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MARXIAN ECONOMICS TODAY

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In a recent article in Social Scientist,[1] Sri E.M.S.Namboodiripad discusses a paper which I published many years ago, accusing me of treating Marx as "an erudite scholar of political economy" instead of as a "theoretician of the revolutionary proletariat". I do not think that anyone who has even dipped into Capital, or the Theories of Surplus Value, could deny that whatever else he may have been, Marx was a scholar of political economy. He started from a philosophical position and then found it necessary to study political economy and in doing so he made great original contributions to the subject.

Marx himself certainly thought that political economy was a subject of the most urgent importance for a "theoretician of the revolutionary proletariat". If the modern Marxists are not interested in political economy (or what is now-a-days called economics) and do not want to take the trouble to understand it, there does not seem to be any scope for discussing the subject with them; however, I will offer my interpretation of Marxian analysis for what it may be worth.

The Theory of Value: Marx took over the orthodox theory of his day according to which an explanation of the relative prices of particular commodities was to be found in their relative costs in terms of labour time. He interpreted this to mean that labour alone produces value

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1 E.M.S.Namboodiripad, "How Not to Study Marx", Social Scientist, Volume I, No.2 (September 1972).

and that all exchanges are made at labour values, including the exchange of labour power for wages. The surplus of the value that a worker produces over the value of what he receives is annexed by the capitalist.

This opens up two sets of questions: first, what determines the over all rate of exploitation - the ratio of surplus to wages? How does it differ between one economy and another and how does it develop through time? Second, what determines the relative prices of particular commodities?

The first set of questions provide the basic analysis of capitalism on which Marx intended to build the programme for "the revolutionary proletariat". He expressed his ideas in the form of some little bits of algebra which were not always quite correct. I cannot see that it can detract from his message to put the algebra right.

The second question - relative prices - is of minor importance, but there is no harm in trying to analyse it exactly.

Unfortunately most of the argument between Marxist and academic economists (ever since Bohm Bawerk) has been concerned with the second question.

In Volume I of Capital, Marx states dogmatically that commodities exchange at prices corresponding to their labour values and in Volume III he points out that, under competitive capitalism, the rate of profit tends to be equalised between different lines of production. As was well known from the time of Ricardo, prices of commodities can be such as to correspond both to labour values and to a uniform rate of profit only when organic composition of capital (which governs

the ratio of profits to wages) is the same in all lines of production So what? Why has there been no much dispute over a simple analytical problem?

Marx himself made a slip when trying to show the relation between values and prices for particular commodities. (He forgot that the elements of constant capital required for the production of a commodity enter into the calculation in terms of their prices, not of their labour values.) This allowed the bourgeois economists to dismiss the whole concept of labour value as nonsense, but Marx's error was not really relevant to their argument. They maintain that prices are governed by supply and demand, which, by the way, is much more true of prices in an agricultural economy like India, than either labour value or a uniform rate of profit. The Marxists who try to answer the bourgeois economists by slinging irrelevant quotations at them have only increased confusion.

The analysis provided by Piero Sraffa in The Production of Commodities by Means of Commodities (1960) shows how to make the "transformation of values into prices" correctly. He shows that, given the technical relations of production, to any rate of exploitation (which determines the share of profit in the market value of net output) these corresponds only one possible uniform rate of profit and one set of prices of commodities, including the prices of the elements of constant capital and of commodity wages.

The paper of mine that Sri Namboodiripad objects to was written in 1955, before Sraffa's book was published and, indeed, at a time when I was not clear as to how the problem of "transformation" was to

be solved; but I already understood that it was just a puzzle of no real importance. The difference between the system in Volume I and Volume III that I was referring to had nothing to do with value or prices; it was concerned with the evolution of wages in terms of commodities as capitalism develops.

Real Wages: In Volume I it is clear that commodity wages are expected to remain fairly constant over the future. The mechanism of the recreation of the reserve army will prevent them from rising over the long run. Consequently, as capital accumulation and technical change raise output per worker in terms of commodities, the rate of exploitation will rise. The story will end with a revolution led by the industrial working class; then the expropriators will be expropriated and the workers will begin to enjoy the fruits of accumulation that has been made by exploitation.

In Volume III the argument is quite different. There are limits to the possible rise of the rate of exploitation, and it seems to be predicted that it will be more or less constant over a long future. When the rate of exploitation is constant while output per worker is rising, the wage in terms of commodities is rising.

Now, in advanced capitalist economies, the prediction of Volume III has turned out to be correct. Commodity wages have obviously been rising, especially in the post-war period of "economic miracles".

The Marxists, however, with one or two exceptions such as Kalecki and Sweezy, continued until quite recently to base their analysis on Volume I and to assert that the workers are experiencing growing misery. This was both an error in analysis and a denial of

observable facts. It was also a disastrous political line. It divided the leadership of the working class. The Trade Unions were proud of the rise in standard of life that they secured for their members. They either wholly rejected Marxism, as in England, or turned it into a version of syndicalism, as in France. Consequently they never rose above a purely syndicalist ideology and in effect the Trade Unions became part of the apparatus of successful capitalism. Rising consumption made the workers tame and at the same time provided a market for the evergrowing output of goods that advanced technology could produce. (This occurs to a certain extent even in the Third World where the industrial workers enjoy privileges in relation to the mass of the population).

The Falling Rate of Profit: In Volume III, Marx does not emphasize that he is predicting a rising level of consumption for the workers. In fact he may have failed to notice that this is entailed by his analysis. He brings out the argument of the limit to the rise in the rate of exploitation in connection with his diagnosis of the falling tendency of the rate of profit.

Like labour value, this was simply an orthodox theory that Marx took over. His contribution was intended to be a new explanation of a generally accepted phenomenon. To understand Marx's analysis of the problem we must first consider his treatment of organic composition of capital.

Marx writes the flow of production, say, per annum, in terms of value.

$$c + v + s$$

Here c represents the means of production used up in the course of

the year, raw materials, wear and tear of plant etc. v + s represents net output as the number of man-hours of work performed in the year, and s/v represents the rate of exploitation.

For simplicity, let us take the case where labour value prices obtain with a uniform rate of profit. Then v + s corresponds exactly to the market value of the flow of net output and s/v is identical with the ratio of profits to wages in the industrial economy as a whole. But s/c+v is not the rate of profit on capital. The capitalists get profits on the value of the stock of capital that each commands. For instance in textile factory v + s is embodied in the net output of piece goods but the stock of capital is embodied in a building equipped with machinery and in the stock of cotton and yarn in existence at any moment. When c is the annual means of production consumed, let us write the capital letter C for the stock. C is made up of the stock of raw materials required to maintain the flow of production and fixed equipment. The stock of raw materials in existence at any moment may be some fraction of the flow used over a year, while the value of equipment is generally a large multiple of the annual flow of wear and tear. The ratio of C to c depends on the technique of production (since we are assuming labour value prices, it is not affected by the rate of profit).

The second element in the stock of capital which receives profit is wage fund, V, which depends on the wage rate v, and the turnover period of working capital. Marx follows Ricardo in making v equal to V, that is the wage fund is equal to one year's wage bill. This was because Ricardo's theory of profits starts from agriculture

with an annual harvest. To employ a man for a year, the capitalist farmer has to pay out a particular quantity of corn, week by week over the year. Therefore he has to have in the barn after the harvest, a sufficient stock of corn to pay out wages over the year till the next harvest. The wage bill and the wage fund are equal quantities of corn.

In industry, there is no single definite turnover period such as the period from harvest to harvest in northern latitudes. The turn over period may be a few weeks or a few months, or, for long range investments, several years.

But the ratio of c to v or of C to V is a purely technical relationship of no particular economic importance.

Obviously it is v, the wage bill, that enters into the rate of exploitation. The fact that the worker owns no stock and must work for wages determines the fact that a capitalist who commands a wage fund can exploit his labour power, but the degree of exploitation depends on the ratio of value produced to value received, that is, to the flow of output relatively to the flow of wages paid; it is s/v. The rate of profit, however, is related to the stock of capital. It is s/C+V.

It seems, then, the Marx's explanation of the falling rate of profit is a non-sequitur. He believed that organic composition of capital tends to rise with the development of technology, while the rate of exploitation tends to be constant over time. He writes: when s/v is constant, and c/v rising, s/c+v must be falling. But what is the sense in saying that when s/v is constant and C/V rising, S/C+V must be falling?

This is just a confusion. But the substantial point remains. Does technical change tend to bring about a falling rate of profit?

To discuss this question, we do not need to reckon in terms of labour values. The capitalists could not care less about labour values. What they are interested in is the money profit on the money cost of an investment. Thus instead of C + V, the labour value of the stock of capital, we should write K, the stock of capital at market prices, and instead of s/v we should write P/W, the ratio of net profit to the wage bill. The capitalists' rate of profit is P/K.

The first question that we must ask is how does the evolution of technology affect the ratio K/W, that is, the cost of investment required to provide the means of production for a worker relatively to the wage per year that the worker is paid for working with them. (When the rate of profit is constant through time, a rise or fall in K/W reflects a capital-using or capital-saving bias in technical development.)

No doubt, in the first phase of industrialisation, capital-using technology is installed--say building railways or hydro-stations. In Marx's day it was natural to suppose that K/W was rising (this may have been associated with rising c/v) but that is merely incidental). Now-a-days, in the advanced countries, K/W seems to be fairly constant. There is no way of predicting how it will go in the future. There is, however, a general presumption that the flexibility of modern scientific technology will ensure that capital-saving technology can be devised when it is profitable to do so. The organic composition of capital in the sense of the cost of investment per man does not necessarily rise.

But when it does rise, through capital-using changes in technology, it is not at all likely that the rate of profit will fall.

Among the "counteracting tendencies" that Marx discussed he seems to have overlooked the rise in output that accompanies technical change, even when it takes a capital-using form.

Capitalists can raise P/W sufficiently to keep P/K constant while at the tsame time wages in terms of commodities are not falling. They may, indeed, be rising appreciably, even though not fully in proportion to the rise in output per worker that technical change is bringing about, and it is the wage in commodities, not in value that, the workers are interested in.

Thus there is no a priori reason to expect the rate of profit to fall in the advanced industrial countries so long as investment keeps up. (If investment fails to be maintained there are losses for capitalists as well as unemployment for workers, but that is a short-period "Keynesian" fall in profits, not a long-period Marxian one.)

Marxism today: I do not pretend to suggest how Marxian analysis can be applied in India today but I am quite sure that it cannot be applied by means of quotations from Marx's writings. Marx was appealing to the industrial proletariat in the advanced Western world to overthrow capitalism. They have not done so up till now. It would be more useful to study why the revolution that Marx expected has not occurred for 120 years than to repeat quotations showing that is is still to come. To say that capitalism is doomed is a truism. As history rolls on, all systems are doomed to change and disappear - the question is what is to be done meanwhile.

The Chinese paid a heavy price for believing the orthodox Marxist dogma that the revolution can be made only by the industrial working class. Mao succeeded because he rejected dogma and followed his own experience that the peasantry could make the revolution. China, certainly, is a special case. But every country is a special case. In particular, Europe in the nineteenth century which Marx studied was itself a special case. To apply his method of argument in another country at another period of history requires more than quotations from what he wrote. Among other things it requires an understanding of political economy. Marxism is much more than economics, but it cannot be of any use without an understanding of the economic relationships within any society to which it is applied.