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Echoes of Utopia

Studies in the legacy of Marx

Michael Fuller

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Studies in the legacy of Marx

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Preface

Echoes of Utopia sets out to explore the question of the continuing relevance of Marx's thought.

Chapter 1 opens with a conceptual analysis of Marx's "organic composition of capital" idea. It is critical of this idea, as well as of the related ideas of the labour theory of value and surplus value. The analysis ends by concluding that what truth there is in the organic composition of capital idea derives its forces from Marx's more fundamental ideas about overproduction, underconsumption and crises.

Chapter 2 proceeds with a more socio-economic historical analysis of Marx's overproduction/underconsumption ideas in the light of the New Right, globalization, and the "crisis of Keynesianism". It concludes that Marx's ideas on this score still have contemporary relevance, but three substantial areas of doubt remain for the Marxist project: (a) the controversy of market versus planning; (b) the utopian/scientific socialism debate ("mere dreaming" versus "real historical forces"); (c) ecological limits and constraints in relation to the "removal of scarcity".

Chapter 3 proceeds to partially address these doubts through the work of Joseph Schumpeter with his ambivalent attitude to Marx. It concentrates very much on the centralization aspect and the economic dimension.

Chapter 4 continues to address these doubts through the work of Simone Weil with her equally ambivalent attitude to Marx. It concentrates very much on the decentralization aspect and the political/moral dimension.

Chapter 5 tries to pull all the preceding threads together. It identifies "decentralization within centralization" as one of Marx's leading ideas in both the political and economic spheres. It tries to assess the strengths and weaknesses of Schumpeter's and Weil's analyses. It continues with an imaginary conversation with the "spectre of Marx" concerning the nature of the good society. Finally, it tries to address the question of "real historical forces" in the contemporary world.

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1 Marx's Bad Idea: The Organic Composition of Capital

Introduction

Why is Marx's technical idea about the "organic composition of capital" so important? Because it is the constellation of all his key economic ideas: his theory of surplus value and exploitation, his explanation of where profits come from and what economic value is, and his explanation of why the rate of profit must inevitably fall, leading to severe crises within capitalism and its eventual collapse.

Why is the organic composition of capital a bad idea? Because (1) its underlying assumptions - the labour theory of value and profit stemming fundamentally from the exploited surplus value of living labour - can be criticized as dubious or vacuous; and because (2) even if we accept its underlying assumptions as correct, it can be argued that these assumptions do not necessarily lead to where Marx thinks they must lead: to a falling rate of profit and the collapse of capitalism. Even more tellingly, it can be argued that Marx himself in the *Grundrisse* argues against his own organic composition of capital idea. The reason that he does not seem to realize that he is arguing against himself is because he mixes up there his argument about the organic composition of capital with two other arguments: his good idea about the tendencies to overproduction/underconsumption crises within capitalism, and his more contentious idea that the productive fruits of science and technology stem from "social labour" as a whole, and therefore ought rightly to belong to society as a whole (rather than, say, to the individuals who invented them or the individuals who put up the cash to make them industrial realities).

In what follows, I divide the discussion into five parts:
(1) I shall try to explain what the organic composition of capital is and how it connects with Marx's other key ideas. (2) I shall examine criticisms which reject the underlying assumptions about the labour theory of value

and surplus value. (3) I shall examine criticisms which accept the labour theory of value and surplus value but nevertheless reject the consequences that are supposed to flow from the resulting argument about the organic composition of capital: a falling rate of profit leading to capitalism's collapse. (4) I shall examine the *Grundrisse* argument about automation. (5) Finally, I shall try to assess what worth remains of the whole idea of the organic composition of capital.

I The organic composition of capital

According to Marx, the economic worth of any commodity - i.e., its price or exchange-value - must be determined by some objective standard which is common to all commodities. Otherwise, the economic value of commodities would be subject to the chaos of relative and varying individual preferences regarding use-value. For example, a bottle of whiskey might have enormous use-value to an alcoholic but nil use-value to a teetotaller. So, to avoid chaos, a common criterion must be found which measures the worth of every good (a standard of value) and also the relative worth of every good in relation to other goods (a measure of exchange). So far as Marx can see, the most fruitful avenue for finding such a common criterion that will determine the economic value of every product is to be found in the amount of labour that has entered into its production. Hence the Labour Theory of Value. Marx explains it thus:

> A use-value, or useful article, therefore, has value only because human labour in the abstract has been embodied or materialized in it. How, then, is the magnitude of this value to be measured? Plainly, by the quantity of the value creating substance, the labour, contained in the article. The quantity of labour, however, is measured by its duration, and labour-time in its turn finds its standard in weeks, days, and hours. [1]

By such means, then, we can arrive at something like the "intrinsic value" of a commodity, and its "proper price" or "just price" - an idea with clear moral overtones.

Marx then proceeds to explore the implications of this in regard to capitalism. If everything sells at the "proper price" determined by the amount of labour that has gone into it, then it would be impossible to realize any excess as profit, and impossible for capitalism to function. Yet profit and capitalism exist. How is this possible? Marx explains the anomaly by arguing that there is *one* commodity - living labour - which does *not* sell at its proper price, and therefore living labour must be the source of profit. The capitalist gets a free lunch out of the worker by extracting (or exploiting) the worker's surplus value. So here is the case where the proper price is not paid to the worker, who is forced to work more hours (and so to realize more value as profit for the capitalist) than he or she is paid for. Here is the unique instance where use-value does not equal exchange-value, since the capitalist gets more use-value (work) out of the worker than the exchange-value (wages) which he pays the worker. Hence profits.

It is easy to see why this idea is compelling, since it is based on the paradigm of the free lunch that is obtained by exploiting slave labour - the most naked example of exploiting someone by getting more out of them than you give back to them. The "wage slave" in capitalist society, argues Marx, is in an analogous position, in spite of pious cant about freedom of contract: forced, by dire necessity of the existing conditions of ownership, to "freely accept the contract" of working more hours than he or she is paid for.

The next step is to argue that the best way to maximize profit (and even to ensure survival, given the competitive pressures on capitalists) is to maximize productivity of workers. Thanks to the wonders of technology, one of the most effective ways of doing this is to introduce "labour-saving machinery". This brings us to the heart of our discussion. The organic composition of capital can be defined as the relative amounts of "constant capital" or "c" (raw materials and machinery) and of variable capital or "v" (living labour) that are involved in any process of production. Where the relative amount of c involved is high in relation to the amount of v involved, we are said to have a high organic composition of capital.

The problem, as Marx sees it, is that introducing labour-saving machinery to make workers more productive has an inevitable tendency to reduce the rate of profit. Why? Because surplus value, on Marx's premisses, only comes from living labour; no surplus value can come from raw materials and machinery. So he tells us:

> Therefore the means of production can never add more value to the product than they themselves possess independently of the process in which they assist. However useful a given kind of raw material, or a machine, or other means of production may be, though it may cost £150, or say 500 days' labour, yet it

cannot, under any circumstances, add to the value of the product more than £150.......

The property therefore which labour power in action, living labour, possesses of preserving value at the same time that it adds to it, is a gift of Nature which costs the labourer nothing but which is very advantageous to the capitalist inasmuch as it preserves the value of his capital. [2]

The essence of the organic composition of capital argument can be further clarified by the following three extracts:

Now what higher productivity tends to mean is that the amount of plant and equipment each worker sets in motion increases....

But this development causes severe problems for the capitalist. For it means that he has to lay out an ever larger amount of money on plant and equipment for every worker he employs. Yet it is the *worker* who is the source of the capitalist's profits - his or her labour produces that surplus value above his or her wages. So the cost of investments rises faster than the profits squeezed out of the workforce. In other words, the return that the capitalist gets on his investment, the rate of profit, falls. [3]

Capitalists, in Marx's model, have both to produce surplus value from exploitation in the process of production and realize it by selling their products at a profit in the market. This leads to a contradiction between keeping workers' wages down and expecting them to be able to afford to buy their own increased production. The problem is only solved so long as purchasing power, including credit, just rises to match increased productivity. But there is a further and more serious contradiction in the capitalist system, according to Marx. As more and more capital is introduced with each unit of labour, changing what Marx called the organic composition of capital, it will be more and more difficult to maintain the rate of surplus per worker and so profit rates will tend to fall. [4]

For as he [the capitalist] substitutes machines for men, he is simultaneously substituting nonprofitable means of production for profitable ones. Remember that in Marx's model of an ideal capitalist world, no one makes a profit by merely sharp bargaining. Whatever a machine will be worth to a capitalist, you can be sure that he paid full value for it. If a machine will yield ten thousand dollars' worth of value over its whole life, our capitalist was presumably charged the full ten thousand dollars in the first place. It is only from his living labour that he can realize a profit, only from the unpaid-for hours of surplus working time. Hence, when he reduces the number or proportion of workers, he is killing the goose that lays the golden egg. [5]

Here, then, we have the essence of the idea: a typical example of the kind of dialectical thinking which Marx took over from Hegel, an example of what Hegel grandly called "an emergent yet antithetical result". All unintended, the attempt to maximize profit via machinery has the unforeseen result of minimizing it, so creating the conditions for a descending spiral of economic and social chaos, misery and unrest, culminating in revolution.

But is it a good idea?

II Criticisms of the labour theory of value and surplus value

Before we begin, we should mention an empirical question. *Does* the rate of profit in fact show tendencies to fall? Unfortunately, it is very hard to get clear and definite answers on this score. Some claim that the rate of profit has shown a tendency to fall, so confirming Marx's predictions based on his organic composition of capital idea. Others claim that it has not shown any such tendency, so refuting Marx's predictions. Yet others argue that while capitalism has shown a tendency to falling rates of profit *within* business cycles, it shows no such tendency absolutely. Yet others again argue that, even if it were conclusively shown that capitalism does have a tendency towards absolutely falling rates of profit, this would in no way conclusively prove Marx's organic composition of capital idea, since the causes of the fall in the rate of profit might lie elsewhere. The best that we can conclude is perhaps that empirically the issue is not settled and that, even if it were settled affirmatively, this would still only provide evidence rather than conclusive proof in favour of Marx's organic composition of capital idea.

Part I has shown that the logic of Marx's argument is as follows: his arguments about the organic composition of capital and falling rates of profit are deductions from his arguments about surplus value; his arguments about surplus value are in turn deductions from his arguments about the labour theory of value. Unsurprisingly, then, a number of Marx's critics have gone straight for the jugular and aimed their attacks at what they see as simultaneously being the pivot and yet also the weakest point of Marx's economic theory: the labour theory of value.

These criticisms have been various though often interconnected. I think we can usefully distinguish three main strands of criticism. (1) The labour theory of value is dubious. (2) The labour theory of value is not so much dubious as metaphysical and vacuous, and perhaps amounts to little more than an arbitrary definition of value which Marx then uncritically adopts as an axiom from which he deduces results such as the idea of surplus value, the organic composition of capital, and the falling rate of profit. (3) The labour theory of value, whatever merit it might have as a philosophical and moral vision of socialism and justice, fares badly when subjected to the pragmatic test of how well it functions as an "analytic tool" in economic practice. When it comes to analyzing phenomena such as prices, it is argued, the labour theory of value is of far less use as an instrument for economists than subsequent theories of value such as the marginal utility theory. In comparison, the labour theory of value is a clumsy instrument and in order to try and close the gap between his economic theory and economic reality, Marx is forced to resort to some fairly circuitous reasoning and *ad hoc* hypothesizing. Since Marx was anxious to be seen not merely as another moral crusader or "utopian socialist", but as a "scientific socialist" whose theories could explain the minutiae of economic phenomena, the charge that the labour theory of value is in many respects a poor tool in economic analysis is not an insignificant matter.

The three strands of criticism mentioned above are all interconnected in the sense that it is quite possible for a critic to argue that the labour theory of value is dubious because it is vacuous and arbitrary, and that its vacuity and arbitrariness are shown by its deficiencies (in some, not all, respects) as a practical tool of economic analysis.

It might still be objected that "bourgeois economics", in refusing to accept Marx's version of the labour theory of value and surplus value, has robbed itself of the ability to explain the phenomena of *profit* and *value* and therefore deserves to be taken less seriously than Marxism as an economic philosophy. But this is surely a weak argument. Profit can be accounted for within a different explanatory schema (although admittedly a schema that does not decisively settle the issue of what is to count as "fair shares"). So one of the founding fathers of neo-classical economic theory, Alfred Marshall, criticized Marx in the following way:

> It is not true that the spinning of yarn in a factory, after allowance has been made for the wear-and-tear of the machinery, is the product of the labour of the operatives. It is the product of their labour, together with that of the employer and subordinate managers, and of the capital employed; and that capital itself is the product of labour and waiting; and therefore the spinning is the product of labour of many kinds, and of waiting. If we admit that it is the product of labour

alone, and not of labour and waiting, we can no doubt be compelled by inexorable logic to admit that there is no justification of interest, the reward of waiting; for the conclusion is implied in the premiss. [6]

When it comes to the problem of explaining what economic value essentially is, it could be argued that no theory of value has been able to provide a convincing and comprehensive account of this elusive and multi-faceted phenomenon, and that, perhaps, after all, it is something of a philosophical pseudo-problem. It may be - as Wittgenstein and some pragmatist philosophers argue about essences in general - that there is no "intrinsic essence" of economic value. This is not the same thing as arguing that market prices arrived at by supply and demand are all there is to say about economic value and "just price". For to say that would only be to reintroduce a notion of the intrinsic essence of economic value surreptitiously. It is rather to say that the phenomenon of economic value (and the phenomena of "just price" and "fair shares" which are derived from it) may just be eternally morally and politically controversial - incapable of being resolved from the ground up by economic theory, whether in the form of the idea of market-clearing price mechanisms of marginal utility theory or the labour theory of value of Marx.

The above kinds of criticism of the labour theory of value - its dubiousness, its vacuity and its difficulties in practical application - are spelled out further in the following extracts:

> In the first volume of *Capital* Marx argued that as profit is created solely by surplus value, and as labour is the sole value-producing agency, the rate of profit will depend upon what he calls 'the organic composition of capitals', that is, the proportion of labour (variable capital) to machinery (constant capital) employed in a given undertaking; and that it will thus tend to fall in proportion as technological improvements lead to the employment of less labour. Yet although this conclusion logically followed from his premisses, it was demonstrably false in practice. Marx was aware of the difficulty ... But he did not face it at the time, and set it aside for further treatment. There the matter rested until 1883, when he died....
>
> The [solution] was, indeed, eagerly awaited, but when it appeared in the third volume [of *Capital*] it caused widespread disillusionment. For it was now contended that although the rate of profit did depend on the relation of variable to constant capital if the whole capital of the world was taken into account (and of this no proof was given), this did not apply to the profits of particular businesses, which tended to equalize themselves according to the state of trade.

As Joan Robinson points out, Marx's demonstration simply amounts to the tautology that if wages are constant (and elsewhere he denies that they are) the rate of profit will fall as capital per man increases......

Actually, he is ultimately driven to admit that exchange value is governed by the market, that is, by the law of supply and demand, which makes nonsense of his theory that it is derived from labour only. [7]

Certainly the moral effect of the overwhelming first volume of *Das Kapital* is likely to be weakened by an acquaintance with its successors. If all value is created by labour only in some metaphysical sense, then there may be more in those utility theories of value which Marxists regard as capitalist frauds than we had formerly been willing to admit. If it is possible for values to be reckoned as Marx reckoned them in units of abstract labour power, why was it not possible - what Marx had denied - to reckon them in units of an abstract utility? - especially when the supposed value of labour seems to have nothing to do with fixing prices, whereas demand of the consumer obviously has.

But the truth is that all such theories are incomplete: real prices are the results of situations much more complex than any of these formulas, and complicated by psychological factors which economists seldom take into account. The economist tends to imagine that value ... is something mainly created by the group to which he belongs or whose apologist he aims to be. The stupider type of old-fashioned manufacturer was practically under the impression that he was creating both the product and the labour by supplying the brains and the capital which gave the factory hand his opportunity to work. The Fabian Socialists represented the middle-class British consumer and they believed that the human being as consumer rather than as farm-labourer or factory hand determined the value of commodities by his demand for them. Karl Marx, who was not only on the side of the worker but wanted to see him inherit the earth, asserted that all value was created by labour. [8]

The central difficulty ... is the relation of values to prices. It has already been pointed out that for Marx the value of a commodity is *defined* in terms of embodied labour; this disposes of the question whether or not his value theory is 'wrong' - a pseudo-problem on which both his followers and his critics subsequently wasted a good deal of effort. The relevant question is whether on his assumptions it is possible to account for the movement of (long-range equilibrium) prices and profits; and the candid answer must be that, though not impossible in principle, the operation is so involved, and requires so many auxiliary hypotheses, as to be very nearly self-defeating in practice ....

Marx sets out by laying down the general rule that commodities tend to exchange at prices which correspond to their (embodied) values. 'Price is the money-name of the labour realised in a commodity.' (*Capital*, I, p. 74.) Temporary deviations from this rule are to be regarded as infractions of a general law which determines the exchange of commodities. In Volume III this principle is qualified by the admission that - account being taken of different capital-labour ratios in different industries, as well as the prevalence of a uniform rate of profit established by competition - commodities do not in fact exchange in accordance with embodied labour values, but rather according to 'prices of production', i.e., monetary costs plus an average profit. Whether one regards this admission as a fatal contradiction of the basic law laid down in Volume I (as did Bohm-Bawerk and others), or whether one regards it as a sensible qualification of a theoretical 'first approximation' whose significance is not diminished thereby, must ultimately depend on what one expects a theory of value to do. If one's interest is focused on a sociological explanation of the genesis and operation of capitalism, there is no particular reason why one should not employ the Marxian apparatus, since its conceptual tools are evidently suited to an approach which treats the accumulation of capital as the central mainspring of the entire process. If one believes that a theory of value must justify itself by enabling economists to derive prices from values, it is hard to see what useful purpose is served by trying to salvage a theoretical model which makes such an operation impossibly difficult. [9]

I conclude this section with an argument designed to show that constant capital (machinery) is just as capable as variable capital (living labour) of producing surplus value.

Suppose an entrepreneur builds an automatic crow-scarer for £1000. But the machine has the ability to perform, throughout its useful life, the equivalent of £3000 worth of the work of living labour (i.e., what it would cost a farmer to employ living labour to perform the same work that is done by the robot).

Now it seems on the Marxist analysis that the firm that makes the machine should sell it not for the £1000 (e.g., production costs) but for £3000 (e.g., real use to farmer and the same value as employing waged labour to do the work). Since the idea of the labour "locked up" or "embodied" in a machine seems ambiguous within the Marxist scheme when applied to robots. It seems to refer both to (a) "proper price" determined by the labour that goes into the machine's construction and (b) "proper price" determined by the equivalent amount of work-if-done-by-living-labour that the machine can produce over its effective life-span. It must mean (b) as well as (a), since, if it only meant (a), this would be tantamount to conceding that constant capital (machines) can produce surplus value.

But a digression into marginal economics shows us the fallacy of this: if the firm tried to sell at £3000, it would find no takers, since it would not be worth any farmer "clearing the market" at this price (at least, not unless he was stupendously silly or just happened to have an obsessive love of gadgets). Hence the firm would have to reduce the price - say, to £2000 - so that a "market-clearing price" is achieved that is of mutual benefit to both the producing firm (which easily covers its costs) and the farmer (who also easily achieves a profitable outcome).

This example is intended to show that *robots* (capital goods which involve *no* interaction with living labour) *can produce surplus value*. In this case, 'robots' have the same functions that Marx ascribes to living labour alone: what it costs to produce/reproduce them (exchange-value) is less than the work (use-value) that they can achieve for the capitalist. And what applies to robotics applies also to capital goods which do still involve some interaction with living labour. It is just that, given the Marxist dogma or definition that only living labour can produce surplus value, it is necessary to reinterpret the realities of what happens when mechanical diggers replace an army of navvies by declaring that the profits made result from the surplus value of the few remaining workers rather than from the contribution of the workers *plus* the contribution of the machines which make them so productive.

Nor will it help here to evasively argue, as Michael Harrington tries to:

> In the calculated oversimplification of his [Marx's] basic analyses - which generations have mistaken for a flawed description of the real world - it was assumed that raw materials, machines, and finance were all exchanged according to their value, and that sellers charged buyers a fair price. Where, then, was the source of profit? In the labor-market. [10]

For if Marx's "calculated oversimplification" does successfully reveal the way that profits are gained by capitalists from their workers, by the same stroke it successfully conceals the way that profits are also gained by capitalists from capital goods, ideas, and organization. Calling it a "calculated oversimplification" or "heuristic device" will not obscure the fact that it *is* a "flawed description of the real world" of business and industry. What Marx successfully conceals here is what Buckminster Fuller called the ability of technology and human ingenuity to do "more