ECONOMY AND SOCIETY

Evolution of Capitalism

R.R. Suresh

SAGE TEXTS

First published in 2010 by

SAGE Publications India Pvt Ltd
B1/I-1 Mohan Cooperative Industrial Area
Mathura Road, New Delhi 110 044, India
www.sagepub.in

SAGE Publications Inc
2455 Teller Road
Thousand Oaks, California 91320, USA

SAGE Publications Ltd
1 Oliver's Yard
55 City Road
London EC1Y 1SP, United Kingdom

SAGE Publications Asia-Pacific Pte Ltd
33 Pekin Street
#02-01 Far East Square
Singapore 048763

Published by Vivek Mehra for SAGE Publications India Pvt Ltd, typeset in 10/12 pt Palatino by Star Compugraphics Private Limited, Delhi and printed at Chaman Enterprises, New Delhi.

Library of Congress Cataloging-in-Publication Data

Suresh, R.R.
Economy and society : evolution of capitalism/R.R. Suresh.
p. cm.
Includes bibliographical references and index.
1. Capitalism. 2. Economics. 3. Economics—Sociological aspects. I. Title.

HB501.S952 330.12'2—dc22 2010 2010020641

ISBN: 978-81-321-0404-9 (PB)

The SAGE Team: Reema Singhal, Pranab Jyoti Sarma, Mathew P.J. and Trinankur Banerjee

Introduction

This is a textbook which brings together some of the major principles and theories, mainstream and heterodox, in explaining the emergence, evolution and working of the capitalist system. The subject matter is vast and principles and theories about a continual flow of events/ phenomena are aplenty. Many have had a limited life (often losing their relevance as capitalism changed). Yet some have contributed significantly in the understanding of the capitalist socio-economic formation. These have been contextualised within the evolving structure of the capitalist system.

Different systems prevailed in different parts of the world for many millennia before capitalism. Each flourished but gave way to another. The capitalist system emerged only recently in this world—about the 16th century, first in England. It subsequently spread to other parts of the world. Its spread and evolution has been in some way or the other different in different countries. It has gone through several stages and—even though large numbers of people, particularly in the developing countries, live under conditions of pre-capitalist systems—has a global reach today. Yet there is a certain commonality in the system in the different countries and in the world. The principles and theories discussed here help in highlighting this common essential nature of capitalism.

This book emphasises that socio-economic formations change. The emergence of capitalism and its evolution illustrate this fact of change. Hence, the capitalist socio-economic formation must one day give way to another formation. Mainstream analysts, however, assume that the capitalist system is here to stay. In fact, the collapse of the Soviet bloc led Francis Fukuyama to proclaim 'the end of history',[1] a view which only articulated what most already euphorically believed in since the Second World War. The 2008 economic crisis did lead to doubts about the eternalness of the system, doubts that tended to be brushed aside on the ground that all that was required was some corrective measures, some readjustments. Yet, as is pointed out in the book, the capitalist system has to deal with crises on several fronts—crises which may necessitate a different socio-economic formation.

Mainstream economic analysts separate the economic and the non-economic aspects of the capitalist socio-economic formation on the premise that the capitalist market economy works irrespective of the politico-socio scenario in the state. This is reflected in the fact that mainstream social scientists tend to view each discipline as being independent of the other. More often than not, a person specialising in one area has little knowledge of the other areas, and thinks it not necessary to acquire any knowledge even if his analysis indicates some interconnection.

[1] *The End of History and the Last Man* (1992) is a book by Francis Fukuyama, expanding on his 1989 essay 'The End of History?' published in the international affairs journal, *The National Interest*. In the book, Fukuyama argues that the advent of Western liberal democracy may signal the end point of humanity's socio-cultural evolution and the final form of human government. (Wikipedia.)

A major reason for this segregated approach is the capitalists' desire that the state does not interfere with the economy. Changing textures of capitalism (monopoly capitalism, managerial capitalism, globalisation, etc.), the collapse of the Soviet bloc and the aggressive expansion of capitalism have reinforced this trend. Ironically, this is despite economics effectively impinging on more and more aspects of an ordinary person's life. A little objectivity in one's observation of the environment one lives in should make one aware of the subtle ways in which the market intrudes into our relations with others and into our values. There is even greater need, therefore, to analyse the socio-economic system in an integrated way so as to understand the interactive relationships between the economy, state and society. This requires correlating principles/theories in political science, sociology, economics and the like. This textbook has the limited objective of interrelating economics and economic life with other aspects of our lives—social, cultural, political, religious and intellectual.

Interestingly, while the economy and economic life have become more and more complex over time, and economic aspects have tended to increasingly overwhelm socio-political aspects, mainstream economists have made economics even more difficult to comprehend for the layman (including the politicians), causing them to accept economic models and concepts as if they reflect what actually exists. For instance, the case for economic reforms in India and the world over rests on the neo-classical model of a competitive market capitalist system which is believed to actually exist despite markets in the real world being diametrically different. The pervasiveness of this capitalist indoctrination has been such that critics, even some leftists, unquestioningly accept mainstream economic concepts, models and worldview. People, thus, may seek to qualify such concepts as national income, capital and costs, but not question their validity. For instance, the incongruity of high and rising rates of growth of national income and increasing immiserisation of large sections of the people only elicits contrary stances (more so since the collapse of the Soviet bloc) about inequalities, poverty, environment but not to questioning the validity of the concept of national income itself.

An understanding of how and why economic systems change is crucial not only in knowing the social order we live in but in analysing changing value systems, political systems, institutions (social, political, religious, legal or otherwise), social and political strife, clash between civilisations, etc.

There is a strong and often aggressive, even violent, resistance to such a holistic viewpoint gaining general acceptance. This comes from the ideology of the dominant set(s) of people in society today, an ideology which emphasises a capitalist worldview. At all points of time, dominant ideology has to contend with insurgent ideologies, that is, with ideologies which were either dominant in the past or which seek to be dominant in the future: the former is represented by religious fundamentalism, the latter by Marxism. Both represent alternative approaches to the study of society. Common to both is that they view the different aspects of society as a part of an organic whole. But otherwise they differ fundamentally. The religious fundamentalist approach invokes divine forces external to the system so that people cannot alter their position in the social hierarchy of the country by their own efforts: the nexus between the state and religion seeks to ensure that the system continues. Such a system characterises semi-capitalist social orders. The Marxist approach emphasises that society (man) can determine how the economy functions, studies the social system as an integral organic whole, recognises that each part acts and interacts dialectically with the others causing the social order to change over time and believes that just as capitalism succeeded pre-capitalist systems, capitalism must also give to a superior system, namely socialism.

This book incorporates mainstream and heterodox principles and theories into an understanding along Marxian historical materialist lines of the dialectical forces that propel the capitalist system to evolve from a competitive capitalist nation-based system to a transnational corporation-dominated global system. It stresses that the capitalist system is constantly changing, propelled by the underlying tendency towards increasing concentration of ownership and control of the means of production in fewer and fewer hands. Its innovative feature is that it departs from traditional analysis of the capitalist system in integrating the real sector of the economy with its monetary (financial) sector. In this, it carries forward Keynes' analysis. The place of finance in the economy has evolved significantly. However, not much attention has been given to it in current macroeconomics including economic growth (even Marxists, though Marx himself has incisive views on the subject). Considerable space has been given to explaining money and finance in this connection.

The book starts with introducing the reader (in Chapter 1) to a simplified Marxian approach to the study of the economy, state and society. This is followed (in Chapter 2) by a survey of the various modes of production mainly with a view to bring out their distinctive features. This chapter is followed by a discussion of the origins of capitalism in England (discussed in Chapter 3) in the form of debates regarding the transition from feudalism to capitalism. The following chapter (i.e., Chapter 4) brings out the basic, distinctive features, the *differentia specifica* so to say, of the capitalist mode of production and the socio-political regime necessary for these features to exist. The rest of the book (Chapters 5 to 10) discusses the evolution, working and problems (crises tendencies) of the capitalist system, from its competitive nation-based phase to its present transnational global phase.

The book is primarily addressed to the student who has some knowledge of economics. However, economic terms, from mainstream economics or Marxist political economy, are sought to be explained simply so that people from other disciplines and intelligent laymen also benefit. These explanations are either in text or in the footnotes. The serious reader would benefit referring to them.

The book, as textbooks tend to be, discusses the subject in a rather abstract manner—despite reference to real situations—based on the origin and evolution of capitalism in England and the USA. Capitalism in these countries originated as industrial systems. It should not be used as a basis for understanding the emergence and evolution of capitalism in countries where it occurred or is occurring late. The origins of capitalism in these other countries can be in agriculture, in trade and in the service sectors. Moreover, in many of the countries where capitalism is a late entrant, pre-capitalist and semi-capitalist modes may continue to exist and may even be preponderant in terms of population covered.[2] The reason is that

[2] The functioning of the capitalist economy differs in details in different countries. This is to be expected given the different historical circumstances under which capitalism emerged in the different countries at different times.

each country differs from the other in its history, a history which includes the emergence of capitalism in other countries. A discussion of these differences is beyond the scope of this book. In any case, material in English is not easily available even for the limited work done regarding the socio-economic histories of different countries. Yet the book does bring out crucial points, such as that the essential features and required regime of a capitalist mode of production will tend to remain the same wherever it emerges (and irrespective of the sector in which it originates),[3] that the stages it goes through would tend to replicate[4] those in the countries where it occurred early and that the capitalist system is oriented towards increasing concentration of ownership and control of the means of production. These common factors result in the capitalist systems in the different countries coalescing into a world system based on transnational corporations.

Cross-references are common in the text. But often arguments/phenomena are repeated where it is felt that the reader may not take the trouble to refer elsewhere.[5] This is inevitable with a subject that is closely interknit, and chapterisation is only for convenience. Students who study this subject must make it a practice to follow up these cross-references. This will help in forming a comprehensive answer to questions.

Moreover, in many of the later countries (more so in the larger countries) pre-capitalist formations continue and co-exist with capitalism so that many sections of society are not imbued with capitalist 'rationality and ethics'. (This is true even of countries where pre-capitalist modes of production have been destroyed by the onset of capitalism. In these countries, large sections of the populace continue to produce without being motivated by the capitalist objective of maximising private profits—for example, those in the household sector, non-government organisations, no-profit-no-loss organisations and philanthropic organisations and public sector/governmental bodies.) However, despite all this and despite countries experiencing varying degrees of control over the market by the capitalist sector, this sector affects everyone and all sectors and, more importantly, becomes the motor of change of the socio-economic formation. Also see Chapter 2, footnote 6, and Chapter 6 under Section *vii*: The role of the state.

[3] However, the capitalists will tend to be more tolerant of pre-capitalist and semi-capitalist values and practices as long as the control of the state is in their hands.

[4] It is likely that the late entrants may start with the monopoly-capitalist stage, that the competitive phase is either skipped or follows/accompanies the growth of capitalism at the monopoly stage.

[5] Unfortunately, it is a common failing amongst readers, particularly amongst students, in India.

Contents

Introduction		vii
Chapter 1	**The Study of Economy, State and Society**	**1**
	• Introduction	1
	• Basic Concepts	2
	• The Marxian Analysis of Social Change	14
	• An Overview of the Marxian Analysis	20
Chapter 2	**Modes of Production**	**25**
	• Introduction	25
	• The Primitive Communal Mode	26
	• The Slave Mode of Production	27
	• The Asiatic Mode of Production	29
	• The Feudal Mode of Production	32
	• The Capitalist Mode of Production	38
	• Socialist Mode	39
	• Subsidiary Mode of Production—Simple Commodity Production	42
	• Coexistence of Several Modes	43
	• The Place of Modes of Production in Marxian Analysis	44
Chapter 3	**Transition from Feudalism to Capitalism**	**47**
	• Introduction	47
	• The Debates	53
	• Irfan Habib's Thesis: Colonial Exploitation as a Factor	69
	• Summary and Critical Appraisal of the Different Approaches	70
	• Summing Up	72
Chapter 4	**Capitalism: Features and Regime**	**75**
	• Introduction	75
	• The Basic Features of Capitalism	77
	• The Regime of Capitalism	86
	• The Laws of Motion under Capitalism: Features Revisited	89
Chapter 5	**Evolving Structure of Capitalism: Fordism and Before**	**91**
	• Introduction	91
	• The Dynamic Nature of Capitalist System	93
	• Competitive Capitalism	97

	• The Transition from Competitive Capitalism to Monopoly Capitalism	100
	• Monopoly Capitalism	105
	• Contradictions Inherent in Fordist-Monopoly Capitalism: Factors Underlying Transition from Fordism to Post-Fordism	117
Chapter 6	**Monopoly Capitalism: The Post-Fordist Phase**	**121**
	• Introduction	121
	• Money, Financing of the Economy, Financialisation of the Economy	122
	• Features of the Early Phase of Post-Fordism: Economic Globalisation	130
	• Problems with Post-Fordism in the Period Prior to Financial Globalisation	139
	• Features of the Financialised Global Economy: The Later Phase of Post-Fordism	140
Chapter 7	**The Functioning of the Capitalist Economic System**	**151**
	• The Economy under Competitive Capitalism	153
	• The Economy under Monopoly Capitalism	160
	• The Fordist Period—An Overview	173
	• Post-Fordist Phase	174
	• Capitalism and Economic Growth	180
	• Conclusion	187
Chapter 8	**Crises Tendencies under Capitalism**	**189**
	• Commodity Production: The Source of the Problems	190
	• The Marxian Reproduction Schemes	191
	• Problems in the Functioning of the Capitalist System	198
	• Social Contradictions	226
Chapter 9	**Capitalism in the Global Context**	**235**
	• Pre-capitalist and Capitalist Economic Systems	236
	• The Worldwide Spread of the Capitalist Mode of Production	239
	• Phases in the Worldwide Spread of Capitalism	246
	• Internationalisation/Globalisation and the Third World	260
	• Technology and Organisation: The First World–Third World Divide	266
Chapter 10	**Imperialism**	**269**
	• Schumpeter: Imperialism, a Pre-capitalist Phenomenon	269
	• Imperialism	271
	• Nationalism versus Globalism	286
	• The Third World Countries and Capitalist Globalisation	291
	• Conclusion	294
Model Questions		297
Bibliography		303
Index		307
About the Author		319

1

The Study of Economy, State and Society

Learning Objectives

- Elucidates the holistic view of the Marxian political economy approach—the economy, state and society
- Understands social productive forces, mode of production, the superstructure and the socio-economic formation
- Explains dialectical, historical materialism
- Studies the three dialectical processes or laws
- Critiques the Marxian approach: determinism, economism, class struggles
- Key concepts to look out for are: social productive forces, mode of production, superstructure, dialectical historical materialism, the three dialectical processes/laws, laws of conservation, economic determinism and class struggle.

INTRODUCTION

Economy, state and society are intimately interrelated. One cannot be studied independently of the other. Yet mainstream analysis tends to study each separately of the other—for example, economics, political science and sociology are studied as separate fields/disciplines of study, with each broad discipline being sub-divided into parts, for instance, political science into political theory, political thought, comparative political systems, public administration, etc. Surprisingly, even subjects like psychology, sociology, let alone religion, are studied without relating to other areas of study. Often those specialising on any one part of the subject know little about the other parts. One cannot look, therefore, to mainstream approaches for a holistic study of economy, state and society. The only available comprehensive analysis of the study is the Marxian political economy approach. This chapter explains the essential aspects of this approach.

The economic, political and social aspects of our lives are interdependent, dialectically interrelated. A change in one brings about changes in the others. It is necessary to be clear about this interaction if we are to intelligently understand the society we live in and our place in it. It is also necessary to realise that society and hence our lives undergo constant change. Thus, if today customs and traditions are important in our lives, tomorrow an increasing number of these may succumb to market values. Some may lament this tendency. Others may welcome it. But both must be aware of all the dimensions involved. One must be clear about the basic concepts and relationships involved. The Marxist emphasis on the importance of dialectics in everyday life contributes to this holistic understanding and thereby helps in deducing patterns of regularity in the interrelations discernible in the history of the development of human society. The explanations in the chapter, of the relations and elements that form the economic, political and social aspects of society, are highly simplified. So also is the explanation of the Marxian approach and its application to the study of changes in the socio-economic formation. These simplifications will hopefully help the reader to apply the analysis to real life situations, which will no doubt be far more complex.

Marxian analysis sums up the three aspects of society into two categories, namely, the economic aspects into economic base and the political and social aspects into the superstructure. The economic base or the mode of production covers economic social relations between the people while the superstructure envelopes non-economic social relations (social and political relations) between them. Both these are ultimately affected by the state of productive forces in society. The concepts underlying the three components are explained in the next section.

BASIC CONCEPTS

Productive Forces, Mode of Production and the Superstructure

Productive forces

Productive forces refer to inputs[1] used in the production process. These are classified into labour and the material means of production. Their interaction in production units (office

[1] Inputs include both factor or primary inputs and non-factor or secondary inputs. Non-factor inputs (also known as intermediate inputs, their use as intermediate consumption) merely transfer their value to the finished product. It is similar in this respect to the other component of productive consumption, namely capital consumption or depreciation: their treatment as productive consumption differs inasmuch as the whole value of the intermediate

and/or factory or, today, just a phone or an e-mail id) results in a flow of the goods and services used by people. The material inputs are referred to as the material means of production: the stock of the material means of production in the economy is the historical attainment of society, or its artificial environment. Increases in its size are indicative of economic growth.

Marxists emphasise that productive forces are social in nature since the labour rendered by people in the production process is social labour, involving cooperation of people through division of labour and specialisation. The shirt one wears is the combined effort of the farmer growing the cotton, the ginner, the weaver, the tailor, the manufacturer of dyes and machines and so on. Social cooperation goes beyond this since the labourers and others involved in producing cloth are interdependent with others producing other products. Production is thus a social process; the inputs in production are therefore social productive forces. The products emerging from this social process is therefore also social in nature. The output produced is distributed among the people to satisfy their individual and collective (social) wants. The economy is a social economy.[2]

The money outlay (or expenditure) on employing human resources (i.e., on labour) is called 'variable' capital, that on the material productive resources, 'constant' capital. The expenditure on the two together is the total outlay of money capital (expenditure on investment) incurred in producing the product.

Classical economists qualify the term labour by the adjective 'productive'. They differentiate between 'productive' labour and 'unproductive' labour. This was in consonance with the classical economists' material goods-based concept of production. Labour was productive only if it resulted in the output of material goods or material services, that is, services that were necessary for delivering the material goods to the user. All other human labour was treated as being unproductive.[3] Marx based the distinction on whether or not the labour results in surplus value. In this book, however, we include under labour all work done for

---

input is transferred to the finished product, while in the case of fixed capital only that part of the value of the capital asset is transferred to the finished product as is used up or consumed in the year of production. Factor inputs, on the other hand, create value added: the excess of value of the finished product over that of the intermediate product is attributed to the factor inputs. In mainstream economics today, factor inputs include land and capital besides labour. This contrasts with the Classical economists'/Marxian view that only labour creates value added, that rent, interest and profits are capital incomes paid out of the surplus value (which is the difference between the net value of the finished product and the amount paid out to labour) expropriated from the value added by labour.

[2] The case of an isolated economy consisting of a single individual is normally accidental—it requires a shipwreck to have a Robinson Crusoe economy, and even Robinson Crusoe welcomed a Man Friday. Hermits and dropouts are exceptions.

[3] The meaning of production, like a whole lot of other concepts in economics, is influenced by the interests of the class which is dominant in the economic system. Under feudalism, production activity was restricted to agricultural activity, all other activities being consumption activity—and hence unproductive. The emergence of capitalism saw an explosion of industrial production. Hence, the concept of production had to be extended to include all material goods including manufactures. Production under feudalism is dominantly subsistence production, under capitalism dominantly for exchange (or commodity production). Manufacture is an adjunct of agriculture under feudalism, and stands on its own in the rural–urban division of products under capitalism. In the period when capitalism emerges

remuneration, irrespective of whether it results in material goods or services (both related services or in services, not directly connected to the production and value-realisation of material goods) and irrespective of whether or not it produces surplus value.[4]

The category 'labour' includes the quantity of labour and the quality of labour (skill levels of the workforce, called human capital today). The continuance of a supply of labour over time therefore involves replenishing not only the number of labourers (or man-hours of work) but also labour skills. This means that enough of the national product produced in a year must accrue to labourers to ensure that they are able not only to live but also renew their skills. This is the minimum required to ensure a continuance of the supply of labour,

---

from the womb of feudalism the service sector is confined largely to transport, trade, repair and maintenance of agricultural implements and the services of the church and the state.

The church and the state support the feudal lords (both lay and ecclesiastical) by ensuring that any threat to the foundations of the feudal economic and social system such as adherence to customs and traditions and to supply of forced labour and tributes (by preventing the flight of serfs and peasants) is suppressed. Hence, it was in the interest of the newly dominant capitalist classes that the interference of the church and the state is removed. Their early economics (through the 'classical' economics founded by Adam Smith, Karl Marx being a part of this school) thus sought to discredit them by arguing that they were not only unproductive but diverted resources from productive uses and hence their activities needed to be kept to the minimum. But the service of transporters and traders of goods were material services.

However, once pre-capitalist interests had been marginalised and the state brought under capitalist dominance the capitalists' hostility to state intervention in economic matters was reversed to one favouring its intervention—the state could usefully take up a whole lot of public utilities and other infrastructure projects and thus save capitalists from incurring huge costs (particularly those with external economies) which benefitted all producers. Moreover, a whole lot of other services became important in the functioning of the capitalist system, their importance being largely an offshoot of the growth of monopoly capitalism. These included services relating to sales and advertising, scientists engaged in research and development, lawyers, auditors, accountants, banks and other financial intermediaries. In fact, the importance of services tended to increase with growth. They constituted a new and growing source of profitable investment. They could no longer be dismissed as being unproductive or diverting resources from growth. The concept of production was accordingly modified—by the neoclassical economists, the successors of the classical school of economists—to include the value added by the service sector. Production was now extended to include all goods and services which provided satisfaction to people and which was measurable in monetary terms. This new concept of production was referred to as the comprehensive concept of production as against the restricted material production concept: the latter was now called the Marxian concept, since Marx continued to adhere to it. Marx, however, distinguished productive and unproductive labour in terms of whether they add to surplus value or not: labour is productive only if it adds to surplus value—consequently, what was unproductive labour could well become productive if it begins to add to surplus value.

Generally, Marx seems to have regarded labour as mainly unproductive from the point of view of capitalist society as a whole, if it involved functions which have to do purely with the maintenance of a class-based social order as such (legal system, police, military and government administration), the maintenance and securing of private property relations (police, security, legal system, banking, accounting, licensing authorities, and so on), operating financial transactions (in banking, financing, commercial trade and financial administration), insurance and safety, and criminal activity. This did not necessarily mean that unproductive functions are not socially useful or economically useful in some sense; they might well be, but they normally did not directly add net new value to the total social product, that they were a (necessary) financial cost to society paid for by a transfer of value created by the productive sector. Thus, they represented an appropriation or deduction from the surplus product and not a net addition to it.

[4] This is consistent with mainstream usage as in national income measurement or mainstream economic theory.

necessary for maintaining the level of production.[5] (Employers of labour endeavour to keep the compensation to labour at this minimum.)[6]

The part of the national product which accrues to labour is depicted by the letter 'V': this is the sum of the money (or capital) outlays spent on labour (represented by 'v') by individual producers paid out of the value added in their production enterprise. V[7] or v refers to variable capital: the amount varies with, among other things, the price of the goods and services (i.e., of wage goods) that make up the subsistence consumption of the labour force, the productivity of labour [in turn dependent on technology and instruments of labour (or fixed capital) per worker] and the wage-rate.

The category 'material means of production' is subdivided into two groups, namely, the 'objects of labour' and the 'instruments of labour'. Objects of labour are the materials which are reprocessed into finished goods. These are referred to in conventional national income measurement as intermediate goods and services. These include natural resources (like soil, wild and domesticated animals, fishes, minerals and water), raw materials and semi-finished products like raw cotton (used in yarn), yarn and unfinished products (works-in-progress). These increase when, for example, more land is brought under cultivation, or more natural resources are discovered, or natural resources are used more efficiently. The instruments of labour refer to that component of the material means of production that is used by labour to assist it when it works on the objects of labour: these are referred to in mainstream economics as fixed capital. They include tools (such as machinery, axes, saws and chemical apparatus), buildings, roads and the like.

The money (or capital) outlay on the material means of production is called constant capital and is depicted by 'C' (at the aggregative level) or 'c' (at the micro firm level). This constant capital is the sum of the objects of consumption used up in production in the year (or intermediate consumption) and the part of the instruments of production which depreciate in that year (or capital consumption or depreciation). (Intermediate consumption plus

---

[5] Evidently the amount considered minimum necessary will vary from one type of labour to another—it being lower for unskilled labour than for skilled labour, higher for labour with skills requiring more time and material costs, and so on. This must not be taken to mean that the people who provide the work-effort or labour necessary for the continuance and maintenance of the level of production in the prevailing system cannot or should not get/consume more than this minimum. All it means is that if the labourer does not get this amount then he/she will not be able to provide the labour that they were hitherto providing, and therefore that the economic system and hence society can no longer exist at the level they were enjoying. It is in this sense that one measures the minimum wages necessary, any amount beyond this minimum is a surplus.

[6] Those who appropriate this surplus may, in fact, use this surplus for their own consumption—food, clothing, shelter, luxuries, buildings and monuments, military expenses and warfare, and the like. If those who appropriate this surplus instead use it to augment labour skills, produce more capital goods, discover more natural resources and improve methods of production then productive resources and hence production potential of the economy would grow. For that matter if labour is allowed to retain this surplus so as to increase their consumption levels or their skill-endowments their productivity may rise—this underlies the theory of high wages.

[7] The capital letters C and V refer to national aggregates, the small case v and c to corresponding micro totals.

capital consumption together constitute productive consumption.[8]) The stock of the material means of production is called the material environment (or artificial environment). Hence, constant capital is a measure of the material means of production used up or consumed in the course of production in the year or the period under study. Economic growth is associated with increase in this material environment.

Constant capital is 'constant' (in Marxist terminology) because they merely transfer their value to the finished product they help to produce. The amount so transferred remains constant. They do not add new value to output. Variable capital is 'variable' because it is used to employ the factor which uses constant capital to create new value. This labour adds more than the outlay on it: this additional value is surplus value.[9]

The total expense incurred in production is the sum of variable capital and total capital or $v + c$. The ratio of constant capital to variable capital is called the value composition of capital or VCC—Marx refers to this ratio as the organic composition of capital (OCC). (Sweezy, on the other hand, views the ratio of constant capital (c) to total capital ($c/c + v$) as the OCC.) The OCC measures the extent to which each labourer is provided with materials and instruments in the production process, that is, the capital intensity of production.

The production potential of the stock of labour and the material instruments of production depends not only on the level of the stock but also on the state of technology and the method of production adopted by the production units. Generally, an increase in the extent of division of labour and specialisation within and between production units raises the efficiency of the inputs and hence raise their production potential. Consequently, the volume of production increases. Adam Smith used the example of the pin factory to illustrate that when 10 labourers specialise in the production of the various parts instead of each labourer producing the entire pin then the increase in production of pins in the work day is astounding from 200 pins to 48,000 pins a day. This increase is far greater when the assembly-line method of production is introduced. Increased productivity is also associated with increased variety of goods and services produced. The state of scientific research and development is as much a part of productive resources as are the quantity and quality of labour and of the material means of production. A growth in scientific and technical knowledge, of scientific

[8] This is distinguished from the final consumption of the household sector. Materials used up in producing goods and services are reprocessed into another good or service which may be a final good or a step towards further processing. Such materials are described in national income accounting as productive consumption. In contrast, goods acquired by the household sector or the general government sector do not go any further (i.e., to any other user) and hence are referred to as final consumption, private if by the household sector and public consumption if by (or through) the government.

[9] To illustrate: suppose the total capital outlay is 100 rupees on constant (fixed) capital and 100 rupees on variable (circulating or working) capital, that is 200 rupees in all. Suppose, value of output produced is 400 rupees. Constant capital merely transfers its value of 100 rupees to that of the finished product—this is the value of intermediate consumption and depreciation. Variable capital on labour not only transfers its value of 100 rupees but adds another 200 rupees value. Marxists argue that this value added is entirely due to labour. This is implied in conventional national income measurement as well: value of gross output minus intermediate consumption equals value of gross product; value of gross product minus depreciation or capital consumption equals value of net product; value of net product equals factor incomes (labour incomes plus capital incomes or surplus value—where capital incomes are rent, interest and profits).

and technical/engineering personnel, etc., is illustrative of technological progress. Hence, any estimate of the state of productive resources in the economy is incomplete if the state of technology is not considered.

The stock of these productive resources in an economy tends to increase over time. This is the result of the production process wherein labour and the material means of production are combined to produce a flow of output. In this process both the stock of labour and the stock of the material means of production grow. Labour acquires more skills and knowledge. This growth in labour skills is not only because of a natural growth through experience in the production process but also because of a conscious effort to increase labour productivity either by the direct producer (i.e., the labourer) itself or because of the efforts of those who own[10] the means of production. Raw materials and intermediate products (objects of labour) are used more efficiently. New natural resources are discovered, transportation and exploration progress, as scientific knowledge grows. Division of labour and specialisation and technology increases. Mechanisation and hence capital equipment per worker grows. Thus, stock of productive inputs increase as labour and material means of production grow in an interacting upward spiral. The organic composition of capital grows. In the process economic growth takes place. This process takes place even without any deliberate effort to force the pace of growth as in pre-capitalist systems; however, the logic of the capitalist system unlike that of pre-capitalist systems necessitates a conscious effort to improve productivity through a continual growth of technology, fixed capital, labour skills, and so on, so that productive forces grow both for natural reasons as well as because of the nature of the system.[11]

Growth of productive forces has far reaching effects on society. This is through the dialectical interdependence between productive forces, mode of production and the superstructure of a society. (The reader should note that in Marxist analysis the method of production is different from mode of production. The former is a part of productive forces. The mode of production includes apart from productive forces other components as well. This is explained in the next section.)

Mode of production

The mode of production of a society refers to the organic totality of three components: *(i)* the productive forces, *(ii)* the form of ownership of the means of production, and *(iii)* the economic relations arising in the production, exchange and distribution of goods and services (production and distribution relations). It includes the corresponding institutions or set of rules and associative practices/behaviour that govern production and distribution relations in society. Specifically, it refers to the social relations between the people in a society in the context of the functioning of the economy: these are the economic relations between

[10] Capitalist owners are more interested in this than pre-capitalist owners because of the imperatives of capitalist production relations. See Chapters 5 and 6.

[11] The reason why succeeding modes of production are regarded to be progressive is that they are associated with economic growth.

persons that ensure a supply of the goods necessary for the existence and development of society. It thus forms the material foundation, the economic base of society. The mode of production substantively shaped the nature of the mode of distribution, the mode of circulation and the mode of consumption, all of which together constitute the economic sphere of society. To understand the way wealth is distributed and consumed, it is necessary to understand the conditions under which it was produced.

The three components of the mode of production are necessarily interdependent. Hence, a change in any one or more of the components causes changes in the other components.

Thus, the nature and form of ownership of the means of production depends to a large extent on the state of the development of productive forces. When productive forces are so primitive (division of labour and instruments of production is negligible or non-existent) that the community (tribe) has to put in joint effort to be able to produce just enough sustenance to live, then no surplus is produced. The material means of production (in effect, nature—forest, wild animals and other natural products) are collectively exploited and hence owned by the community as a whole.[12] Ownership of property (the natural resources) is communal. The institution of private property is absent, partly because labour must be collective and partly because accumulation is not possible since no surplus is produced. When productive forces grow through increased division of labour or/and use of tools/weapons (i.e., through technological progress) to the extent that it enables production of an output that exceeds minimum necessary consumption of the labourer, then wealth accumulation becomes possible. History of mankind has shown that this has caused the strong to compete aggressively with one another so as to appropriate for themselves the excess or surplus of the weaker producers. The fight for ownership of means of production as private (individually or group owned) property, for dominance and power over others, becomes part of social life: the society gets structured on a class basis. Property which was communally owned in a primitive (tribal) system becomes privately owned property. The class division of society into property owners (the haves) and the non-property owners (the have-nots) presupposes growing productivity, surplus generation and economic progress.

The nature and type of ownership of property, of the means of production, in turn determines how people in a society relate to one another, that is, the social relations between people. The phrase 'social relations' refers to the interactions between people in the course of their everyday life. These are classified into social relations in their economic life, called economic relations, and social relations in their non-economic life, called non-economic social relations. Economic relations are those that arise between people in the course of production and distribution of products. All other social relations—those that arise, for example, in the course of their social, political, cultural and religious life—are non-economic relations. Economic relations take place in the mode of production, non-economic relations in the superstructure. The two are interdependent.

[12] There is no point of it being anybody's private property because the owner will not be able to extract any surplus output from using labour since output by each would be just enough for subsistence of the worker.

Economic relations include relations between suppliers of inputs (material inputs and factor services) within production units and the interdependence between production units. These relations are the technical aspects of production. These are affected by the state of development of the productive forces. Under subsistence production, inputs are provided within the family or community and since surplus is minimal relations with other producers are also minimal—generally barter exchange (i.e., exchange of product for product) suffices. This is so when productive forces are primitive, that is, involve little division of labour or use of instruments of production. Growth in productive forces—in material means of production, number and skills of the working population, division of labour and specialisation—is associated with the organisation of production transcending the simplicity of subsistence production to a production process organised through the exchange process. This involves two things: one, all the requirements of the family/community are no longer produced largely within it but requires to be obtained from others through an exchange: this exchange process becomes increasingly complex as productive forces and hence economic growth takes place; two, inputs are now not on hand (available within the family/community so to say) but have to be obtained from other people/places, once again involving the exchange process—a process of increasing complexity and geographical coverage as growth takes place, as the economy modernises.

The result is that an increasing proportion of production in the economy becomes commodity production: production not for self-use but for the use of others through exchange of commodities for commodities (as in barter trade) or exchange intermediated by money (where money serves as a medium of exchange). This process involves increasing division of labour and specialisation not only within the production enterprise but also between production enterprises. The process of production of a product now extends to beyond coordinating inputs within the production unit (as under division of labour and specialisation process between segments of the production unit) to the coordination of production units producing parts or process(es) of the product—the firm which places the product on the market may either be producing some part of the product and obtaining the rest from elsewhere or it may be acquiring all the parts and processes from others and only assembles them on its premises. The increasing complexity of production and the concomitant exchange process brings new products and actors into the organisation of the economy. These include developments in trade and marketing, advertising and the media, financial products/markets, professionals like accountants, tax analysts, cost accountants and the like. This process is known as socialisation of production: production involves more and more people residing in different places extending, as productive forces grow, beyond district boundaries and national boundaries.

Growing complexity of production relations within and between production units is associated with changing forms of business organisation and economic organisation. The organisation of the production unit moves from the proprietoral form to the partnership forms and then to the corporate form (see Chapter 5). Different forms of business organisation may coexist in the economy. There may also be public sector enterprises, governmental departmental enterprises, cooperatives, collectives/communes, etc. These different forms of business organisations represent different forms of ownership of the means of production: