

Marx and the Market

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Since its very beginnings capitalism has appeared Janus-faced. On the one hand, capitalism has been associated with the appropriation and accumulation of wealth on an historically unprecedented scale. On the other hand, capitalism has been associated with exploitation, with the polarisation of wealth and poverty, with recurrent economic crises, and with wars extending to a global scale. The fundamental analytical question running through the history of political economy is that of the relationship between the two faces of capitalism. Is the relationship contingent, as the apologists for capitalism argue, so that actually existing capitalism can be reformed to remove its blemishes and leave only its benefits? Or is the relationship necessary, as the critics of capitalism argue, so that the defects of capitalism can only be eliminated by containing or eliminating capitalism itself?

The answer to this question rests above all on the theoretical analysis of the market. For the economists the market is the realm of freedom and equality, in which every economic contribution to society is evaluated and rewarded without fear or favour on the basis of its social worth. Individual failings are the result of individual inadequacies, while the evils of actually existing society arise from the imperfect realisation of the rule of the market. This is ultimately not an empirical nor even a scientific claim, but a moral argument. Economics is the moral science which seeks to reconcile the binding constraints of the market with the liberal principles of freedom, equality and justice.

The Panglossian claims of economics are as impervious to empirical criticism as is any other theological doctrine. Critics can chronicle the evils of the modern world to their heart's content, but these evils, far from tainting the moral purity of the market, only confirm the economist in his (and occasionally her) conviction that evil will persist until the final day of judgement in which everybody and everything will be called to account by the market.

Marx painstakingly chronicled the evils of the capitalism of his day, but this was not the basis of Marx's critique of capitalism and its apologists. Marx's critique was primarily a theoretical critique, and the basis of that theoretical critique was Marx's theoretical analysis of the market. In this paper I want to try to draw attention to the centrality and significance of this analysis, which is usually neglected in presentations of Marx as 'the economist of production *par excellence*', as Marx described not himself, but his most respected adversary, David Ricardo.¹

Smith and the Liberal Model of Capitalism

Before Adam Smith capitalism was seen essentially as a zero-sum game, profits from trade deriving from state-guaranteed monopoly powers which enabled merchants to appropriate profits at the expense of their customers. Although capitalism generated no net gain, such trading activity could benefit the merchant class (and the state) if it diverted the surplus from the unproductive and

¹ This paper draws heavily on three books in which I have discussed these and related issues at considerable length: *Marx, Marginalism and Modern Sociology*, Macmillan, 1982, second extensively revised and expanded edition, 1991; *Keynesianism, Monetarism and the Crisis of the State*, Edward Elgar, Aldershot and Gower, Brookfield, Vermont, 1988; and *Marx's Theory of Crisis*, Macmillan, Basingstoke and St Martins', New York, 1994. References to the works of Marx and Engels are from the Progress Publishers/Lawrence and Wishart *Collected Works* (CW), the Foreign Languages Publishing House, Moscow, editions of *Theories of Surplus Value* (TSV), and *Capital* (CI, CIII). The Penguin translation of *Capital* volume 1, which includes additional material, is referenced as *Capital*, I, and of the *Grundrisse* is referenced as such. MEGA refers to the latest Dietz edition of the German collected works, 1975–.

indolent land-owning class, and it could benefit the nation if it diverted the surplus from foreigners. Within this model the accumulation of wealth at one pole of society was necessarily linked to the relative pauperisation of another pole, and the appropriation of a surplus was necessarily associated with wars and commercial crises, which latter derived from the disruption of trade by natural, political or military circumstances. Capitalism was not an unqualified good, so the key was to be on the winning side, and this determined the state policies appropriate to the commercial and colonial systems.

Adam Smith's decisive contribution was twofold. On the one hand, he identified the source of the surplus not in the forcible appropriation of rent but in the development of the productive power of labour through the extension of the division of labour and the productive employment of capital. On the other hand, he identified the exchange relation as a transaction from which both parties could, and always would, benefit. On this basis he developed a very simple model of an ideal competitive market economy, resting on two essential principles.

The first principle was that both parties must benefit from every exchange into which they enter of their own free will, for the simple reason that if they did not so benefit they would not engage in the exchange. The second principle was that, faced with a range of opportunities to exchange, any individual will choose the opportunity that brings the greatest advantage to him or her. These principles apply to every exchange, including that between the capitalist and the wage labourer. These two principles imply that any restriction on trade restricts the opportunities to engage in beneficial exchange and so restricts the opportunities for gain of at least one party to any potential exchange. These opportunities relate not only to the welfare gains derived from trade, but more importantly to the possibility of the productive employment of capital. The conclusion is that monopoly powers may benefit the monopolist, but at the expense of the development of the wealth of the nation as a whole. The abolition of the commercial and colonial systems will not only advance the wealth of the nation, but will at the same time remove the exploitation, the wars and the commercial crises inseparably associated with it. The evils of capitalism lie not in capitalism itself but in the human venality underlying the system of monopoly and the human ignorance that has allowed that system to persist.

Adam Smith's model rested on the radical separation of production and exchange. The productive powers of labour were determined by the fertility of the soil, the extent of the division of labour and of the application of machinery, and the diligence and dexterity of the labourer. In an argument derived from the Physiocrats, and later developed more systematically by Jean-Baptiste Say, the revenues which were appropriated by the owners of the three factors of production, land, labour and capital, in some sense corresponded to the productive contribution of those factors.² By fostering the development of the division of labour, the freedom of the market promoted the development of the productive powers of labour, and so the wealth of the nation and the size of the population that it could support. However, the determination of the normal revenues accruing to the factors of production was determined independently of exchange.

Exchange was considered to be a purely allocative mechanism, in which the rise and fall of prices promoted the movement of capital and labour between branches of production in accordance with the tendency to the equalisation of revenues in the various branches, so that in equilibrium in a competitive market the revenues appropriated by the owners of the factors of production corresponded to their productive contributions. In this sense exchange was a purely technical device which ensured the correspondence of revenues to productive contributions at the given level of economic development. Barriers to free competition inhibited the process of equilibration and correspondingly diverted revenues from their rightful owners. The only basis of 'exploitation' within

² This was only one aspect of a confused and inconsistent theory of distribution in Smith's work.

this model is therefore the possession of monopoly powers which impede the levelling mechanism of competition.

Money plays an equally neutral technical role in Smith's model. Against the monetarist and mercantilist conception of money as the substance of wealth, Smith adopted from his friend David Hume the conception of money as a mere technical instrument, as the means of circulation of commodities. The withdrawal of money from circulation and its accumulation in a sterile hoard, far from enriching its owner, deprives its owner of the opportunity of further gain by employing his capital productively. Unless associated with monopoly power, the accumulation of monetary wealth bestows no special economic privileges on its owner, since the power of money is checked by the pressure of competition.

Monetary hoards function merely as a reserve fund of the means of circulation. The greater the hoard of money, the greater the amount of money that can circulate, and so the greater the extent of exchange. However, the rise and fall in the quantity of money in circulation cannot, other than temporarily, influence the physical quantity of commodities circulated or produced, and so is reflected merely in the rise and fall of the general price level, which is kept stable within one country by Hume's specie flow mechanism. Thus, corresponding to the analytical separation of production from exchange, Smith established the analytical separation of the real from the monetary system.

Adam Smith's development of this model was inconsistent and frequently incoherent. Nevertheless its fundamental principles have remained the foundation of political economy and its successor 'economics' to this day. The methodological foundation of this 'science' is the postulate that one can develop a model of an ideally functioning capitalist system on the basis of Smith's principles, which then provides the measuring rod against which to judge any actually existing capitalist society. Since the model supposedly captures the essence of capitalism, any defects in actually existing capitalism derive not from capitalism, but from human and institutional inadequacies which impede the perfect realisation of the capitalist ideal. The evils of the system lie not in the system itself but in attempts to subvert its perfect realisation which derive from human frailty, greed and ignorance. Such is the secular religion of the capitalist age.

Marx's Critique of the Market.

Within the orthodox Marxist tradition exchange has tended to be seen as no more than the passive reflection of the social relations of capitalist production, the sphere in which the capitalist exercises his 'cunning right of the strong' (Engels, 1843). From this perspective capitalist exploitation appears as no more than the expression of the greed of the capitalist or of the essential rapaciousness of capital. Although Marx did indeed describe the market as the realm within which the essence of capital manifested itself, the relationship between essence and appearance was not that of a deterministic reductionism. For Marx, the appearance is the form of existence of the essence: the essence of capital is only realised in the interaction of particular capitals in the sphere of exchange. 'Conceptually, *competition* is nothing but the *inner nature of capital*, its essential character, manifested and realised as the reciprocal action of many capitals upon each other; immanent tendency realised as external necessity.)(Capital exists and can only exist as many capitals; hence its own character appears as their reciprocal action on each other.)' 'A *universal capital*, not confronted by alien capitals with which it exchanges ... is ... an impossibility. The mutual repulsion of capitalists is already inherent in capital as realised exchange value' (CW28, 350).³

³ Marx repeats this fundamental point time and again in the manuscripts of the 1860s. The competition of capitals amongst each other is 'the real movement of capitals in which alone the laws of capital are realised. These laws are in fact nothing but the general relations of this movement, its result, on the one hand, its tendency on the other' (CW33, 72). 'The competition of capitals is nothing more than the realisation of the immanent laws of capital, i.e. of

It is the market that imposes its capitalist character on each individual capital. Thus, for Marx, the understanding of the market was central to his analysis of the capitalist mode of production and to his critique of political economy. This means that Marx's account of the market cannot be divorced from his critique of capitalism as a whole.

The market is no mere instrument of capitalist power, but the alienated form through which the capitalist as much as the workers is subjected to the anonymous power of capital. The capitalist no less than the worker is subject to the pressure of competition, and the fate of the capitalist no less than that of the worker is subject to the judgement of the market. The action of the individual capitalist is not an expression of his individual will, but of the social character of capital, and its social character is only imposed on the individual capital through its insertion into the sphere of exchange, as the individual capitalist seeks to valorise his capital.

The class struggle over production is not a matter of the subjective motivation of the capitalist, but is imposed on every capitalist by the pressure of competition, which is the expression of the tendency for capitalism to develop the forces of production without regard to the limits of the market. Capitalist production is not marked by the subordination of social production to social need, even as that is expressed in the restricted form of 'effective demand' in the market, for the purpose of the capitalist is not to meet social need, but to expand his capital. The pressure of competition forces every capitalist constantly to develop the forces of production, which leads to the general tendency for capital, in every branch of production, to develop the forces of production without limit and, in particular, without regard to the limits of the market. This tendency to the overproduction of commodities and the uneven development of the forces of production is only overcome by the expansion of the world market and the development of new 'needs', and by the regular destruction of productive capacity and redundancy of labour in the face of crises of overproduction. The development of capitalist production is subject neither to the needs of the associated producers, nor to the needs of the latter as consumers, but to the contradictory logic of the production and accumulation of surplus value.

The tendency for capitalist competition to impose on every capitalist the need to reduce labour-time to a minimum gives rise to the two fundamental features of capitalist development: on the one hand, the tendency to increase the productivity of labour to an extent never before seen; on the other hand, the tendency to increase productivity not for the benefit of, but at the expense of, the mass of the population. Thus the increased productivity of labour is not expressed in a growing abundance of goods for the mass of the population, nor in a reduction in the burden of work. Instead it is expressed in a growing accumulation of capital at one pole of society and growing poverty (relative if not absolute) at the other. It is expressed in an increased burden of work for those with jobs, alongside a growing 'reserve army of labour' who have been made redundant and are condemned to idleness. The depreciation of machinery in the course of accumulation is matched by the throwing of workers onto the scrap heap. The more rapid is 'progress' the more rapidly is work dehumanised and workers degraded, exploited and cast aside.

Capitalism makes possible unprecedented increases in the productive powers of labour. These increases are associated with an increasing scale of production, the application of machinery and the application of science. These are characteristics of the greater socialisation of production achieved under capitalism. But this socialisation only takes place under the direction of capital, and the product of socialised labour is appropriated by the capitalist. Thus the social powers of labour, which

capitalist production, in that each capital confronts the other as executor of these laws, the individual capitals bringing their inner nature to bear by the external compulsion which they exert on each other, according to their inner nature. But in competition the immanent laws of capital, of capitalist production, appear as the result of the mechanical impact of the capitals on each other; hence inverted and upside down. What is effect appears as cause, the converted form appears as the original one, etc. Vulgar political economy therefore explains everything it does not understand from competition, i.e. to state the phenomenon in its most superficial form counts for it as knowing the laws of the phenomenon' (CW33, 102).

appear only when labour is organised socially, appear to be the powers of capital. Moreover, since capital in turn is seen as a thing and not a social relation, these powers of capital seem to be inherent in the means of production, so that productivity appears as a technical characteristic of the means of production and not as a social characteristic of the labour process.

The *social configuration* in which the individual workers exist ... does not belong to them ... On the contrary, it confronts them as a *capitalist arrangement* that is *imposed* on them ... And quite apart from the combination of labour, the social character of the conditions of labour — and this includes machinery and *capitale fixe* of every kind — appears to be entirely autonomous and independent of the worker. It appears to be a *mode of existence of capital* itself, and therefore as something ordered by *capitalists* without reference to the workers. Like the *social character* of their own labour, but to a far greater extent, the *social character* with which the conditions of production are endowed ... appears as capitalistic, as something independent of the workers and intrinsic to the conditions of production themselves ... In the same way, *science*, which is in fact the general intellectual product of the social process, also appears to be the direct offshoot of capital. (*Capital*, I, pp. 1052–3, c.f. *TSV I*, pp. 377–80)

Marx's critique of political economy was the product of an extended period of intellectual labour, which remained notoriously incomplete at his death. The bulk of Marx's writings available to us today consist of his notebooks, correspondence and journalistic writings. The only theoretical texts prepared for publication by Marx himself were the *Critique of Political Economy* and the three versions of the first volume of *Capital*. We therefore have to be cautious in interpreting 'what Marx really meant'. In particular, we have to avoid putting undue weight on quotations drawn out of context, and on unsubstantiated rhetorical or polemical declarations, to focus on those arguments which were the result of systematic and painstaking theoretical work. In fact such theoretical work was almost entirely confined to two periods in Marx's life: the period 1844–7, during which Marx established the methodological foundations of his critique of modern society, and the period 1857–67, during which he worked systematically through all the 'economic shit' to develop the theoretical implications of that critique.

Engels's Critique of Political Economy

Before 1844 Marx had no knowledge of or contact with political economy. His early critique of capitalism was essentially a moral-philosophical critique, deriving from his critique of the alienated character of the commodity relation and his critique of money as the most abstract and universal expression of this alienation. While this continued to provide the conceptual foundation of his critique of capitalism, it was his encounter with political economy through the work of Friedrich Engels that enabled him to give his moral-philosophical critique an economic content. However, in developing Engels's youthful critique, Marx set it on new foundations. To establish the distinctiveness of Marx's critique of the market we need first to look at that of Engels.

Engels's earliest economic work, the *Outlines of a Critique of Political Economy* (1843), was the work which drew Marx to the study of political economy. Engels's critique of capitalism focused on the economic and moral evils to which competition gave rise. Competition was explained as the result of the private ownership of the means of production, and was in turn the foundation of both the class antagonism and the periodic crises on which Engels based his condemnation of capitalism.

Engels's critique of political economy was an attempt to show that private property is at the root of all the evils of the capitalist system. The basis of this demonstration was the conflict of economic interests to which private property gives rise in the sphere of competition. Thus Engels argued that 'the immediate consequence of private property is *trade*', which is immediately and necessarily antagonistic, based on 'diametrically opposed interests' and giving rise to 'mutual mistrust'. Values are established in the market, through the conflict between producers and consumers, a conflict which economists try to conceal by isolating value from exchange, reducing it either to production costs or to subjective utility, whereas the concept has no meaning in abstraction from the relation

between the two in exchange. In the same way the economists conceal the conflict which underlies the distribution of the product. The economists' theory of rent claims that rent derives from differences in the productivity of the soil, whereas it is in fact determined by 'the relation between the productivity of the land, the natural side ... and the human side, competition'. Similarly the distribution of the product between profit, interest, rent and wages is not carried out according to some 'inherent standard; it is an entirely alien, and, with regard to them, fortuitous standard, that decides — competition, the cunning right of the stronger'. Thus the evil of private property is that it introduces fragmentation, setting capitalist against capitalist and worker against worker. 'In this discord ... is consummated the immorality of mankind's condition hitherto; and this consummation is competition' (CW3, 419, 421, 422, 429, 431, 432).

Private property not only establishes society on the basis of the antagonism of interest, it also determines a permanent imbalance between supply and demand. Engels's initial explanation for this imbalance, and for the crises to which it gives rise, is in terms of the instability of the adjustment process which follows from the ignorance of the economic actors. Supply

is either too big or too small, never corresponding to demand; because in this unconscious condition of mankind no one knows how big supply or demand is. If demand is greater than supply the price rises and, as a result, supply is to a certain degree stimulated. As soon as it comes on to the market, prices fall; and if it becomes greater than demand, then the fall in prices is so significant that demand is once again stimulated. So it goes on unendingly — a permanently unhealthy state of affairs — a constant alternation of over-stimulation and flagging which precludes all advance — a state of perpetual fluctuation without ever reaching its goal. This law with its constant adjustment, in which whatever is lost here is gained there, is regarded as something excellent by the economist. ... Yet it is obvious that this law is purely a law of nature and not a law of the mind. It is a law which produces revolution. The economist comes along with his lovely theory of demand and supply, proves to you that "one can never produce too much", and practice replies with trade crises, which reappear as regularly as the comets. ... Of course these commercial upheavals confirm the law, confirm it exhaustively — but in a manner different from that which the economist would have us believe to be the case. What are we to think of a law which can only assert itself through periodic upheavals? It is certainly a natural law based on the unconsciousness of the participants. If the producers as such knew how much the consumers required, if they were to organise production, if they were to share it out amongst themselves, then the fluctuations of competition and its tendency to crisis would be impossible. Carry on production consciously as human beings — not as dispersed atoms without consciousness of your species — and you have overcome all these artificial and untenable antitheses. But as long as you continue to produce in the present unconscious, thoughtless manner, at the mercy of chance — for just so long trade crises will remain; and each successive crisis is bound to become more universal and therefore worse than the preceding one; is bound to impoverish a larger body of small capitalists, and to augment in increasing proportion the numbers of the class who live by labour alone, thus considerably enlarging the mass of labour to be employed (the major problem of our economists) and finally causing a social revolution such as has never been dreamt of in the philosophy of the economists. (CW3, 433–4)

Although Engels initially explained periodic crises simply in terms of the ignorance of the economic actors, it subsequently becomes clear that the imbalance of supply and demand is systematic, its source lying in the constant tendency to *overproduction*, which is the necessary result of competition.

The struggle of capital against capital, of labour against labour, of land against land, drives production to a fever-pitch at which production turns all natural and rational relations upside-down. No capital can stand the competition of another if it is not brought to the highest pitch of activity. ... No one at all who enters into the struggle of competition can weather it without the utmost exertion of his energy, without renouncing every truly human purpose. The consequence of this over-exertion on the one side is, inevitably, slackening on the other. (CW3, 427)

Engels does not explain *why* the rapid growth of production under the pressure of competition should lead to overproduction, but merely implies that those capitalists, workers or landowners who cannot withstand the pressure of competition find themselves redundant, because 'in the struggle the stronger wins' (CW3, 440), driving out the weaker. At first this redundancy exists alongside

superabundance, but as capitalism develops this co-existence appears successively in the cyclical fluctuations of production.

When the fluctuation of competition is small, when demand and supply, consumption and production, are almost equal, a stage must be reached in the development of production where there is so much superfluous productive power that the great mass of the population has nothing to live on, that the people starve from sheer abundance. For some considerable time England has found herself in this crazy position, in this living absurdity. When production is subject to greater fluctuations, as it is bound to be in consequence of such a situation, then the alternation of boom and crisis, overproduction and slump, set in. (CW3, 435–6)

Thus the ultimate expression of the contradictory character of the capitalist mode of production lies in this alternation of boom and crisis, and in the coexistence of poverty and superabundance, of over-work and unemployment (CW3, 436).

In his *Condition of the English Working Class* (1844–5) Engels equally linked the crisis-tendencies of capitalism to competition (CW4, 508) and to the ignorance and uncertainty attached to the market, where co-ordination of supply and demand depends on ‘luck’, as ‘everything is done blindly, as guess-work, more or less at the mercy of accident’ (CW4, 382). However he also filled a gap in the analysis in linking the lack of co-ordination of supply and demand in individual markets to the overall cycle, the link being provided by the centralising tendencies of competition, the growing monopolisation of industry linking discrete cycles together into the regular five-yearly cycle. The resulting cyclical fluctuations in employment, and the regular augmentation of the ‘reserve army’ of labour by technological innovation (CW4, 384, 429), foster the growth of an organised working class, so that Engels refers to commercial crises as ‘the mightiest levers for all independent development of the proletariat’ (CW4, 580).

Marx’s Early Development of Engels’s Analysis

Engels’s youthful *Outlines of a Critique of Political Economy* was both the beginning and the end of his original economic studies, but it provided only the starting point for Marx. Although Marx always paid homage to Engels’s *Outlines*, in his own economic writings he went far beyond Engels’s superficial analysis, and this led Marx to a rather different understanding of the character and contradictions of the capitalist mode of production and, in particular, of the role of the market. Even though the differences are not immediately obvious, they have quite fundamental implications.

Marx’s first economic writings, his *Comments on James Mill’s Elements of Political Economy*, and the *Economic and Philosophical Manuscripts* of 1844, developed Engels’s critique of capitalism, but set it on a quite different foundation. Marx picked up Engels’s criticism of the economists’ law of supply and demand as the starting point of his own critique of political economy. He began his *Comments on James Mill* by noting that demand and supply are only in equilibrium ‘sporadically, fortuitously’, so ‘it is just as much a *constant law* that they are not in equilibrium’. The real movement is one of fluctuation and disproportion, but ‘this *real* movement, of which that law is only an abstract, fortuitous and one-sided factor, is made by recent political economy into something accidental and inessential’ (CW3, 210).

However, Marx did not stop here, but moved immediately beyond competition to look at money, in which ‘the *human*, social act by which man’s products mutually complement one another, is *estranged* from man and becomes the attribute of money, a *material thing* outside man’. This was a decisive step beyond Engels’s critique, that enabled Marx to penetrate to the heart of political economy and to attack its theoretical foundations (CW3, 212).

For Engels, private property and exchange were inseparable, but property remained the foundation of exchange. Marx displaced the institution of private property from this fundamental role, arguing that private property is only the juridical expression of a more fundamental relation, the social relation of commodity production, in which production is subordinated not to the ‘cunning right of

the stronger', but to money, the form in which the social character of production confronted the producer as an external force. This led to a fundamentally different analysis of the social form of capitalist production to that proposed by Engels.⁴

Engels had focused on the conflict of interest between the owners of private property which was expressed in competition. However Marx did not see the exchange relation as expressing a superficial conflict of two wills, but he saw it as a *mediated* relationship, in which exchange took the form of the purchase and sale of commodities for money. Behind this mediated exchange lies the subordination of social production to the alienated power of money. The *exchange* relation is merely the expression of the social relations of *commodity production*.

The relation between private property owners expressed in the exchange of commodities presupposes the existence of particular social relations of production, in which things are produced as commodities. The distinctive feature of commodity production is that things are not produced directly for social need, but are produced for sale, in order to acquire money. Things are produced not as use-values, but as values. The exchange relation is not a relationship between the owners of *private* property, since things have no value as *private* property. The plantation owner has no use for his bales of cotton, and the mill owner has no use for his rolls of cloth. If these things cannot be sold, they have no value, and may simply be destroyed or disposed of.

Things only acquire value when they are evaluated socially in their exchange for money, through which they are related to all other commodities. Modern private property is a social quality of things, which they only acquire in consequence or in anticipation of their production and sale as commodities. 'The social relationship of private property to private property is already a relationship in which private property is estranged from itself. The form of existence for itself of this relationship, money, is therefore the alienation of private property, the abstraction from its *specific*, personal nature.' (CW3, 213)

Things only come to 'have value insofar as they *represent*' money, so that money is 'the lost, estranged *essence* of private property, private property which has become *alienated*, external to itself' (CW3, 212). The exchange relation is based not on the institution of private property, but on the social form of commodity production, in which production for social need takes the *alienated* form of the production of commodities, of which private property is merely the juridical expression. '*Private property* is thus the product, the result, the necessary consequence, of *alienated labour*, of the external relation of the worker to nature and to himself' (CW3, 279).

The exchange relation does not simply relate supply and demand, cost of production and utility, producer and consumer, as Engels had argued, but more fundamentally expresses the social relation between 'private' producers. It is only through the purchase and sale of commodities that private producers establish a social relationship between one another as participants in social production, so that the exchange relation relates not producer to consumer, but private to social labour. In exchange the product of private labour appears in the alienated form of the commodity, the price of the commodity being the form in which private labour is evaluated socially, and expressed as a sum of money. Thus *commodity production* is the foundation of both private property and *commodity exchange*.

The fundamental contradiction of commodity production lies not in the conflict of wills expressed in competition, but in the social form of *alienated labour*, in which the social character of the producer's labour confronts the producer in the form of *money*, and in which production for social need only takes place in the alienated form of production for monetary gain. 'What was the

⁴ This fundamental difference has escaped the attention of the commentators on Marx's and Engels's early works. For a fuller discussion see my *Marx, Marginalism and Modern Sociology*, Second Edition, Chapter 3.

domination of person over person is now the general domination of the *thing* over the *person*, of the product over the producer. Just as the concept of the *equivalent*, the value, already implied the *alienation* of private property, so *money* is the sensuous, even objective existence of this *alienation*' (CW3, 221).

Alienated Labour and the Fetishism of the Commodity

The analysis of the value form, originally outlined in Marx's jottings on James Mill, provided the basis of Marx's critique of political economy and of the capitalist mode of production. Every time that Marx returned to his economic studies, he started with the development and deepening of this analysis, which provides the starting point of his 1851 notebooks and of the *Grundrisse*, the framework of the *Critique of Political Economy*, and the first part of Volume One of *Capital*.

The implication of Marx's analysis is that the exchange relation cannot be analysed in abstraction from the social relations of production of which it is one moment. Buyer and seller relate to one another not as private individuals, owners of particular things, but as socially determined individuals, bearers of commodities whose powers and properties derive only from their role within the reproduction of social production. Without specifying the social relation that the exchange relation expresses, the concept of exchange is a purely formal abstraction.

We can best see the significance of Marx's argument by contrasting it with the conception of the market proposed by political economy on the basis of Smith's analysis of the exchange relation. The weakness of Smith's analysis is that it is individualistic: the exchange relation is seen as a symmetrical relationship between two formally identical individual property owners. Engels's criticism was that political economy abstracts from the social qualities of these individuals, and so has no regard for the inequality of power inherent in this relationship, in which 'the cunning right of the stronger' prevails in the necessary conflict of interests. However, this is an inadequately fundamental critique of Smith, for it does not undermine Smith's claim that both parties necessarily gain from exchange, however asymmetrical may be the powers and consequent gains of each party.

Marx's critique of political economy focuses not on the inequality of power of the participants in exchange, but on the asymmetry of social function which determines that the exchange relation is asymmetrical in its form. Adam Smith's analysis of the market is based on his parable of the casual encounter between isolated producers of particular use-values, who barter these use-values to meet each others' mutual needs. Here indeed we have a symmetrical relationship between individuals engaged in the private exchange of things (although, as Smith himself recognised, such casual exchange will not lead to a determinate exchange relation, nor are these possessors of things yet owners). However, the exchange relationship within a society based on developed commodity production is not a symmetrical relation between the possessors of things, but an asymmetrical relation between the possessor of a thing and the owner of money: in the exchange relation the social power of money confronts the product of the as-yet-private act of labour.

Although the product of labour has been produced privately, the product is not destined for the producer's own use. It can only function as a use-value within the system of social production. Despite its private production, therefore, it has been produced for the use of others and it is only as such that it can serve as a useful product. Thus the commodity is necessarily a social product, and the labour which produced it can only serve as useful labour if it can secure recognition as a part of social labour through the act of exchange. The act of exchange is therefore the act of social determination of the thing as a commodity, an act in which the use-value is recognised socially as a value.

As a thing the commodity is a useful object, product of the concrete useful labour of an individual producer. However the commodity cannot serve directly as a use-value. It can only become a use-value by being exchanged as a value. Hence, within a commodity-producing society the social production of use-values, and so the satisfaction of human needs, is only achieved in the alienated

form of the private production of commodities as values. The exchange of commodities as values is correspondingly a specific social form of the regulation of the division of labour in society and the value of the commodity expresses the social relations between producers within that division of labour.

The mysteries of the commodity arise because the social relations within which commodities are determined as values are not immediately apparent. Although value is attributed to a commodity within a social relation of exchange, it is a matter of accident with whom any particular exchange is made. The individual producer is not concerned who buys the product, but is concerned only to realise its value. The individual has a determinate relationship with the commodity as a value, but a purely accidental relationship with other producers. The value of the commodity then appears to be a property inherent in the relation between the private individual and the commodity as a thing.

As Engels argued in his early critique of political economy, the 'labour theory of value' derives the value of the commodity one-sidedly from the relationship between the commodity and the labourer as producer, the theory of utility derives it equally one-sidedly from the relationship between the commodity and the purchaser as consumer. In each case the value of the commodity appears to be independent of the social relations of production: the relations between people appear to arise because the commodity has a value, as product of labour, on the one side, and as object of desire, on the other. Hence the social powers of the commodity, that derive from the social relations of commodity production, appear to be inherent in the commodity as a thing. For Marx, however, the value of the commodity is not inherent in the commodity as a thing, but is only the particular form of appearance of the social relations of alienated labour. This is the origin of the 'fetishism of commodities'.

The failure of the classical political economists to investigate the connection between social labour and its alienated forms prevented them from penetrating the illusions of the fetishism of commodities. It was this failure to explore the social determination of value that led them to naturalise capitalist social relations:

Even its best representatives, Adam Smith and Ricardo, treat the form of value as something of indifference, something external to the nature of the commodity itself. The explanation for this is not simply that their attention is entirely absorbed by the analysis of the magnitude of value. It lies deeper. The value-form of the product of labour is the most abstract, but also the most universal form of the bourgeois mode of production; by that fact it stamps the bourgeois mode of production as a particular kind of social production of a historical and transitory character. If then we make the mistake of treating it as the eternal natural form of social production, we necessarily overlook the specificity of the value-form, and consequently of the commodity-form together with its further developments, the money form, the capital form etc. (Marx, *Capital*, I, p. 174).

Commodity fetishism is the form of appearance of particular social relations of production, but it is not merely an illusion. It really is the case that the relations between individuals and things are determinate, while the relations between particular people are accidental. It really is the case that the social fate of the individual is determined by the fate of the commodities she possesses. Thus it really is the case that social relations are mediated by relations between things. The illusion lies not in the fact of the social power of the commodity, but in the belief that this social power derives from the commodity as a thing, rather than being seen as the particular form of alienated social relations. To understand the value-form we need to look more closely at the social form of commodity exchange, and in particular uncover the secret of money in which the power of the commodity is expressed in its most abstract and universal form.

Money as a Social Relation

Classical political economy failed to penetrate the fetishism of commodities and so it was unable to identify the specific character of exchange as a form of the social relation of commodity

production. This in turn underlies the failure of classical political economy to understand money as a form of social relation.

For classical political economy the exchange relation was essentially symmetrical. The two parties to an exchange each had commodities that were wanted by the other. Each could therefore satisfy his or her needs by exchanging commodities, and the rate at which they exchanged was determined by the amount of labour-time each had spent on acquiring the given commodities. Here a double exchange took place: on the one hand, one kind of use-value was exchanged for another, and this was the *form* of exchange; on the other hand, one private labour was exchanged for another, and this was the quantitative determination, the *content*, of exchange. Classical political economy was based on this picture of exchange as an essentially *private* relation of barter between *individuals*. The developed system of exchange found in a capitalist society is simply a generalisation of this elementary private barter, into which money has been introduced as a technical instrument to facilitate the co-ordination of needs.

For Marx this model of exchange was nonsense. Where isolated individuals made occasional exchanges, as in the parable of classical political economy, there was no reason why exchange ratios should correspond to the quantity of labour embodied in the particular commodities, for it was only within a competitive system of exchange that there was a tendency for exchange ratios to achieve such a quantitative determinacy. But within any *system* of exchange the

private interest is itself already a socially determined interest, which can be achieved only within the conditions laid down by society and with the means provided by society; hence it is bound to the reproduction of these conditions and means. It is the interest of private persons; but its *content* as well as the *form* and means of its realisation, is given by social conditions independently of all. (*Grundrisse*, p. 156, my emphasis)

In any developed system of exchange the exchange relation does not comprise two separate exchanges, of use-values, on the one hand, and of labour-time (values), on the other. Rather there is a single but asymmetrical exchange. If I bring a commodity to market I am not concerned with the use-value of the commodity, but only with its value: for me the commodity is a means of acquiring other commodities. On the other hand, in making an exchange I seek to trade my commodity, which has no use for me, for another commodity which I can use. The other commodity therefore exists for me as a potential use-value. Thus in the process of exchange I seek to realise my commodity as a value in order to acquire another commodity which can serve as a use-value for me. The whole point of the system of exchange is that it does not, as in the classical parable, co-ordinate needs with one another through the direct exchange of use-values. Needs are related in an alienated form, only through the mediation of value. Thus, even within the direct exchange of commodities, there is a fundamental asymmetry that already contains the possibility that exchange will not prove as harmonious as the classical parable would lead us to believe.

As soon as we move away from the classical parable and consider exchange as a social process it becomes clear that the process of exchange, even in its simplest form, cannot be reduced to the isolated exchange of one commodity for another. When I take a commodity to market I take the product of a certain quantity of concrete labour which I want to exchange. I hope that in exchanging my commodity I will be compensated for the amount of labour that I have actually expended. In other words I seek to represent my commodity as the embodiment of abstract, socially necessary labour-time and not simply as the product of my particular concrete labour. This is the key to the understanding of money.

In seeking to make an exchange in which another commodity will serve as equivalent for my commodity, I will not consider the amount of concrete labour actually embodied in that commodity, I will consider that commodity as an embodiment of abstract labour, of socially necessary labour-time. I will not be swayed by the observation that the producer of the other commodity has in fact taken

much longer than the time socially necessary, for on entering the market the equivalent is detached from its concrete conditions of production.

Examination of exchange as a social relation makes it clear that the commodity which acts as the equivalent for my commodity does not appear as a particular commodity in the exchange relation, but represents the social world of commodities in which my commodity has to play its part. Thus the equivalent commodity appears in the exchange relation as the embodiment of abstract labour, a portion of the labour of society as a whole, and my commodity seeks to represent its value in the bodily form of the equivalent. It is only within the exchange relation, within which the other commodity acts as equivalent, that the latter has this social power. Outside that relation, and its role of equivalent, it is simply a particular commodity like any other. The conclusion of this analysis of the equivalent form is that any commodity can act as equivalent, and that money is indeed simply a commodity like any other. However the properties that are attributed to money as the universal equivalent, the embodiment of human labour in the abstract, are not inherent in money as a particular commodity. They are properties that derive from money's social role as equivalent, as properties of the equivalent form.

If we consider money in isolation from the form of exchange we fall into the errors of the political economists. The mercantilists thought that gold embodied value in itself. For them, therefore, the exchange-value of a commodity was determined solely in the market by the relation established between the particular commodity and money as the substance of value: the value of a commodity was the amount of money for which it could be exchanged. Classical political economy ridiculed the monetarist superstition, noted that gold was a commodity like any other, and so argued that exchange-value is simply the ratio of the values of two particular commodities, one of which happens, for convenience, to be gold. For monetarism and mercantilism the exchange-value of a commodity was the accidental relationship established in the market. For the classical school value was immanent in the commodity, and the market was simply the arena in which value expressed itself.

Marx insisted that neither of these conceptions of exchange, and so of money, was adequate. Classical political economy was right to note that the money commodity was a particular commodity like any other. But the monetarists were right to note that money appeared in exchange not as a particular commodity, but as a universal, as the embodiment of value. The paradox is resolved when it is realised that money acquires its powers not through its own properties, but because of its social role in the system of exchange. It is only in its function as universal equivalent that money comes to acquire its power as embodiment of value. This power can consequently only be a social power, the relationship of the commodity to money can only express a social relation, and the development of money is the result of the development of the social relations of commodity production.

The social relation that is expressed in the form of money is the relation between the labour of the individual and the labour of society. It is by submitting the commodity to the test of the market that private labour is submitted to the test of its social usefulness and of its social necessity and that it seeks validation as abstract, social labour. In this relationship there is no guarantee that the individual labour will be validated in this way, so there is no guarantee either that the labour-time socially necessary will correspond to that actually expended or that the labour will prove socially useful in responding to social need as expressed in the market. It is only through the regular divergence of prices from values and of values from the labour-times embodied in particular commodities that the social regulation of production in a commodity-producing society is achieved. The divergence between price and value, which classical political economy treated as accidental and insignificant, is therefore a necessary characteristic of the alienated character of commodity production.

The formal abstractions of political economy, that lead it to treat money simply as a technical instrument, eliminate from view the contradictory foundation of a commodity-producing society that is the source of the crises that punctuate capitalist development. For political economy, which treats

production in abstraction from its social form, the only barriers to the indefinite expansion of production are natural barriers, specifically the barrier established by the Malthusian relationship between the natural growth of population and the fertility of the soil. On the other hand, exchange, which is reduced to a purely formal transaction, is considered to be wholly unproblematic. Classical political economy could only conclude that periodic crises are accidental and irrational phenomena, expressing human imperfection, rather than expressing the normal operation of an alienated and irrational form of social production.

If Ricardo thinks that the *commodity* form makes no difference to the product, and furthermore, that commodity circulation differs only formally from barter, that in this context exchange value is only a fleeting form of the exchange of things, and that money is therefore merely a formal means of circulation — then this in fact is in line with his presupposition that the bourgeois mode of production is the absolute mode of production, hence it is a mode of production without any definite specific characteristics, its distinctive traits are purely formal. He cannot therefore admit that the bourgeois mode of production contains within itself a barrier to the free development of the productive forces, a barrier which comes to the surface in crises. (TSVII, pp. 527–8; c.f. TSVIII, pp. 54–5.)

However, while the exchange of things as commodities contains within itself the possibility of crisis, such crises appear only as the accidental dislocation of exchange, arising from the lack of foresight of producers. To move beyond this conception of crises as accidental we have to move from the analysis of the commodity to the analysis of capital.

From the Commodity to Capitalist Production

In Marx's early works he did not systematically distinguish between commodity and capitalist production. However, if relations of commodity exchange articulate one moment of the reproduction of the social relations of production, the transition from commodity to capitalist production must have fundamental implications for our understanding of the exchange relation. Nevertheless, it was only in the *Grundrisse* that Marx articulated the key concepts that enabled him to analyse capitalist production and reproduction, laying the foundations for the analysis developed in *Capital*.

In the transition from the accidental barter of things to the systematic exchange of commodities we have seen a fundamental transformation in the social form of exchange, so that the generalisation from the former to the latter proposed by political economy is illegitimate. In the transition from commodity to capitalist production, on the other hand, there is no such fundamental change in the social form of exchange, so that the analysis of the commodity and of money developed in relation to commodity production carries over into the analysis of a capitalist society, which is a society based on generalised commodity production.

The transition from commodity to capitalist production does involve a fundamental transformation in the social form of production. However, Marx did not start his analysis of capital from the social relations of capitalist production, but from the level of appearances, examining capital first in its most abstract form, its 'first form of appearance', as 'money capital' (*Capital*, I, p. 247). Money is not in itself capital, but only becomes capital when it acquires the power of 'self-expansion'. When money functions as the means of circulation of commodities it has no such powers of self-expansion, nor does it if it is accumulated in an idle hoard. A sum of money can only be increased by throwing it into circulation, by buying some commodities, and then withdrawing it again by selling commodities. Money therefore only becomes capital through this process in which it expands in the course of its circulation. 'Value therefore now becomes value in process, money in process, and, as such, capital'. (*Capital*, I, p. 256)

In this process a sum of value in the form of money is expended in the buying of commodities, and commodities are later sold in order to realise a greater sum of value in the form of money. Thus a certain sum of value through this process begets a 'surplus-value'. The term 'capital' refers to this *process* in which a sum of value apparently acquires the power of expanding itself. Money and commodities are not in themselves capital, they are simply forms taken on by capital in the process of

self-expansion. It is not the value of money nor that of the commodities that increases in the process, otherwise there would be no need for capital to go through these changes of form to expand itself. To believe otherwise is to identify capital with one of its forms, to see capital ‘*as a thing, not as a relation*’ (*Grundrisse*, p. 258) and so to succumb to the fetishism of commodities.

Money and commodities only become capital when they participate in the process in which value expands itself. To understand capital we therefore have to understand this process of self-expansion of value. How does a sum of value, a quantity of abstract labour, manage to assimilate to itself more value in the course of its circulation? This is only possible if at some point in its circulation capital is able to appropriate labour without payment. The problem is where this occurs.

This appropriation cannot take place within exchange, at least as so far considered, because exchange does not *create* value, it merely changes its form. It is certainly the case that unequal exchanges could take place, but such exchanges could not yield a *surplus* value, they could only redistribute a portion of an existing sum of value as gains and losses balanced out. The early forms of merchants’ and usurers’ capital were based on such a redistribution of value.

New value can be added only by the expenditure of labour in production. Thus the source of surplus-value can only be a difference between the amount paid for the labour and the labour actively expended. However this in turn seems impossible to explain, for it implies that labour is a commodity paid below its value, which raises the question of what is special about labour that prevents it from being paid at its value.

Marx solved this problem by examining carefully the *social form* of capitalist production, concluding that the commodity purchased by the capitalist was not labour, but labour-power. When the capitalist employed the worker there was not a symmetrical relation of production in which the worker sold her labour and the capitalist his ‘capital’ to the enterprise and each then shared in the product according to the contributions of labour and ‘capital’. What actually happened was that the worker sold to the capitalist her ability to work (‘labour-power’) for a certain length of time. The capitalist used his capital to buy this labour-power and the requisite means of production which he then set to work to produce commodities. In selling her ‘labour-power’ the worker had given up all rights to the product, so the entire product was appropriated by the capitalist. Thus the capitalist form of the labour process

exhibits two characteristic phenomena. Firstly, the worker works under the control of the capitalist to whom his labour belongs ... Secondly, the product is the property of the capitalist and not that of the worker, its immediate producer. (*Capital*, I, pp. 291– 2)

These characteristics derived from the fact that production was premised on the purchase and sale of labour-power as a commodity.

The difference between the labour-power that the worker sells and the labour that the worker actually performs is the key to the understanding of surplus-value. As a commodity, labour-power has an unique characteristic in that the ‘consumption’ of labour-power is itself the expenditure of labour and so the production of value. Thus labour-power is paid for as a commodity at its value, like any other commodity, but having been purchased the labour-power can be set to work to produce value in excess of its own value.

The distinction between labour and labour-power is no pedantic terminological distinction, it is an aspect of the fundamental distinction between use-value and value, the confusion of which underlies the mystifications of political economy. Labour and labour-power are distinct concepts because they describe distinct objects, corresponding to distinct social relations, the relationship between which is only established through particular social relations of production. Labour is the realisation of the potential inherent in the capacity to labour. Where the labourers possess the requisite means of production and subsistence the realisation of this potential is subject only to the will of the labourers, individually and collectively. The historical separation of the labourer from the means of production

and subsistence severs the immediate connection between labour-power and labour. Labour-power is now the object of an exchange relation between capitalist and wage-labourer, in which the labourer sells her labour-power in exchange for the value equivalent of the means of subsistence. In exchange for the wage the capitalist acquires a title to the entire product of labour. However, on completion of the exchange this product does not yet exist. It can only come into being through the subjective exercise of the will of the labourers in the production of commodities.

The contradiction which now arises is that the labourers have alienated all entitlement to the product of their labour to the capitalist, and so no longer have any interest in realising the potential inherent in their capacity to labour. The capitalist, on the other hand, has to ensure that the labourers produce a sum of value exceeding that which he has laid out as variable capital, and to do this he has to subordinate the will of the labourers to his own will. The relationship between labour-power and labour is only realised through this conflict of wills, which is fought out within the social relations which constitute the social form of the immediate production process. Ricardo's identification of labour-power with labour abstracts from the necessarily antagonistic character of these social relations.

It is important to notice that the theory of surplus value does not depend on the determination of value by labour-time, but on the analysis of the social form of capitalist production, based on the distinction between labour and labour-power, the value of each of which is determined quite independently of one another. Surplus value derives from the quantitative relationship between two quite distinct magnitudes, as the difference between the sum of value acquired by the capitalist for the sale of the product and the sum paid out in the purchase of labour-power and means of production. The latter sum has to be paid out as the condition of production. The size of the former depends on the ability of the capitalist to compel the workers to work beyond the time necessary to produce a product equivalent in value to the sum initially laid out, whatever may be the particular units in which value is measured. It is the capitalist form of the social determination of production which makes it appropriate to express the value of the product in terms of the expenditure of labour-time, since it is capital, not Ricardo or Marx, which subordinates the concrete activity of labour to the expenditure of labour-time. Thus the validity of the 'labour theory of value' is not the presupposition of the theory of surplus value, but is its result, to the extent that it is the adequate theoretical expression of the social form of capitalist production.⁵

The distinction between labour and labour-power makes it possible to overcome the contradictions of political economy, by making it possible to reconcile the existence of profit with the equality of exchange. For Ricardo wages correspond to the value of labour, so that labour has not one but two values — the value it has in exchange and the value it contributes to the product. Thus its exchange-value does not correspond to its value. This led the Ricardian socialists to conclude that labour is paid below its value and that this is the source of profit. The implication is that the source of exploitation is the inequality of exchange between labour and capital and that exploitation can therefore be abolished by equalising that exchange. By introducing the distinction between labour and labour-power Marx resolves this contradiction and shows that exploitation is consistent with equality of exchange, so that the abolition of exploitation depends on the abolition of the wage-relation and not simply on its equalisation.

The social foundation of labour-power as a commodity is the separation of the labourer from the means of production and subsistence that compels the labourer to sell her labour-power as a commodity in order to participate in social production and so gain access to the means of subsistence.

⁵ Engels had rejected the one-sidedness of the labour theory of value in his 1843 Outline, proposing a Marshallian reconciliation of the theory of cost and the theory of utility as the basis of the theory of value. It was only in the third of his 1844 Manuscripts that Marx endorsed the labour theory value, not as the basis of the theory of surplus value, but because the theory connected labour with its alienated forms.

It is this separation that is consequently the social foundation of surplus-value and so of capital. Capital, like the commodity, is not a self-sufficient thing with inherent social powers, but a social relation that appears in the form of relations between things. The social relation that is concealed behind capital is, however, a new social relation, not the relationship between private producers concealed behind the commodity, but a relation between social classes. This *class* relation is the logical and historical presupposition of capitalist production, the social condition for the existence of individual capitalists and workers, and the basis on which the labour of one section of society is appropriated without equivalent by another. The foundation of this relation is the separation of the mass of the population from the means of production and subsistence.

The Capitalist Process of Production

Once the concept of capital is introduced our understanding of production and exchange is further developed. Production is no longer under the control of the direct producer. The social presupposition of capitalist production is the separation of the direct producer from the means of production, so that the direct producer can only work under the direction of another, the capitalist. For the capitalist the aim of production is not the production of use-values, but the production of value and of surplus-value. The capitalist production of use-values is only incidental to the capitalist production of surplus-value. The capitalist labour-process is no longer a process in which workers produce use-values by setting the means of production to work. It becomes the process in which capital sets labour to work to produce value: 'It is no longer the worker who employs the means of production, but the means of production which employ the worker' (*Capital*, I, p. 425).

This domination of the worker by the thing in the labour-process, which first acquires a 'technical and palpable reality' with the coming of machinery, should not be seen as a feature of the labour-process as a technical process. The thing in this, as in other cases, can only acquire its social power within particular social relations. The power of the machine over the worker in the labour-process is therefore only a form of the power of capital. The power of capital is in turn the power of alienated labour, of labour appropriated by the capitalist in the form of surplus-value and turned, as capital, into the means of appropriating more labour. 'Hence the rule of the capitalist over the worker is the rule of things over man, of dead labour over living, of the product over the producer'. (*Capital*, I, p. 990)

It is only within the capitalist labour-process that the process of production is completely subordinated to the production of value. For the independent commodity producer the labour-process can still be endowed with some human qualities. In the capitalist labour-process the only criterion is labour-time and the attempt to reduce the labour-time spent to a minimum. It is this unqualified subjection of production to the production of value and of surplus-value that characterises the capitalist labour process. Production is therefore not in any way the technical arena of co-operation in the production of use-values presented by classical political economy; it is a constant arena of struggle over the length of the working day, over the intensity of labour, over the degradation and dehumanisation of labour, through which the worker seeks to resist her complete subordination to capital. But how does the exploitation and antagonism inherent in the capitalist process of production relate to the freedom and equality of the capitalist process of exchange?

The Capitalist Process of Exchange

Classical political economy considered exchange as a formal abstraction. The exchange relation was treated as a self-sufficient relation whose content was reduced to its formal properties. As such a formal abstraction the exchange relation is a relation between free and equal individual property-owners who enter a voluntary contract in pursuit of their own self-interest. The exchange relation in itself makes no reference to the circumstances in which the individual seeks to exchange, nor to the characteristics of the commodity offered for exchange, nor to the means by which the individual

came upon that commodity. Since every exchange is freely entered by both parties it must be to the advantage of each and the conclusion is therefore that unfettered exchange can only serve the common interest. In this simple form of exchange:

all inherent contradictions of bourgeois society appear extinguished ... and bourgeois democracy even more than the bourgeois economists takes refuge in this aspect ... in order to construct apologetics for the existing economic relations. Indeed, in so far as the commodity or labour is conceived of only as exchange-value ... then the individuals, the subjects between whom this process goes on, are simply and only conceived of as exchangers. As far as the formal character is concerned there is no distinction between them, and this is the economic character, the aspect in which they stand towards one another in the exchange relation; it is the indicator of their social function or social relation towards one another ... As subjects of exchange, their relation is therefore that of *equality*. It is impossible to find any trace of distinction, not to speak of contradiction, between them — not even a difference. Furthermore, the commodities which they exchange are, as exchange values, equivalent, or at least count as such.
(*Grundrisse*, pp. 240–1)

If we look outside the act of exchange we still cannot find any class relations, for according to this model the relation of exchange brings together individuals who exchange a natural product in accordance with their natural needs:

As regards the content outside the act of exchange ... this content, which falls outside the specifically economic form, can only be: (1) The natural particularity of the commodity being exchanged. (2) The particular natural need of the exchangers ... The content of the exchange ... far from endangering the social equality of individuals, rather makes their natural difference into the basis of their social equality ... In this respect, however, they are not indifferent to one another, but integrate with one another ... so that they stand not only in an equal, but also in a social, relation to one another ... In so far as these natural differences among individuals and among their commodities ... form the motive for the integration of these individuals ... there enters, in addition to the quality of equality, that of *freedom*.
(*Grundrisse*, pp. 242–3)

If we turn our attention from a society of independent commodity producers to a capitalist society in which labour-power has become a commodity there appear to be no significant changes in the exchange relation. The form of property remains apparently unchanged, exchange still appears to relate free and equal commodity-owners. Every exchange is voluntarily contracted and is, at least ideally, an exchange of equivalents. It would therefore seem to be legitimate to apply the liberal model of the free and equal society, based on the freedom and equality of exchange, to the capitalist society as much as to the society based on simple commodity production. The only difference now is that one more commodity has come onto the market, the worker selling not the products of her labour, but her labour-power, but this commodity, like any other, is exchanged freely and voluntarily.

However, if we look at the process of exchange not from the mythical point of view of the isolated individual, but in terms of the social relations that exchange articulates, matters appear very differently: ‘The illusion created by the money-form vanishes immediately if, instead of taking a single capitalist and a single worker, we take the whole capitalist class and the whole working class’.
(*Capital*, I, p. 713)

If we isolate distinct acts of production and exchange from one another we abstract them from the system of social production within which they take place. Such an abstraction would be forced, for to separate these acts from one another is to deprive them of any meaning. Each act of production or exchange only makes sense as a moment of the total process of social production, so the motive of each exchange can only be found in the process as a whole. The examination of the social form of capital has revealed the social foundations of capitalist production to lie in the class relation between capital and wage-labour.

This class relation is the presupposition of every individual act of production and exchange, and alone gives meaning to those acts. If the act of exchange is isolated from the reproduction of capitalist social relations of production of which it is but one moment, the act itself becomes irrational. Thus, for example, the capitalist, as a capitalist, does not purchase labour-power in order to

enjoy the use-value of that commodity directly, for labour-power has a use-value for the capitalist only in the process of production of surplus-value. The capitalist does not produce commodities in order to satisfy his own consumption needs, but in order to expand his capital. Labour-power is not a commodity like any other:

Here ... we are not concerned with the merely *social division of labour* in which each branch is autonomous, so that, for example, a cobbler becomes a seller of boots but a buyer of leather or bread. What we are concerned with here is the *division of the constituents of the process of production* itself, constituents that really belong together. (*Capital*, I, p. 1015)

This division, which is the basis of the class-relation between capital and labour, represents a completely different social relation from that effected between independent commodity producers by the social division of labour, and so the production of capital expresses a completely different social relation from the production of commodities.

In the actual *commodity-market*, then, it is quite true that the worker, like any other owner of money, is a buyer and is distinguished by that fact alone from the commodity-owner as seller. But on the *labour-market*, money always confronts him as *capital* in the form of money, and so the owner of capital appears as capital personified, as a *capitalist*, and he for his part appears to the owner of money merely as the personification of labour-power and hence of labour, i.e. as a *worker*. The two people who face each other on the market-place, in the sphere of circulation, are not just a *buyer* and a *seller*, but *capitalist* and *worker* who confront each other as buyer and seller. (*Capital*, I, p. 1015)

Thus nobody enters exchange as a pre-social individual. We are from the beginning concerned with

society, social relations based on class antagonism. These relations are not relations between individual and individual, but between worker and capitalist, between farmer and landlord, etc. Wipe out these relations and you annihilate all society. (CW, 6, p. 159)

When we look at the process of capitalist production as a whole we find that the class relations are not only its *presupposition* but also its *result*. The worker

emerges from the process as he entered it, namely as a merely subjective labour-power which must submit itself to the same process once more if it is to survive. In contrast to this, capital does not emerge from the process as it entered it. It only becomes real capital ... in *the course* of the process. It now exists as capital realised in the form of the aggregate product, and as such, as the property of the capitalist, it now confronts labour once more as an autonomous power even though it was created by that very labour ... Previously, the conditions of production confronted the worker as capital only in the sense that he *found* them existing as *autonomous* beings opposed to himself. What he now finds opposed to him is the product of his own labour. What had been the premises is now the result of the process of production ... Therefore it is not only true to say that labour produces on a constantly increasing scale the conditions of labour in opposition to itself in the *form of capital*, but equally capital produces on a steadily increasing scale the productive wage-labourers it requires. Labour produces the conditions of production in the form of *capital*, and capital produces labour, i.e. as wage-labour, as the means towards its own realisation as *capital*. (*Capital*, I, pp. 1061–2)

The result is that the capitalist production process, seen as a whole, produces not only use-values, but values; not only values, but surplus-value; not only surplus-value, but the social relation of production between capital and labour. The capitalist form of property is both the premises and the result of capitalist production and exchange. ‘This incessant reproduction, this perpetuation of the worker, is the absolutely necessary condition for capitalist production.’ (*Capital*, I, p. 716, c.f. pp. 723–4, 1065)

This form of property, although based on the freedom and equality of every commodity owner, and so still compatible with the legal form of private property appropriate to simple commodity production, is in fact the negation of freedom and equality:

Each individual transaction continues to conform to the laws of commodity exchange, with the capitalist always buying labour-power and the worker always selling it at what we shall assume is its

real value. It is quite evident from this that the laws of appropriation or of private property, laws based on the production and circulation of commodities, become changed into their direct opposite through their own internal and inexorable dialectic. The exchange of equivalents, the original operation with which we started, is now turned round in such a way that there is only an apparent exchange, since, firstly, the capital which is exchanged for labour-power is itself merely a portion of the product of the labour of others which has been appropriated without an equivalent: and, secondly, this capital must not only be replaced by its producer, the worker, but replaced together with an added surplus. The relation of exchange between capitalist and worker becomes a mere semblance belonging only to the process of circulation, it becomes a mere form, which is alien to the content of the transaction itself, and merely mystifies it. The constant sale and purchase of labour-power is the form; the content is the constant appropriation by the capitalist, without equivalent, of a portion of the labour of others which has already been objectified, and his repeated exchange of this labour for a greater quantity of the living labour of others ... The separation of property from labour thus becomes the necessary consequence of a law that apparently originated in their identity ... To the extent that commodity production, in accordance with its own immanent laws, undergoes a further development into capitalist production, the property laws of commodity production must undergo a dialectical inversion so that they become laws of capitalist appropriation ... This *dispels* the illusion that we are concerned here merely with *relations between commodity-owners*. This constant sale and purchase of labour-power, and the constant entrance of the commodity produced by the worker himself as *buyer* of his labour-power and as constant capital, appear merely as *forms which mediate* his subjugation by capital. (*Capital*, I, pp. 729–30, 733–4, 1063)

Competition and the Contradictions of Capitalist Reproduction.

Thus far Marx has developed a penetrating methodological critique of the presuppositions of political economy, which has clear political, ideological and sociological implications (I have developed these implications in *Marx, Marginalism and Modern Sociology*). However, it is not yet clear what is the economic significance of this critique. It may well be that Marx has identified the class character of capitalist society, and the alienated form of social production through which capitalist class relations are reproduced. However, capitalism has shown itself able to develop the productive powers of labour to an unprecedented degree, enabling not only capitalists but also the working class to enjoy historically unprecedented living standards. The worker may well be compelled to subordinate herself to the direction of the capitalist in production, but this is a small price to pay for the material benefits she enjoys in return, and for the freedom that she enjoys outside the sphere of production. Moreover, that freedom at least enables her to choose to whom she will subordinate herself, and that freedom of choice limits the degree to which the capitalist is able to abuse his power.

To move beyond a formal critique of capitalism, it is necessary to move beyond the analysis of the *forms* of capitalist production and exchange to consider the dynamics of their interaction in the process of capitalist reproduction. It is only at this point that we are able to analyse the role of capitalist competition and to establish the necessarily conflictual and crisis-ridden character of capitalist accumulation. Although Marx never brought together his analysis of the dynamics of competition and capitalist reproduction in a polished form, his manuscripts of the 1860s provide quite enough for us to reconstruct his views (for a fuller discussion see my *Marx's Theory of Crisis*).

The reproduction of the social relations of capitalist production is always problematic because in the course of its reproduction the capitalist mode of production suspends its own foundations. The capitalist begins with a sum of capital in the form of money, with which he buys labour-power and the requisite means of production. The worker begins with nothing but her labour-power, which she sells to the capitalist. Once this exchange has been completed, the worker is no longer propertyless, but has the means to buy the requisite means of subsistence. The capitalist, meanwhile, has transformed his capital into a mass of commodities and labour-power which are, in themselves, worthless. The social reproduction of the capitalist mode of production now depends on the particular use made of the commodities in the hands of the worker and the capitalist: the worker must use the money in her possession to reconstitute herself, physically and socially, as a wage labourer.

The capitalist must use the means of production and labour-power in his possession to reconstitute himself as a capitalist.

The reproduction of labour-power (or the 'productive services' of labour) depends on the worker spending the money received in wages on the commodities required to secure her physical reproduction as a labourer. According to the economists, wages are determined by the supply of and demand for labour-power. The demand is determined by the productivity of labour as a factor of production, the supply by the subjective preference of the worker for income as opposed to leisure. However the limits within which wages are determined are not set by the interaction of personal preference and technical constraint. The income needs of the worker are not matters of taste; they are socially constrained. The worker has a need for a certain level of income to sustain a socially conditioned level of subsistence. Moreover, the worker has not merely to reproduce herself physically, but has to ensure that she has the qualities required to fulfil her particular role in production, defined socially by the conditions of labour. The worker's needs for income and leisure are not defined exogenously, as in the marginalist model, they are constrained by the need socially imposed on the worker, and mediated through the labour market, to reproduce herself as a particular kind of worker.

The physical reproduction of the worker is not a sufficient condition for the social reproduction of the worker as a wage-labourer. If wages rise significantly above the socially determined subsistence level there will be no compulsion on the worker to return to work for the next period. The form of the wage-relation therefore not only determines the needs of the worker as a consumer, it also determines that the relation between those needs and the worker's resources will be a relation of scarcity, not the natural scarcity depicted by the economists, but the socially constructed scarcity imposed by the dynamics of capitalism. It is this relation of scarcity that forces the vast majority of workers to assume a 'rational' orientation to work and to consumption, working to maximise their incomes, and carefully allocating their scarce resources to ensure that they can meet their subsistence needs, rather than assuming the 'hedonistic' orientation of the bourgeoisie, for whom work can be a means of self-realisation and consumption a source of pleasure. The capitalist system of production, far from representing the most rational means of resolving the problem of scarcity, depends on the reproduction of scarcity, whether by the restriction of wages or the inflation of needs.

The demand for labour-power is no more determined by technical considerations than is the supply determined by subjective preference. Economists tell us that labour-power will be purchased by the capitalist so long as the marginal productivity of labour exceeds the wage. However the marginal productivity of labour is not a technical but a value-magnitude, measuring the extent to which the capitalist can compel the labourers, individually and collectively, to work beyond the labour-time necessary to produce the value equivalent of the wage. Thus the determination of the demand for labour-power by the marginal productivity of labour simply expresses the fact that labour-power will only be employed to the extent that the worker is willing to subject herself to the domination of capital, to alienate her creative powers and employ them not to realise her own talents, nor to enrich herself, but to produce under the capitalist imperative to maximise the intensity and duration of labour in order to enrich the capitalist.

Capitalist exploitation and domination is not the contingent result of the abuse of capitalist power, it is the alienated social form to which the worker is forced to submit as the necessary condition under which she can secure her own physical and social reproduction. The labour-market, far from being the means by which individuals freely make choices between income and leisure subject to the technical constraints of labour productivity transmitted through the market, is the means by which the subordination of the worker to capital is reproduced. Thus the reproduction of labour-power is ultimately subordinate to the reproduction of capital.

The subordination of labour to capital is not a matter of the subjective will of the capitalist, nor of the capitalist's abuse of his economic power. The capitalist has no choice but to seek constantly to

intensify labour, to extend the working day, and to transform methods of production in order to realise to the full the possibilities of reducing the necessary labour-time. Under capitalism this compulsion is imposed neither by technology, nor by the will of the capitalist, but by competition.⁶

Competition and the Overproduction of Commodities

Capitalist competition is not the rational instrument through which social production is subordinated to human needs, depicted by the economist. Competition is the form in which capital presents itself as a barrier to its own reproduction. The pressure of competition is the result of a constant tendency to the *overproduction* of commodities, which threatens the less successful producers with liquidation. Moreover this tendency to overproduction is not merely an accidental dislocation of the market, but is the expression of the inherent tendency for capitalism to develop the forces of production *without regard to the limits of the market*. This tendency is profoundly irrational, but this irrationality is again not the result of any subjective irrationality on the part of capitalists, but of the objective irrationality of capitalism, determined primarily by the *uneven development of the forces of production* as capitalists struggle for a competitive advantage by developing new methods of production.

We have already seen that Engels had related competition to the overproduction of commodities in his article of 1843. However, as early as *The Poverty of Philosophy* Marx explains ‘overproduction and many other features of industrial anarchy’ (CW6, 136) not simply as the result of competition, or the ‘utmost exertion’ of the capitalist’s energy, but more fundamentally as the result of the ‘evaluation of commodities by labour time’, which is characteristic of the capitalist mode of competition. It is not competition in general that fosters the overproduction of commodities, but specifically capitalist competition, competition based on the reduction of labour time to the minimum.

In the capitalist mode of production every producer seeks to reduce the labour time necessary for production by developing the forces of production, and correspondingly increasing its scale. This leads to an increase in the quantity of commodities produced, and a fall in their price, as the more advanced producers displace those who have been less successful. Competition from more advanced producers depreciates the existing product, produced by older methods, breaking down the proportionality of production and consumption so that ‘production is inevitably compelled to pass in continuous succession through the vicissitudes of prosperity, depression, crises, stagnation, renewed prosperity, and so on’ (CW6, 137). Overproduction is the means by which backward producers are forced out of the market, and so is not just an accident of competition, but is its essential form in a capitalist society. Overproduction is the price that has to be paid for the development of the forces of production within the capitalist mode of production. This implies that crises are not features of the *market* economy, but of the developed *capitalist* mode of production, whose driving force is the development of the forces of production.

In earlier times supply and demand had remained more or less in proportion to one another while ‘it was demand that dominated supply, that preceded it. Production followed close on the heels of consumption. Large-scale industry, forced by the very instruments at its disposal to produce on an ever-increasing scale, can no longer wait for demand. Production precedes consumption, supply compels demand. In existing society, in industry based on individual exchange, anarchy of production, which is the source of so much misery, is at the same time the source of all progress’ (CW6, 137).

⁶ The fate of socialism in the twentieth-century should remind us of Engels’s warning that state ownership of the means of production is not a sufficient basis for overcoming the alienation of labour. Such alienation persists so long as the human activity of workers as producers is subordinated to a need imposed on the workers to reduce their labour-time to a minimum, instead of being subordinated to the human needs and abilities of the workers themselves.

In *Wage Labour and Capital*, a series of lectures given in Brussels in December 1847 but only published in 1849, Marx developed in much more detail his explanation for the inherent tendency to overproduction. The capitalist can only compete if he can sell more cheaply, and he can only sell more cheaply, without ruining himself, if he can produce more cheaply. ‘But the productive power of labour is raised, above all, by a *greater division of labour*, by a universal introduction and continual improvement of *machinery*’, and this, for Marx, is a function of the scale of production.

The capitalist who manages so to raise the productivity of labour must sell the increased product.

The more powerful and costly means of production that he has called into life *enable* him, indeed, to sell his commodities more cheaply, they *compel* him, however at the same time to sell more commodities, to conquer a much *larger* market for his commodities; consequently, our capitalist will sell his half yard of linen more cheaply than his competitors. ... He drives them from the field, he wrests from them at least part of their sales, by *underselling them*. ... However, the *privileged position* of our capitalist is not of long duration; other competing capitalists introduce the same machines ... on the same or on a larger scale, and this introduction will become so general that the price of linen is reduced not only *below its old*, but *below its new cost of production*. (CW9, 222–4)

The capitalist does not increase production in response to the stimulus of the market, because the purpose of the capitalist does not consist in meeting social need, and his profit does not derive from the accidental deviation of price from value. The capitalist is compelled to introduce new methods of production under the pressure of competition, as the condition for expanding the size of his capital, or even for maintaining it intact. The result of the introduction of these new methods of production is a reduction in costs, but also an increase in the quantity produced, both because of the increased scale of production, and because the innovating capitalist expects to be able to sell this increased product profitably, on the basis of his reduced costs of production. However, the increased production represents an *overproduction of commodities*, in relation to the earlier price and conditions of production, which can only be disposed of by reducing the price below the cost of production of the other capitalists, and so driving them from the market. In the face of this crisis of overproduction smaller capitalists may be driven from the field, but the larger competing capitalists by no means submit to their fate. They adopt the new methods of production in their turn, ‘on the same or on a larger scale’, leading to a further growth in production to the extent of an overproduction even in relation to the cost price appropriate to the new conditions of production.

In the face of competitive pressure the less advanced capitalist can only respond by intensifying labour and extending the working day, unless or until he can amass sufficient capital to introduce the more advanced methods of production in his turn. However, the more advanced capitalist has an equally strong incentive to intensify labour and extend the working day, to capitalise on his immediate advantages. Moreover, as the new methods of production are generalised, and as backward producers increase their output to meet the competitive challenge, the pressure of competition increases, so that even the most advanced producers may be *compelled* to lengthen the working day and to intensify labour in the face of the growing overproduction of commodities. The degradation and exploitation of labour is not the result of the abuse of power by cynical capitalists, it is inherent in the objective dynamics of the capitalist mode of production. It is capitalist ‘rationality’ which determines that the development of the forces of production, far from being the means of harnessing the creative powers of labour, compels capitalists to crush such creative powers, far from being the means of realising human skills, compels capitalists to destroy such skills, far from reducing the burden of labour, compels capitalists progressively to intensify labour. It is hardly surprising that the contradictory tendencies of capitalist development necessarily give rise to a class struggle in which the workers, individually and collectively, resist the imposition of the ‘irrational rationality’ of capitalist production.

This account of capitalist competition and the development of the forces of production is very different from that of the economist. The whole sophisticated edifice of bourgeois economics rests on the fragile foundation of its assumption that capitalist production tends to adjust itself to the limits of

the market, the failure of such an adjustment being treated as a superficial imperfection, resulting from the subjective ignorance, uncertainty or misjudgement of individual capitalists. This is only an expression of its fundamental assumption, derived from Adam Smith that ‘consumption is the sole end and purpose of all production’, with profit as no more than the contingent reward for virtue which falls to the capitalist. Smith claimed that this maximum is ‘so self-evident that it would be absurd to attempt to prove it’ (Smith, *Wealth of Nations*, Everyman edition, London, 1910, Vol. 1, 385). despite the fact that it is transparently false and patently absurd, immediately contradicted by the very existence of capitalism.

The purpose of capitalist production is not consumption, but the production and appropriation of surplus value and the accumulation of capital. The means to the accumulation of capital is not the satisfaction of consumer need, the limit of which is only an unfortunate barrier that the capitalist has to overcome, but the development of the forces of production. The need to develop the forces of production is not merely an expression of the subjective motivation of the capitalist, but is imposed on the capitalist by the pressure of capitalist competition, which is no more and no less than the pressure of the immanent and self-reproducing tendency to overproduction, which compels every capitalist to expand production by developing the forces of production *without regard to the limits of the market*. The tendency to overproduction is not the result of ignorance or misjudgement of the limits of the market, since the innovating capitalist is able to dispose profitably of the whole of his expanded product, while the limits of the market only impose themselves on other capitalists *as a result* of the overproduction of commodities.

Overproduction, Disproportionality, and Restructuring through Crisis

For the economist, supply adjusts smoothly to the limits of demand as capitalists respond to present and anticipated changes in price, so that the tendency of competition is to restore the proportions between branches of production that have been disrupted by accident. However, disproportionality is not a mere accident. It is precisely competition that imposes on capital the tendency constantly to drive through the proportionate barriers. ‘In *competition*, this immanent tendency of capital appears as a compulsion imposed upon it by *other* capital and driving it beyond the correct proportion with a constant *March, march!* As Mr *Wakefield* correctly sniffs out in his commentary on Smith, free competition has *never* been analysed *at all* by political economists, however much they may chatter about it, even though it is the basis of the entire bourgeois production based on capital.’ (CW28, 350). For all their eulogising the market economy, the economists never consider the positive significance of competition as the form in which the inherent tendencies of capitalist development are imposed on every individual capital as an external force.

The pace of development of the productive forces in a particular branch of production is not determined by the development of human wants or by the emergence of new human needs, but by such factors as the pace of technological advance, the gestation period of new investment, and the size and age of the existing stock of fixed capital, which serve to encourage and sustain the overaccumulation of capital by providing the innovator with the expectation of a surplus profit.

The tendency to the overproduction of commodities is inherent in the accumulation of capital in every branch of production. However, the growth of production in one branch of production generates a growth in demand for the products of another, so that the more rapidly growing branches provide an expanding market for those which are growing more slowly. On the other hand, the latter do not provide a market that grows sufficiently rapidly to sustain the demand for the products of the former. Thus the tendency to overproduction appears in the form of the uneven development of the various branches of production, in the tendency to their disproportional development. Disproportionality is therefore the necessary expression of the overproduction of commodities that is the driving force of capitalist accumulation imposed on capitalists by the pressure of competition.

It is true that there is a tendency for competition to confine capitalist production within the limits of proportionality as overproduction is disgorged onto a satiated market. But this is only because, through the pressure to develop the forces of production in order to reduce the labour time necessary to production, competition has driven capitalist production constantly beyond those limits. ‘The very necessity of evening-up *presupposes* the imbalance, the disharmony and hence the contradiction, ... if it is the tendency of capital to distribute itself in the correct proportions, it is just as much its necessary tendency to drive beyond the correct proportion because it strives boundlessly for surplus labour, surplus productivity, surplus consumption, etc. ... Capital is just as much the constant positing of, as it is the constant transcendence of proportionate production. The existing proportions must constantly be transcended through the creation of surplus values and the increase of productive forces. But to demand that production should be expanded *instantaneously, simultaneously* and in *the same proportions*, is to impose external demands on capital, which in no way correspond to anything arising from capital itself. In fact, the departure from the given proportion in one branch of production drives all the other branches out of that proportion, and at unequal rates’ (CW28, 340–1).⁷ The limit which confronts the capitalist is not the limit of the market, but the limit of profitability. The capitalist will persist in expanding production for as long as he anticipates that he will be able to realise a profit, either by further reducing the cost of production, or by opening up new markets. The dynamism of the capitalist mode of production derives precisely from the fact that capitalist production is not confined within the limits of the market, but regards those limits as no more than a barrier to be overcome.

The tendency to overproduction cannot be checked by competition, since competition is not an external force imposed on each individual capitalist from without. Competition presupposes overproduction, since capitalists only experience competitive pressure when the product is greater than the amount that can be sold at a price corresponding to the price of production. Competition is simply the form in which over-production is experienced by each individual capitalist. Thus competition is simultaneously the cause and the result of over-production, and in this sense is the superficial expression of the tendency to over-production which is inherent in the social form of capitalist production.

Competition can only make itself effective as an equilibrating force once the surplus commodities have come onto the market, so that competition can only act as a counter-tendency in the face of the overproduction of particular commodities. Since these commodities have already been produced, proportionality cannot be restored through the smooth transfer of capital between branches of production. The capital employed is tied up in stocks and means of production which have been devalued by the fall in prices, while the workers may not have the skills required for alternative occupations, and may be geographically remote from new employment opportunities. Thus production is only brought back within the limits of the market by the devaluation of capital, the destruction of productive capacity, and the redundancy of labour in the overextended branches of production. The losses incurred by these capitalists lead them to reduce their purchases in turn, so that overproduction is immediately generalised, and capitalists in all branches of production face the prospect of loss, threatening a general crisis of overproduction.

There is no reason why disproportionality should *necessarily* lead to a general crisis, for it is perfectly possible that the losses incurred as a result of the failure of the more backward or foolhardy capitalists can be absorbed, particularly if the rate of profit is high and accumulation proceeding at a rapid rate, while the unevenness in the rate of profit leads capital to flow smoothly into the underdeveloped from the overdeveloped branches of production, as Ricardo expected. ‘Since

⁷ This is an argument that Engels and Marx had each presented in their earliest economic writings Marx repeated the point in *Capital*. The ‘constant tendency to equilibrium, of the various spheres of production, is exercised only in the shape of a reaction against the constant upsetting of this equilibrium’ (CI, 356).

production is itself regulated by the costs of production, it regulates itself. And if a particular branch of production does not valorise itself, capital withdraws from it to a certain degree and moves into other branches in which it is necessary.’ (CW28, 340).

Crises are not pathological phenomena appearing on the surface of capitalist society, but the normal and regular means by which prices and production are adjusted in order to make possible the renewed reproduction of capital as the dynamics of production confront the constraints of reproduction in the form of the barrier of the limited market. ‘We have said that this *form* contains the *possibility of crisis*, that is to say, the possibility that elements which are correlated, which are inseparable, are separated and consequently are forcibly reunited, their coherence is violently asserted against their mutual independence. *Crisis* is nothing but the forcible assertion of the unity of phases of the production process which have become independent of each other’ (TSV2, 509).⁸

The tendency for capitalist accumulation to take the form of overaccumulation and crisis is characteristic of all branches of production at all times, so that partial or localised crises and restructuring provide the normal form of equilibration through capitalist competition. ‘This equalisation itself however already implies as a precondition the opposite of equalisation and may therefore comprise *crisis*; the crisis itself may be a form of equalisation. Ricardo etc. admit this form of crisis’. (TSV2, 521) It is in crises that the social character of capitalist production reasserts itself against the apparent independence of the producers. ‘It is *crises* that put an end to this apparent *independence* of the various elements of which the production process continually consists and which it continually reproduces’ (TSV3, 518).⁹

The tendency to overproduction is not a purely negative phenomenon. It is both the cause and the consequence of the capitalists’ revolutionising of the means of production. It is the form through which new methods of production displace the old. ‘We see how in this way the mode of production and the means of production are continually transformed, revolutionised, how *the division of labour is necessarily followed by greater division of labour, the application of machinery by still greater application of machinery, work on a large scale by work on a still larger scale*’ (CW9, 224). For the workers this means the deskilling of labour, growing competition in the labour market, falling wages and widespread redundancy as the capitalists ‘*compete with one another as to who can discharge most soldiers of industry*’ (CW9, 226). Thus overproduction is inseparable, on the one hand, from the development of the forces of production, and, on the other hand, from the destruction of backward producers and the impoverishment and deskilling of the worker.

Overproduction and the Growth of the World Market

In the inter-play of the tendency to disproportionality and to the reimposition of proportionality by competition it appears that it is a matter of accident whether proportionality is in fact established or not. ‘So far, we have in the valorisation process only the indifference of the individual moments to each other, that they determine each other internally and search for each other externally, but that they may or may not find each other, balance each other, correspond to each other. The necessary inner connection of moments belonging together and their mutually indifferent, independent existence are already a foundation of contradictions.’ (CW28, 340)

⁸ ‘The circulation process as a whole or the reproduction process of capital as a whole is the unity of its production phase and its circulation phase, so that it comprises both these processes or phases. Therein lies a further developed possibility or abstract form of crisis. ... Crisis is the forcible establishment of unity between elements that have become independent and the enforced separation from one another of elements which are essentially one.’ (TSV2, 513)

⁹ ‘the contradictions existing in bourgeois production ... are reconciled by a process of adjustment which, at the same time, however, manifests itself as crises, violent fusion of disconnected factors operating independently of one another and yet correlated’ (TSV3, 120; c.f. *Grundrisse*, CW28, 340–1).

However, the moments of production and circulation are related through the historical dynamic of capital accumulation, which is marked by the constant attempt of capital to overcome the external and internal barriers to its own reproduction. Although the tendency of capitalist accumulation is to expand productive capacity without regard to the limits of the market, the expanded product has to be sold if the enlarged capital is to be realised and the reproduction of capital achieved. This determines the tendency of capitalism to develop the market on a global scale. ‘The disequilibrium between the market — the exchangers — and capital, the disproportionality of production within a particular country pushes commodities onto the world market, from one market to another. Once industry is modern, proportionate production — naturally within bourgeois limits — needs the sphere of the whole world if it wants to find an equivalent for its production, that is to say an active demand.’ (MEGA IV.8, 417, my translation)

The tendency to expand the market develops alongside the tendency to expand production without limit, since it is capital which itself creates the world market in its own image. ‘The tendency to create the *world market* is inherent directly in the concept of capital itself. Every limit appears as a barrier to be overcome. ... hence the tendency of capital (1) to continually enlarge the periphery of circulation; (2) to transform it at all points into production carried on by capital.’¹⁰ The production of relative surplus value on the basis of increasing productivity leads to ‘firstly, quantitative increase in existing consumption; secondly, the creation of new needs by the propagation of existing ones over a wider area; *thirdly*, production of *new* needs and discovery and creation of new use values’, so developing the division of labour with the emergence of new branches of production (CW28, 334–5).

Thus the expansion of the market and the creation of new needs is not the cause of the dynamism of the capitalist mode of production, but the consequence of capital’s attempts to overcome the barriers to its reproduction presented by the tendency to the overaccumulation and uneven development of capital. However the growth of the market, far from liquidating the tendency to the overaccumulation of capital and the overproduction of commodities, only serves to give that tendency a renewed stimulus by sustaining the opportunity for surplus profit.

The more rapid growth of the market sustains and encourages the overaccumulation of capital and the overproduction of commodities, which appears in the form of the disproportional development of the various branches of production. While such disproportionalities are kept within bounds the destruction of surplus productive capacity and the liquidation of surplus capital can be sustained by the system as a whole, without seriously disrupting the course of capital accumulation.¹¹

The accumulation of capital can be sustained in the face of such disproportionalities by the expansion of credit, which stimulates the growth of the market, accommodates disproportionalities, smoothes the liquidation of less profitable capitals, and absorbs bankruptcies, but at the same time risks stimulating the further overaccumulation of capital, accompanied by inflation and speculation, carrying the risk of a general crisis of overaccumulation. Such a general crisis is not confined to a few capitalists in a few branches of production, but reverberates through the system as a whole, as bankruptcies precipitate a chain of defaults and as cuts in production lead to a contraction of the market in a cumulative spiral of decline. The general crisis is not a pathological eruption in the normally placid course of capitalist development, the result of the subjective ignorance or

¹⁰ ‘the world market is likewise both the presupposition of the totality and its bearer. Crises are then the general pointer to and beyond the presupposition, and the urge to adopt a new historical form’ (CW28, 160).

¹¹ It is important to note that even in the most frenzied boom the uneven development of capitalist production implies that there will always be some capitalists, and correspondingly their unfortunate workers, who will have lagged sufficiently far behind to face liquidation. This was the basis on which the nineteenth century currency reformers ridiculed the claims of the monetary conservatives that the over-accumulation of capital in the boom was a result of the over-expansion of credit, since the lagging petty producers found themselves starved of credit even at the height of the boom.

misjudgements of capitalists, but is only the most dramatic expression of the permanently crisis-ridden character of accumulation.

Overproduction, Overaccumulation and the General Crisis of Capitalism

Periodic crises of overproduction indicate the objective limits of the capitalist mode of production as overproduction in the leading branches of production is generalised. Although Marx argued that there is a secular tendency to deepening crises, corresponding to the intensive and extensive development of the capitalist mode of production, these limits are not absolute. The destruction of existing products and previously created productive forces, the conquest of new markets, and the more thorough exploitation of old ones, removes the barriers to the further development of the forces of production, but only to pave the way for more extensive and more destructive crises. Marx did not argue that these crises define the inevitability of the demise of capitalism. In *The Communist Manifesto* Marx argued that the crisis-tendencies of capitalist accumulation define the ‘weapon’ with which the bourgeoisie will ‘bring death to itself’, but it is the proletariat which will ‘wield those weapons’ (CW6, 490), while in the third volume of *Capital* he made it clear that the development of the crisis prepares the way for a restoration of accumulation. In the course of the crisis the competitive struggle forces capitalists to introduce new machinery, which lowers the value of commodities, increases the rate of surplus value, and creates a surplus population, while less efficient producers are destroyed. The growth in the surplus population leads wages to fall, while the depreciation of constant capital raises the rate of profit. ‘The ensuing stagnation of production would have prepared — within capitalistic limits — a subsequent expansion of production. And thus the cycle would run its course anew.’ (CIII, 250)

Through the 1850s Marx and Engels expected that a general crisis would herald the collapse of capitalism and the coming to power of the proletariat, and Marx carried out extensive historical investigations into the forms of crisis in order to be able to anticipate the form and timing of the next. It was in the expectation that the crisis of 1857 would prove decisive that Marx returned to his theoretical studies, starting work on the manuscript known as the *Grundrisse* just as the crisis broke. In the event the crisis passed not with a bang but with a whimper, but Marx continued to wrestle with the theoretical problem through the first half of the 1860s, trying to establish, against the denials of Say and Ricardo, not only the possibility of general crises of overproduction, but even the necessity of their regular recurrence.

The starting point of the main manuscript of the *Grundrisse* was Marx’s renewed attack on the monetary reformers (above all his old adversary Proudhon) who believed that the evils of capitalism could be overcome by altering the monetary system, without transforming the system of production based on private property, on the grounds that the evils of the capitalist system derived from the exploitation of the producers by the bankers. According to the monetary reformers the bankers abuse their monopolistic control of money to impose high interest rates by restricting credit, so misappropriating the legitimate profit of the producer, and precipitating commercial and financial crises, which they exacerbate by restricting credit just when it is most scarce.

Marx argues that the possibility of crisis is indeed inherent in the subordination of the production of commodities to the circulation of money and capital, as Proudhon and his followers argued, but the latter is not an alien power superimposed on the ‘freedom and equality’ of the elementary exchange relationship, for money and capital are only different forms of exchange value, providing the motive for capitalist production and the driving force underlying the development of production and exchange. The alienated character of money and capital is no more than the developed form of the alienation already inherent in the social relations of commodity production. The separation of money and commodity is only an expression of the separation of purchase and sale, which is inherent in the elementary form of exchange.

The money equivalent of the commodity cannot be conjured out of thin air (nor created by a banker). It can only exist if capitalist production has also taken place elsewhere, producing an equivalent surplus value embodied in commodities against which the first can be exchanged. Behind the need for a consumer of the increased production, therefore, lies the need for another capitalist producer whose activity will have promoted the increase in demand. Behind the growing market required to absorb the growing product, therefore, lies the systematic growth of capitalist production.

We have seen that there is a fundamental contradiction between the production and realisation of surplus value as a result of the tendency to overproduction, which appears to the capitalist in the form of the barrier of the limited market for his product. However, Marx also argued that capital regards all such limits as no more than barriers to be overcome. The conditions for the realisation of the surplus product are the conditions for the further extension of capitalist production, which is achieved by the intensive and extensive development of the capitalist mode of production: on the one hand, by the production of relative surplus value, and on the other by the development of the world market. We seem to have discovered the ways in which capital is able to dissolve all barriers to its advance, its fundamental contradiction driving it forwards without limit.

However, the fact that capital can tear down the barriers that confront its advance, primarily through the development of the world market, does not mean that it necessarily does so. 'From the fact that capital posits every such limit as a barrier which it has *ideally* already overcome, it does not at all follow that capital has *really* overcome it' (CW28, 337). Capital remains contradictory. Its dynamism may suspend the contradiction, but it can never resolve it. The point is neither that capitalism can develop without limit, nor that it faces fixed limits, but that it is a 'living contradiction'. It is therefore essential to see both sides of this contradiction. Ricardo, who looked only at the growth of capitalist production and ignored the barriers of circulation, could best see the positive side of capitalism, while Sismondi, who emphasised the barrier of consumption, was better able to grasp the negative side of production based on capital. Nevertheless, the two sides are inseparable one from the other.

The economists argue that a crisis is merely a matter of an imbalance of supply and demand, which is not a manifestation of overproduction, but only of the disproportionality of production, in which too many of some commodities are produced and too few of others, a disproportionality which will be rectified by the normal operation of the market. But, Marx argues, this is to ignore the role of money in mediating the reproduction of capital and the circulation of commodities.

The problem is not simply one of the inappropriate supply of use values, but of the inability to transform use values into value. 'What is forgotten here is the fact that producing capital demands not a particular use value but *value* for itself, i.e. money — money not in its role as means of circulation but as the general form of wealth, or as the form of the realisation of capital in one respect, and return to its original dormant state in the other' (CW28, 339). The problem is neither a matter of the inadequate production of value, nor is it a problem of the inappropriate production of use values. It is a manifestation of the fundamental contradiction between value and use value which is inherent in the capitalist form of social production, in which use values are produced only as the means towards the valorisation of capital. The capitalist is looking to buy commodities not as use values, but as the means of expanding his capital. If he is not able to anticipate employing means of production and labour power profitably, he will simply hold his capital in the form of money, so interrupting circulation, and potentially precipitating a crisis. In a general crisis the problem is not that capital is more profitable in one or another branch of production, but that it appears to be unprofitable in all branches of production, so that 'in a general crisis of overproduction the contradiction is not between different types of productive capital, but between industrial and loan capital, between capital as it is directly involved in the production process and capital as it appears as money independently outside that process' (CW28, 340).

Once we recognise this contradiction we can see why disproportionality appears not just as an imbalance of production, but as an overproduction. Overproduction arises not in relation to need, but in relation to valorisation. This is why the overproduction of particular commodities appears not as a shortage of other commodities, but as a shortage of money. But then ‘the assertion that too *little money* is being produced is tantamount to the assertion that production does not coincide with valorisation, hence is *overproduction* ... hence the illusion of the money-conjurers (also Proudhon, etc.) that there is a shortage of *means of circulation* because of the dearness of money, and that more money has to be created artificially’ (CW28, 339).

To get beyond the abstract form of the crisis we have to look more concretely at the reproduction process of capital, and to do this fully we have to consider the interaction of particular capitals within the movement of capital-in-general, in the analysis of competition and credit. ‘But now the further development of the potential crisis has to be traced — the real crisis can only be deduced from the real movement of capitalist production, competition and credit — in so far as crisis arises out of the special aspects of capital which are peculiar to it as capital, and not merely comprised in its existence as commodity and money.’ (TSV2, 512–3). ‘The actual movement starts from the existing capital — i.e. the actual movement denotes developed capitalist production, which starts from and presupposes its own basis. The process of reproduction and the predisposition to crisis which is further developed in it, are therefore only partially described under this heading and require further elaboration in the chapter on “*Capital and Profit*”.’ (TSV2, 513)

Marx constantly postponed writing his account of competition and credit, but the outlines of his analysis can be found scattered through his writings. In all Marx’s concrete discussions of crisis, the general crisis arises when a crisis of overproduction in one branch of production is generalised, so that the crisis of overproduction extends even to those producers who ‘had not over-produced in their own spheres’ (TSV2, 523). On this basis ‘it can be understood how over-production in these few, but leading articles, calls forth a more or less general (*relative*) over-production on the whole market’ (TSV2, 523).¹²

Marx recognises that general overproduction is always associated with disproportionality. ‘In times of general over-production, the over-production in some spheres is always only the *result*, the *consequence*, of over-production in the leading articles of commerce; [it is] always only *relative*, i.e. over-production because over-production exists in other spheres.’ (TSV2, 529). Universal over-production is impossible, in the absence of disproportionalities, because ‘*universal* over-production is proportional production’. If all the relations of proportionality held, there ‘would not be over-production but only a greater than usual development of the productive forces in all spheres of production’ (TSV2, 530). This uneven development is not a contingent accidental feature of the capitalist mode of production, but is essential to it. ‘Since, however, capitalist production cannot allow itself free rein only in certain spheres, under certain conditions, there could be no capitalist production at all if it had to develop *simultaneously* and *evenly* in all spheres’ (TSV2, 532).

At the same time disproportionality, as we have seen, is the normal form of capitalist accumulation, and so does not necessarily lead to a general crisis. Providing that losses can be absorbed, accumulation can be sustained despite the persistence of overproduction and disproportionality. In general we would expect this to be more likely to be the case, the higher is the rate of profit. Conversely, a fall in the rate of profit will make the system much more vulnerable to a

¹² I have looked in great detail at Marx’s writings on crisis, and particularly the relationship between underconsumption, overproduction, disproportionality and falling rate of profit theories in my book *Marx’s Theory of Crisis*. I will not go over these issues here.

general crisis, and indeed Marx, in his discussions of such crises, paid particular attention to the fall in the rate of profit as the crisis looms.¹³

The crisis provides a mechanism by which the older and smaller capitals are driven out, and so by which the historical tendency to the concentration and centralisation of capital makes itself felt. ‘Compensation of a fall in the rate of profit by a rise in the mass of profit applies only to the big, firmly placed capitalists. The new additional capital operating independently does not enjoy any such compensating conditions. It must still win them, and so it is that a fall in the rate of profit calls forth a competitive struggle among capitalists, not vice versa.’ (CIII, 251). This competitive struggle is initially the result of the additions to productive capacity as capitalists introduce new methods of production. The growing demand for labour power means that ‘the competitive struggle is accompanied by a temporary rise in wages and a resultant temporary fall of the rate of profit’, while the growing mass of commodities thrown onto the market leads to a fall in their price, which equally leads to a fall in the rate of profit (CIII, 251).

The crisis appears as an intensification of the competitive struggle in which the weaker or more exposed capitals fail. Behind the intensification of competition Marx has identified the fall in the rate of profit that is the immediate result of the rise in wages and the fall in prices. However the crisis is no more the result of the rise in wages than it is of the competitive struggle which that rise has unleashed. The rise in wages is a result of the overaccumulation of capital, which is in its turn promoted by the competitive struggle between capitalists, and intensified by the concentration and uneven development of capital. This raises once again the problem of general overproduction, the necessity of a fall in the rate of profit being explained by the fact that ‘a rift must continually ensue between the limited dimensions of consumption under capitalism and a production which forever tends to exceed this immanent barrier’ (CIII, 251).

Marx never managed to establish the theoretical necessity of general crisis.¹⁴ However, Marx seems to have lost interest in the question of crises as more than a theoretical curiosity following the failure of the crisis of 1857 to have the anticipated consequences. On the other hand, the general crisis is simply the most dramatic manifestation of the fundamental contradiction of capitalist accumulation that appears in partial crises and in the everyday competitive struggle between capitalists, and which underlies the most important law of development of capitalism, the General Law of Capitalist Accumulation, the law that is the culmination of the first volume of *Capital*, and that defines not the necessity of crisis, but the necessity of class struggle (and the inevitability of its ultimate outcome).

Conclusion

Over one hundred and twenty five years ago Marx published the first volume of his critique of political economy, *Capital*, not in the expectation of academic acclaim, let alone the Nobel prize for economics, but in the expectation that he would have provided the workers’ movement with a weapon in its struggle for liberation. Academics did indeed look, if they looked at all, on Marx’s work with patronising condescension, regarding it as praise to dub him, illiterately, as the last of the classical economists, while political economy changed the colour of its skin and called itself ‘economics’. Marx’s work did indeed provide inspiration to the workers’ movement, not so much in the orthodoxy of its ideologues, as through the reading of popularisations and of the original texts by

¹³ This cyclical fall in the rate of profit should be distinguished from the secular ‘Law of the Tendency for the Rate of Profit to Fall (or to Rise or to Stay the Same)’.

¹⁴ Nor did he succeed in explaining the periodicity of the cycle, which he tried to link to the turnover of fixed capital, but which I do not discuss here.

thousands of ordinary workers. Neither the failure of the working class to have overthrown capitalism and to have installed a more humane society in its place, nor the abuse of the authority of Marx's name by authoritarian regimes, in any way undermine the intellectual validity of Marx's analysis of the form and dynamics of the capitalist mode of production, which is as relevant today as it was when it was first written. Marx's work may not have the power to change the world, but at least it gives us the power to understand it.