

Karl Marx's 'Critique of Political Economy' *riccardo bellofiore*

Introduction.

Karl Marx's "critique of political economy" is grounded in his value theory. *Critique* has to be distinguished from criticism: Marx was not only interested in pointing out the errors of political economy, but also to learn from its scientific results: here the key names are Quesnay, Smith, and Ricardo. Marx was also interested in assessing the conditions and the limits of the knowledge provided by Classical Political Economy. At the same time, the critique of the "science" of political economy was the means to provide a critique of capitalist social relations.

The uniqueness of Marx is that his value theory is the only one consistently put forward within a *monetary analysis*: that is, it introduces money in the very initial deduction of value. In fact, Marx's object of inquiry is capital understood as a "social relation of production", characterised by two main defining traits: the *exploitation* of labour within a monetary commodity-producing economy; an internal tendency to *crisis*. The connection between money and class exploitation, on the one side, and the endogeneity of crisis, on the other side, is related to the view that, in a capitalist economy, the "value added" (a monetary magnitude) newly produced within the period has its exclusive source in "abstract labour" as an *activity* – more precisely, in the *living labour* of the wage workers.

In a nutshell, Marx's reasoning may be easily captured in a *macro-monetary theory of capitalist production*. In the capitalist labour process, the totality of wage workers is reproducing the means of production employed and producing a net product. The net product is expressed on the market as a new money value that is added to the money value attached to the means of production, historically inherited from the past. This *value added* is the monetary expression of the living labour time that has been objectified by the wage workers in the period. The *value of the labour power* (for the entire working class), which is exhibited in money wages, is regulated by the labour-time required to reproduce the capacity for labour, and hence by the labour time required to reproduce the means of subsistence bought on the market. Accordingly, the *surplus value* (value added less value of labour power) originates from a surplus labour, defined as the positive difference between, on the one hand, the whole of living labour spent in producing the total (net) product of capital and, on the other, the share of that living labour which has been necessary to devote to reproducing the wages, which Marx labels as necessary labour.

Marxian critique of political economy is inseparable from the meaning Marx gave to the "labour theory of value", which in his case was rather a *value theory of labour*. The issue is how the production and circulation relations are affected by the fact that labour takes the capitalist social form of being productive of a value and surplus value embedded in "things", in commodities. In the following I will

look at Marx's value theory from five perspectives: (i) as a *monetary value theory*; (ii) as a *theory of exploitation*; (iii) as a *macro-monetary theory of capitalist production*; (iv) as a *theory of individual prices*; (v) as a *theory of crises*.

The theory of value as a monetary value theory

Marx's starting point is that capitalism is an economy where *commodity circulation* goes on through *universal monetary exchange*. The analysis of exchange *as such* is given priority relative to the analysis of *capitalist* exchange, and money is introduced *before* capital. In exchange "as such", individual commodity producers are separate and in competition with each other. The labour of these asocial individuals is *immediately private* and "becomes" *mediately social* on the market. Socialisation of labour goes on *indirectly*, through the selling of commodities. Each commodity is shown to be equal to the other commodities in certain quantitative ratios. The commodity has a *use value*, but it also possesses an *exchange-value*: though invisible in the commodity, it is externally exhibited in *money as the "universal equivalent"*.

At this stage of Marx's original argument *money has to be a (special) commodity* with universal purchasing power, gold, as a result of a historical process of selection and exclusion sanctioned by the State. The equal "validity" of products sold on the market is in fact an *a posteriori* equalisation of the labours producing them. Thus, labour is not social in advance, but only in so far as its true output will be money: "generic" or "abstract" wealth. Individual labour, which is *concrete* labour producing an object with some utility for some other agent (a social use-value), counts for the producer as its opposite, as *abstract* labour. Abstract labour is a portion of the total labour exhibited in the money value of output: it is then also a portion of the gold-producing concrete labour, this latter being the *unique immediately social* labour. The "value of money" is fixed when gold first enters monetary circulation, in the ordinary exchanges with the other commodities.

Though it is only through money as universal equivalent that private labour becomes social labour, it is not money that renders the commodities commensurable. On the contrary, commodities possess an exchange value because, even *before* the final exchange on the commodity market, they have *already* acquired the *ideal* property of being universally exchangeable, so that they have the *form of value*. This property, so to speak, grows out from objectified labour as the *substance of value*: the form of value in the individual commodity is a *ghostly* entity, but it *materialises* taking possession of the body of money as a commodity; the internal duality is now "redoubled" in the external duality commodity-money. Money is nothing but *value made autonomous in exchange*, divorced from commodities and existing alongside them: and as such it is the outward necessary exhibition of abstract, indirectly social labour.

This *qualitative* analysis of exchange as such has a *quantitative* counterpart. The *magnitude of value* of a commodity is determined by the *socially necessary labour-*

time needed for its production. “Socially necessary labour-time” has two meanings: production must be run according to *average techniques and intensity* (determined by intra-industry competition), but it is also driven by the *paying social need* (what Marx calls “ordinary demand”). In a particular branch of production each commodity of a given type and quality is sold at the same money price. Hence, the magnitude of value is ruled not by the “individual” labour-time actually spent by the single producer (i.e. by its *individual* value) but by the labour-time that has to be expended under “normal” conditions (i.e. by its *social*, or *market*, value). The magnitude of value is inversely related to the *productive power* of labour (the labour time required to produce the commodity, given the intensity). Commodity values are necessarily manifested as *money prices*. The quantity of money that is produced by one hour of labour, in a given country and in a given period, may be defined as the *monetary expression of labour*: the magnitude of value of a commodity multiplied by the monetary expression of labour gives the so-called *simple* or *direct* price.

On this outlook, it is always possible to translate the *external monetary measure* of the magnitude of each commodity’s value (ideally anticipated by producers before exchange) into the *immanent measure* in units of *labour-time*. Note, however, that *value is not identical with price* defined as any arbitrary relative ratio between commodity and money fixed on the market. *Value* expresses a *necessary* relation with the (abstract) labour-time spent in the production of commodities. To be effective in regulating market prices, value implies a coincidence between individual supply and demand. In that case the spontaneous allocation of the private labours of the autonomous producers affirms itself *a posteriori* on the market as a *social division of labour*. *Price* is the *money-name* taken by commodities, and since there may well be divergences between individual supplies and demands, price may exhibit a labour amount that differs from the socially necessary labour contained in the commodity. The whole mass of the newly produced commodities is a homogeneous quantity of value whose monetary expression is necessarily equal to their total money price. The divergence between values and prices simply redistributes among producers the total direct labour, i.e. the content hidden behind the money form taken by the net product.

This approach to value theory, where value eventually “comes into being” in money, may be characterised as Marx’s *monetary value theory*. In it, value and money cannot be divorced. It is formulated most clearly in the opening pages of *Capital*, where Marx moves from exchange value to value, from value to money, and from money to labour. It may be attacked on several grounds.

Böhm-Bawerk failed to notice the essential monetary side of Marxian value theory, and looked only at what he saw as a linear deduction in the direction exchange value-value-abstract labour. Quite reasonably (from this limited reading of Marx), he observed that abstracting from specific use-values does not mean abstracting from use value in general. Moreover, an exchange value is also attached to non-produced commodities. It follows, then, that the common properties that allow for exchange on the market, and that are hidden behind the notion of value, are utility

and scarcity. A more recent criticism stresses that, while the backward connection from money to value is convincing, less so is Marx's idea of an *absolute* or *intrinsic* value, justifying the inverse movement, from the inner dimension of value to the outer dimension of money. Marx himself shows that the social equalisation among labours is effected only when commodities are *actually* sold in circulation: before that, in production we meet only concrete labours, which are *heterogeneous* and *non-additive*.

The theory of value as a theory of exploitation

All these positions ignore that for Marx commodity exchange is universal *only* when the capitalist mode of production is dominant - that is, only when workers are compelled to sell their labour power to money as capital, i.e. as self-valorising value. As a consequence, labour is for him the content of the value-form because of a more fundamental sequence going from money(-capital) to (living) labor to (surplus-)value. The private "individuals" distinct and opposed on the commodity market, where they eventually become social through the metamorphosis of their products into money, are now to be interpreted as the collective workers organized by *particular capitals in mutual competition*.

To explain the origin of the value added, and thereby of the surplus value contained in it, Marx begins from *two assumptions*: supply meets a demand of the same amount; commodities are sold at prices proportional to the labour required to produce them ("simple" or "direct" prices). The argument is based on a *two-steps comparison*. In the first step he sketches a hypothetical situation (but which expresses something very real and significant in capitalism) where the *living labour* extracted from wage workers is *equal to* the *necessary labour* needed for the production of the historically given subsistence. It is a situation of simple reproduction without surplus value, akin to Schumpeter's *circular flow*, where the rate of profit is absent. In the second step he imagines a (or rather, reveal the actual) *prolongation of the working day beyond necessary labour* imposed by the capitalists. The prolongation of the working day beyond the necessary labour time *originates a surplus labour* and its monetary expression, surplus value.

In this argument some points must be noted. First, Marx does *not* abstract at all from circulation. Account must be taken, before the capitalist labour process, of the buying and selling of labour power on the labour market, and of the way in which the subsistence is determined. He also has to assume that the potential (latent) value within the commodities produced will be confirmed as a 'social use value' in circulation: the metamorphosis of the commodities into real money must happen according to sale expectations. Moreover, in order to make *transparent* that abstract living labour is the only source of value, Marx must abstract from the tendency towards the equalisation of the rate of profit between the branches of production. Throughout the first and second volumes of *Capital*, Marx ignores "static" (Ricardian) competition as the tendency towards the equality of the rate of profit among industries. Already in the first volume, however, he cannot avoid to

consider “dynamic” (Schumpeterian) competition, the intra-industry struggle to obtain an extra surplus value. The diversification and stratification of the conditions of production is determined by innovation and spreads the rate profit within the sector.

The “generativity” of the surplus is an endogenous variable, influenced by the social form taken by production as production for a surplus value to be realized on the market. With given techniques, and assuming that competition on the labour market establishes a uniform real wage, necessary labor is constant. Surplus value is extracted by lengthening the working day. Marx calls this method of raising surplus value the production of *absolute surplus value*. When the length of the working day is legally and/or conflictually limited, capital may enlarge surplus value by the production of *relative surplus value*, that is through technical innovations or by speeding up the pace of production (greater intensity of labour). Technical change, which increases the productive power of labour, lowers the unit-values of commodities. To the extent that the changing organization of production, directly or indirectly, affects the firms that produce wage-goods, necessary labour falls and so the value of labour power. This makes room for a higher surplus labour, and thus a higher surplus value.

Changes in production techniques leading to relative surplus value are a much more powerful way of controlling worker performance than is the simple personal control needed to obtain absolute surplus value. Moving from “cooperation” to the “manufacturing division of labour” to “the machine and big industry” stage, a *specifically capitalist mode of production* is built up. In this latter, labour is no longer under a *formal subsumption to capital* (with surplus value extraction going on within the technological framework historically inherited by capital) but it is under a *real subsumption to capital* (enforced by “technology”, i.e. a capitalistically-designed system of production). Workers (the human bearers of labour power) become mere “appendages” of the means of production as means of “absorption” of labour power in motion (living labour). The concrete “qualities” possessed by labourers spring from a structure of production incessantly revolutionized from within, and designed to command living labour. *At this point of the argument labour does not only “count” but really “is” purely abstract, indifferent to its particular form* (which is dictated by capital), in the very moment of activity, where it has lost the nature of the active element but has become the passive object of capitalist manipulation in the search for profit. This stripping away from labour of all its qualitative determinateness and its reduction to mere quantity encompasses both the historically dominant tendency to de-skilling and the periodically recurring phases of partial re-skilling.

A moment of reflection is needed to appreciate the special features of this unique social reality where labour is made abstract – namely, ‘pure and simple’, because other-directed - *already* in production. Profit-making springs from an “exploitation” of workers in a double sense. There is exploitation because of the *division* of the social working day, with labourers giving more (living) labour in exchange for less (necessary) labour. The perspective here is that of the traditional

notion of exploitation, which considers the sharing out of the quantity of social labour contained in the new value, added within the period. Its measure is surplus labour over and above necessary labour. This, however, is the outcome of a more basic “exploitation” of workers as the *use* of workers’ labour power. Capitalist wealth is created only if this “consumption” of workers’ bodies and minds, which perverts the nature of labour, is going. The quantitative measure of this “productive” notion of exploitation, which refers to the *formation* rather than the distribution of the fresh “value added”, is the social working day *in its entirety*. From this second perspective, exploitation ends up to be identified with the whole working day, and the abstract (living) labour of wage workers. This is the *ultimate* ground of tracing back value to labour, because of the value form taken by labour.

Marx shows that abstract labour reflects an *inversion of subject and object* (the philosophers would say, a “real hypostatisation”), which is deepened in the theoretical journey back from the commodity-output market to the labour market and the production process. Within commodity exchange, *objectified* labour is made abstract because the products of human working activity, as long as they are commodities, manifest themselves as *an independent and estranged* reality divorced from their origin in *living* labour. The consequent “alienation” of individuals is coupled by “reification” and “fetishism”. *Reification*, because in a commodity-capitalist economy production-work relations among people necessarily take the shape of an exchange among “things”. *Fetishism*, because, as a consequence, the products of labour *seem* endowed with social properties *as if* these latter were bestowed upon them *by nature*. These characteristics reappear in the other two moments of the capitalist circuit. On the labour market, human beings become the *personification of the commodity* they sell, labour-power (or “potential” labour). Within production, living labour (or labour “in becoming”) is shaped by capital as abstract labour, and embedded in a definite technique and organisation specifically designed to enforce the extraction of surplus value. Abstract labour in motion (as the activity producing value and money as its result) is the true subject of which the single concrete workers performing it are the predicates. In this way, *Marx’s capital as self-valorising value is akin to Hegel’s Absolute Idea seeking to actualize itself and reproducing its own entire conditions of existence*: but it is exposed to the limit that workers may resist their “incorporation” as internal moments of capital.

At this point, it is possible to understand that behind the anarchic “*social* division of labour”, carried out independently of one another by private producers, and effected a posteriori via the market, a different “*technical* division of labour” within production is going on. In the latter, inasmuch as it is subjected to the drive of valorisation, an a priori *despotic* planning by capitalist firms leads to a technological equalisation and social pre-commensuration of the expenditure of human labour power, tentatively anticipating the final validation on the commodity market. This process imposes on labour - *already* within direct production and *before* exchange - the quantitative and qualitative properties of being abstract labour spent in the socially necessary measure. Even though capitalist production is for exchange - and therefore single capitals in competition

do not have any guarantee to find an outlet for their production - individual workers are *immediately socialised* in production.

Capitalist production is the paradox of dissociated firms, which production is “in common”, but have *yet to show* to be part of total social labour in the eventual validation on the commodity market. This pre-commensuration of labour and socialisation within production, in its turn, is conditional on a *monetary ante-validation* expressed by the finance to production that money-capitalists grant to industrial capitalists. For Marx, once capitalism has reached its full maturity in large-scale industry, the subjection of wage-workers’ to capital, with the consequent (ex ante) abstraction of *living labour already in production*, and hence the theory of exploitation, must be seen as the *foundation* of the monetary value theory.

The theory of value as a macro-monetary theory of capitalist production

I have surveyed until now three meanings which may be attributed to Marx’ value theory: as a monetary theory of value and as a theory of capitalist exploitation. In the present section I summarise a contemporary interpretation that somehow may connect together these two: Marx’ value theory *as a macromonetary theory of capitalist production*. This interpretation has been put forward by Augusto Graziani as part of his contemporary version of the theory of the monetary circuit, and it has the advantage to reveal how a “hidden Marxian stream” has been running through the ‘bourgeois’ monetary heretics of Neoclassical theory (Wicksell, Schumpeter, Robertson, Keynes’ *Treatise on Money*).

According to the Marxian view and the monetary heretics the capitalist “cycle”, or circuit, is logically split into a sequence of “successive phases”: to begin with, the initial *buying and selling of labour power* on the labour market (where money wages are bargained); then, *immediate production*, where the use of labour power goes on; eventually, the final selling of commodities in the moment of *circulation* (where real wages are eventually fixed), leading to the reconstitution of the money capital which has been advanced. If we distinguish the money-capitalists and the capitalist-entrepreneurs, it follows the tripartite separation of Graziani’s macro-agents in the most basic abstract picture of the monetary circuit: “financial capital”, “industrial capital”, and the working class. Means of production circulate only within the firm-sector, out of reach of wage-workers, whose purchasing power could only materialise in buying the means of consumption that the capitalist class makes available to them.

The defining features of Marx’s value theory are characterised as the following. Marx’s is, first of all, a *class macroscopic analysis*, which leads directly to a description of the capitalist economic process as a monetary circuit. In the cycle of money capital, money is *initial finance* from the banking system, allowing the firm-sector as a whole to purchase labour power from the working class. Money, before being the universal equivalent in circulation (the “social relation” in circulation), is

what put capitalists in a specific “social relation” with workers in production. The possibility of crisis arises when money is held as *hoards*, because of the pessimistic prospects of capitalist-entrepreneurs or money-capitalist, and brings with it unsold commodities and involuntary unemployment. Crisis is a “break” in the circuit: a point which encompasses both Keynes’ view of the crisis as due to a rise in *liquidity preference* (failure to “close” the circuit), and circuitists’ view of the crisis as due to capitalist-entrepreneurs unwillingness invest (failure to “open” the circuit).

“Valorisation” means an enlargement of abstract wealth. In a truly macro-monetary perspective, no exchange internal to the firm sector can contribute to valorisation. If we assume Marx’s macro-social, monetary and class point of view, it is clear that surplus value (gross profits) cannot have origin from the internal exchanges within the capitalist class: inter-firms transactions could only give way to “profits upon alienation”, cancelled out at the level of the firm sector as a whole. The genesis of surplus value can be found in the *only external* “exchange” for capital as a whole, the one between capitalist firms (financed by banks) and the living bearers of labour power. Following Kalecki’s revision of Luxemburg’s argument, the level, composition, and distribution of output can be easily determined. The “*autonomous*” capitalists’ expenses for investment and their own consumption fix the *amount of their profits*; their market power (expressed in the “degree of monopoly”) defines the *profit share on income*; from here it is straightforward to derive the level of *output, income and employment*. In this view, in a capitalist economy, the totality of the means of production must go to capitalist-entrepreneurs. Thus, the entrepreneurs must be able to buy all the new means of production which have been produced. The profit margin must be set at a level such that *the mass of profits is equal to realised investments*.

It is noteworthy that in this reconstruction of Marxian theory what the working class actually get are the consumption goods that firms put on the market for them, even if there is a household saving. Financial wealth allows individuals to modify the time shape of their consumption stream over time, but it is irrelevant for the aggregate. A reduction of saving is followed by higher workers’ real consumption only if the firm sector autonomously decides to increase the supply of wage goods. Even shares represent a fictitious ownership, as long as decisions over real production escape the control of workers. This does not mean that distribution is immutable. However, the influence of workers on firms’ (or on government’s) decisions about the real composition of output pass through non-market actions: either conflict in production, or struggles in society, or political interventions.

On the Marxian theory of money, Graziani also provides some original insights. We have to distinguish “money” (*Geld* in Marx’s original German) and “currency” (*Münze* in Marx’s original German). *Geld* is what exhibits abstract “wealth in general”; *Münze* is the universally accepted intermediary of exchange, and is one among many representatives of wealth in general. If one endorses this distinction, the valorisation process is defined as *money-commodity-more money*, M-C-M’, while the monetary circuit allowing its reproduction is defined as *currency-commodity-*

currency. It follows that *the specific end of the capitalist is to acquire money in the sense of abstract wealth, not to accumulate money as currency*. When Marx discusses the nature of gross profit, he makes it clear that it is acquired by the capitalists, taken collectively, solely in the form of commodities.

While Marx stresses that currency as “means of circulation” in commodity market is a commodity, currency representing money as a form of capital must be a form of credit, and more specifically bank credit *ex nihilo*. The reason why the fact that currency is bank credit *ex nihilo* is not explicit in *Capital* is due to the fact that, when Marx writes of money and currency, especially in Volume III, he does not present a “pure” theory of the monetary circuit but only an inquiry about what we nowadays call the practice of the money markets. Moreover, he assumes an open economy and the presence of the State. It has been questioned if assuming that money is a sign (like in the monetary heretics) does not put in danger Marx’s theory of exploitation, since money as capital may seem to be valueless. It is not so. The problem of the *value of money as capital* is reduced to the problem of determining wages, because in a class macro-monetary approach the only purchasing power of the advanced currency is the number of workers hired: following the general principle of the theory of value, *the value of the real wages of workers is equal to the given (subsistence) real wage*.

The theory of value as a theory of individual prices

The macro-monetary reconstruction, just like the other points of view on Marx’s value theory I have presented before, deflate the theoretical drama which has been going on for a century, or more, about the so-called *transformation problem*. In the transformation debate the perspective is on Marx’s value theory as *a theory of the determination of (relative) prices*: the conclusion many drew from the discussion was that Marx failed to transform the “simple” or “direct” prices (proportional to the labour contained in the commodities exchanged, sometimes labelled as “labour-values”) into the “prices of production” (containing an equal rate of profit, and systematically diverging from simple prices).

The reason is easy to understand. In Volume I, Marx’s focus is on the *rate of surplus value* (identical to the *rate of exploitation*). The rate of surplus value is the surplus value divided by the money capital spent in buying labour power, that Marx calls *variable capital*. This ratio is identical to the ratio between surplus labour and necessary labour. The rate of surplus value is positively related to the length of the working day and the intensity of the working day. It also rises with the increases in the productive power of labour, which is positively affected by the *capital composition*: the ratio between the money capital advanced to buy means of production (labelled by Marx *constant capital*) and variable capital. Surplus value springs only from the use of labour power bought with variable capital, and not from the means of production bought with constant capital – hence, the respective names.

The rate of surplus value explains the origin of gross profits for total capital, confronted with the working class as a whole. Total capital extracts the new value exhibiting in money the living labour of the working class, and pays back the value of labour power, exhibiting the necessary labour. However, for the individual capital, the success of an investment is rather measured by the *rate of profit*: the ratio between total surplus value and total capital (the sum of variable capital and constant capital). Because of inter-industry, “static”, competition, the rate of profit tends to be equal among branches of production. Here the problem is said to emerge. The rate of profit is positively related to the rate of surplus value, and it is negatively related to capital composition. The rate of surplus value tends to be equal in every industry, but there is no reason for the equality of capital compositions among industries: commodities, including the elements of constant and variable capital, cannot be evaluated at labour-values when inter-industry competition is introduced. Thus, the need to transform the labour-values in prices of production, with the rate of profit entering the determination of the elements of variable and constant capital.

I will not go into the intricacies of the debate. The point of all the perspectives I have surveyed before is that, whatever the opinions on the technical details about the transformation, the problem simply cannot exist as such: it is a *pseudo* problem. If the core of Marx’s value theory is taken to be the *a posteriori* socialisation of labour on the market against the universal equivalent, the argument may be put forward that *there are no actual “labour-values” before the eventual validation on the final market*. There is only a single system of prices, and the assumption of simple or direct prices is just a “law of exchange” to be removed at a lower level of abstraction. The vision according to which Marx’s value theory is a theory of capitalist exploitation, tracing back surplus value to the extraction of living labour from human beings as bearers of labour power, is even more radical: the point here is that valorisation is accounted for by the social relation of capital and workers in the capitalist labour process *as a contested terrain*, where *class struggle in production* is going on. Because of that, the extraction of living labour meets specific social difficulties for the buyers, because the labour power sold by workers (and hence the living labour to be extracted from them) are attached to the sellers, who in capitalism are supposed to be “free” and “equal” individuals. On this account, the new value produced in the period cannot but be the monetary expression of living labour *alone*: whatever the “rule of prices”, the ratios by which commodities exchange *cannot but redistribute the new value*. By definition gross profits appropriates a share of workers’ living labour.

The macro-monetary theory of capitalist production complements this argument, giving a more fundamental role to the labour-values hidden behind simple or direct prices as a price rule. In fact, it is maintained that *in the macro-social argument, in Volume I, the relevant price between class macro-agents is the rate of surplus value*, adequately expressed through simple or direct prices. The reason is easy to see. The new value added by current production is identical to the monetary expression of living labour; and the value of labour power is the monetary expression of the labour contained in the real wage of the working class.

This is independent of saving behaviour: and, we may add, it remains true whatever the ruling price system. As Graziani argues, in a quite extreme but effective fashion, Marx's theory of value has nothing to say *directly* about the phenomenon of the prices in final commodity-circulation, since valorisation has been accounted for in the macroscopic class analysis covering the buying and selling of labour power and immediate production.

The macroeconomic inquiry over valorisation is *prior* to the microeconomic determination of individual prices. In this latter, what are at stake are not the relations between total capital and working class but the exchange-relations of single firms. The determination of prices of production may well give way to a disparity between the *labour commanded* (in exchange) by gross profits and the *labour contained* (in production) within surplus value, and between the *labour commanded* (in exchange) by the money wage bill and the *labour contained* (in production) within the real wage for the working class. However, this "unequal exchange" can only *obscure* the process of valorisation, not *erase* it. The new value (and, then, the living labour extracted by total capital from workers) and the value of labour power (and then the necessary labour required to produce the *given* real wage of the working class) *remains what they are*.

The Marxists, and their (Neoricardian or Neoclassical) critics who dealt with the determination of prices of production within a simultaneous exchanges perspective were unfaithful to Marx, because they obliterated the *process* constituting the equilibrium position. In fact, Marx's value theory as has been depicted here is a *non-equilibrium* theory: this is something intrinsic in the view that value eventually comes into being with money as its phenomenal form (the monetary value theory), as well as in the view that class struggle and intra-capitalist competition affect the extraction of living labour (the theory of exploitation), as well as in the view of the essential monetary ante-validation of labour power as potential labour through the financing of production (the macro-monetary theory of capitalist production). "Non-equilibrium" refers to the *constitution* of the economic magnitudes, allowing to distinguish, afterward, of equilibrium and disequilibrium. This is not a "temporal" but a "logical" re-reading of Marx's value theory.

The theory of value as a theory of crises

Another controversial area in Marxian critical political economy is the theory of crises. According to Marx, *accumulation* - i.e. the conversion of some portion of surplus value into additional (constant and variable) capital, to produce more surplus value - is a *contradictory* process. Crises are, at once, *necessary explosions* of the contradictions, and *temporary solutions* to them.

The instability-prone nature of capitalism is already evident from its being a monetary economy, where commodity-exchange is universalised. For some of the separate and autonomous firms the anarchy in capitalist social division of labour

may easily lead to an incomplete “realisation” in circulation of the value potentially produced in immediate production. The presence of money *dissociates* sales from subsequent expenditures, so that hoarding may break the smooth sequence of supply finding its own outlet on the market as the incomes are spent. Most of Marx’s inquiry in the three Volumes of *Capital*, however, is laid out on the assumption that commodities are sold on the market at their “social values” (in Volumes I and II) or at “prices of production” (in Volume III) - something akin to Keynes’ *General Theory* basic model of fulfilment of short-term expectations.

In Volume II of *Capital*, drawing on an original insight by Quesnay, Marx constructs his *schemes of reproduction* which demonstrate that a balanced growth path independent of the level of consumption demand is a theoretical *possibility*. Marx divided social output into two departments, the first producing capital goods and the second consumption goods (which may be subdivided in wage-goods and luxury-goods). The value output of both sectors is looked upon as the sum of its three component parts, i.e constant and variable capital and surplus value. In *simple reproduction*, capitalists unproductively consume the entire surplus value, so that there is zero growth. In *enlarged reproduction*, they more or less completely invest surplus value in new constant and variable capital, allowing for accumulation. What the schemes clarify is that *each value component of the output is also a component of demand* for its own or the other sector. Equilibrium, which is always a chance, depends on some balance between inter-sectoral trades. Against Malthus and Sismondi, Marx affirms that capital *may* expand over time without meeting a barrier in effective demand, because it is the mainspring of its own demand. Nevertheless, against Ricardo and Say, Marx also states that, since equilibrium needs exchange in definite, “right” proportions – and not only in value, but also in use value and money terms - a balanced long-run accumulation is *not a guaranteed* outcome, and it rather materializes by “accident” (a point which was taken up again in the Harrod-Domar growth models).

The likelihood of departures from equilibrium because of the absence of planning, simply provides the *possibility* of crises happening in a market environment. Marx is in search of an explanation for the *necessity* of crises arising from the capitalist class relation itself. In his view, *effective demand failures issue from a fall in investments*, and this latter proceeds from a *profitability crisis*. Thus, the question shifts to that of understanding the systemic recurring causes for a profit squeeze. A first argument is described in the “general law of capital accumulation” at the end of *Capital*, Volume I. Assuming a *constant composition of capital*, a sufficiently rapid growth of the value invested exhausts the supply of labour-power and tightens the labour market. *Wage increases outdo the rise in the productive power* of living labour, the *rate of profit starts falling*, and then, as a consequence, *accumulation and the demand for labour slow down*. A more long-term solution to this difficulty, located in *distributive* struggles over the partition of the new value added, is the introduction of *labour-saving, capital-intensive methods of production*. For a given capital, mechanisation reduces the share of variable capital and thereby the demand for labour to produce the same output: it displaces workers, replacing them with machines.

Theoretically, a rise in the rate of accumulation *may enhance or reduce employment* according to the relative weight of the two forces, the *increase in the size* of capital and the *change in its composition*. Through the cycle, the pace and structure of the accumulation of capital, which is the independent variable, constantly vary to reproduce an *industrial reserve army* of potential workers ready to be included in the valorisation process, and exerting a downward pressure on wages, which is the dependent variable. A permanent downward pressure on the real wage, i.e. an “absolute” impoverishment of the workers, is among the possible outcomes. All the same, the normal situation is very different. Capitalist accumulation is propelled by the production of relative surplus value, which presupposes a positive dynamics of the productive power of labour. The real wage, then, has room for improvement (without impairing the tendency to a greater share of the surplus value in the new value added going to the capitalist class) as long as the higher workers’ consumption is expressed in a lower value of labour power. This is what Rosa Luxemburg called the *tendency to a fall in the relative wage*, i.e. a contraction in wages as a proportion of national income. A *relative*, not an absolute, impoverishment. On the other hand, with trade unions and a more militant working class, wage struggles can become *partially* independent from the labour market, break the tendential fall in the “relative” wage, and develop into an independent cause for capitalist crises.

Mechanisation of production is also an autonomous drive for capital to *control living labour* and to *remove workers* from the point of production. If mechanisation is a powerful lever *to regulate both the exchange value and the use value of labour power*, it nevertheless creates a further difficulty. The rise in what Marx calls the *technical* composition of capital – the “physical” ratio of the number of means of production relative to the number of workers employed - is a factor contributing to the expulsion of workers from the productive process: but workers’ living labour, we know, is the *exclusive* source of value and surplus value. According to Marx, the consequent rise in the composition of capital expressed in value terms brings into action a *tendency of the rate of profit to fall*. It must be noted, however, that Marx expresses the “law” with reference to the rise in what he calls the *organic* composition of capital (in which the elements of constant and variable capital are evaluated at the prices before the diffusion of innovation), and not in the *value* composition of capital (in which the elements of constant and variable capital are evaluated at the prices after the diffusion of innovation). The latter definition fully reflects the revolution in the evaluation of constant and variable capital produced by mechanisation, whereas the former definition measures inputs at their original prices. The “organic” composition follows the increase in the “technical” composition: but the trend in the profit rate depends on the “value” composition.

The tendency of the rate of profit to fall has been interpreted by some authors not only as a cause of cyclical crises but also as accounting for capitalism’s *long waves*, and by others as the reason for a *secular downward trend in profitability*. There is some justification for this view. The application of greater quantities of constant (and especially, fixed) capital per unit of output is the most effective means to

propel surplus value extraction from workers. Marx thought that the increase in the rate of surplus value could not compensate in the long run for the negative influence on the rate of profit of the higher (value) composition of capital, and so he downgraded it as a mere *counter-tendency*. Marx's strongest argument in favour of the "law" is by appeal to *an absolute limit* to the surplus labour that may be pumped out from a given working population.

To understand what is involved here, it is best to look at the composition of capital as an index of the ratio between, on the one hand, the *dead labour* contained in the means of production and, on the other, the *living labour* expended in the period: that is, to represent it as the ratio between constant capital and the sum of variable capital and surplus value. Assuming that variable capital is tending to zero, and thus that the whole social working day is objectifying itself as surplus value, the (value) composition of capital becomes the reciprocal of the *maximum rate of profit*. This latter can be seen as the *ceiling* for the upper movements of the actual rate of profit. Marx is suggesting that the numerator of the maximum rate of profit meets a "natural" constraint in the amount of living labour that can be extracted from workers, while, on the contrary, its denominator is free to grow without limits. At the ruling social values, individual capitalists are willing and/or forced to introduce more capital-intensive methods of production. In this way, they lower unit costs to gain *excess temporary profits*, but the longer-run effects of their behaviour force a *reduction of the social values of commodities* and *depress the average rate of profit*.

This notwithstanding, to deduce a *necessary* fall in the rate of profit would be invalid because progress in the productive power of labour, accelerated by mechanisation, ends up reducing the values (i.e., prices) of all commodities, and thereby also those of the means of production. It cannot be excluded a priori that the *devaluation* of constant capital might even be strong enough to raise the maximum rate of profit, removing the barrier to the actual rate of profit. The actual rate of profit is both a positive function of the rate of surplus value and a negative function of the composition of capital: so, another criticism is that there is no reason to exclude that the rise in the rate of surplus value can offset the (possible, not necessary) rise in the value composition of capital.

It is interesting to observe that the higher the rate of surplus value soars, and thereby the more the tendency for the rate of profit to fall is repressed, the more likely the system is to run into a third type of crisis, i.e. the *realisation* crisis. Some Marxists have indeed suggested that the rate of profit falls because actual (or expected) effective demand is insufficient for the system as a whole to buy commodities at their full value (including the average rate of profit). Two conflicting positions have been dominant in this group of theories. One approach (e.g., Hilferding) stressed that *disproportionalities*, i.e. sectoral imbalances between supply and demand, were an impending feature in a spontaneous, chaotic market economy. If excess supply persistently affects important branches of production, this can spread into other sectors and easily degenerate into a *general glut* of commodities. This kind of difficulty, however, depends on the speed of price-and-

quantity adjustment to disequilibrium, and may disappear in a more “organised” form of capitalism. Some of its proponents (e.g., Tugan-Baranovski) even ended up endorsing the view that, being “production for production’s sake”, capitalism encounters no true barrier in effective demand, and in principle can be stable on a balanced growth path with declining consumption. The other approach (e.g., Rosa Luxemburg) is sometime wrongly labelled “underconsumptionist”, though in fact it stresses *under-investment*. It maintains that *net investment could not compensate for insufficient consumption forever*, since the long-term profitability of new machine-goods depends on future outlets, and these latter are less and less predictable with a decreasing share of consumption in total demand. The same reproduction schemas prove that the equilibrium inter-sectoral trade proportions required for expanded reproduction are precarious and unsteady. An increasing extraction of relative surplus value - which is needed to overcome the tendency for the rate of profit to fall, and which strengthens the tendency for the relative wage to fall - shifts them continuously and worsens the odds of their being met for long.

For some of their supporters, these kinds of realisation crisis are of increasing severity and lead to a *final breakdown*, when the “external” factors mitigating them (such as the net exports to non-capitalist areas) are exhausted. Other writers in the same tradition, as Kalecki, objected that the insufficiency of effective demand may be solved by what he dubbed *domestic exports*, i.e. governments’ budget deficits financed by the injection of new money: something of this kind was already hinted in Luxemburg’s original argument under the heading of military expenditures on armaments. A similar role may be played by the unproductive consumption coming from “third persons”, drawing their incomes from deductions from total surplus value. To be compatible with a smooth accumulation of capital, *these “solutions” call for the continuation of the pressure on living labour*. This confirms the role of the rate of surplus value as the pillar of capitalist development, and of the outcome of the class struggle within the capitalist labour process as the crucial determinant of its dynamics.

A re-reading of Marx’s theory of crisis looks at the tendential fall in the rate of profit as a *meta-theory of crises*, incorporating within it the different kind of crises which can be derived from Marx, and extending it into an *historical narrative of the evolution of capitalism*. From this point of view, the tendential fall in the rate of profits due to a rising value composition of capital was confirmed during late 19th century *Long Depression*. The increasing rate of exploitation, needed to overcome the tendency for the rate of profit to fall, was implemented by Fordism and Taylorism, which jointly strengthened the tendency for the relative wage to fall. The rise in the rate of surplus value, however, created the conditions of a realization crisis, the *Great Crash* of the 1930s. The so-called Golden Age of capitalism was predicated on a higher pressure on productive workers to obtain enough living labor and gain higher and higher surplus labour. This opened the way to a social crisis of accumulation, because of the struggles within the immediate valorization process: a key factor of the *Great Stagflation* of the 1970s.

From this point of view, the Great Moderation leading to the current *Great*

Recession (if not Lesser Depression) must be interpreted as capital's reaction to a crisis originating from a rupture in the same capital-labor "social relation" within production. Neoliberalism is best captured as a *real subsumption of labour to finance and debt* within a Minskyian "money manager capitalism": the reference is to the subordinated integration of households into the stock exchange market, and their going deeper and deeper into bank indebtedness. The other side of the coin was the "deconstruction" of labour in the new phase of capitalist accumulation, characterized by new styles of corporate governance leading to a *centralization without concentration*, and then to a weakening of workers in the labor market and in the labor process. This form of capitalism was based on a capital market inflation, which, though stabilizing the system for a while, proved to be eventually *unsustainable*.