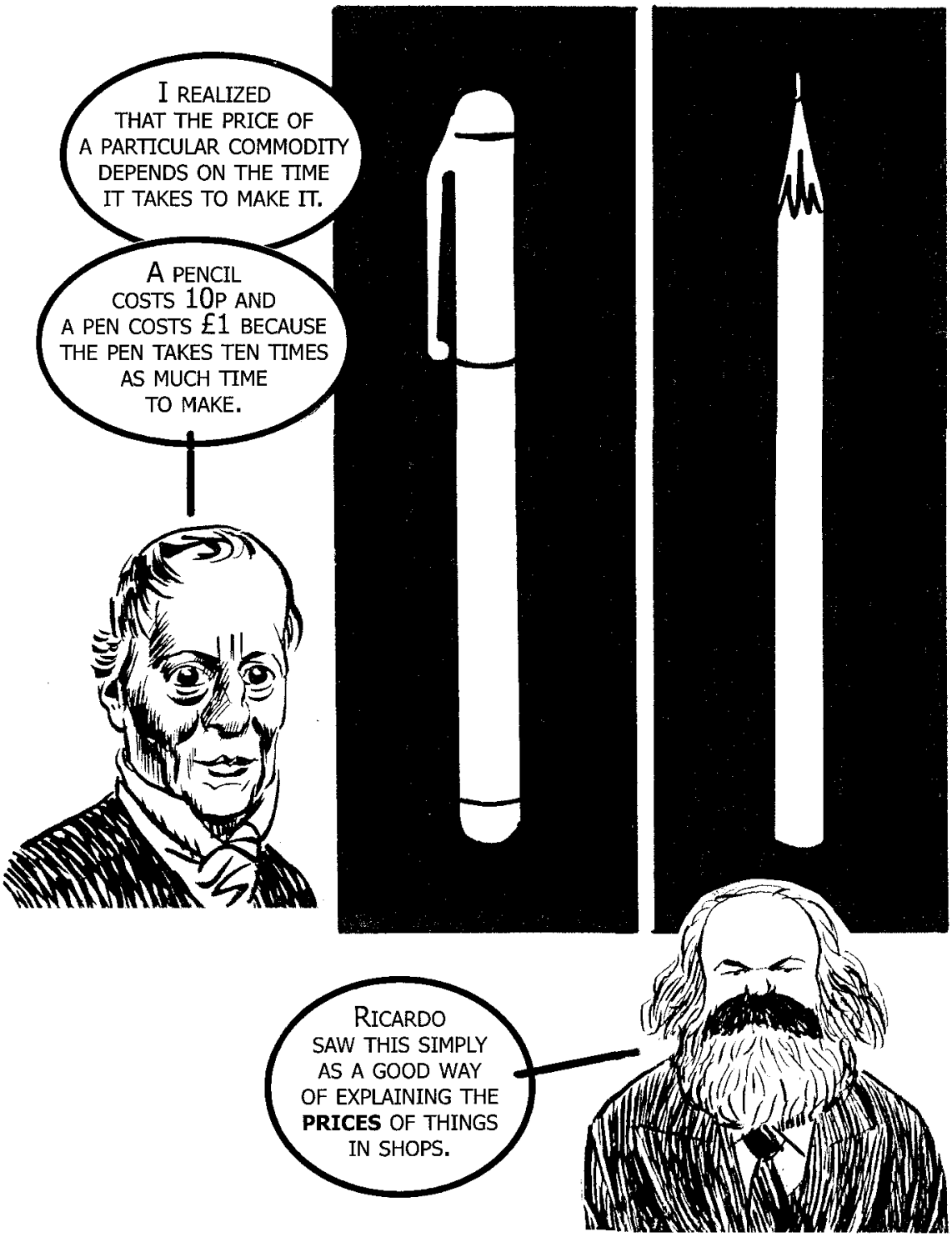
Classical British Economics

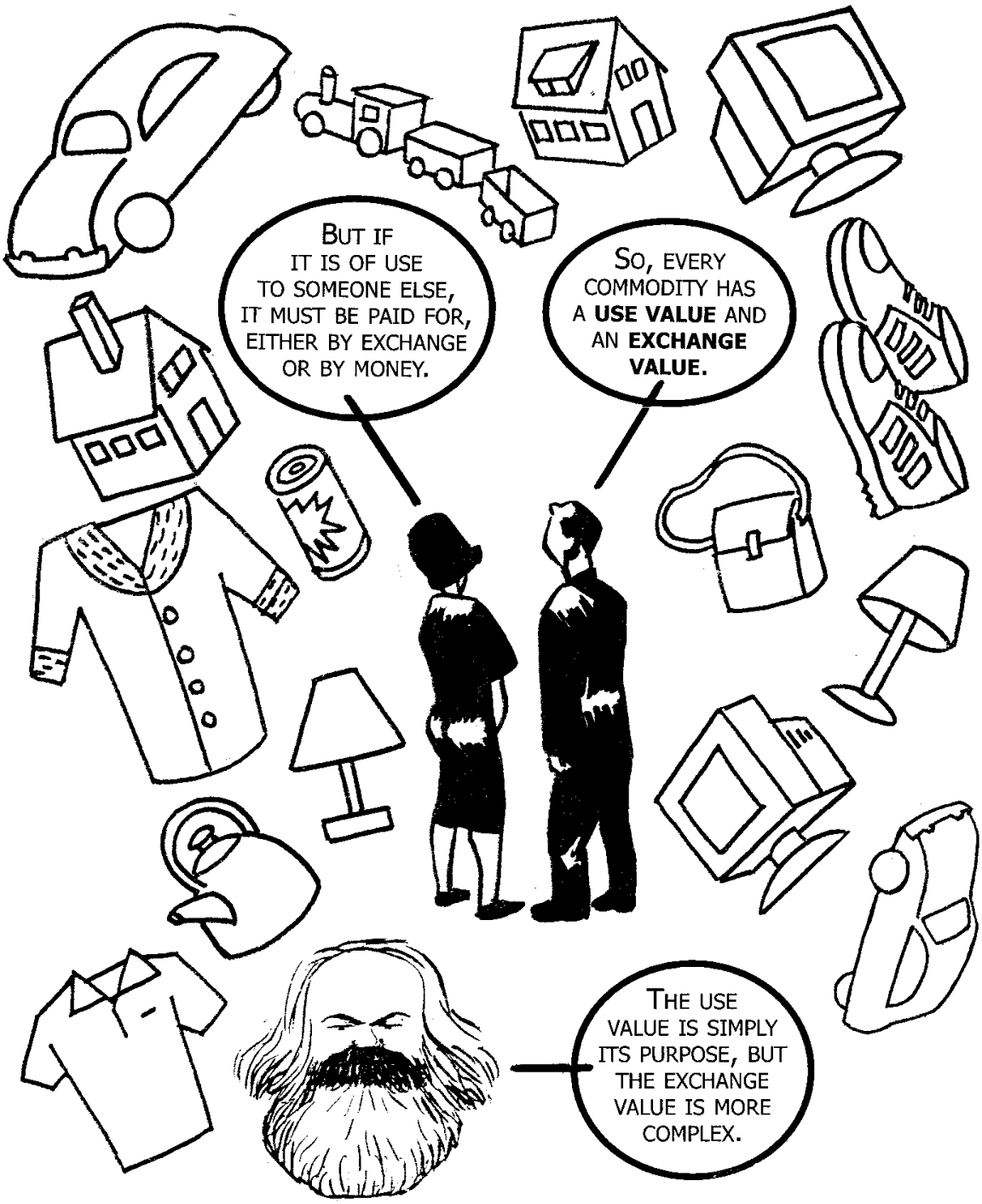
Marxian science has its roots in classical economic theory developed at the end of the 18th century. **David Ricardo** (1772–1823), the great British economist, had developed a *labour theory of value.*



Marx, however, saw it as the real key to exploitation and inequality. The essence is in the twin ideas of **commodity** and **value**.

What is a Commodity?

Marx defines a commodity in *Capital* as "a thing that by its properties satisfies human wants of some sort or another". A commodity can be used by the producer or by someone else.



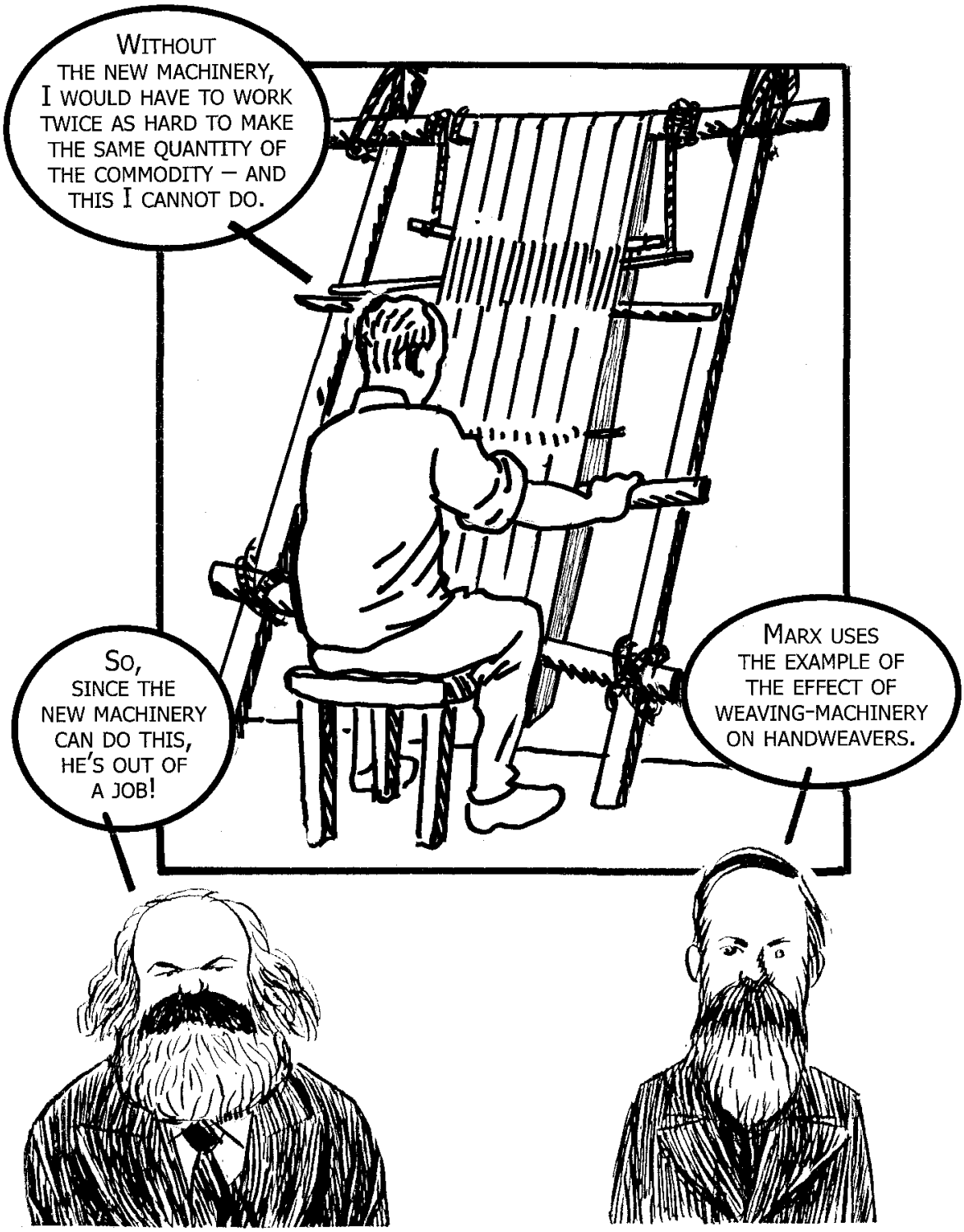
Any commodity can be exchanged for any other commodity, but in very different quantities. A pile of sand is a commodity because it can be used for something, such as building, but it would take a very large pile of sand to be exchanged for even a very small piece of platinum.

The question then becomes, what determines the *ratios* at which all these commodities are exchanged? What is common to them all that determines the rates at which they are exchanged? What is this third thing that they both relate to?

Or, as Marx states in *Capital*, *"The value of one commodity is to the value of another, as the labour time necessary for the production of one is to the other."*

The Means of Production

The next key factor in the equation is the "means of production", the tools, equipment and machinery used to make the commodity. These change and develop. A new piece of machinery may allow workers to make twice as much of the commodity as they did before. The exchange value of the commodity would then fall by half.



Those who bought the new machinery and made workers redundant were the owners of the means of production, the capitalists, the class of the "bourgeoisie".

The Problem of Profit

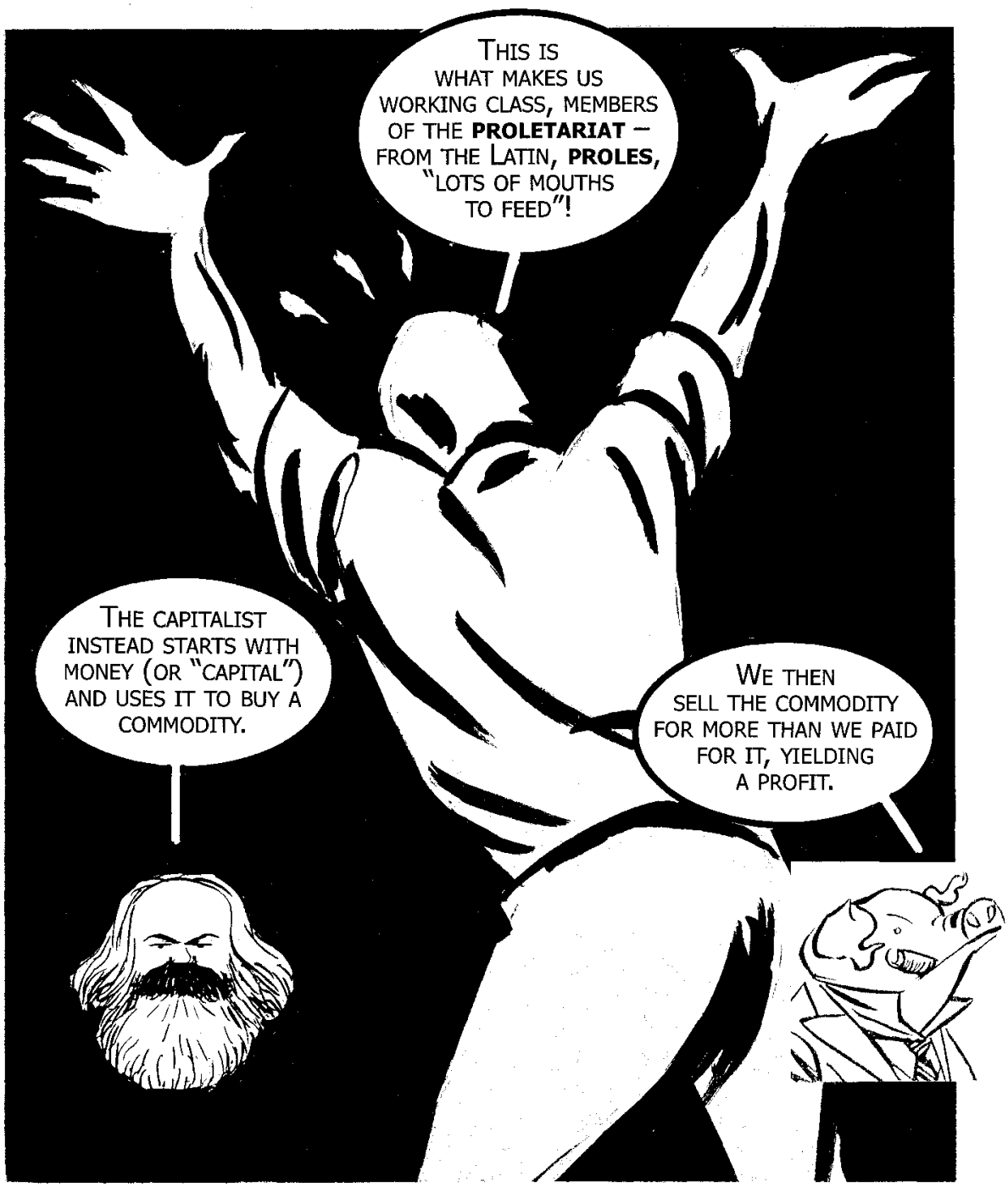
However, the capitalists had problems of their own. If they paid their workers the real exchange value of their labour – that is, the *price* of the commodity – then the capitalist entrepreneurs would make no profit, no money and no income.

If a competitor made the same product using new machinery and sold it at half the price, then the original producer would go out of business. No one wants to buy an identical product at twice the cost. People choose to buy things on the basis of quality and price. If the quality is the same for two identical items, they will buy the cheapest.

Profit is not just something that allows capitalists to live well. It is an essential aspect of the whole system. Without profit, capitalism could not survive. Marx needed to explain where the profit came from. To understand his answer, we need to understand two separate economic activities: one carried out by the worker, the other by the capitalist.

The Production System

Workers sell their labour for money, in the form of wages, which they use to buy the things they need, like food, shelter and so on.



As we have seen, a commodity always comes from a process of production that involves two things – the *means of production* (machines, factories etc.) and *labour*. Since commodities are always bought at their exchange value, no more and no less, then the profit must come from the act of production itself.

The money that capitalists must pay for the means of production is largely beyond their control. They have to pay for the machines at their exchange value – what someone will sell them for. The same is true of the raw materials they use in production, the coal, the steel, the plastic. Someone wants a price for them and will not sell for less. Marx called this "fixed capital".

Marx called this "variable capital" because he realized that it was the one element of capital not fixed.

Variable Capital and Labour Exploitation

Profit must come from variable capital. The inevitable exploitation of capitalism takes place. The worker is obliged to work for longer than the real exchange rate of their labour.

Fixed capital, machines and raw materials, does not add value to the finished commodity. Such capital is in the exchange value of the commodity but does not increase value. Variable capital, money spent on labour power, does increase the commodity's exchange value because, during the process of production, the workers spend some time working for nothing. The worker puts more value into the commodity than they are paid for. They are exploited.

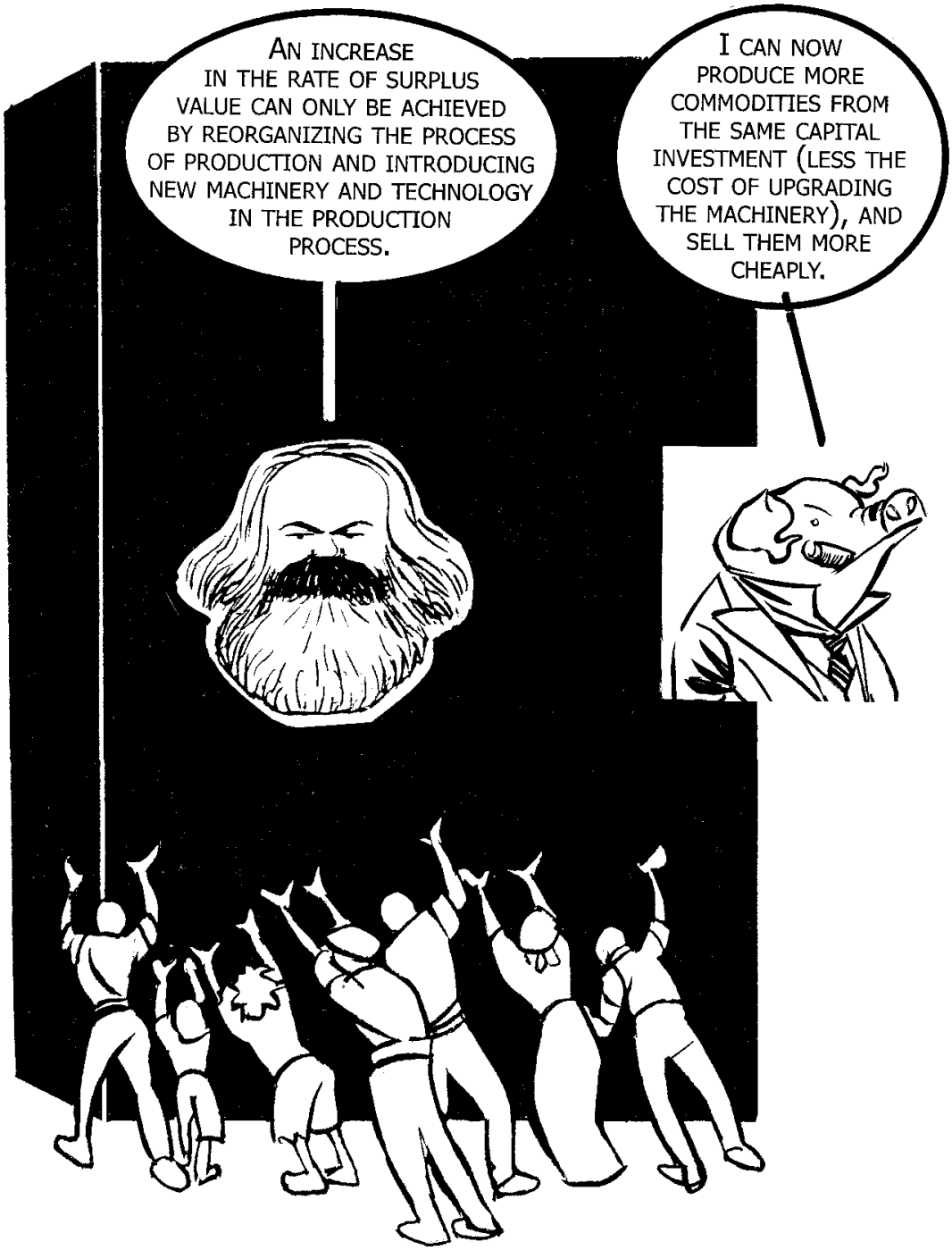
Absolute Surplus Value

We need to make a distinction between *absolute* and *relative* surplus value. Given a particular kind of technology, the absolute surplus value will simply be determined by the number of hours that the capitalist can get the worker to put in for no wages.

In the 19th century, capitalists made workers put in extraordinarily long hours by our standards. Men, women and children were obliged to keep hours that we would find barbaric, and in appalling conditions. But there is a real limit to what a worker can be made to do before they collapse. They need some rest.

Relative Surplus Value

To make as much profit as possible, capitalists had to find some means of increasing the *rate* at which the surplus value is produced. The only way to do this is to make the workers themselves more productive, without working more hours than they can survive. Possible increases or decreases in the rate of surplus value gave Marx the concept of "relative" surplus value.



This must be done, otherwise another capitalist manufacturer will do the same thing and undercut his competitor.

This increase in the rate of surplus value will almost certainly result in an increase in the quantity of surplus value (profit) because fewer workers will be needed. They can be made redundant, their wages saved, the factory produces more goods in less time and sells them more competitively. More people buy them. The workers lose out.

The Contradiction of Capitalism

In this process of constant effort to increase efficiency and the volume of profit, Marx saw the essential contradiction of capitalism. The process involved a fundamental change in the way that capital was composed. This change would lead to an eventual decrease in the rate of surplus value.

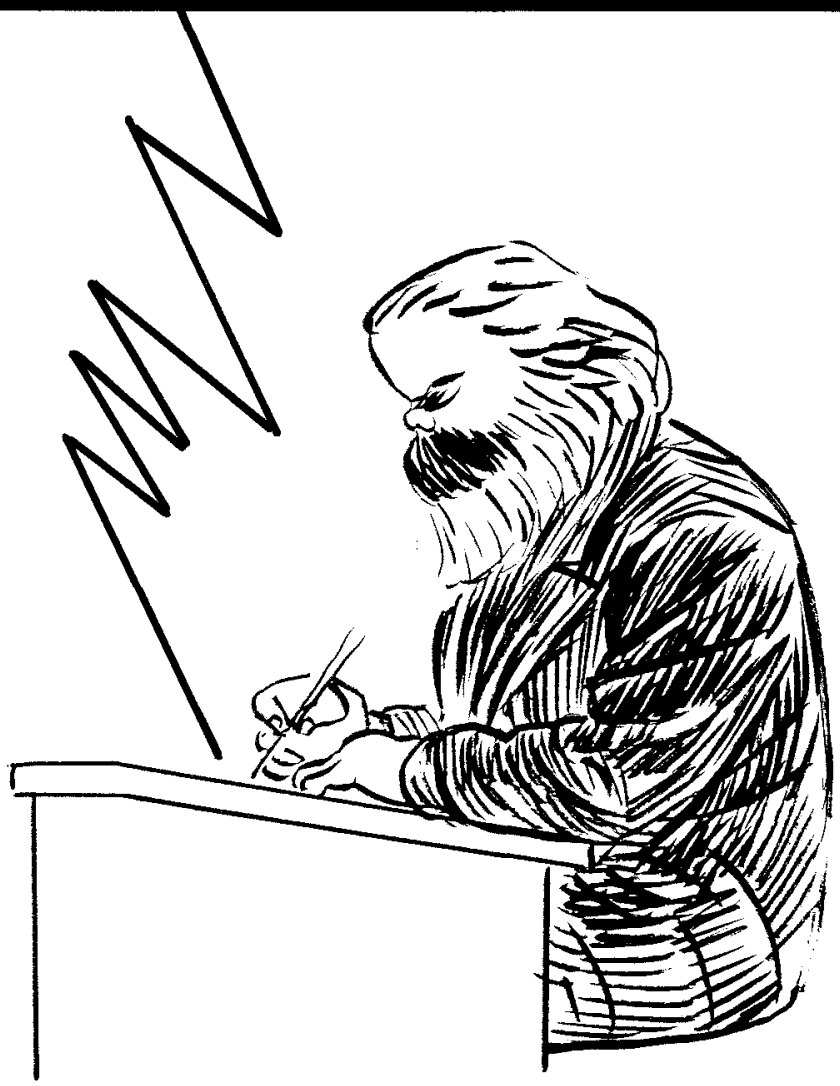
Fixed capital can only put its own value into the exchange value of a commodity. Therefore, in the long run, the rate of surplus value will fall, profits will fall, and capitalists must force workers to work longer for lower wages.

Society must increasingly become polarized between a shrinking capitalist class and a massive proletariat that suffers worsening misery. A crisis point will arrive when this cannot continue and revolution must occur.

The Prophecy

In the first volume of *Capital*, Marx offers his famous prophecy.

"Along with the constantly diminishing number of the magnates of capital, who usurp and monopolize all advantages of this process of transformation, grows the mass of misery, oppression, slavery, degradation, exploitation; but with this too grows the revolt of the working class, a class always increasing in numbers, and disciplined, united, organized by the very mechanism of the process of capitalist production itself. The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralization of the means of production and socialization of labour at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."



The revolution would be preceded by a series of intensifying crises. Goods would be produced which the impoverished proletariat could not afford to buy. More workers would be forced out of work, because their labour was not needed. This would drive wages down further, lessening still the ability of the people to buy the products of capitalism. Enterprises would collapse and be swallowed by larger organizations in the centralization of capital. At other times, shortages of labour would drive wages so high that the basic profitability of enterprises was compromised.