of this sort are still possible if they yield bare interest, and this is one of the causes, stemming the fall of the general rate of profit" (Capital III, p. 437).

The state cannot force capitalists to invest. If a crisis is imminent, additional credit will not be available. It is important to remember Marx's comments previously cited: "The entire artificial system of forced expansion of the reproduction process cannot, of course, be remedied by having some bank, like the Bank of England, give to all the swindlers the deficient capital by means of its paper and

having it buy up all the depreciated commodities at their old nominal values" (Capital III, p. 490).

If the state tries to push too hard, inflation will result instead. In addition to the contradictions discussed in Chapter V, inflation causes a rise, rather than decline, in the interest rate. In other words, by its monetary policies the state can accelerate turning points but not reverse basic trends.

Counter-cyclical state fiscal policy primarily involves deficit spending financed by newly-issued debt. The state increases consumption by entering into a usury relationship. In Keynesian terms, this expands production by multiplying demand by a factor several times greater than the deficit.

Capitalists' investment decisions determine the aggregate level of production. They create most of the market demand directly through purchases of means of production, and indirectly by providing income to workers. These decisions are based upon capital's ability to exploit workers; market conditions affect production only if there is a mistake in projecting which exact commodities will be consumed. As Marx said:

It is sheer tautology to say that crises are caused by the scarcity of effective consumption, or of effective consumers. The capitalist system does not know any other modes of consumption than effective ones.... But if one were to attempt to give this tautology the semblance of a profounder justification by saying that the working-class receives too small a portion of its own product and the evil would be remedied as soon as it receives a larger share of it and its wages increased in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working-class actually gets a larger share of that part of the annual product which is intended for consumption (Capital II, pp. 410-11).

Hence, because the state can affect consumption only through its deficit spending practices, it cannot combat fundamental crises, although it can be influential in reversing minor downturns. The difference between a minor downturn and a crisis is that the latter is characterized a serious rupture in the production process with many bankruptcies (capital values being slaughtered) and a very high unemployment rate. Recessions, on the other hand, primarily serve as a labor discipliner and do not lead to a large reorganization of capital--i.e., large numbers of failing firms being taken over by other firms.

Deficit spending during recessions ensures that production does not get disrupted too much. Because the underlying conditions for profitability still exist--i.e.,

there has not been an overaccumulation of capital-- , accumulation can resume with a push from the government when the labor discipline function has been fulfilled and restrictive monetary policy is eased. However, because debt-financing increases the level of fictitious capital (cf. discussion in Chapter V), this accelerates the trend towards the overaccumulation of capital and makes it that much more difficult to avoid a crisis in the future.

It should be noted that deficit financing is not incompatible with the recession's labor disciplining function. Deficit financing helps the working class by creating public service jobs and reducing taxes. But, because the state's impact is limited, it is never enough to counteract the high level of unemployment. In addition, the jobs that the state provides always pay wages much below their average level.

CHAPTER VIII

THE STATE AND THE PROFIT RATE

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The state's role as articulator of the needs of capital which leads it to pursue policies to aid the accumulation process, is opposed by the state's legitimacy role--the need to present itself as representing the general interest. In many situations, the struggle over state policy revolves solely around which class will pay. In other cases, the interests of capital and labor are in polar opposition to each other. The balance of inter- and intra-class forces determine which policies the state will pursue. As has been pointed out before, it would be incorrect to say that everything the state does benefits the immediate economic interests of capital. With respect to the profit rate, some state policies tend to reduce the surplus value pool rather than expand it.¹

To review, there are three ways in which a fall in the rate of profit can be counteracted: (1) increasing the rate of exploitation, (2) decreasing the organic composition of

¹For example, increases in the minimum wage tends to drive up all wages besides just the wages of the immediately involved workers. Also, President Ford's 1975 tax cut proposals were revised by Congress to benefit the working class.

capital, and (3) affecting either the division of the surplus value pool among different types of capital or the number of capital claims.

This chapter focusses on three sets of state policies that affect the profit rate--(1) imperialism, (2) state provision of services, and (3) state manipulation of credit markets to forestall the long run tendency of the profit rate to fall (with the accompanying tendency towards deep crises). The centrality of the state in coordinating production means that many other state policies indirectly affect the rate of exploitation. This occurs through (1) the regulation of the business cycle (through manipulating the size of the surplus labor army and hence labor discipline) and (2) class tax incidence. Since both of these factors have been analyzed in preceding chapters, they need not be further elaborated on here.

A. Imperialism

The huge international expansion of capital² show the many ways in which imperialism leads to the expansion of surplus value and how it represents a strong counter-tendency

²See Richard Barnett and Ronald Muller, Global Reach (New York: Simon and Shuster, 1974).

to the falling rate of profit. All three factors that influence the profit rate are affected by foreign expansion. This occurs through five major paths.

(1) and (2)--Control over raw materials cheapens both constant and variable capital outlays. In the former case, less labor time is embodied in consumer products, particularly food stuffs. This puts a downward pressure on the exchange value of labor power, because the necessary labor time embodied in a given standard of living has decreased, and can lead to an increase in the rate of exploitation, an expansion of the surplus value pool, and an increase in the average rate of profit.

Economizing constant capital expenses increases the profit rate because less capital is needed to generate a given amount of surplus value. It also frees capital to be used to employ more productive workers; only if new productive workers are hired can the size of the surplus value pool be enlarged. It should also be noted that, in many cases, certain crucial raw materials can only be obtained by importation;³ reliable access to these materials must be maintained.

³See Harry Magdoff, Age of Imperialism (New York and London: Monthly Review Press, 1969).

(3) Under certain circumstances, monopoly control over a specific raw material can lead to higher than the average rate of profit for the capital involved. This is a redistribution of the surplus value pool rather than the creation of added surplus labor time. Internationally, this entails the transformation of profit from one national capital to another.⁴

(4) In addition to extraction of raw materials, production facilities can be established throughout the world. When this occurs in less developed countries, certain infrastructure projects may have to be undertaken first. However, the associated costs need not be entirely borne by capital; they may be transferred to local ruling classes of the less developed country or to the proletariat of the imperialist country through state aid for these projects out of the general tax fund (which is partially supported by the working class). Once production is started, the rate of exploitation can be higher than it is in the home country because of a less developed working class movement. Hence, the total average rate of exploitation is elevated.

⁴Wage rates in less developed countries are much lower than U.S. wage rates.

(5) In addition, imperialism has indirect effects on the balance of class forces in the home country. The ability of capital to relocate production in other countries effectively expands the surplus labor army. This can (and has been) used as a labor disciplining tool. Given the choice between no wage increases (or even wage cuts) and no jobs, workers will choose the former.

One important counteracting force to this increase in the profit rate via imperialist expansion is the cost of "maintaining an empire." Some of this cost may be borne by the domestic working class, but the expense to capital still represents a deduction from the profits that are generated by these policies. In addition, the inter-imperialist and national liberation wars which occur periodically make the expense that much greater and also create the possibility of working class discontent. Economically, this may mean that the class tax incidence may shift to capital. Politically, this destabilizes capital's ideological hegemony.

Imperialism and the realization problem was discussed in the last chapter. However, the analysis here adds another perspective. The ability of the state to forestall a

realization crisis is partially dependent on the size of the surplus value pool. A relatively large pool--i.e., a high profit rate--means that there are capital values available to be borrowed for consumption purposes.

B. State Provision of Services

In Chapter VI, it was shown that state provision of services does not involve the creation of surplus value and hence, does not affect the profit rate directly. However, state policies do shape the environment in which capital and labor interact. Specifically, the state provision of essential services at prices less than their corresponding prices of production can be transformed into a greater rate of exploitation through lower money wages. Similarly, by organizing research and development and ensuring the widespread dissemination of knowledge, the state helps economize constant and variable capital expenses. For example, in the U.S., agricultural extension programs (and the formation of land grant colleges) played a vital role in the expanded application and development of scientific farming.

Another state policy--nationalization of formerly privately-owned farms--can have important effects on the average rate of profit. As shown in preceding chapters, there have been very few nationalizations of profitable

large capitalist enterprises. State takeovers have usually bailed out firms approaching bankruptcy. The state moves in in order to avoid a potentially large disruption in the production process.

This transfer to state hands affects the profit rate by wiping out a large capital claim on the surplus value pool. The industries in which nationalizations have occurred usually have a very high organic composition of capital, which means that more surplus value is attracted to the industry than is produced in it. Due to competition from other sectors of capital or purposeful design,⁵ these sectors were unable to maintain average profitability. This failure started a process which funneled investment money out of the industry, resulting in the further undermining of profitability. Left with an antiquated physical plant and a lack of investment funds, the only way to maintain the production of this use-value was for the state to take over operations.

⁵For example, urban transit systems in certain U.S. cities were never meant to be profitable operations. The involved companies made their profits off of land sales and purchases. Because they established the routes, they controlled development patterns. Low transit fares was a further stimulus to development along these lines. Once this process had borne its fruit, a decaying transit system was dropped into the laps of city governments. See Larry Sawers, "Urban Form and the Mode of Production," Review of Radical Political Economics, forthcoming.

This process is contradictory because it reduces the number of workers under the domination of capital. However, if the capital that is freed can be invested more profitably in a productive or usury capital relation (or in another country), then the profit rate goes up rather than down. But, with the intensification of capital's tendency to over-accumulate, this contradiction reasserts itself. It is not surprising then that there is a reverse process--the selling of formerly government-run facilities to private capital. In a few cases, this has even involved formerly nationalized companies--e.g., Volkswagen in Germany and certain steel companies in Britain. Many of these sales have been on terms that are quite beneficial to the capital involved and represent a partial gift from the state to capital.

One last point needs to be made with respect to state impact on the profit rate. As was shown in the last chapter, the state organizes the collective consumption of output from private capital, which essentially creates new areas into which capital flows. Although the state guarantees the average rate of profit, this might involve an overall deduction in the profit rate if these sectors have a greater than average organic composition of capital. However, the state will provide a counter-tendency to the falling rate of profit if the new industries that are fostered have a lower than average organic composition. A large portion of military production, particularly if it is non-assembly line

sophisticated weapons production, is in fact relatively labor intensive.⁶

C. The Secular Tendency for the Profit Rate to Fall

There are three roots to the secular tendency for the profit rate to fall. First, the organic composition of capital tends to rise as new production techniques require huge initial outlays for elaborate machines that last for many production periods. In addition, "moral depreciation" of less modern facilities intensifies pressure on the profit rate because it represents a capital claim that has suddenly been depreciated.⁷

Second, there is a fantastic growth in fictitious capital. As was shown in the last chapter, the creation of debt is a major means of overcoming the long run realization problem. This then represents a capital claim that does not lead to the expansion of the surplus value pool.

Third, there are many capitalist expenses for administration, circulation, regulation, and defense that tend to rise and thus subtract from the amount of surplus value that

⁶See Fortune May, 1974. The ratio of assets per employee in the fabricated metal products sector is much lower than other sectors. With high technology, non-assembly line production, labor inputs are very high.

⁷See discussion in Chapter 15 of Volume III of Capital.

can be transformed into capital: (1) antagonist class relations require elaborate supervision and policing; (2) internationally, wars of liberation and support of reactionary regimes drain off surplus value; (3) the development of credit, a financial hierarchy, and scientific management have created the need for large clerical armies;⁸ and finally, (4) selling has become a necessary expense under present capitalist competition.

Increases in the rate of surplus value can only forestall the pressure on the profit rate. The only way for a crisis to be avoided is to reduce the size of these capital claims. Minor reductions in capitalist expenses are not sufficient. Even if some of these costs can be passed on to labor through state taxation and expenditure policies, this merely will postpone the crisis a bit longer.

The only fundamental solution is to reorganize social capital under state direction. This means that certain capital claims will have to be destroyed by state fiat. Movements in this direction include capital's demand for the freedom to cartel and freedom from anti-trust legislation and for there to be credit allocation, under some central bank control. A deep crisis, however, may require more

⁸Braverman, Chapter 15.

radical changes which are not compatible with the image of a class neutral state. In fact, the form of class rule must be altered with the establishment of a fascist type regime. This can only come about through a process of political struggle with mass mobilizations. The prospects of this developing depend on working class dissatisfaction with capitalism in crisis.⁹ However, fascism hurts rather than improves working class living standards.¹⁰

⁹See Alan Wolfe, "Waiting for Rights: A Critique of the 'Fascism' Hypothesis," Review of Radical Political Economics, 5, No. 3, pp. 46-66.

¹⁰Daniel Guerin, Fascism and Big Business (New York: Monad Press, 1939).

CHAPTER IX

THE STATE AND THE SURPLUS LABOR ARMY

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To review, the surplus labor army (SLA) originates because there is not enough capital to profitably employ all existing labor power. Part of the labor force must be unemployed in order to discipline those who are working. Marx calls this the "absolute general law of capitalist accumulation"--accompanying the accumulation of wealth is the accumulation of misery.¹ The SLA also functions to provide a ready labor pool so that production can expand easily.

Given these factors, the state assumes two major roles: (1) it becomes the main means of support for many of these people; this does not mean either that everyone gets supported or that the level of support is equal for everyone; (2) it shapes the size, composition and location of the labor force and of the SLA.

The SLA is not one undifferentiated whole; it is composed of several different elements because capitalism creates social, political and economic divisions within the working class in order to confuse the commonality of working class interest and make capital class rule more

¹Capital I, Chapter 25, p. 644.

secure.² In Capital, Marx shows that there are four levels of the SLA--flowing, latent, stagnant and pauper.³ The flowing sections are those who are coming in and out of the labor force, in the process of changing jobs, depending on the rhythm of the business cycle. The latent section consists of those people who are not in the industrial labor force but who can potentially be mobilized to enter it. Historically, this group has been composed primarily of the redundant population on the land, who live close to subsistence and are unable to improve their standard of living. The stagnant sector are those who are irregularly employed; they usually live at less than the average income level, and, when they do work, it is at low wages for long hours. The final part of the reserve army is its lowest stratum--the downtrodden, paupers, sickly and demoralized. Their connection to the labor process is very distant; they are the cast-off dregs of capitalist society.

The institution of programs for the support of the SLA was a victory for the working class. They demanded that

²The issue of the divisions within the working class is a very complex and politically important one. There is much new work that is starting to appear on it. Cf. F. Freedman, "Class and Class Fractions in the Development of the American Proletariat, Socialist Revolution" (forthcoming) and N. Poulantzas, "Marxism and Social Classes," New Left Review, 78, p. 39.

³Capital I, Chapter 25, Section 4. For the relevance of this categorization in the contemporary U.S., cf. Harry Braverman, Labor and Monopoly Capital (New York and London: Monthly Review Press, 1974) Chapter 17.

their own and their family's welfare be taken care of at all times. Since this was a class-wide demand, it was necessary for the state, as the expression of the class interest of the bourgeoisie, to respond. In addition, where the working class is relatively strongest--i.e., where it is organized into trade unions--it demands added benefits, the growth of individual company pension plans, health and welfare funds, and supplemental unemployment benefits. At every turn, capital tries to undermine the significance of these victories. For instance, until the recent passage of the Pension Reform Bill in the U.S., many corporate pension plans were organized so that workers never collected.

To provide this support, the state has created a series of programs to ensure that those with the most direct connection to the labor process received the best treatment. For example, in the U.S., unemployment benefits are intended for ex-workers in the process of changing jobs, but it does not cover those workers who quit their jobs or on strike.⁴ Social Security is intended for the elderly, permanently disabled, and children of either deceased or disabled workers.

⁴There are two states that do provide benefits for strikers.

Most of the recipients have, in some way been workers for most of their life; as demonstrated by the motto of the system, "income maintenance." Although recent reforms have made it available to everyone regardless of their work records, these people's benefits are at a reduced level. Finally, welfare maintains (barely) the stagnant, pauper, and latent sections of the SLA. The largest welfare program is aid for dependent children, which ensures an adequately-sized labor force for the future rather than directly affecting the present labor force. Many of the people in these last three strata of the SLA receive no aid at all and are forced to beg, steal, or live off others.

As primary supporter, the state has become involved in many different areas of these people's lives by providing partial or complete medical care, housing and other essential social services. While providing these services, this program also guarantees that the capital involved, e.g., landlords, doctors, producers of medical equipment, etc., have a stable market.

As indicated earlier, the level of benefits is dependent on the level of struggle the recipients of the aid and their allies can muster. It also depends on the ability of

the state to transfer the costs of these programs onto the rest of the working class. If this happens, then the expansion of aid is less contradictory to capital. As shown in Chapter VII, this transfer can maintain the work discipline of productive workers, particularly with respect to good old age care. High payments to unemployed workers, however, can potentially drive up all wages, particularly those at the bottom of the wage scale.

The final way in which the state supports the SLA is through the provision of jobs. Since large numbers of continually unemployed workers pose a potential threat to social order, a growing state sector finds ways to create additional jobs or to locate employment in geographical areas where the SLA is concentrated. In the late 1960's (partially in response to the black urban insurrections),⁵ the U.S. federal government initiated a massive building campaign of downtown office centers. An alternative is to build in suburban areas and attract housewives into the labor force. Public service employment is also used as a counter-cyclical tool to supplement other relief programs.

⁵This policy was also supported by downtown banks who wanted to protect their investment in central city real estate.

This state employment fosters the illusion that it is incumbent upon the state to provide jobs. Since state workers are not productive and must be supported out of revenues generated in productive enterprises, state capacity to ensure high employment does not exist. For the most part, the level of state employment is dependent on its need to provide specific functions. Although a degree of flexibility exists to expand job offerings, it is not great.

The state, as general social coordinator, oversees the needs of the labor market by regulating the size, location and composition of the labor force and reserve army. Many of the related programs are in the interest of both capital and labor in that workers are provided with jobs and capitalists with workers. In pursuing these functions, the state complements economic forces already in motion--e.g., regional development and complementary state infra-structure investments. In addition, it also validates working class victories and transmutes them into paths most compatible with capital and capitalist social relations--e.g., workers' desire for increased education for their children is transmuted into the use of education as the main ideological propagator of bourgeois norms.

The state closely ties the SLA to the working labor force because, from a capitalist perspective, its prime objective is to keep it as small as possible--because these people must be supported partially out of the surplus value pool--yet have it perform its functions of labor discipline and ready expansion pool. But the relationship between SLA and workers is not completely complementary because the more skilled a worker is, the less likely he or she will be unemployed. Skilled workers are disciplined by the fear of moving down; and unskilled workers are disciplined by the hope of being able to move up. However, skilled workers not only have higher pay and more social standing, but also have greater job security. In addition, since the training costs of these people are high, it would be expensive to underutilize their talents.

State activity in this area revolves around three different types of policies--migration/immigration, education, and special treatment either of areas or of classes of workers.

The state affects internal migrations, immigration, and emigration through local jurisdictions within a country which provide differing amounts of social service and public

assistance. This combines with economic forces--pay and job opportunities--to draw labor to and expel labor from different areas. National immigration policies are very sensitive to labor market needs as reflected in the history of U.S. openness to waves of foreign immigrants. Similarly, laborers from North Africa, Spain, Austria and Yugoslavia work for varying lengths of time in West Germany, France, Belgium and the Netherlands. Many countries' emigration policies are defensive; they try to prevent the exodus of highly-skilled workers from leaving their own countries--e.g., U.K. and Indian doctors relocating in the U.S.

There are many forces, state and other, behind the growth of public education. As the production process grew more complex and as the clerical function grew to over 10 percent of the labor force, there developed the need for a literate labor force and a large pool of trained technicians. In addition, the working class demand that education be a right for all was fostered by the ruling class ideology that, via education, one can potentially enter the ruling class or at least move upward. But this ideology has proven to be more myth than reality. Although the standard of living for all workers has increased under advanced capitalism, the relative class positions have not changed greatly. Instead, there is a stratification based on prestige and

small income differentials. And, with the increasing proletarianization of formerly privileged white collar jobs, even this may be changing.⁶

Leading members of the bourgeoisie understood the importance of universal free public education as a vehicle for social control by spreading norms and ideas consistent with capitalist social relations and praising the present way of life. The National Association of Manufacturers was influential in pressing for public education and in forming the content of that education.⁷ Recent work by Gintis and Bowles,⁸ in fact, suggests that it is not the learning of cognitive skills that is the most important functions of schooling but rather personality formation--training a few people to give and most people to accept orders and alienating situations. Young children are

⁶Cf. Braverman, Parts I and II.

⁷Joel Spring, Education and the Rise of the Corporate State (Boston: Beacon Press, 1972).

⁸Samuel Bowles and Herbert Gintis, Alienation and Inequality (New York: Harper Colophon Books, forthcoming).

trained early to accept work discipline, regularized hours and deferred gratification: they also pledge allegiance to U.S. capitalism and learn of the evils of communism and the benefits of free enterprise and bourgeois democracy.

The growth of education also represents one of the fastest growing forms of consumption. Since the children of the working class are the ones who receive this good and the working class supports this, one could expect the class tax incidence to be heavily weighted towards workers, and in the U.S., this seems to be true; education is supported predominantly by local taxes that fall most heavily on workers.⁹ Much support for college education comes from the federal government.¹⁰

Since state workers are not productive, this consumption does not directly expand the capitalist market. But the buildings do have to be constructed and supplies purchased; these expenditures are for output produced by

⁹Good studies on this question do not exist. However, cf. Sclar, Behr, and Edid, "The Rich Get Rich, The Poor Pay Taxes" (mimeo, no dated).

¹⁰It is interesting to compare the financing of Junior Colleges which is predominantly funded by local revenues and universities which are supported more by the Federal government. Given the class nature of the student bodies, it would seem that the working class supports the education of their children and even chips in for the education of children from wealthier families.

capital. In addition, local governments finance their construction with loans and hence enter into a usury relation with finance capital. The primary way, though, in which this influences the accumulation process, is through its effect on work discipline through workers' consumption of this good.

Finally, capital and/or labor can be specially treated. The state can encourage development in specific areas by making complementary investments, or by hiring business through special regulations and tax changes. This special treatment is particularly important given that the state is not only one national government, but a myriad of local units. Each political jurisdiction is in some senses in competition with the rest to attract capital, and with it development and jobs to their area.

There are many ways in which parts of the work force can be specially treated to discourage their entry into the active work force--e.g., women, the young and old. However, one should not assume that all changes in policies that affect retirement age, number of people in school or at home are conscious attempts by the ruling class to take pressure off a large surplus labor army. In many cases, protective legislation was won as a right by the

working class. One must separate working class aspirations for less work and more leisure from the willingness or desire of capital to keep potential sectors of the potential work force from participating in production.

Once these special arrangements have been established, the state can manipulate them in order to fulfill limited short-run goals. For example, when the unemployment rate is high for teenagers, the state has responded by increasing educational and training programs. Or state participation or lack of participation in day care programs directly affects the ability of women with young children to enter the labor force. Historically, the attraction of women into production jobs during World War II and their subsequent expulsion was affected by state regulations concerning child care facilities.

Conversely, when one group feels that it has been unjustly treated in the labor force, it turns to the state to rectify this. In the U.S. today, there are many examples of this--concerning equal opportunity for women, blacks and older workers. The ability of these groups to have the state act in their behalf depends upon the political force they can rally. Only then will the state act, in its role as social mediator. Although there is a

tendency in these cases for the state to act in a way that threaten capitalist interests, in many discrimination cases, the state has found ways to divide the working class rather than just penalize capital for past practices. For example, the consent decree in the steel industry had blacks bump whites out of higher paying jobs. The alternative, called "red-circling," would have been to have job transfers without workers losing any pay.

CONCLUSION

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To review, the major findings of this thesis are:

1. Both workers and capitalists support the state and struggle over which class will bear what proportion of state expenses. Each can shift their taxes to the other class. The degree of shifting is dependent on what use the tax money is being put to and the state of the business cycle.
2. Surplus value is realized when the government purchases from or contracts with private firms. This represents an expansion of the capitalist market and an extension of the domination of capital over more workers. Conversely, when the state provides services directly, surplus value is not realized. In fact, this direct provision of services represents a deduction from the incomes of both the working and capitalist classes.
3. The long run realization problem is tied to the production process--to the maintenance of labor discipline and the creation of surplus value. This point explains how the growth of state expenditures, e.g., military spending, can stimulate capitalist accumulation. Since workers support the state, they work to earn the income to pay taxes. During this process, capital compels them to work surplus labor time.

Two other factors play important roles. First, for expansion of capital to occur, the collected taxes must be used to purchase the output of private firms. If not, resources, in particular potential surplus labor time, will be drawn away from the domination of capital. In addition, the market for capitalistically-produced commodities will be reduced. Second, the class incidence of the tax affects the degree to which accumulation is stimulated. To the degree that capitalists pay the tax, the accumulation fund is reduced; this expenditure represents capitalist consumption. Under certain circumstances, the benefits from tax-supported government activities offsets the costs. Otherwise, it represents a deduction from the surplus value pool available for reinvestment.

All of these propositions were derived by applying Marxian value theory to state activities. There are four major advantages of this approach.

First, Marxian theory shows that the working class does not always lose. All too frequently Marxists get awed by the power of the bourgeoisie and present them as benefitting from every state action. For example, at different points, O'Connor argues that workers pay all taxes and that capital benefits directly and indirectly from all state actions. This assertion may be good propaganda, but it is not based

on a theory of class struggle. If workers always lose, it makes no sense for them to organize to fight--somehow or other their victories will be turned back on them.

Value theory, however, exposes how the different classes are connected with one another and thus uncovers the issues over which the class struggle is fought. The arena of class struggle is enlarged with the growth of the state sector. It is necessary to apply value theory to state activities so the real content of struggles over state policies can be clearly perceived.

So, I have argued in this thesis that workers do not pay for all the taxes and that they benefit from many state activities. The share of taxes they do pay is not fixed and is dependent upon their support for the specific activities that the state is undertaking. In addition, frequently the working class forces the state to recognize and validate its victories in the class struggle--e.g., increased minimum wages, enforced health and safety standards, etc.

Second, Marxian value theory emphasizes the compelling drive for foreign expansion--imperialism. In dealing with each of the major contradictions, I have shown the role that imperialism plays. In many of the other works on the state, imperialism is barely mentioned. And the connection between

state activity and foreign expansion is not clearly made. For Baran and Sweezy in Monopoly Capital, imperialism aggravates the surplus absorption problem. Its use is to provide the rationale for huge military expenditures.

Third, rooting one's analysis in the labor theory of value leads to an understanding of the contradictory nature of capitalist production by showing that there is an inherent tendency towards crisis and that the state is limited in its ability to deal with these crises. These contradictions are rooted in the production process itself and not in state activities. However, both Mattick and O'Connor center the crisis-tendencies of capitalism in the state. Mattick argues that the state is forced to grow and, in growing, chokes off the outlets for capital investment. O'Connor believes that the state is forced to take on new activities but does not have the financial resources to support these activities, thus causing an overall fiscal crisis.

I have argued that there are three related forces pushing U.S. capitalism towards a crisis: the falling rate of profit (also called the over-accumulation of capital), the decline of U.S. domination over the rest of the world, and the inability of the bourgeoisie to raise the rate of

exploitation to a level great enough to support accumulation. As these forces intensify, the state will be forced to try to restore prosperity.

Large capital is proposing a three-pronged policy:

(1) shifting the burden of the crisis onto the working class. They propose tax breaks for investments, with responsible state monetary policy--i.e., holding down government spending and deficits¹ and slow growth in the money supply; (2) freedom to cartel. They want anti-trust legislation to be eased; large firms in the same industry (like steel) should be allowed to coordinate their production plans and even combine for joint ventures; (3) government protection for large capital. The state is expected to give emergency loans to large corporations that are in danger of going bankrupt. Some business leaders are calling for state allocation of credit;² this means that the capital needs of large firms would be met and the small ones would not.

The U.S. economy is travelling in uncertain waters. Although some economists predict a recovery in late 1975 or early 1976, many others predict either continued deep recession, alternative mid-recovery with renewed inflation

¹Business Week (March 10, 1975) editorializes for a reduction of the military budget.

²Felix Rohatyn, "A New RFC Is Proposed For Business," New York Times, Section 3, December 11, 1974, p. 1.

then recession, or potential depression. In the next several years, there will be a lot of struggle over state policy. As of this writing (May 1, 1975), the large bourgeoisie have not succeeded in having their policies fully implemented by the state.

I would argue that, even if they are successful, this will only postpone for a short period the accumulative negative forces. The conclusion of this thesis is that modern capitalism is in the midst of a deepening crisis and that the state is unable to counteract it, short of drastic political changes.

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