Let's Compost Capitalism

Commentary Session 4a

Essential features of capitalist production - what makes it work

slide 1. Hello and welcome back to Let's Compost Capitalism.
In this session we'll explore how capitalist production sets about making a profit.

slide 2.
We'll look, briefly, at

- How Marx cracked the mystery……
- How the drive for profit affects the class struggle……
- The labour theory of value……
- The commodity……
- The role of competition……
- Productivity ……
- Growth……
- Accumulation and debt ……

It's a lot to cover but hopefully it'll give you a start.

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Firstly, how did Marx crack the mystery of profit?
Since profit is the primary or even the *only* motivation for the capitalist mode of production, where does this profit come from?

In session 1 we saw that - according to Marx - profit is unpaid labour.

So, do people work for nothing, and if so, why?

It's like this: ………

In capitalist society people are supposedly free to sell their labour-power – their ability to work - to employers, like Amazon. …. …In reality there's no choice at all if you are going to be able to provide the necessities of life for yourself and your family, if you have one.

Here are some of the top qualities employers are looking for in a good employee. …… They are what Marx called 'use-values' that from part of the employment contract…

The actual amount you get paid in wages…. - and benefits if you can still find a job which offers any – is determined by a complex process, but at the root of it is the need for it to be enough to get you (and all workers) back to work the next day in a fit state to work for the … ..number of hours required by the employer. The hours you work … …add up to the value produced.

It turns out… .. that the number of hours you need to work to produce enough value to pay your own wages is less than the number of hours the employer requires you to work.

It's the same if, like delivery drivers, you're paid by the parcel, or taxi drivers who have to pay for all the expenses of maintaining their vehicle, and are paid by the trip or by the mile. In this case what you get is still only a proportion of the new value you produce.

The difference is unpaid labour … .. – or profit for the employer or for whoever operates the platform managing your work, and crucially, sets the pay rates.

[But don't forget : everything you produce is the property of your employer.]

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Here's where we begin to talk more about the class struggle

The amount you need – Marx called it 'the value of labour-power' .. …is not fixed. It varies as living standards generally improve or deteriorate. What is accepted as normal in one country can be very different in another. And if the value of labour-power, the amount you need, varies – is socially-determined, so the number of hours you must work to produce that amount of value also varies.

And then there are pressures on the employer, who is obliged to maximise profits.

That can be done for example, by reducing the amount paid in wages…

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…or by increasing the proportion of the working day that is unpaid labour, which gives the employer his profit or 'surplus-value'.

Making the employer very happy…. or by extending the number of hours you have to work…

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Profits can also be maximised by increasing the rate at which you work – making you produce more per hour. That is what is meant by increased productivity.

slide 7. Increasing productivity can be achieved by speeding up or intensifying the rate at which you work within physical limits.

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And it is done by spending money on machines, increasing the amount of automation, adding to the fixed capital.

Competitors and shareholders all conspire to force employers to reduce costs and drive up the rate at which they exploit you.

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So, the complex process of arriving at the level of wages paid in exchange for a day, week, or month of labour is an ongoing negotiation between the class of capital-owning employers and the class of actual or potential employees. It's been called the class struggle. And it's a global phenomenon.

You can see it in the recent shift to various forms of precarious employment …… which tends to undermine working conditions and eliminate benefits of all kinds.

slide 10.

And depending upon many factors - the strength of trades unions, for example – the struggle can result in the ***price*** actually paid for labour in wages… .. being very different from the value… .. of your labour – the amount you actually need.

And that need, that value is measured by the number of hours of labour needed to produce the socially accepted basket of commodities needed for a family.

And that varies … ..as social and technological conditions change. In recent years, having a mobile phone … ..has become added to the basket.

Increasingly these days, the price paid by employers like Walmart and Amazon is insufficient to meet the needs of a family, so people have to have two or three jobs, or use food banks – or the state subsidises the employer through benefits like universal credit.

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And the rate of exploitation increases as production is moved from higher to lower-paid countries, and within countries from higher to lower paid regions.

However and wherever you are employed in the capitalist economy, the principle is the same:

To summarise: …., …the contract … … between you and your employer ensures that

The value of your labour.. and what you're paid for it in wages… - is less than the value of what you produce…. ... The difference is profit … …which belongs to the employer.

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Let's take a step back to look at the value of a commodity – what it is, how it is determined, where it comes from.

We saw that the value of labour-power measured in wages is determined by the number of hours of labour time needed to produce the value of …the basket of commodities that will sustain workers and their families. The struggle is to ensure that what you earn covers what you need at the very least.

But what is the value of any of the commodities in the basket – like the ubiquitous mobile phone? How is that determined?

The generally-accepted view of so-called modern or mainstream economists is that the value of a commodity is determined by what a consumer is prepared to pay for it. ….

But according to economists like Adam Smith – the 18th century 'father of capitalism' and early 19th century British MP and political economist David Ricardo, the value of a commodity is determined by the amount of labour needed for its production. …..

Karl Marx.. … developed the labour theory of value further to include the social conditions of the time when the commodity was produced.

So according to Marx… ..the value of a commodity is determined by the number of socially-necessary hours of labour required for its production.

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But what about the raw materials – the silicon used to make the chips in your phone and the lithium used to make the batteries. According to Marx. They have no value until they have been mined.

All of their value - contributed by miners - is transferred into the final product as they are transformed and assembled by labour.

slide 14.

How about all these components, produced in a multitude of countries around the world and brought together for assembly? All of their value - contributed by millions of factory workers - is transferred into the final product as they are transformed and assembled --- by labour.

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And the factory buildings and the machines? The buildings, the sewing machines, the robots that increasingly do the assembly and handle the distribution in the warehouses? A small part of their value, accounted for by depreciation, is also transferred into the final product by the labour of the workers.

slide 16. To repeat

What is the value of the raw materials, the components, and the proportion of the fixed capital like buildings and machinery? It's calculated in just the same way.. , by the amount of socially-necessary hours required for their production.

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Now we have to look a bit more closely at the commodity.

The special, desirable properties or 'use-value…. ..of each of the raw materials as they appear in nature, the intermediate components made from processed raw materials, the functions of the machinery, and the protection from the elements provided by the buildings is what makes them attractive.

And that enables them to have a value … … exchangeable in the marketplace measurable in money.

Just as we said at the beginning…,the particular skills of the workers make them attractive enough to the employers to pay wages.

These special properties of each of the commodities involved in production, just like the special properties that make the final products attractive to consumers in the market (hopefully!) are called 'use-values' to distinguish them from the value they have in exchange measured by hours of labour or its equivalent in money.

So, to ***be*** a commodity in capitalist society, a carrier of surplus-value or profit, a product has to have both use-value and value measurable in money, known as value in exchange, or exchange-value.

Corporations devote vast amounts of money to marketing, developing brand awareness, creating wants for the commodities they offer in a marketplace of very similar offerings. Distinguishing their 'new' toothpaste from the dozens already on sale. They are all intent on enhancing the apparent use-value of their product. Maybe we should call it 'want-value' or 'must-have' value.

slide 18.

It is important to note that raw materials only acquire value when labour has been used to grow and harvest them, or they have been mined, or in some other way extracted.

So the value of most oil, gas and coal companies' assets, measured by the future profits expected from what known but as yet untapped resources they control, is only potential.

And now, with the use-value of fossil fuels turning into its opposite, becoming negative as the necessity of leaving it in the ground becomes ever more obvious, they must all be considered to be … …'stranded assets', threatening the (notional) value of the world's richest corporations and undermining the foundations of capitalist production.

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Now let's take a look at the impact of …. …competition on profit and on production

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Competition for access to the profit from production and sales in the marketplace obliges producers to continuously reduce the price of their commodities…. …. compared to others as well as increasing the usefulness and desirability of their commodities. This squeezes profits. The more prices fall the harder they have to compete.

slide 21.

Which they do by, amongst other things, introducing productivity-enhancing tools and machines into the process. These reduce the number of hours, minutes or seconds of labour needed and enable workers to turn out more of a particular commodity in an hour or day thus reducing the cost of production of a single item and hence the price.

And since the first spinning and weaving machines … …gave rise to the industrial revolution in the early part of the 18th century, the technological revolution has continued and accelerated in response to the race to reduce prices.

To gain the maximum advantage, each producer must attempt to be the first to introduce new labour-saving technologies and the associated new ways of organising production before competitors pile in and the advantage is lost.

This competitive game of leapfrog obliges producers to continuously add to their capital investment where doing so reduces costs, and each new generation of technology leads to a step change in the volume of commodities pouring onto the market.

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So the profit-seeking competition for sales is at the root of growth. This continues until the volume of commodities flooding from the factories overwhelms the consumers. The market is saturated. A crisis of overproduction erupts. The planet is engulfed in plastic. We'll look more at the causes of crisis in section 5.

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For now, note that capitalist production produces economic growth.

As you can see in this chart … … it begins – gradually - to turn upwards at the same time that capitalist society gets going in Britain in the 1650s … .., and it accelerates sharply from the start of the industrial revolution. ….

Growth is not a choice, but a necessity, essential to the continuation of the system. When growth slows or turns negative all attention becomes focussed on reversing the decline. By whatever means necessary.

But we need to be clear when we use the term 'growth' what is being measured. GDP measures the additional ***value*** of goods and services produced in a country during a particular time period.

As you can see, this chart actually shows 'real gross domestic product per capita' …or the average amount of new value being produced per head of population adjusted for inflation.

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Competition's downward pressure on prices has another consequence: reduction in the value carried by each commodity reduces the value of the whole basket of commodities … .. which constitute the value of labour.

Capitalist production, as a necessity, induces a downward spiral in the value of labour … …, a powerful incentive for workers to pursue their side of the class struggle.

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But it also means that *maintaining* let alone increasing the total value of goods and services produced requires constantly increasing the ***quantity*** being produced. And that means using increasing amounts of raw materials – not least fossil fuels.

And it means increasing the size of the workforce – which some economists like to call 'human capital'.

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So the global population began to increase rapidly during the industrial revolution. It grew from 1 billion in 1800 to 7.9 billion[3] in 2020. Just imagine the increase in the quantity of commodities produced 'per capita' multiplied by the eight-fold increase in the population during that time and you can begin to understand why the planet is being overwhelmed by 'stuff'.

To repeat: the crisis of overproduction is an inbuilt consequence of capitalist production. There have been various attempts to deal with it. Each with its own consequences.

slide 27.

Now let's have a brief look at the accumulation spiral

In response to the competitive pressure to reduce production costs, companies are obliged to invest in additional productive assets – machinery of all kinds, adding to the total capital accumulated, revolutionising the process of production, increasing the productivity of labour, and expanding the volume of commodities pouring onto the market.

The accelerating amount needed for new investment to enable companies to remain competitive soon exceeds the amount available inhouse from profit alone, so external funds must be attracted, first by selling shares then by borrowing. This hands the shareholders, then the lenders the right to a part of the profit.

The pressure for growth is relentless. Gambling on future returns, the invention of fresh credit and debt begins and must swell.

To retain and continue to attract new funds, profit must be distributed to lenders (as interest) then shareholders (as dividends) at a rate which is competitive with that offered by other companies, reducing the amount available for reinvestment.

The accelerating accumulation of fictitious capital – the gap between the face value of all forms of credit and the real value produced by labour becomes an all-encompassing, corrosive end in itself.

Until the limits are reached. …. ….

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When the limits are reached.

…The volume of commodities produced exceeds the capacity of the market.

…The increasing productivity of labour achievable through investment in the technological revolution slows and so investment slows and stutters to a stop.

…Deep underground, the earthquake begins to rumble.

…Profits shrink.

…Surplus productive capacity appears through the cracks.

…Dividends decline.

…Debt servicing ceases.

slide 29. The crisis erupts.

In the next session we'll look deeper into what makes it all go wrong – why capitalism is a system at war with itself.