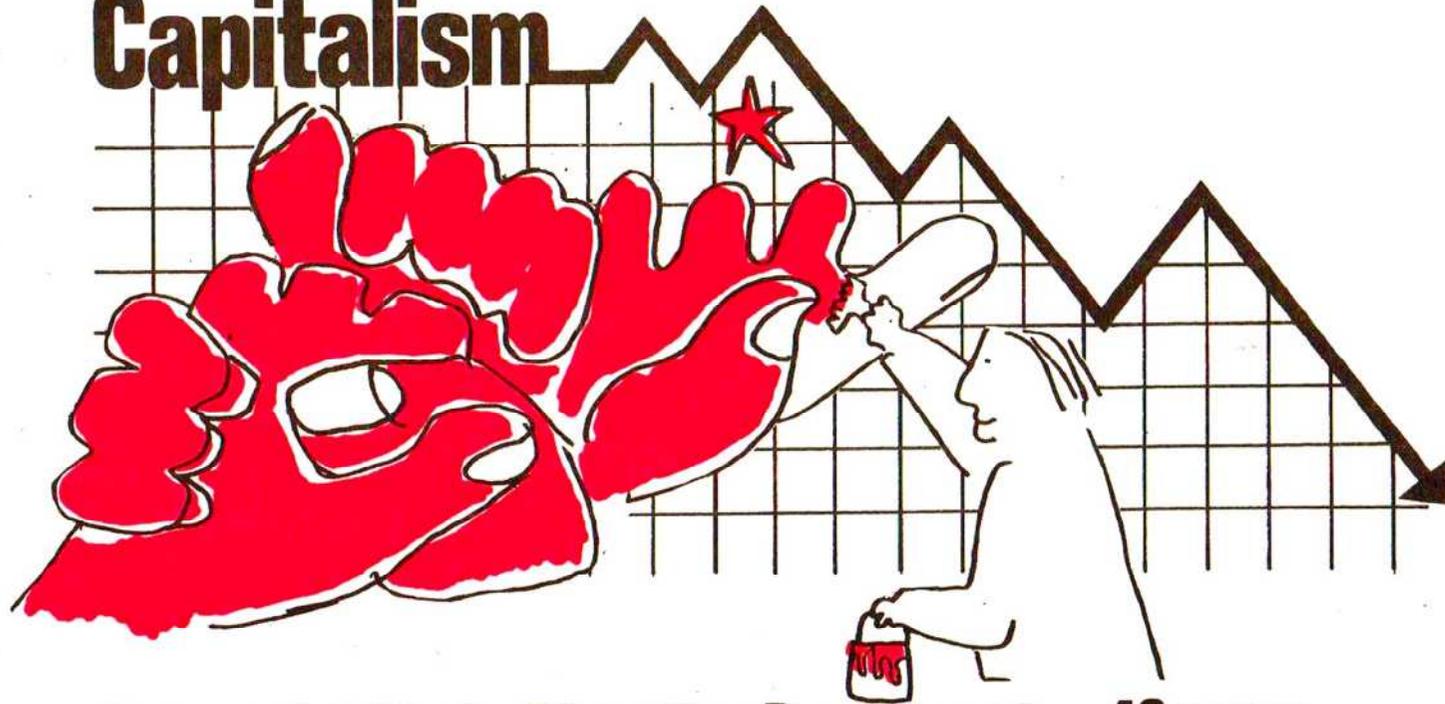


The Economics of Capitalism



Communist Party Education Department

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Introduction

Economics is both the easiest and the most difficult area of the science of society. In order to live, we must all at some point engage in labour, receive incomes and go shopping. Yet the economics of everyday life is always overshadowed by complexities great and small –ends that cannot be made to meet, company accounts, and the “economic situation”.

The concepts of Marx’s political economy were born in an attempt to lay bare the secrets of capitalist society. Since Marx’s time, capitalism has changed, and so has Marxism. Today capitalism shows signs of increasing inner conflict, while Marxism as a creative and developing science is flourishing as never before.

The aim of this pamphlet is to explain some basic ideas. The complexities lie in their application to a rapidly changing world, and in competition with the ever-changing interpretations of the monopoly and state media of mass communication. Consequently, it is best not only to read this pamphlet but also to discuss it in an organised group.

The pamphlet contains five themes:

1. CAPITAL AND VALUE
2. DEVELOPMENT OF THE CAPITALIST ECONOMY
3. CLASS STRUGGLE AND THE JUST WAGE
4. CLASS STRUGGLE AND THE STATE
5. BRITAIN’S ECONOMIC CRISIS

A set of five discussions (or more if possible) can be organised on the five themes, or a selection can be made if there can only be two or three meetings. For example, trade unionists may find particular interest in the third, fourth or fifth sections.

Tutors should encourage preparatory reading from the recommended reading if possible. They should introduce each subject by trying to relate the theoretical points to the experience and views of the group.

Because this pamphlet is about the economics of capitalism, it omits detailed consideration of related but distinct fields such as the political economy of sexual, racial, national and colonial oppression.

Its aim is to make Marxist political economy more accessible; comments on it will be welcomed.

EDUCATION DEPARTMENT

1 Capital and Value

We shall start by looking at some basic features of class and property in modern Britain. What is the balance of wealth and power in our society? Does it arise through the ballot box, or in the market place - or on the shop floor? How does it emerge in the economy, in wages, prices and profits?

The Labour government of 1974 was elected to seek a “fundamental and irreversible shift in the balance of wealth and power in our society in favour of working people and their families”. A Royal Commission on the subject was set up, and in 1975 produced two reports, one on personal wealth and income and one on the role of the company sector.

Income and Wealth

The official statistics show that in 1972/73 the top 1% of income recipients received over 6% of personal pre-tax income. The top 10% received 27% (while the bottom 90% received the other 73%). After deduction of income tax, the figures are not very different.

Inequality of wealth is more striking. The top 0.1% (one thousandth) of wealth-holders owned 12% of “marketable assets” and the top 1% owned 28%. Two thirds of all personal wealth was owned by the top 10% of wealth holders.

These inequalities, however striking, do not reveal where one Britain stops and other begins. Who is the ruling class? The top 10%, of the top 2%? To find out we have to look beyond the abstract concepts of “income” and “wealth” used by the Commission towards the underlying social realities.

What is income?

“Income” is an abstract term. In our society, income is received in concrete forms; wages and salaries, profit dividends, rent and interest. Thus, rates of pay, profit and interest, and the level of unemployment, are among the factors influencing the distribution of income.

The distribution of income is more equal than the distribution of wealth, because many who own little or no “wealth” receive wages as an “income”. Thus, underlying the distribution of income is the distribution of wealth.

What is wealth?

The Commission defined wealth as “marketable assets” - anything which is owned and can be bought and sold, including land and housing, consumer durables, and financial assets (money and loans, insurance policies, company shares). Again, these different concrete forms have different social significance.

Most of the wealth of the bottom 90% is in the form of houses and cars, and is the only significant wealth most of them will ever own. At the same time in 1972/73 over 90% of company shares and securities was held by the top 10% of wealth-holders. In other words, to own a car worth £2,000 is different from owning £2,000 of company shares.

By contrast, the Commission was unhappy with its concept of “wealth” as marketable assets, because it was not abstract enough. In bourgeois theory, wealth is defined as the stock of assets which yield current and future income; not all such assets are marketable. For example, pensioners and workers receive income from sources which are not marketable objects or bits of paper. Pension rights yield future income, but cannot be transferred from one person to another. In bourgeois theory they can be capitalised at the ruling rate of interest and a money value attached to them. If one added this theoretical wealth to owned marketable assets, the distribution of wealth would become more equal. In 1972/73 the bottom

90% of wealth-holders owned 33% of estimated marketable assets, but 54% of these plus pension rights.

A more radical adjustment would be to take account of those who receive income in return for labour. In bourgeois theory this asset of human energy and skills is called human capital. If human capital were also added on to marketable assets, the inequality of wealth distribution would not disappear, but it would become nearly the same as the distribution of income – necessarily because if all forms of income are capitalised, then the distribution of wealth must by definition mirror the distribution of income.



Capital and Class

Marxist political economy starts off by assuming that the balance of power and wealth is not a trivial problem, in which income is derived from wealth, and wealth is defined by income.

In productive processes, living labour is combined with past labour stored up in machines and other means of production. Outside the productive processes, living labour is sustained through consuming the means of subsistence. But the means of production, means of subsistence and living

labour (“human capital”) cannot simply be added up to equal total wealth. They are not just different sums of money value.

What kind of wealth you own determines what kind of income you receive. It also determines what you have to go through to receive it - the social relations of production into which you are compelled to enter in order to realise your income. Being a worker, in bourgeois theory, means that you own “human capital”. To provide an income, this human capital must be realised through sale. But human capital is not an object or piece of paper, it is the energy and skills incorporated in workers’ bodies; the only society in which bodies are bought and sold as assets is slave society. Slavery is embedded in the concept of human capital, and appears under capitalism in a limited form which Marx called “wage-slavery”: in order to live workers must sell their bodies by the week. Workers are not paid simply for time on the job, but for the use to which their bodies are put during that time.

Being a capitalist, on the other hand, means that you own capital in the means of production and receive a profit dividend. In bourgeois theory capital is exactly the same as any other form of wealth, including “human capital” on which wages are received. But capitalists have an entirely different relationship to production from that of workers. Firstly they do not produce capital, in the sense that workers produce goods (every machine since the first stone-age hand tool has been produced by workers, and later by workers together with machines produced by other workers). They bring to bear money capital - claims on the economy which enable them to require workers to produce machines for investment. Secondly they do not sacrifice the consumption of their money capital for the sake of production, in the way that workers must sacrifice freedom for the sake of wages (since recorded history began millions have “abstained from consumption” without ever receiving profit). To receive profit you must first own capital.

To receive profit, however, capital has to be managed. British capital today employs hundreds of thousands of ancillary workers, all of which have varying relations to the process of production. Those with the closest relationship are the managerial strata. Here we find people who

receive salaries in return for enforcing the regime of capital. They manage production flows and speeds, industrial disputes and “factory morale”: all the political and ideological relations of the work-place. At one remove we find research and technical staff, sales, accounting and secretarial teams and so on.

Commodities and Value

This productive effort of capitalist society, and of the classes which make it up, is directed towards the production of commodities for profit. “Commodities” are also “marketable assets”, in the language of the Commission. What does it mean to say that our economy is based on commodity production? Why production for profit, and how much profit?

A necessary condition of commodity production is a certain level of development of the forces of production: human skills and creativity, and the means of production with which they must be combined. For the exchange of commodities to be possible at all, each producer must be specialised and skilled in certain lines of production only, able to rely on the fact that by executing a single specialised task in return for money, he or she can use that money to command the products of other specialised producers. This division of labour requires both accumulated means of production and the ability of the economy to produce many different products, not just clothes and food.

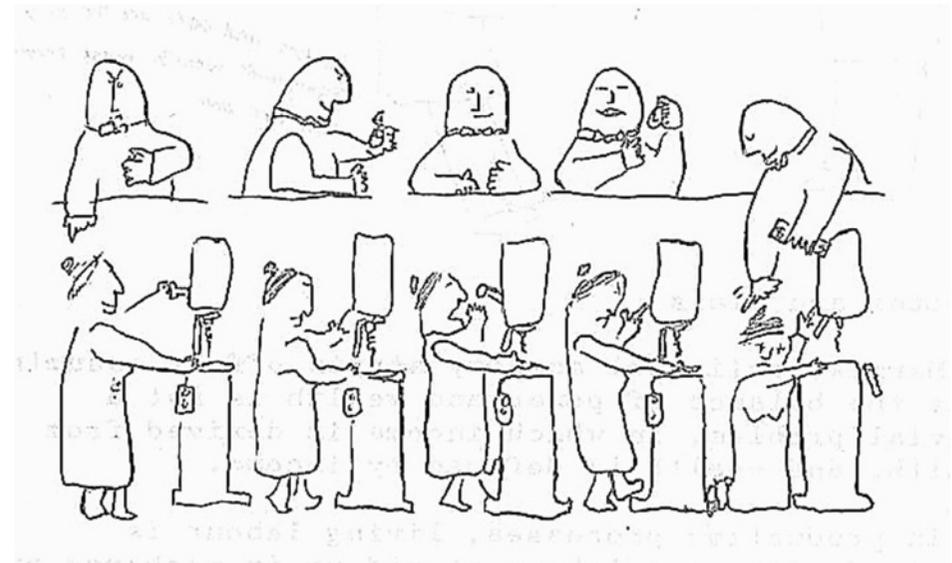
A second condition is that there must be a certain set of social relations within which owners of capital have guaranteed rights of control and disposal over the means of production, the process of production, and the commodities produced. These rights of control and disposal may not be unlimited (governments may tax industry or regulate pollution, and trade unions may challenge them in various ways), but they must dominate politically, and be seen to dominate ideologically.

Given this economic basis, commodities are exchanged, firstly, so that they can be used (or find a Use-Value). Secondly, they are exchanged in return for money (so that they find an Exchange-Value or price). Since money can be used to command other commodities, we can also say that commodities are

exchanged against each other. If the price of a ball-point is 10p and the price of a matchbox is 4p, then $2\frac{1}{2}$ matchboxes are exchanged against 1 ball-point. Marx argued that the ratio in which commodities are exchanged is related to the conditions of their production, or to the Labour-value* embodied in them. Labour-value, he considered, was the intrinsic measure of social worth inherent in all commodities, which underlies the conditions of their exchange. It is defined as the “socially necessary labour-time” required to produce any given commodity.

(i) Why labour-time?

All commodities are produced by labour. For example, air is essential to life, and has use-value, but is not produced by labour, and has neither exchange-value nor labour-value. But bottled oxygen has all three values.



* “Labour-value” is used here for Marx’s term “Value”. This is necessary for clarity, since the modern use of the term “value” is the same as Marx’s “exchange-value”.

The duration of labour is important because it signifies the cost of production of the commodity in terms of the expended energies (labour-power) of workers - both embodied in machines and raw materials, and the living, current labour of the work-force.

(ii) How much labour-time is socially necessary?

But for a product of labour to become a commodity, to be sold, and to embody labour-value, the labour-time expended has to be “socially necessary”. From the point of view of production, an unusually slow, clumsy or unskilled worker will not add extra labour-values to a commodity simply because of extra hours worked. From society’s point of view, some of those hours were unnecessary. The same is true of labour carried out with machines of less than average efficiency, as in some of Britain’s motor car factories today.

Again, from the point of view of consumption, more of a particular commodity may be produced than its market will absorb; some units will not be exchanged, and will fail to become use-values. Part of the total of labour-time expended, embodied in unsold goods, has turned out to be unnecessary for the society concerned.

So the concept of “socially necessary labour-time” includes a theory of market supply and demand. But there is much more besides, relating “value” to the process of production itself, where labour-time is expended.

(iii) How are labour-time and labour-power connected?

In the course of labour-time on the job, labour-power is expended. Time on the job is not enough: the commodity which the company purchases on the labour market is not time, but skill and energy which must be set to work.

The class concept underlying the freedom of buying and selling human labour-power was most forcefully expressed in recent years in the National Industrial Relations Court, by its chairman Donaldson, over a work-to-rule at London Airport:

“Any concerted form of *working without enthusiasm*, of prolonged tea-breaks, or departures for the relief of natural pressures ... of them ... are prohibited with or without notice” (emphasis is added).

Capitalism is a system in which labour-power itself becomes a commodity, sold in return for wages. Thus, labour-power itself has a use-value - to capitalists, not to workers, who cannot use their own labour-power without access to the means of production. Its use-value is its ability to be applied, through time, to create new labour-values.

Labour-power also has an exchange-value, the wage-rate attached to the time within which the capitalist may dispose of the worker’s energy and skills in production.

Underlying the wage, is the labour-value that labour-power itself possesses: the labour-value of labour-power itself is the socially necessary labour-time embodied in the produced means of consumption required to maintain workers’ bodies, skills and dependents.

(iv) What is the labour-value of labour power?

How much labour-time is necessary to reproduce the working class: Plainly this is more than just physical subsistence. A certain daily intake of calories will keep the human body alive (although malnutrition will not simply cause death, but loss of energy, atrophy of mental capacities and shorter life expectancy). Workers in modern Britain require more than a calory-minimum, even from the employer’s standpoint. They need literacy, numeracy and various manual and intellectual skills. However, capitalists are not the only class that may have an opinion on socially necessary subsistence.

Workers too play a part in determining what is socially necessary. Literacy, numeracy and

social experience generate new awareness and new human wants. Ideas about the “fair wage” and the “adequate standard of living” play a crucial role in determining the labour-value of labour-power through trade union struggle. Over the last 200 years, not only the capitalist economy has grown. In a social rather than physical sense, subsistence stands many times higher today than ever before.

In other words, the actual wage - the exchange-value of labour-power - shows the outcome of a social conflict over what the level of subsistence should be at the present level of economic developments. If the labour-process becomes more demanding in terms of skill and energy, or if trade unions become stronger, and working class ideas more influential, then the labour-values which can be purchased by the wage will tend to rise.

Failure to understand this point leads to all kinds of confusions. Can the average real wage vary out of relation with the labour-value of labour-power, or can the values purchased by the real wage rise above labour-power's value? Looking at the outcome of a period of class struggle the answer is no, because the wage shows what this struggle has “decided” about the labour-value of labour-power at a given time and place. In the age of imperialism, capitalists could allow space for the expansion of working class concepts of subsistence. In the 1930's, when the real wage level fell, the economy revealed that part of the labour-time spent in reproducing the working class was socially unnecessary - millions of workers became unemployed. After the war, with full employment and growth of output, there was again space for expansion. Today the process has been reversed again. The wage reflects something objective, not about physical needs, but about class conflict and social culture under capitalism.

Wages change, however, precisely because in the course of struggle workers revise their view of their labour-value and fight for higher wages, or are forced to accept a lower estimate of their labour-value, facing wage-cuts in consequence. The process and direction of struggles in the factory and outside bring a divergence between their labour-value and the ruling wage, and are one of the key forces to which wage-rates must eventually respond.

Profit and surplus-value

This class conflict, resulting under capitalism in the division between wages and profits, has its focus on the shop-floor at the point of production.

Capitalists possess the means of production - factories, machines and materials, a sum of labour-values produced in the past, which Marx defined as constant capital (symbol: c). It is “constant” because its labour-value is used up and passed on intact to the final product. Because capitalists as a class monopolise the ownership of “constant” capital, they are in a position to hire workers to perform the direct labour in combination with the means of production. To secure this labour-power capitalists must make an outlay of money wages to enable the reproduction of the working class. Marx defined this outlay as variable capital (symbol: v). It is “variable” because, as the socially necessary labour-time required for the reproduction of labour power, capitalists can make it “vary” to produce more new labour-values than the value of variable capital employed. The difference between the outlay of variable capital and the total of new values is called surplus-value.

Thus, if an average worker works a 40 hour week, he produces new labour-values equivalent to 40 hours. Suppose the labour-time required to finance his or her reproduction is only 30 hours. The remaining 10 hours are appropriated by the capitalist. This is summarised in the diagram opposite.

These three basic components of labour-value are not just random numbers to be added up, or concepts of technical interest. In the way that they relate to each other, they illustrate the social conflicts within capitalist production, and the nature of class power.

(i) Machines and workers

The ratio of constant to variable capital (the “organic composition of capital”, $c: v$) represents the proportion between the labour-time stored up in the means of production and the living workers with which it is combined. Because the product of past labour is monopolised by the capitalist class, it is used to enforce the wages system against workers who must sell themselves to obtain access to productive employment. The greater the accumulation of constant capital, the greater is this potential of class opposition.

(ii) Production and exploitation

Class power in the process of production is summed up in the ratio of surplus-value to variable capital (the “rate of exploitation”, $s: v$). Surplus-value does not occur by accident, but as a result of the ability of capitalists to control production and labour discipline. Their role, far from being parasitic, is to enforce the expenditure of labour-power for a greater duration than the hours necessary at the time to reproduce the working class. Thus increasing the rate of surplus-value may mean lengthening the working day, cutting out tea breaks or speeding up track movement.

Constant capital (c)	Variable capital (v)	Surplus-value (s)
Labour-value stored up in means of production used: say 20 hours	Labour value commanded by the exchange value of labour power or wage: say 30 hours	Labour value commanded by the capitalist: say 10 hours
		
<p>The use-value of labour power to the capitalist, $v + s = 40$ hours of new labour values created by currently used labour power.</p>		
		
<p>The gross labour value of output, $c + v + s = 60$ hours</p>		

Workers may combine in trade unions to resist this class monopoly and its productive regime. But making workers work harder or longer narrows the “space” available for collective organisation, on or off the shop floor. In

addition the control of bonuses, promotion and the availability of jobs gives management the means to set worker competing against worker and to divide the movement, on and off the shop floor. As a result there are constant class struggles over the division of the working day between that part which can be commanded by workers through the wages system, and that part which can be appropriated by capital through realised profits.

(iii) Profit and competition

This struggle is heightened by the fact that capitalists compete against each other. Relations between capitalists are regulated by the rate of profit, underlying which is the ratio of surplus-value to constant plus variable capital ($s: [c + v]$). Particular capitalists may fail to realise the rate of profit normal in the economy, for example through technical inefficiency, wasteful use of resources, or inadequate labour discipline. They will be unable to accumulate as rapidly, or to attract new funds of money capital, and will be driven out of business. Those who achieve higher rates of profit will become stronger than others. Thus, market relations between capitalists are also an essential part of the system.

In the same way, the rate of interest reflects a relationship between industrial and finance capital, while rent shows the balance of power between landed and industrial interests.

Under capitalism, there are many barriers to free competition. Above all, monopoly and state regulation today affect market behaviour. But what Marx set out to show, for the first time, was that class and exploitation are inherent in capitalism, whether competitive or monopolistic, and that the nature of this exploitation can only

be seen by starting at the point of production itself.

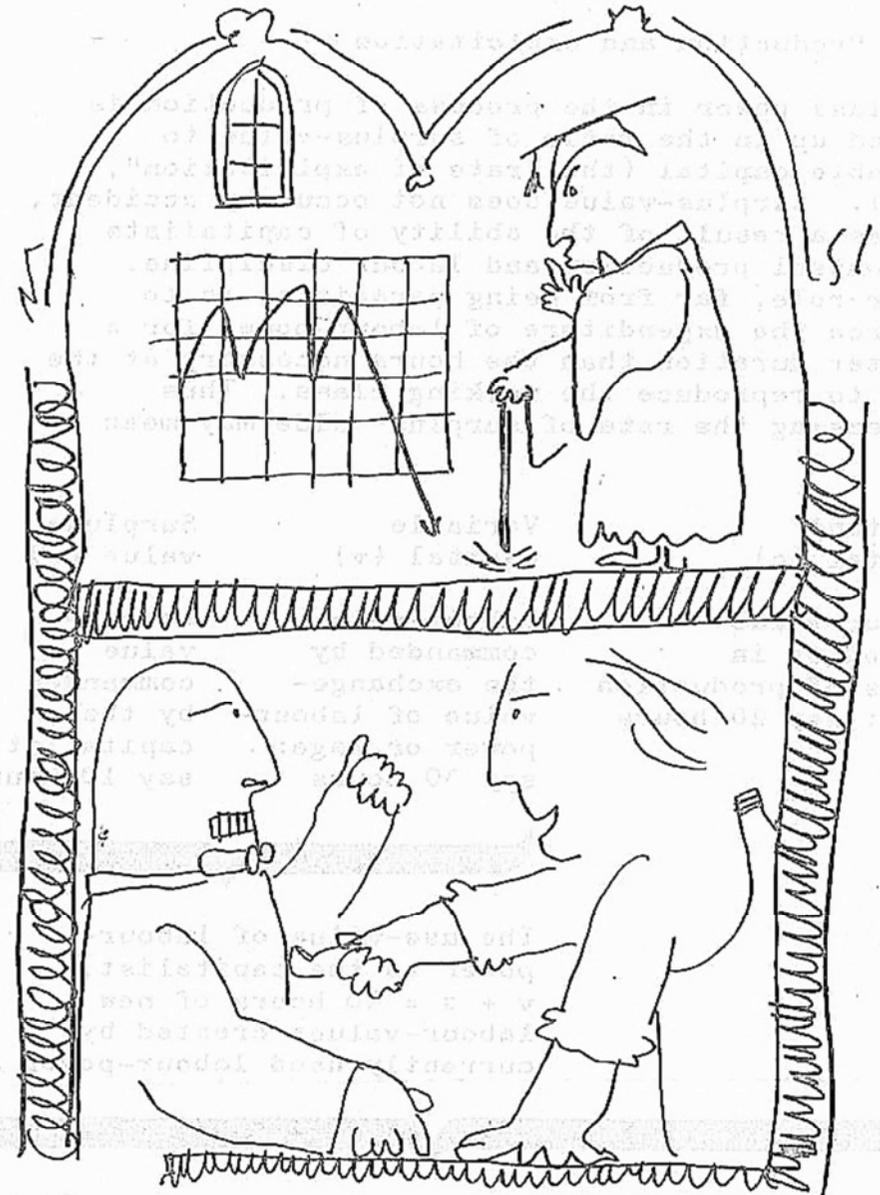
To avoid confusion, a final note is necessary. Labour-value and surplus-value are not directly observed; this would require infinite knowledge of the different branches of production, and their relationship to the “socially necessary”. But, we do observe the manifestations of value in the wages, prices and profits of the British economy. And of course, capitalists respond to wages and prices, not labour-values, and count their profits, not their surplus-value.

In real life there are many reasons why relative prices do not exactly equal relative values. Because capitalists compete with each other, industries requiring larger capital outlays will require more profit, relative to surplus-value, than others. Monopoly capital will be able to appropriate part of the surplus-value created in non-monopoly sectors. And those who service capital’s domination will require a share of surplus value too: managerial incomes, professional fees and ground-rent. Finance capital will claim a share of industrial surplus-value as interest payments.

The point of Marx’s theory of value is not to enable precise statistical analysis of observed movements in the economy; in some ways the techniques of bourgeois science can do this much more efficiently. Marxist political economy points to the underlying social conflicts which manifest themselves in observable trends. In particular it explains the source of wealth in the expenditure of labour-power, and the source of profit in surplus labour-time.

QUESTIONS

1. What do owners, managers and supervisors do, for example at your place of work?
2. Do workers believe that they are wage-slaves?
3. What determines the labour-value of labour power?
4. What should be the aim of a wealth tax? What effects might it have?



2 Development of the Capitalist Economy

Production is central to society. Without it we could not live. But it is also in the processes of production that our place in society is dictated, and our consciousness of our positions formed. Marx called this point of human existence the economic basis of society. At the level of the economy men and women at work together with various kinds of means of production make up our society's forces of production. These forces of production are combined and set to work within various kinds of productive social relations. The relations of production are economic (the necessity of the propertyless to undergo wage-slavery), political (the power of bosses to compel wage-slavery) and ideological (the right to compel wage-slavery). But the ideological and political relations of production are reproduced through the political, legal and cultural superstructure of our society. In this section we shall look at the economic basis, the capitalist mode of production: its origins, its tendencies of development and its present stage of state monopoly capitalism. In the next sections we shall consider the ideological and political relations of the British capitalist economy.

The transition from feudalism to capitalism

In the medieval feudal economy, political power was based on the domination of noble landowners over small peasants. This domination was of two kinds, military and moral. Moral force meant the force of religion, and the divine right with which Kings and their aristocracy were endowed by the church:

“The rich man in his castle,
The poor man at his gate,
God made the high and lowly
and ordered their estate”.

But throughout medieval Europe the church itself was a great landowner.

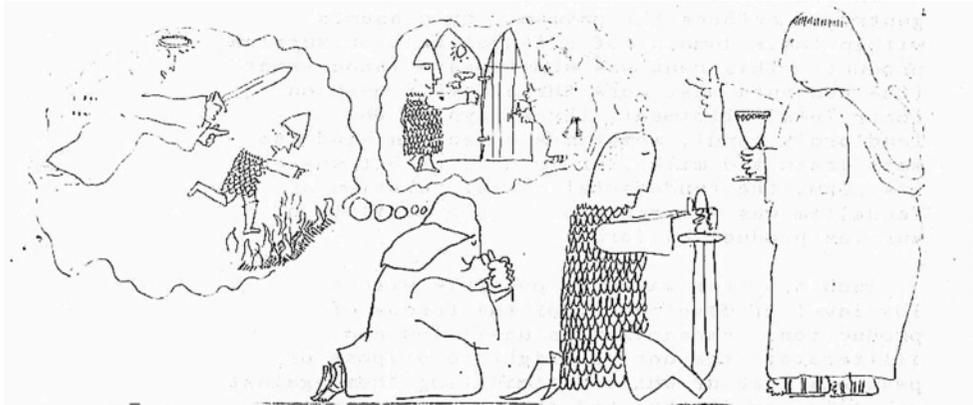
Military force meant the maintenance by the gentry and Church of standing armies to enforce their rule. It was more than an exercise of naked force, since the ideology of the feudal order gave the landlord the very necessary duty of protecting his own peasants against the standing armies of others. But as long as order was assured, and the peasants were provided with the security of land allotted to them, armies and ideology gave the nobility absolute power.

In feudal society this meant the power of the gentry to enforce the payment, by peasants within their domain, of a feudal rent or surplus product. This rent was sometimes a labour-rent (the peasants must work three days a week on their “own” allotment, three days on the landlord's land), sometimes a rent in kind (so much grain and milk), or in money. But whatever its form, the fundamental social relation of feudalism was the exaction by the nobility of a surplus product by force.

Such a system was only possible with a low level of development of the forces of production. Peasants were unskilled and illiterate; the noble's right to dispose of peasants' labour while intimidating them against rebellion or flight, and the right to control trade through local monopolies, could only be assured by primitive technologies, difficult communications and the dark reservoir of peasant superstition. Yet feudalism had brought great advances over the barbarism and anarchy of the preceding Dark Ages, with its stable orders and hierarchy. It also brought the embryonic formation of a European system of nation states. To put an end to the costs of constant warfare between rival princes each with their own armies and territories, the absolute monarchy arose together with the centralisation of armed forces and taxes.

But feudalism had its own contradictions and limits. The maintenance of a ritual clergy and of armies absorbed increasing revenues out of a static economy in which no group was interested in or capable of accumulation for economic growth. Either the armies were used, in risky wars of conquest, or else they stood idle, as a witness to the parasitism of the feudal estates. The more successful the establishment of peace, the clearer was the relation of feudal exploitation; the more likely was rebellion and the more necessary, costly and unreliable became the army as an internal garrison.

In the rise of peasant movements against inexhaustible demands for rents and taxes, moral force too proved double-edged. Marx saw religion as “the opiate of the masses” - and also as “the wish-dream of an oppressed humanity”.



In the message of brotherly love and equality before God, peasant rebellions found a profoundly religious inspiration

Within the old society we can isolate three key features of the rise of capitalism:

- (i) The breakdown of the “manorial economy” and the coercive power of the gentry was accelerated by the ability of peasants to establish their own control of individual production and trade. Underlying the growth of free trade was a defeat for the gentry’s

attempts to control peasant links with the external economy through feudal rent. To adjust to this reality, some gentry themselves became merchants.

- (ii) While some peasants were engaging in trade, becoming richer, and ultimately hiring the labour-power of others, those other peasants were getting poorer. Partly this was through the slow polarisation of a rural economy increasingly exposed to unregulated market forces. But there were also great discontinuities which pauperised thousands at a stroke: the disbandment of private armies, the dissolution of the monasteries by Henry VIII and the enclosure of common lands which began in Tudor times (but continued up to the 19th century).
- (iii) Within the growing towns the urban estates were increasing and becoming more fluid: merchants, capitalists, artisans and workers.

In countries like Britain, the very strength of the growing bourgeois classes brought a direct clash and the outright destruction of feudal economic and political power. Most Marxists date the political revolution which brought this from the English Civil War and the victory of the Parliamentarians under Cromwell. In countries where capital was weaker, it had to combine with existing feudal bureaucracies, absolutism and anti-semitism to develop. Capitalism has maintained and developed racial and sexual oppression, and is never found in pure form. But the central contradiction which gave the capitalist economy its forward momentum, was that between capitalist and worker.

The Capitalist Mode of Production

In the first chapter we saw how capitalists create a surplus of labour-values from the total of values contributed by the labour-power at their disposal, and that this exploitation is inherent in capitalism whether competitive or monopolistic. What are the implications of this

one fact for the behaviour of the capitalist economy?

(i) Efficiency

Wage-slavery is economically efficient, as long as it permits the controlled division of labour (or specialisation) and flexibility in the use of the labour-power. Workers must find work where it is most demanded, and a condition of their employment is that they should co-operate in production.

It is also ideologically efficient, as long as slavery in production is less perceived than workers' freedom to sell themselves in the market to whichever capitalist will take them. This is not a fraudulent freedom, because it is genuinely more free than a system of directed or forced labour.

(ii) Dynamism

Capitalism is a dynamically growing system, partly because it creates a surplus which is potentially investible: the surplus of labour-values enforced by capitalists through the class relations of production.

But of equal importance to capitalism is the necessity of investing the potentially invertible surplus. The necessity of investing in expanded capital and production arises out of the relationships within the capitalist class. Each capitalist is in competition with other capitalists through the market. Each must seek to undercut, undersell and innovate. The accumulation of capital is not only a condition for growth of the whole economy, but is a condition of survival for the individual capitalist. Consequently the period of capital's domination has been one of unprecedented growth in accumulated means of production, output and employment.

(iii) Unevenness

This growth has been concentrated in various ways which have created and depended upon backwardness in other areas. Industrialisation and the transition from widely scattered village industries (based on domestic production) to factory production brought the domination of town over countryside, and of England over Scotland, Wales and Ireland. Later the British economy, where the first capitalist growth was concentrated, came to

dominate over enormous tracts of the world; the 19th century de-industrialisation of India is an example of the result.

(iv) Periodic instability

But capitalist growth of output tends periodically to outrun the possibilities of sustaining and absorbing this growth. This can be understood in two ways.

Underconsumption theories, which can be traced through the writings of Marx, Lenin, Luxemburg and modern U.S. Marxists, suggest that capitalists hold down the wages of their particular work-forces to the point where the purchasing power of the working class as a whole can no longer demand the growing volume of consumer goods produced and for sale. In the terms of value-theory, labour-time has been expended in the production of goods, but the labour-values embodied cannot be "realised" by the capitalist on the market. Capitalism does not regard the labour-time spent as socially necessary. Prices and profits fall, production and employment are cut back and wages and demand fall still further. The economy stagnates.

Overproduction theories, which can also be traced from Marx to the present day, suggest that capitalism is unable to grow evenly and in a planned way. Capitalists must realise their surplus-value as profit by selling commodities on the market. If purchasing power is inadequate, goods which might satisfy human needs will remain unsold; repeated on a general scale, this

will bring about a temporary crisis of bankruptcy and redundancy.

Such a crisis may occur for various reasons. For example, in the upswing of a boom, capitalists may invest rapidly in new means for the production of consumer goods as demand rises. But when the new factories are ready, the market for their products may no longer exist. Firstly, the high level of capitalists' demand for investment goods may have brought about a price inflation, eroding the real worth and purchasing power of wages, which have failed to keep pace with the productive potential of the economy. Secondly, the lay-off of workers previously employed in building new factories will itself reduce working-class purchasing power. Thirdly, by this time there may be insufficient supplies of the specific types of labour-power required to operate the new factories. Each of these different possibilities, reflecting the inability of capitalist production to plan itself, may result in an "excess" availability of material wealth. Each capitalist will cut back production plans and employment, resulting in a further spiral of falling demand and increasing redundancies until conditions have eased. Such crises can also be intensified by other factors. The upswing of a boom may bring a demand for credit and loan capital to finance investment, which exceeds the supply available. Rising interest rates demanded by financial capital will squeeze industrial profits. In post-war Britain, governments have frequently engineered such credit squeezes deliberately, simultaneously with cuts in working class purchasing power through taxation and wage restraint, in order to bring forward the point of crisis before its ultimate consequences become too damaging.

In Britain most Marxists reject the underconsumption theory of stagnation. Our history has shown that capitalism has no necessary and permanent tendency to push down wages (which have risen steadily many times over since the last century) and thereby provoke its own collapse. Wages are sometimes pushed down, as in the 1930's and more recently with the changing forms of the Social Contract. But this has been a specific response to specific crisis conditions, designed to strengthen capitalism as a system at the expense of temporary recession.

The overproduction theory contains important insights into the mechanisms of periodic crisis. Not all these mechanisms work simultaneously, or for the same reasons. Overproduction is not a permanent state of capitalism, and can occur spontaneously or by governmental design. (For further discussion see chapters 4, 5). To find the tendencies which create the crisis of the capitalist economy as a system we have to look deeper.

(v) Contradiction

Starting from concepts of capitalist growth, Marxists have foreseen different ways in which the development of capitalism ultimately leads to its self-destruction.

Some start from the concept of capitalist instability and consider that the system causes its own economic breakdown through the "law of the falling rate of profit". Marx's underlying idea was that with a rising organic composition of capital (or ratio of constant to variable capital, $c : v$) and a constant rate of exploitation ($s : v$), the rate of profit ($s : [c + v]$) must necessarily fall. The accumulation of constant capital, the condition for individual capitalists' survival, is also the condition for the collapse of the capitalist system.

But, it seems, the law of the falling rate of profit is not inexorable. Marx himself wrote of countervailing tendencies, of which the most important were increased rates of exploitation ($s : v$),

technical progress in the manufacture of consumer goods (lowering the labour-value of variable capital, v), and in the manufacture of machines (lowering the labour-value of constant capital, c , and therefore also of consumer goods, v). Any of these could indefinitely maintain the rate of profit while the number of machines per worker increased.

In short, the rate of profit is not mechanically determined. It is a social index of the state of the forces and social relations of production: technology, skills, managerial and class power, competition. The rate of profit sometimes rises and sometimes falls. And no socialist revolution has been attributed simply to the operation of any mechanical law.

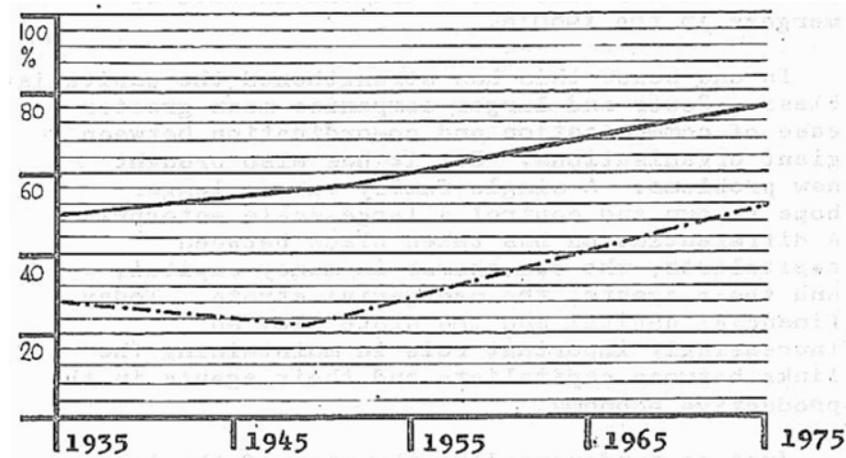
Other Marxists, and Marx himself, have also seen the contradictions of capitalism in a broader perspective. In the 'Communist Manifesto' Marx pointed to the significance of monopoly in determining the progress of society as a whole. The accumulation of capital results in its "centralisation" into larger and larger productive units and places of work. Competition between capitalists results in the "concentration" of increasing capital into fewer hands. The numerical strength of the capitalist class as a proportion of the population is eroded at the same time as its reliance on paid managerial agents is increasing. In addition, workers have been concentrated into larger and larger factories, and have become more aware (though with varying political results) of the growing interdependence between the fates of different sections of class and society.

This creates the conditions not for a cyclical crisis, or an economic breakdown, but for a general crisis of capitalism - general because it sharpens all the contradictions between classes, between imperialism and its colonies and between imperialism and socialism. Such a crisis may originate in the development of society's economic basis, but it cannot become general until the most important force of production, the working* class, challenges the ideological, cultural and political power of the ruling class. Such a crisis may originate in the development of society's economic basis, but it cannot become general until the most important force of production, the working

class, challenges the ideological, cultural and political power of the ruling class.

Some views of monopoly capitalism

Bourgeois theories of monopoly concentrate on market power. Here monopoly means "one seller", i.e. the market for a particular product is concentrated in the hands of one firm. Few such monopolies exist, and in Britain most of them are nationalised. But there are many private oligopolies, or markets with "few sellers", and the degree of oligopoly has been rising. In 1951, for 324 U.K. industries, on average 56% of the sales - and by 1968, 69% - were in the hands of the five largest firms of the industry concerned (see diagram).



Share of output, average for 324 industries, produced by the 5 largest firms in the industry concerned.

Share of national manufacturing output produced by 100 largest firms in the whole economy.

Source: S. Aaronovitch and M. Sawyer
'Big Business' Macmillan 1975

Market power means the ability to control prices and demand through lack of competition, through advertising, strength in wage negotiations etc. This market power has probably increased through and since the 19th century, opposed only by the rime of trade unions (although it should be remembered that under “competitive” capitalism, national markets were more locally fragmented: the village store had its own local monopoly).

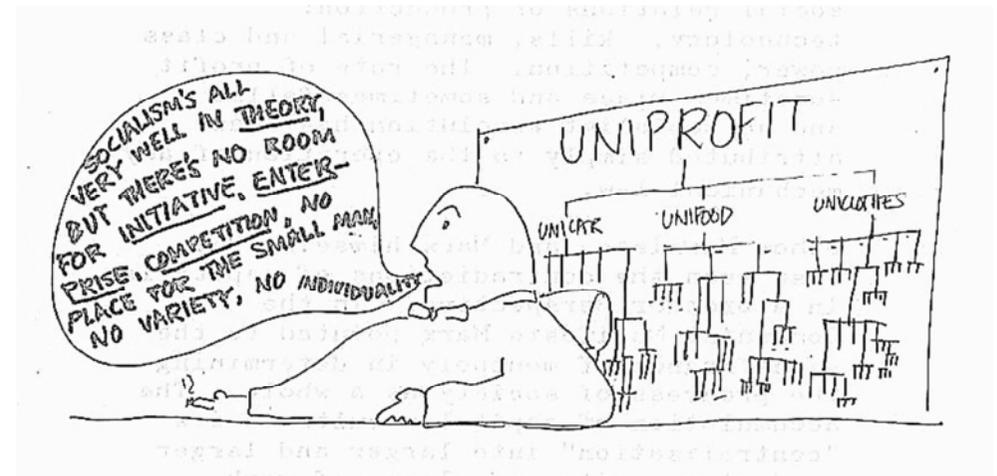
Underlying the development of market power are fundamental changes in class power. Not only have the five largest firms in each industry increasingly dominated the industry concerned. Over time, these different five-firm groups have tended to become the same five firms in every industry. In 1949 the top 100 manufacturing companies produced 21% of total output. By 1970 their share had risen to 46%. One reason for this was a tremendous wave of mergers in the 1960's.

In one sense this has strengthened the capitalist class. Fewer and larger companies mean greater ease of communication and co-ordination between giant organisations. But it has also brought new problems. A single family can no longer hope to own and control a large-scale enterprise. A differentiation has taken place between capitalists, who own shares in money capital, and their agents, the managerial strata. Today financial capital and the state play an increasingly important role in maintaining the links between capitalists and their agents in the productive economy.

Just as fundamentally, the rise of the large-scale corporation has meant the transfer of competition and exploitation from the domestic economy to a world scale. As a result of more -than a century of search for raw materials and markets, multinational companies today hold economic assets both in many different advanced capitalist economies and in the underdeveloped world. The big giants have shared the non-socialist world between themselves.

Again this vast undertaking has brought great profit, and new problems. Its co-ordination requires further differentiations of function between capitalists, managers, bankers and the imperialist states. Not only are

constant conflicts at work between different interests; these conflicts are worked upon by the international working class created by imperialism, and by the trade union and other organisations whose spread has been facilitated by the large-scale factory and the destruction of national and international barriers to communication.



Questions for discussion

How has the British class structure been affected by the fact that it experienced the first and most complete capitalist industrial revolution?

What are the most important reasons for the periodic crises experienced by the capitalist economy? Does it ever “break down” completely?

What are the most important features of monopoly capitalism?

3 Class Struggle and the Just Wage

In the first two chapters we have looked at the Production of commodities under capitalism, and at Marxist ideas about two particular problems: the distribution of the product between wages and profits, and the growth of the product that characterises capitalist development.

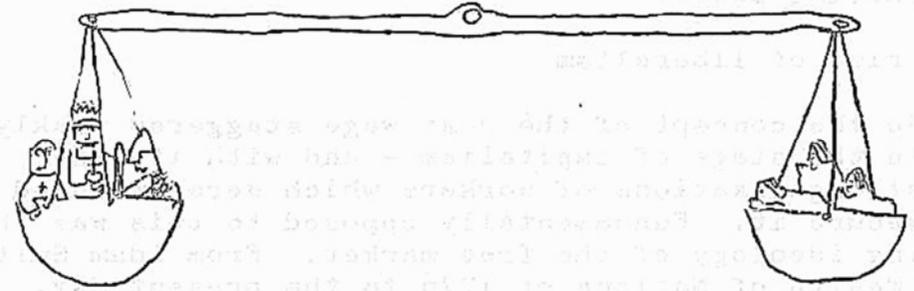
There is a further, equally important problem. Since capitalism began, there have been many different schools of thought concerning not only the actual or observed distribution of the product, but also the distribution which our society should seek to achieve. How should we evaluate these ideas? What role have they played in determining the actual distribution of income?

In this chapter we shall look at the development of British capitalism through other eyes: through the developing consciousness of working people, their leaders and their teachers. We shall look at the relationship between economic and ideological struggle, and at the role of the state in the wages question. This will enable us to turn, in chapter 4, to the most difficult question of the state and the exercise of political power.

Economic justice in the dawn of capitalism

Early notions about the “just wage” were derived from the feudal society out of which capitalism developed. The ideology of the “feudal contract” dictated that in return for the forced labour or rent of their serfs, the Lord of the Manor must guarantee their livelihood with the provision of land, law and order. Because the authority of the Lord descended from that of the royal court, economic justice was also seen as something enforced ultimately by the

state (in fact a traditional peasant outlook on injustice was to see it as the result of a “bad” landlord perverting the wishes of a just king).



The coming of capitalism fundamentally destroyed the basis of the principles which E.P. Thompson calls the “moral economy”. Peasants were driven from the land, and their livelihood was no longer even in principle guaranteed. It could only be achieved by the sale of their labour-power for wages in an unregulated and unprotected market. Nonetheless early radicalism sought a return to the principle of “moral economy”. Rising food prices on the free market in time of scarcity were a vital issue in the riots which swept the country in the 18th century and right up to the 1840’s.

These turbulent events raised the constant demand for church and state to intervene against grain traders and speculators, and thereby to guarantee the living standards of the poor. The response of the state was to repress agitation and to uphold the condemnation of the destitute to the workhouse under the Poor Law. However, it is interesting to note that in the early part of the 19th century some local authorities in the south of rural England instituted one alternative to the workhouse, a system of minimum-wage supplementation, paid out of rates and based on the price of corn. Lacking any basis in trade union organisation and pressure, its principal consequence was the collapse of local wages paid by farmers. In 1834 this system was abolished; the discipline of the free market and the workhouse returned for another eighty years.

These episodes are not just history. They show that the theme of the “adequate standard of living” has always been fundamental to working class struggles. But if the standard of living is defined by money wages and prices, no state-administered “moral economy” can replace the collective organisation of workers around the issue of the real wage and its purchasing power.

The rise of liberalism

So the concept of the just wage staggered weakly on to the stage of capitalism - and with it, the first organisations of workers which were intended to secure it. Fundamentally opposed to this was the rising ideology of the free market. From Adam Smith’s *The Wealth of Nations* of 1776 to the present day, the theory has been perfected that the social welfare is maximised with the free play of competitive market forces. “Fairness” was reduced to a technical outcome - obviously an unfair distribution of income was simply one whereby any group of individuals, whether monopoly or trade union, combined to improve its position, for such an improvement could only be at the expense of society as a whole. This theory, the theory of the “functional distribution of income”, can be characterised in the following way.

(i) Techniques

According to this theory the economy must be pictured as a large number of productive enterprises characterised by known techniques of production. In these techniques factors of production (i.e. capital, labour etc.) are combined in known proportions to produce given outputs. Large-scale techniques have no advantage over small-scale. There is no tendency for big firms to drive out smaller ones, and no tendency towards “mono-polistic distortion”.

Capitalists will maximise profits by combining men and machines in such proportions that the wage cost of hiring an additional worker will be the same as the additional revenue produced by the increased work-force, i.e. the profit is made on the existing workers, and no more can be derived by hiring one

more worker, so the average wage-rate will equal the net contribution of the marginal worker. In the same way, the average profit-rate will equal the net contribution of the marginal machine.

This picture of production is purely technical, and makes no attempt to relate to social processes. For example, by assuming that techniques are “known”, i.e. fixed unless there is a scientific improvement, the possibility is excluded that changes in the content of labour-time (resulting from the authority of capitalists or the resistance of workers) can affect the productivity of capital, or labour.

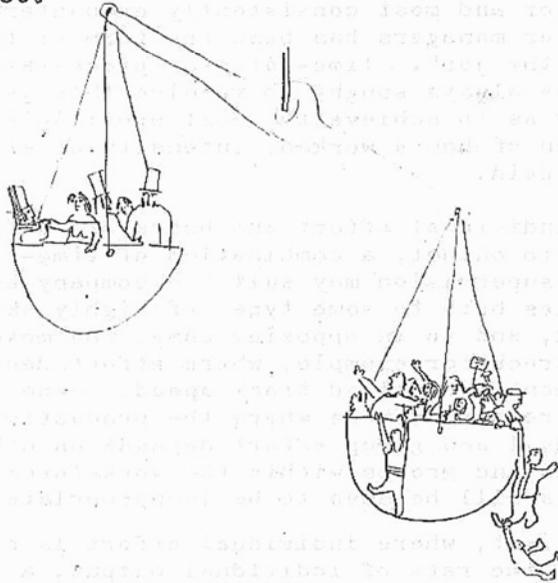
(ii) Individual preference

Outside production, society is seen as individualistic. What determines the rate of profit? On the one side, techniques, which determine the marginal contribution of capital. On the other side, capitalists’ free individual choices. Capitalists will invest their money capital in machines until the marginal contribution or rate of profit on capital has fallen to the point where they choose not to invest further. And this choice is the outcome of their preference between investment, yielding future income and consumption, and immediate consumption of their money capital. Thus the rate of profit reflects the preferences of individual capitalists.

What determines the wage-rate? On the one side the technically determined marginal contribution of workers. On the other side, workers choose freely between leisure (or idleness), and work which will bring immediate income and consumption. They will work at the going rate of pay until the additional wages received no longer compensate for leisure foregone (e.g. through overtime). If work is unobtainable at the going rate, workers may choose between unemployment and lowering the wage which they demand. Workers may even, if they choose, become capitalists, by abstaining from immediate consumption and saving money capital. The rich choose riches and the poor have chosen idleness. The constraints within which choice is exercised are technical, and therefore fall outside the concerns of social science.

(iii) Harmony

Society is therefore seen as ultimately harmonious. Two factors of production are combined, each making its own contribution and receiving its own return. Yet behind the one factor, "labour", stand people who do not own capital, and must therefore of necessity work for those who do own capital; behind the other factor, "capital", stand people whose role in production is not labour itself, but the enforcement of labour, and the realisation of the values produced on the market.



(iv) Money-capital and machines

In fact, as we saw in chapter 1, machines do contribute to the production of value. But neither money capital nor its owners make any contribution. If all the share certificates and banknotes in the country went up in smoke, the productive economy would be untouched.

Money capital entitles its owner to require others to labour. Consequently its reward is simply a reward for owning money capital. So the rate of profit received by owners of money capital must depend not on the contribution of capital but on the ability of capitalists to create a surplus of labour-values.

In the same way, the wage does not depend on the contribution of labour. For workers of past generations themselves mined coal, forged steel and built the machines, which capital claims today to "contribute", and with which workers today carry on current production. The contribution of labour is the total of values produced; the wage is another matter.

Trade-Union bargaining ideologies

In response to the powerfully abstract challenge of liberalism, the labour movement from its birth has had to seek out the ideological foundations of its economic resistance. In collective bargaining, ideology is as important as mass struggle. While the outcome may depend on the strength and unity of the trade union, that unity must be held together by the ideology of the bargaining position. In this process, the ideas of "the rate for the job" and "a fair day's pay for a fair day's work" have played crucial roles.

What has been achieved on the basis of these ideas? A dominant trend in the trade unions continues to accept the wages system and the role of market forces in general, although more and more trade unionists have questioned this position. But almost all tendencies have expressly rejected the idea that wages should be determined by worker competing against worker on the market. Thus, first and foremost, achieving the rate for the job meant eliminating individual bargaining and the attachment of different rates of pay to different individuals or groups doing the same job. Paradoxically, the situation in which individual competes against individual, and terms of employment are personally negotiated, is one which bourgeois theory sees as conducive to the impersonal interplay of market forces, while in reality it has involved the most personally encountered and directly enforced inequalities.

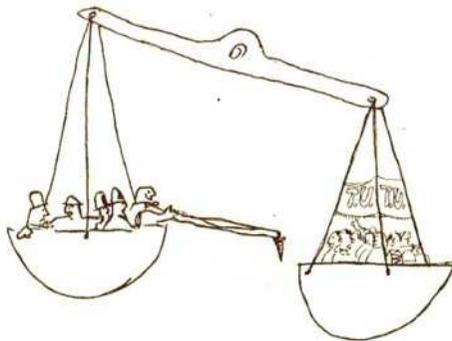
However, this trade union stance has never had the character of a force for the "final emancipation of the working class"; it has been an oppositional ideology of trade unions in their necessary position as organisations of sections of workers, as sectional "centres of resistance" within capitalism and against

the most naked forms of domination and division. In many ways this stance has accepted the intrinsic exploitations and subordinate oppressions of capitalist society.

There are principles of “fair comparison”. But who should decide what is fair? The “rate for the job” has not prevented both management and white, male trade unionists from seeking to exclude blacks and women altogether from access to well-paid skills and jobs. Nor has the “rate for the job” solved the issue of relative rates of pay between different jobs. “Fair comparison” tells us that what happened yesterday should continue to happen tomorrow, and does not prevent sectional disputes over which group of workers is today’s “special case”.

Nor has capital overlooked the implication of “the rate for the job” and “a fair day’s pay”: workers who get the rate are expected to work for it. The co-operation of workers in production has been the price demanded by capital in return for collective bargaining. Without a scientific way of analysing job content and its social character, success in the fight for fair wages has essential limits.

In general these trade union stances are descendants of the pre-industrial “moral economy”. They are not reactionary throw-backs, but are one of the many possible ways in which trade unions carry out their inherent task of the defence of the economic interests of sections of workers. They are moral stances, but with political implications.



The managerial response

The response of corporate management to trade union resistance has been through many sophistications. Liberal ideology told company executives that trade unions were monopolies which raised wages at the expense of society, and that trade union recognition was a form of treason. The growing strength of organised labour rendered this view impractical, although it recurs, unsurprisingly, in periods of reaction.

The major and most consistently encountered question for managers has been the form of the “rate for the job”. Time-rates or piece-rates? Capital has always sought to resolve this issue in such a way as to achieve the most profitable combination of hours worked, intensity of effort and wages paid.

Where individual effort and hours are difficult to relate to output, a combination of time-rates and close supervision may suit the company best: this applies both to some types of highly skilled craft work, and to an opposing case, the motor car assembly track for example, where effort depends on management-controlled track speed. Generally, in the increasing sphere where the productivity of individual and group effort depends on other individuals and groups within the work-force, piece-rates will be seen to be inappropriate.

By contrast, where individual effort is clearly related to the rate of individual output, a piece-work bonus system will do away with the need for supervision - as long as the rate is low enough to compel workers’ effort through economic necessity. And indeed the point of the piece-rate is not to relate wages to productivity, but to maximise the effort which workers must put in to achieve a weekly wage no greater than their socially necessary subsistence. If a technical improvement increases the rate of individual output for given effort, the piece-rate must be lowered to maintain the “incentives” beloved of capitalism.

Thus, in both cases, the fairness of the rate for the job is left as a matter of managerial discretion. This is not to say there is nothing to choose between them; where managerial

supervision and control are weak, trade unions may fight for time-rates. Or, where employers are nationally divided, and shop-floor trade union organisation is strong, a piece-rate system negotiated locally may be the best arena for wages struggles. And, from the managerial point of view, they fail to resolve the issue of what kind of rate for what kind of job.

In the post-war period new ideological responses have been found in two directions. The first response has been the establishment of managerial criteria of fairness. Job classification and evaluation schemes took over the concept of the rate for the job, and applied it from a different class standpoint to the ranking of jobs in terms of effort, skill, danger, initiative and responsibility (for example points are awarded for the job's score under each heading, and the total of points awarded determines the position on the wage scale). Some of these criteria are more objective than others. Coal-mining and deep-sea fishing obviously involve more effort, skill and danger than many other jobs. Criteria like "initiative" and "responsibility" are more plainly political in content. The life of a sales executive may require both. At the same time, shareholders, who receive income without necessarily having jobs, fall outside its scope; thus, even supposing a fair ranking of all jobs were scientifically defined, the division between wages and profits would remain at the discretion of capital.

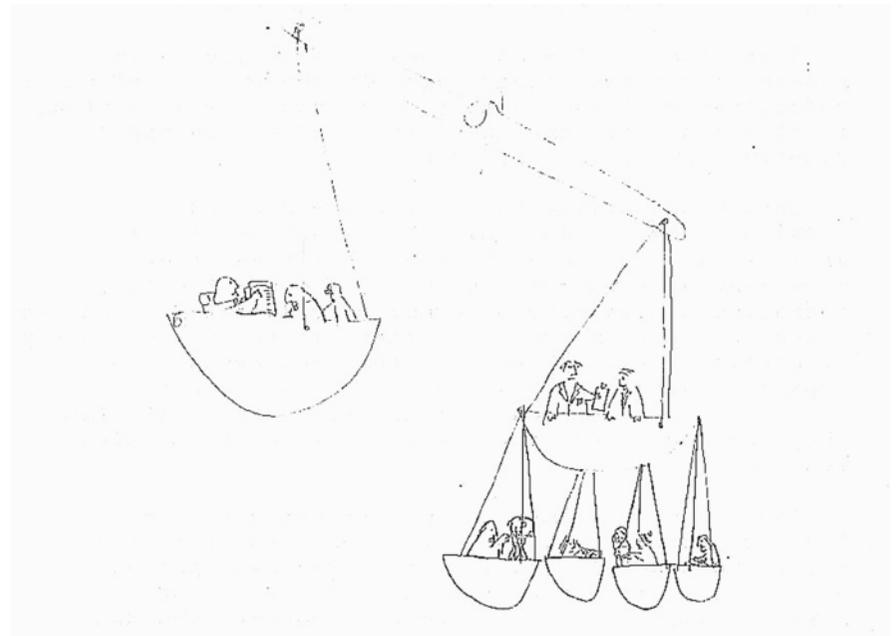
In other words, job evaluation rationalises existing social definitions. Trade unions have found that it has not solved the question of the fair wage, although it has explicitly taken over trade union concepts of fairness. It has simply become another focus of the unremitting struggle for justice, in which job definition must be negotiated along with the level of the wage.

For a period the capacity of trade unions to continue this fight was deeply threatened by the second avenue of managerial response – the development of "productivity bargaining" in the early 1960's. The productivity deal involved wage increases, often substantial ones, in return for trade union guarantees of higher labour productivity. Productivity gains were not to come out of a hat, but from the relaxation of demarcation and manning agreements previously established between trade unions or with management. In

different terms, higher wages were offered in exchange for the shop steward's rule-book.

The first productivity deal was in 1960 at the Esso Fawley oil refinery, and was publicly seen as a new and hopeful trend which was rapidly emulated throughout industry. As a result of the deal, Fawley workers' earnings became the highest in the Southampton area. The other side of the new trend emerged unheralded; the price of selling the trade union was that by 1967 Fawley earnings had collapsed to one of the lowest wage employments in the area.

In the more recent past productivity bargaining has had few supporters. Many trade unionists have learnt that increased wages in return for increased managerial power over production and the work-force are not a new avenue to fairness. The state, concerned to blame price inflation on rising money wages, has brought productivity deals under the general limits of wage restraint. But that is no guarantee against a future repetition of this experience.



In summary, the history of men and women at work shows that the success or failure of wages struggles must be looked at together with what happens on the job. Fairness has proved a constantly receding objective which must be chased in two directions at once; an objective which can be conceived, defined and negotiated in the course of trade union struggles, but not achieved with a penny on the pound. With a Labour Government in power trade unions have again turned to the state, to political intervention and to the Social Contract. So have the bosses.

The response of the state

The full record of state intervention in the British economy is left to chapter 4. Here we are concerned with the ways in which the state has responded to working class concepts of fairness. Here too we find that in the post-war period the state has been compelled to move away from implacable rejection to policies which have sought to take over the concept of the “just wage” and use it against the labour movement.

Since the war the state has come to locate the reasons for rising money wages in the pursuit of unfair objectives by trade unions; the rise of wage-restraint is also a history of the state’s definition and redefinition of the fair wage.

Unfair objectives were sometimes defined as sectional wage claims which “created” special cases of low-paid workers elsewhere. Policies of overall wage restraint pursued in the 1950’s and 1960’s therefore had to make allowance for “special cases” to catch up. But in real life there is an endless supply of special cases. Even with the ideology of the “special case”, which states that there can in principle be a fair wage structure under capitalism, there are too many low-paid workers in the British economy.

Today the government draws attention to the “unfair” encroachment of wages upon profits; the Social Contract in its varying forms has applied to all workers without exception, and permits of no special cases. It is argued that workers who demand higher wages do so at the expense of either lower pre-

tax profits or of higher taxation of workers; and that this struggle will only result in lower investment and future unemployment.

The Social Contract appeals partly to a sense in the working class of a need to plan personal incomes more rationally, and to avoid a return to the sectionalised struggles of the past. Yet it has not sought to touch capitalist control of production and prices. In fact its appeal is not only forward looking. Under the medieval rules of economic justice, guaranteed by the state, the price of livelihood was exploitation. During a century of rapid capitalist expansion, trade unions have successfully achieved unprecedented economic gains, and through struggle have had a fundamental impact on both the distribution of income and the consciousness of the working class. The appeal of the Social Contract, however, is a traditional one which is still capable of evoking a moral response: the acceptance of the wages system as a “fair return” for exploitation.

The Just Wage and Capitalism

To summarise, justice under capitalism is an ideological concept: ideological firstly because like all ideologies it is created in struggle over material conflicts, and in response to the material circumstances of social classes; and second because under capitalism there is no scientific way of setting the just wage. The only scientific statement to be made is that wages as the reward for wage-slavery are an expression of the domination of one class over another.

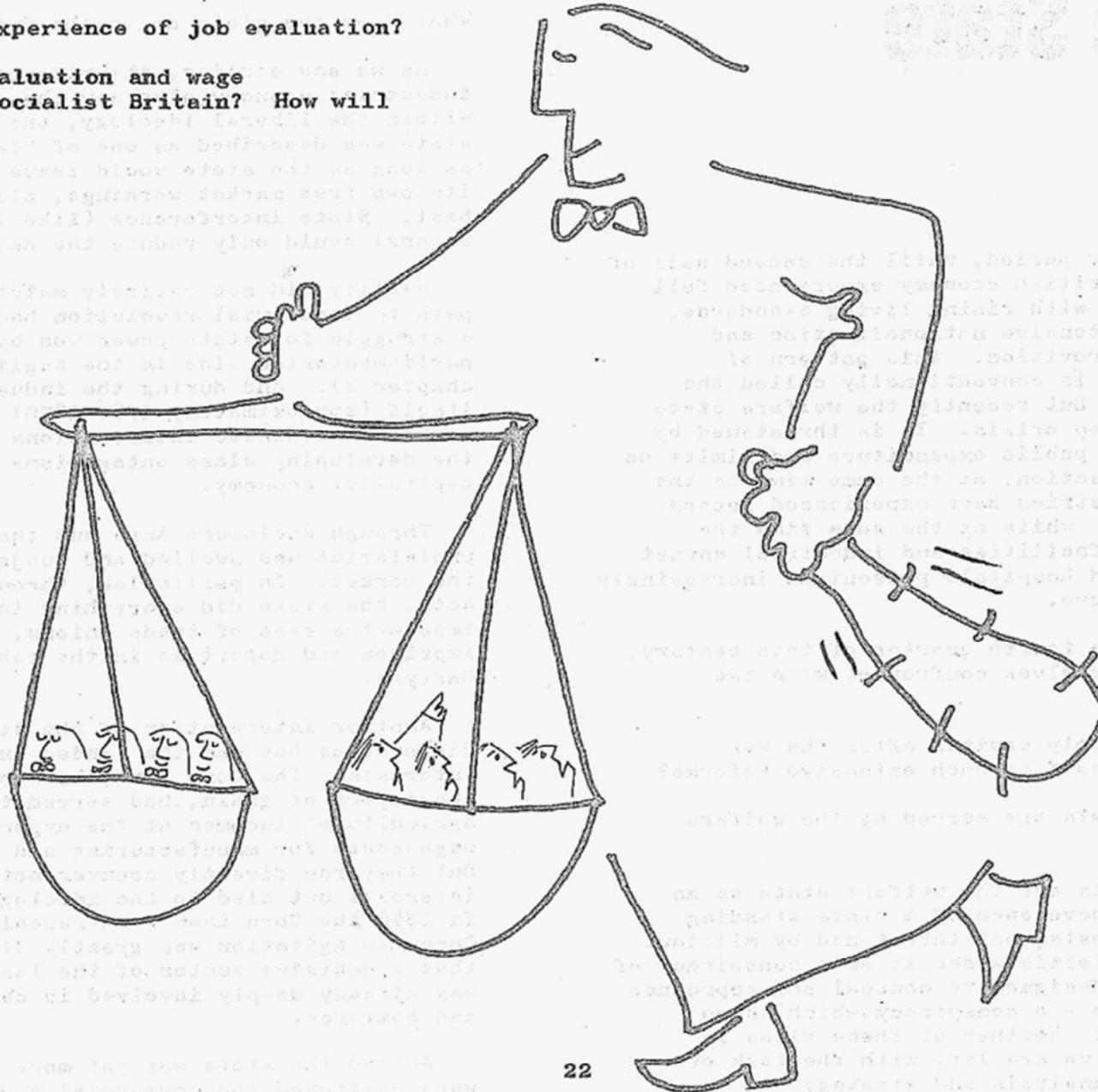
Workers’ standards of living are not just a basketful of consumer goods. They stand for the value of labour-power. Wages are the outcome of a struggle between classes over the cost in labour-time which capital must pay to reproduce the labour-power which its regime exacts on the shop floor. As long as this class relation exists, fairness will be pursued by the organised working class, in negotiating the labour contract and on the shop floor itself. But the achievement of fairness will remain around the corner from the removal of capital’s power.

Questions for discussion

What are the possibilities and limits of trade union wages struggles? To what extent can sectionalism be overcome?

What has been your experience of job evaluation?

Will there be job evaluation and wage differentials in a socialist Britain? How will they be arrived at?



4 Class Struggle and the State

In the post-war period, until the second half of the 1960's, the British economy experienced full employment growth with rising living standards, accompanied by extensive nationalisation and expanded social provision. This pattern of capitalist growth is conventionally called the "welfare state". But recently the welfare state has moved into deep crisis. It is threatened by calls for cuts in public expenditure and limits on further nationalisation, at the same time as the nationalised industries have experienced record financial losses; while at the same time the deterioration of facilities and industrial unrest in our schools and hospitals present an increasingly unmanageable picture.

Moving into the fourth quarter of this century, Marxists find themselves confronted with two problems:

- (i) How did monopoly capital after the war reconcile itself to such extensive reforms?
- (ii) Whose interests are served by the welfare state?

Social-democrats see the welfare state as an example of the benevolence of a state standing above class interests, but threatened by militant wreckers. Ultra-leftists see it as a conspiracy of monopoly capital designed to conceal and reproduce its own domination - a conspiracy which is no longer convenient. Neither of these views is satisfactory, and we are left with the task of building our own analysis and strategy.

To answer these questions we must look firstly at the previous roles played by the state, and then at the role played by Labour governments in particular.

What does the state do in the British economy?

As we saw earlier, the rise of Britain's industrial economy also saw the rise of liberalism. Within the liberal ideology, the role of the state was described as one of "laissez-faire" - as long as the state would leave the economy to its own free market workings, all would be for the best. State interference (like that of trade unions) could only reduce the national welfare.

Reality did not entirely match theory. The path to industrial revolution had been opened by a struggle for state power won by the parliamentary side in the English Civil War (see chapter 2). And during the industrial revolution itself (approximately 1780-1850) the state made a number of decisive interventions closely related to the developing class antagonisms of the growing capitalist economy.

Through Enclosure Acts and the Poor Law a rural proletariat was swelled and subjected to the laws of the market. In particular, through the Combination Acts, the state did everything in its power to impede the rise of trade unions, not hesitating to imprison and deport as in the case of the Tolpuddle Martyrs.

Another intervention of the state settled differences between the landed and industrial interests. The Corn Laws, by imposing tariffs on the import of grain, had served to protect agricultural incomes at the expense of higher wage-costs for manufacturing and urban employment. But they ran directly counter not only to industrial interests but also to the ideology of free trade. In 1846 the Corn Laws were repealed. The anti Corn Law agitation was greatly aided by the fact that a decisive sector of the landed aristocracy was already deeply involved in capitalist industry and commerce.

Abroad the state was yet more active. Successive wars destroyed the commercial advantage of Spain,

Holland and France, securing their overseas markets for British textiles. Free trade meant British dominance through the technical, commercial and transport supremacy of British interests, established under the guns of the Royal Navy.

Later in the 19th century when France and Germany began to challenge Britain's industrial supremacy, the state took on a new role, the organisation of formal colonies. What had previously been Britain's "sphere of influence" had to be formalised into a political and legal unit, to preempt the influence of others.

Repression at home and colonialism abroad were preconditions of "laissez-faire". They established and legalised the property rights within which trade could be both free - and profitable. In establishing this framework the British state pursued a straightforward class interest rarely encountered since. But within this framework the state adopted an attitude of neutrality towards competing market forces. In economics this meant free trade, in political life - once the trade union struggle moved from hypothesis to historical fact - universal suffrage based on Parliamentary democracy. The success of mass struggle for electoral reform, and for a share of the gains from the domestic and colonial accumulation, had a powerful impact on the labour movement.

The growing strength of reformism was not a delusion of freedom, since liberal democracy in Britain was genuinely more free than the censored and bureaucratic politics of Germany or Russia. Nor was it a corrupt bargain between the ruling class and the emerging aristocracy of labour, for in the age of empires capitalism genuinely could absorb the realisation of limited but significant objectives by the labour movement; the state presided over the process, without direct involvement.

But the first world war brought home to Britain, economically as well as militarily, the rise of new industrial state powers, while the Russian revolution reawakened socialist militancy. It brought to life a growing conflict between industrial and financial capital. Financial interests, developed around

the management of money-capital, played a vital role in the rise of monopoly and its overseas extensions in the colonies. They formed important links between the ownership, direction and management of the productive economy. But their role was severely weakened by the world war, which was partly financed by the sale of Britain's overseas interests to the U.S.A. To survive as the world monetary centre after the war, the City of London had to offer high rates of interest and dear sterling. But this conflicted directly with the willingness of industrial capital to invest, and its ability to export.

From the early 1920's the threat of overproduction hung over Britain's heavy industries. At the same time, the capitalie't world as a whole was deeply threatened by a massive overproduction of agricultural commodities, brought on by decades of capital export to agrarian - largely colonial - countries, and the enforced food self-sufficiency of the industrial countries at war. In particular this endangered American farmers and their large-scale, export-oriented agriculture. Speculative fevers in the U.S. economy came crashing down in 1929, dragging the entire capitalist world into a condition of bankruptcy and mass unemployment.

Thus the policies advocated by financial capital and pursued by the government brought the earliest and most persistent signs of depression to Britain; but an underlying world crisis found a more severe impact, and a focal point, in the American economy, spreading out from there to intensify the crisis in other capitalist economies.

The Great Depression conditioned, but did not prevent, the achievement of full employment and industrialisation in the Soviet Union. Even in capitalist economies, trade controls, lower interest rates and a programme of government expenditure could have prevented mass unemployment and mass bankruptcies. Government action could have increased the purchasing power of workers (for means of consumption) and capitalists (for means of production). Industrial capital would have benefited directly, even if the City of London might have lost for ever its role as a world centre of free trade and speculation in commodities and money. Yet the ruling class showed no division on the issue, uniting with the Treasury and Bank of

England around demands for wage-cuts and a rejection of working class demands for full employment policies.

To find out what they had to fear from state intervention, and why at the time they rejected, with a single voice, the management of capitalism for full employment and growth, we must go on to look at the consequences of post-1945 state intervention for the ruling class in the 1970's.

The militant struggles of the labour movement through the 1930's and the second world war bore fruit in the return of a Labour government in 1945. It brought a commitment to full employment through the regulation of government expenditure and taxation; nationalisation of the mines, the steel industry, major sectors of transport, medical care, and other key sectors; a major extension in state provision of education, medical care, housing, and other social services. But the Labour government did not use this bridgehead to lead Britain onto the road to socialism; instead it explored the limitations of an exposed position in which it became isolated from the trade union movement and was replaced by the Tories in 1951. The claim of the Tories was to combine limited denationalisation and "decontrol" of basic commodities with the ability to run the welfare state more efficiently. So, in whose economic interest was the establishment of the welfare state?

(i) Full Employment

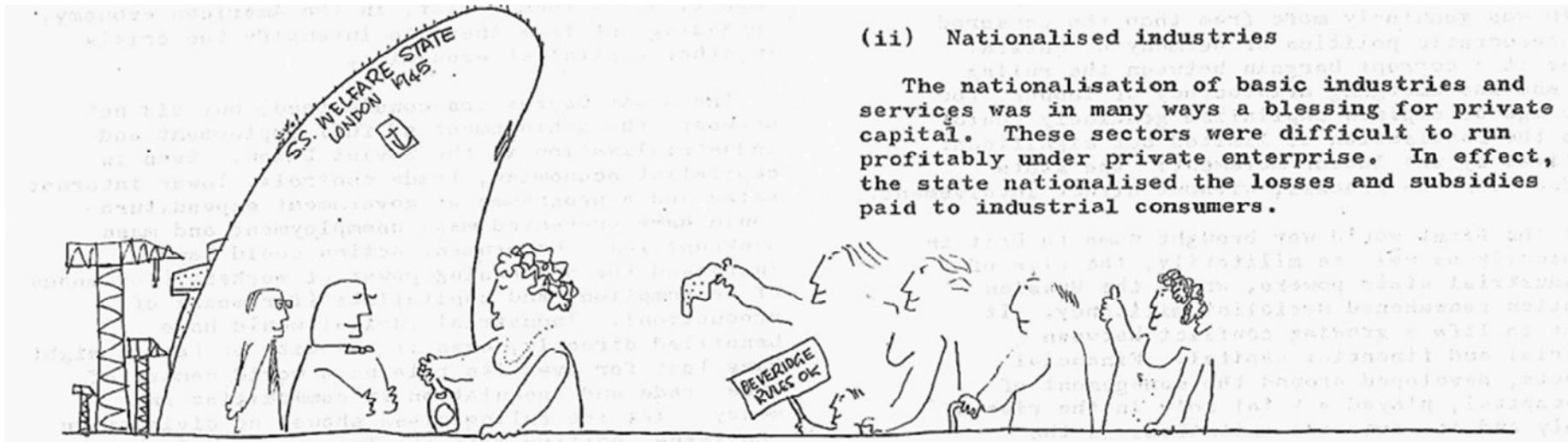
For many companies and enterprises -- i.e. sections of capital -- the unregulated working of the market economy would have meant eventual bankruptcy in a periodic slump. With the weakening of Britain's imperial role, and the strengthening of conflicts between industrial and financial capital, and with the working class, such a new slump might have been severe. Full employment was the guarantee of capitalist prosperity.

Full employment spelt an end to the poverty, degradation and waste of human energies of the working class before the war. It brought more job security, stronger organisation and more self-confidence for trade union struggles.

But for capital as a whole, it was not an unmixed blessing. The slump period of the trade cycle is not an irrational disaster, but capitalism's method of economic discipline: the elimination of inefficient capitalists, and the redundancy of unruly workers. The guarantee of full employment protected managerial backwardness, and strengthened the labour movement. And it is important to remember that the working class has no direct interest in encouraging managerial waste, which results in low productivity and low wages.

(ii) Nationalised industries

The nationalisation of basic industries and services was in many ways a blessing for private capital. These sectors were difficult to run profitably under private enterprise. In effect, the state nationalised the losses and subsidies paid to industrial consumers.



But again the blessing was mixed. For the working class now became present in large numbers within the state as employees, and gained new advantages in terms of trade union organisation and pressure.

(iii) Social provision

Capital stood to gain from a better educated, better housed and healthier working class. But to provide these benefits required the employment of increasing numbers of doctors, teachers and social workers drawn from outside the ranks of the ruling class. And the working class benefited directly in terms of its skills and cultural level.

Ideologically we can also see important contradictions of class interest. The legitimacy of capitalism rested upon the supposed efficiency of free trade and enterprise. Through systematic intervention, the state itself might destroy that legitimacy, and show that planning really works. The legitimacy of private enterprise has partly been sustained by the supposed inefficiencies of the nationalised industries; in fact rates of productivity growth in the nationalised industries have been rather higher than in private industries, and their accounting losses have resulted from the use of the public sector to realise private profit. Bureaucratic management has resulted in constant industrial disputes; but the fact of nationalisation has brought many “managerial prerogatives” into politics for the first time.

In addition, through schools and colleges, hospitals and social work, the state has gained new ways of imposing an individualistic, free enterprise ideology upon millions of people. But this ideology has been increasingly negated by the reality of state capitalist management.

In summary, the welfare state was not, without qualification, in the interests of capital. It made possible a new capitalist prosperity, and widened the sphere of exploitation and realisation of surplus-value. But it also created a potential threat to capitalism as a system. The survival of extra capitalists, through guaranteed full employment, was not necessarily for the best health of the whole class. The decisive force in favour of the welfare state was the working class.

Dialectics of reformism in government

Today important sections of capital regret the establishment of the welfare state. The strategy of trying to control and manage capitalism has resulted in a loss of control of the system and a threat to its survival.

(i) Full employment

Without the discipline of periodic slumps, bankruptcies and redundancies, the state had to find new methods of encouraging efficiency and control over production and workers. The first to take it seriously was the 1964 Labour Government. The Industrial Re-organisation Corporation was set up under Tony Benn, the first Minister of Technology, to sponsor a series of mergers (“rationalisations”) of unprecedented scale, in which key areas of the economy such as engineering (GEC/AEI) and motors (BLMC, Chrysler-Rootes) were to be brought under new and progressive management. On the trade-union side, the government introduced the first total wage-freeze since 1945.

In the long run, these policies served only to highlight the growing backwardness of industrial capital and the need for renewed trade union struggle. And these became directly political issues, no longer the preserve of “managerial prerogative” and sectional industrial disputes.

(ii) Nationalised industries

The growth of the public sector in productive employment and social services has given the state a powerful command in economic regulation. But this command is vulnerable to those whom it employs. Some of the most militant sections of the labour movement in the 1973's - miners, dockers, hospital workers - are public sector employees. Consequently the use of the public sector to manage capitalism's problems at the expense of the working class has brought crucial

class battles within the state itself.

(iv) Social provision

Influence has also been exerted on the state by its clients - through claimants' unions, tenants' associations, students' and school childrens' unions.

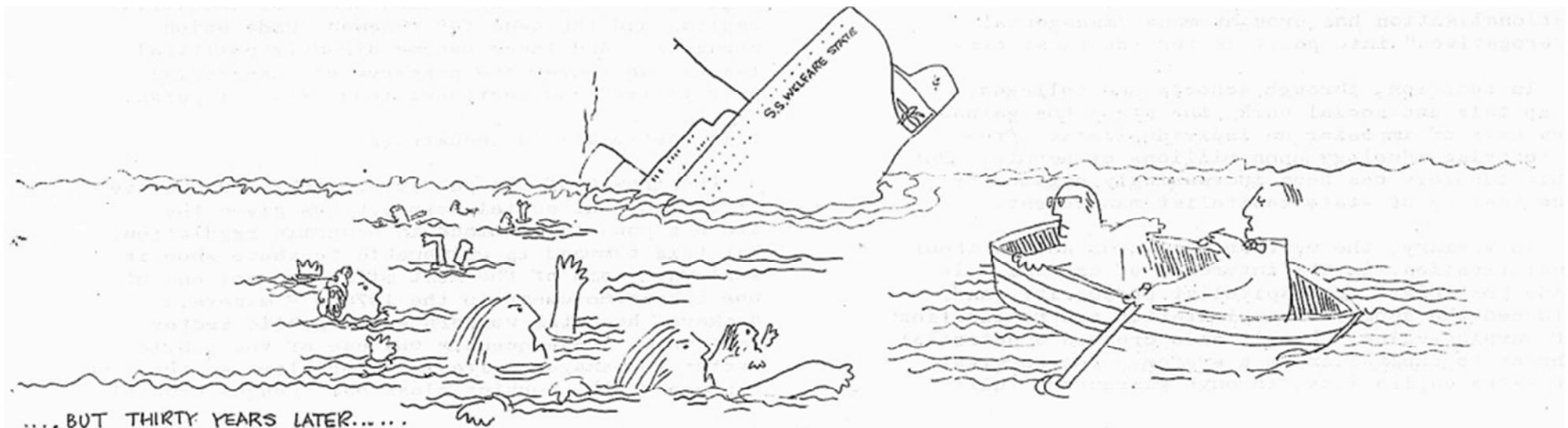
Reformist policies have reflected and consolidated important economic gains of the working class. But in the long run they have not defused class conflict, and have carried it to a higher stage, where it appears within the, state apparatus itself. In the 1970's capitalism in Britain has reached a point of struggle where it must move either forward or backward. Stand-still is no longer possible. For British capital's position in the world has rapidly weakened.

As a result the role of the state in monopoly capitalism is challenged today from two directions. Right wing Tories want to run down the role of the state in economic management and welfare, and to extend its repressive powers to re-establish property rights eroded by forty years of trade union struggle. It would mean the sacrifice of much capitalist prosperity, but would take the economy "out of politics", and help the survival of capitalism as a system.

On the other side, the left seeks to use the state and the class conflicts within it to transform the state and to transfer political power to workers and their allies. The left sees the extension of the state's involvement in the economy as providing the "threshold to socialism".

The right-wing strategy was temporarily defeated under the Heath government of 1970-1973. Workers in UCS, at Rolls-Royce, in the coal-mines and throughout the country resisted redundancy, wage-restraint and the Industrial Relations Act. But the support of the subsequent Labour government for the Tories' accession to the EEC Treaty of Rome, shows that Labour too took on part of the Tory strategy.

The Common Market is based upon laissez-faire economy (except in agriculture, where it has returned us to the Corn Laws). The control of monopoly by the EEC Commission is seen as a matter of encouraging "competition", and nationalisation is made a difficult procedure for member states. The free flow of capital and labour between member states also poses a threat to the economic gains of the British working class. For rather than accept the political challenge of the left, monopoly capital can now invest abroad.



Class interest and the state

Once the state could be defined as the “body of armed men” whose role in society was to maintain legal property rights and to repress class conflict. Today the state is deeply involved, not only in the protection of capital’s property rights, but also in the stimulation of the capitalist economy and accumulation. As a result, class conflict has entered into the structure of the state itself.

Marx and Engels once defined the capitalist state as “a committee for managing the common interests of the whole bourgeoisie”. Sometimes this has been interpreted conspiratorially: individual capitalists meet, decide on a policy and order the government to carry it out (this sometimes happens, but not necessarily). In fact the definition necessarily implies a discretionary element in what the state decides.

What are the “common interests of the whole bourgeoisie”? Sectional interests may conflict. The interest levies of financial capital are a cost to industry. High agricultural prices damage urban interests. And each and every capitalist must compete against others. Internationally, British capital has common goals, and also conflicts, with West European and U.S. capital. The process whereby common interest is defined is at the heart of bourgeois political processes and disputes, for it is the state, and only the state, which can act as the ultimate arbiter between sectional capitalist interests.

Long ago the labour movement succeeded in inserting itself in these political processes. A central aspect of the state’s decision making in Britain is Parliamentary democracy. If the question was between free trade and agricultural protection, the decisive voice was that of the electorate, manipulated and misled as it may have been. Should capitalists accept factory protection or the recognition in law of trade unions? The method whereby the uncertain choice was resolved was in Parliament. Should capitalism accept the profits and perils of full employment, or should weaker capitalists accept their own extinction to protect the whole class of capitalists? Labour’s voice was decisive.

Such a system does not necessarily lay open the choice between capitalism and socialism. But the state management of capitalism, and the presence of a militant section of the working class within the state, has raised this question.

In fact the state’s pursuit of class interest has become increasingly ambiguous. In the 19th century, it could afford to be single-minded because conflict within the capitalist class was easily resolved: why quarrel about crumbs when the world lay open to capitalist profit? Today the increasingly strained situation has produced deep splits within the ruling class, and the state cannot protect one interest without damaging another.

The welfare state was not a manipulative bribe, but a real gain to the working class, in terms of its economic and ideological power. Politically, Parliament is not a sham, but is the legitimate arena of conflict. It poses the possibility of combining mass struggle in private industry and within the state, with Parliamentary forces, to detach the state altogether from its increasingly tenuous pursuit of bourgeois class interest, to transform the state and reconstitute it as an organ of socialist democracy.

Questions for discussion

Why did the state ignore the solutions to the Great Depression which were put forward in the 1930’s?

Why has the role of the state changed so much since 1945? Do you agree that it has responded to interests which are contradictory to capitalism?

Is it possible for Parliamentary reformism to work?

In a socialist Britain, what aspects of the Welfare State would have to be changed?

5 Britain's Economic Crisis

In the post-war period the British economy has encountered increasing difficulties. The most recent crisis has faced working people with accelerating inflation and unemployment, declining living standards and an erosion of social provision (see appendix Table 1). But it is not only a crisis for the working class, and for the state. It is also a crisis for monopoly capital.

Firstly we shall try to establish what has been happening to monopoly capital, its profits and investments. Secondly we must establish the origins of its decline, by looking at international factors, and domestic ones (in particular the roles of the working class and the state). Thirdly we shall examine capitalist and state strategies to solve the crisis, and whether the crisis is soluble at all within a capitalist system. Fourthly we must draw conclusions as to the role which can be played by Left and labour movement strategies to get Britain moving again.

Monopoly Capital in Crisis

Official economic statistics do not tell us directly what has been happening to monopoly or non-monopoly capital, to the rate of surplus-value or of imperial profit. However, they take us along the first steps.

(i) The share of profit

Incomes generated in domestic production can be divided into wages and salaries, self-employment incomes, rent and company profits (the growth of gross domestic product over selected post-war years is shown in the

appendix, Table 2, and the shares of these categories of income are shown in Table 3).

Over the period 1955-1974 income from employment has risen as a share of domestic economic activity from 67% to 72%. Income from self employment fell from 10% to 8% between the mid fifties and sixties, but has since recovered to 11%, reflecting both the recent stagnation in total employment and the rise of the lump in the construction industry. The share of income from rent has risen more steadily, from 5% to 8%, with the rising market valuation of real estate relative to other goods.

The company sector is made up of all private (industrial, commercial and financial) and public companies. Gross domestic trading profits is the total of income accruing to companies from their domestic trading activities. The share of this in domestic product has fallen slightly over the post-war years from over 19% to just over 16%. At the same time, there has been a sharp increase in the contribution to company profit from stock appreciation: increases in the money value of stocks of raw materials and finished goods which result from rising prices. Largely because of the rising price of oil and of other industrial materials, stock appreciation in 1974 equalled nearly one twelfth of the UK domestic product.

Stock appreciation is a part of the profit actually received by industrial and commercial companies. When the price of oil suddenly began to multiply in October 1973 the companies with existing stocks of oil could suddenly command a higher price for their oil, and realised higher profits as a result. However, the additional profit reflected the external market power of oil producing countries, not the domestic class power of British capitalists. Moreover it was not a gain which could be repeated automatically, since to carry on production these companies now had to buy new stocks of oil at the new, higher price. (Similar gains result from holding stocks of finished goods produced with money costs lower than those obtaining currently).

Thus gross domestic trading profits indicate total profit actually received; but to find the part of total profit which originates in the domestic production of surplus-value, we must take gross domestic trading profit after deducting stock appreciation. The share of this in the domestic product declined sharply from 18-19% in the 1950's and 1960's to under 9% in 1974.

How have capitalist companies reacted to this decline in the domestic production of surplus-value? We can see this by looking more closely at the sector of "industrial and commercial companies" - private capital engaged in production and distribution (i.e. excluding banking and finance). Their different sources of income, and the way this income was spent, are shown in the appendix, Table 4.

Over the last decade these companies have looked increasingly to rent and non-trading income (speculation in real estate and other commodities) and to income from abroad (via the export of capital) for sources of profit. This, together with the colossal stock appreciation of recent years, has hidden an even more astonishing decline in the share of their income generated in domestic productive activity - from 74% in 1955, to about 60% in 1970/72, down to 34% in 1974 (probably lower still in 1975). Speculation and the export of capital are today the norm for private capital in the productive economy.

In turn the allocation of the income of private industrial and commercial capital has sharply altered (shown in the second half of the same table). In recent years, much less has gone in UK taxes: between 1970 and 1973 the burden fell from 15% to 12% of company income, and in 1974 the government achieved a rescue operation of about £4,000 mn. over two years by "changing the basis" of corporation tax. The increased share of West European and US capital in UK industry has brought a rise in the share of profits and taxes paid abroad, but this has been offset by reduced pay-outs of dividends and interest payments to UK shareholders and creditors. In consequence, retained profits of industrial and commercial companies actually rose as a share of the total.

(ii) The rate of profit

After deducting capital depreciation and stock appreciation, the rate of profit generated in domestic production on capital employed by all public and private companies has declined steadily since 1955, hitting an all-time low of 2.2% in 1974. However, the position of private industrial and commercial companies has been somewhat cushioned. Among selected large-scale manufacturing companies (monopoly industrial capital) the rate of profit has remained above 6% in the early 1970's.

(iii) The decline in UK manufacturing

Profit in the economy is important for two reasons. Firstly, it reflects the surplus-value which industrial capital can extract from the labour-power at its disposal. Secondly, it reflects the capacity of capital as a whole to expand the sphere of capitalist production, since the money-capital remaining in its hands is a claim on the ability of workers to build more plant, equipment and other means of production.

Over the last ten years, the share of manufacturing investment in gross domestic product has never exceeded 5%, which is lower than the rates achieved by Britain's capitalist competitors abroad (and substantially lower than in the socialist countries). Meanwhile, the UK manufacturing sector has lost half a million jobs.

In part this decline can be explained by the uneven distribution of gains from oil stock appreciation; many companies have borne the full brunt of the decline in domestically generated surplus-value. But at the same time, some companies have chosen to use sources of money-capital available to them (retained profits and borrowings) to invest abroad rather than in the UK. Others have tended increasingly to rely on non-industrial and speculative investments as sources of profit. As a consequence, the UK

productive economy has grown more slowly, has experienced lower rates of innovation and lower productivity growth, and has become far less competitive than the economies of other capitalist countries.

Origins of Britain's crisis

Britain's difficulties have built up out of a number of distinct causes, international and domestic. The international decline of imperialism has weakened British capital, but has hit home to Britain more damagingly than to Britain's capitalist competitors. The vulnerability of British capital has to be explained by reference to its internal position at home.

(i) International factors: the decline of Imperialism

With the Russian Revolution of 1917, one-sixth of the world's land surface was closed off from imperial domination. Following the military defeat of fascism in 1945, further revolutions in Eastern Europe and Asia greatly increased the constraints on the North Atlantic economies.

Today the socialist countries regularly achieve rising employment and living standards at the same time as our own economy stagnates. Over twenty years this contrast has increased, although its ideological impact has been limited by the failure, as yet, of many of the socialist countries to overcome many economic and political obstacles inherited from the Stalin era.

Politically, the ability of the imperial powers to intervene throughout the non-socialist world for economic and strategic purposes has been greatly weakened. The decolonisation of Africa and Asia between 1945 and the early 1960's did not only result in formal independence. A measure of real political independence has also been won. In some countries national liberation movements have come to power with their sights set on socialist perspectives. Elsewhere national movements joining domestic bourgeois and even feudal forces with peasant movements have combined reactionary and repressive policies internally with the nationalisation of Western capital and attempts at development planning.

The most recent such development to have a general impact on the advanced capitalist economies has been the formation of the Organisation of Petroleum Exporting Countries (OPEC) in 1973, as a cartel for restricting oil production and raising oil prices. At the same time, the prices of other industrial raw materials were also shooting up. The US military effort in Vietnam and its enormous raw material requirement was causing chaos in world commodity and money markets, and sparking off tremendous waves of private speculation.

(iii) International factors: the case of oil prices

The sudden increase in the price of oil added a number of new twists to the economic problems of the British economy. Once-for-all gains for those who held large stocks of oil were offset by severe problems for those who had to start immediately to pay the new, higher price.

In the UK fuel and energy sector, the years since 1945 had seen a rapid run-down of the coal industry (with the compliance of a right-wing dominated NUM) and a major shift from coal to oil in electricity generation and rail transport. Reliance on a semi-colonial freedom of access to cheap oil had left the UK dangerously vulnerable to oil price changes. Once the price had started to rise, the question of reviving coal-mining reappeared - but this time with a miners' union no longer prepared for the cost to be lessened by low-wages for its members.

In manufacturing industry and transport the oil price increases brought a sharp rise in energy and transport costs. They sparked off a rapid price inflation, which may be thought of as having two effects. Firstly, it lowered the real value of Western currency oil revenues received by the OPEC countries, and sought to cancel out their gains. Secondly, it lowered the real wage at home and wage costs in industry. OPEC responded with further oil price increases, and the labour movement resisted cuts in the real wage; both added new twists to the inflationary price spiral.

In international finance, many Western countries began to run large balance of trade deficits. In Britain in 1974 it amounted to 2.9% of gross domestic product. In money-value fewer goods and services were exported than were imported (including oil) and corresponding debts were incurred; for a short time the question of “who will pay for oil” was avoided, along with the danger of more serious internal conflicts. But no country will lend to another indefinitely. And the British economy has proved unusually vulnerable to these external forces. To understand this, we must compare its post-war situation with that of other countries.

(iii) Britain in the post-war world

For British capitalism, the costs of winning the second world war were relatively high. Half the defeated nation, the Federal German Republic, emerged with a labour movement shattered by fascism, intimidated by the Allied occupation and the cold war, ready to beset to work with the massive injections of US Marshall Aid. By comparison Britain paid the price of victory by becoming a debtor nation, emerging in 1945 with a vastly strengthened labour movement and a Labour government at the helm of a large and expanding state sector.

By contrast the major continental capitalist powers joined into a Common Market in 1956, the basis of which was not working class pressure for full employment and social provision, but the pressure of national and multi-national capital for the maximum freedom from state intervention, based on “fair competition”, and free trade in manufactures, money-capital and labour-power. (The EEC has its bureaucratic aspects, but in economic policy its bureaucrats are engaged in the search for free trade, an increasingly elusive goal in the age of monopoly).

But struggles also continued outside the state, in the more traditional areas of price-fixing and wage-bargaining. The development of monopoly gave British companies in the home market increasing discretion over the level of prices for their products. The strengthened labour movement, unable to force prices down directly, could achieve a defence of working class living

standards by bargaining for higher money wages. The government guarantee of full employment gave companies in turn the discretion to grant higher money wages, since full employment guaranteed their ability to raise prices in turn and ensure profitability. However, there were two twists at the end of this tale.

Full employment did not simply guarantee capitalist profits. It guaranteed profits, whatever the level of capitalist technology and accumulation. Thus the incentive of capitalists to make new investments was weakened, and this may explain the lower level of investment in Britain relative to its competitors.

And in the long run the guarantee of profits, and the discretion of British capital to raise prices could not remain absolute. Without means of resistance to trade unions, and with inadequate technical advance, its ability to compete with other capitalist exporters in world markets would decline. Over the 1950's and 1960's the balance of trade deteriorated steadily. It was into this upward drift of prices and wages, and downward drift of competitiveness, that the oil price increases intervened.

(iv) The causes of inflation

In fact, of course, the causes of inflation are hotly controversial among Marxist economists as well as outside Marxism. Some emphasise the role of money. In Marx's time the supply of paper money was backed by gold, the supply of which was relatively inflexible. A rise in the total money-value of transactions would cause a scarcity of money, higher interest rates and a cut back in transactions. Today gold has been divorced from the supply of money, which is limited only by the world's printing presses. “Too much money has been chasing too few goods”. The trouble with this argument is that it cannot explain recent combinations of inflation

and unemployment. If there were too much money, and too much purchasing power, more goods could quickly be produced by drawing unemployed labour-power and means of production back into use.

Other Marxists emphasise the role of non-productive activities. The expansion of social waste (military expenditures, advertising and so forth), financed by printing money and expanding-credit, is said to have eroded the productive economy and resulted in too few goods being produced for workers' consumption and capitalist accumulation: again, too much money has been chasing too few goods. As well as ignoring the lack of sufficient purchasing power in the economy, this argument also ignores the fact that many "non-productive" activities are essential to realising the surplus-values created in the productive economy: capitalism needs armies, schools and hospitals.

A third tendency isolates monopoly as the cause of price rises; monopolists restrict output and raise prices. The problem is that they should not raise prices continuously. Other things being equal, if an economy suddenly shifted from competitive to monopoly capitalism, one would expect reduced output and employment, higher prices and profits, but on a once-for-all basis.

And a fourth tendency isolates the external factors which we have already considered: rising prices of raw materials result in inflation. Here the problem is to explain why the prices of raw materials rise. Is it too much money chasing too few goods? Or a monopolistic cartel such as OPEC? For all industrial inputs are themselves produced by capitalist or state companies, whether in Britain or abroad, and oil is no exception.

The truth is probably that all four factors are important, as is a fifth, the labour movement.

Monopoly capital has been given added discretion over prices by the post-war government commitment to full employment, and therefore to expand the money supply to any required level. Correspondingly, monopoly capital has also been partially released from the necessity of accumulation.

The state has also engaged in new areas of servicing both private capital and the working class, without also ensuring the expansion of productive capital itself.

And the working class faced with low productivity employment and rising prices, has engaged in increasingly serious wage struggles. It has achieved higher money wages, fighting off monopoly attempts to expand profits and the state's attempts to tax more heavily. But it has not acquired the political strength to achieve the control of prices and investment.

In other words, inflation has reflected a political and economic deadlock of the working class. The trade union movement was strong enough to achieve the establishment of the welfare state and full employment, and strong enough to frustrate the attempts of monopoly to offload the resulting problems onto the working class. But monopoly capital has responded with continuing price inflation and lent to economic struggles a protracted and exhausting character. It has also increasingly transferred its money capital out of productive investment in Britain. And the working class has not been strong enough to achieve price and investment controls over capitalist production.

Thus the post-war inflation was not simply a product of the capitalist system, inherent and permanent, but of monopoly capital in a particular phase of class stalemate. The price rise in raw materials made the situation unbearable to monopoly capital, and the state has responded with increasing controls on the working class movement.

The state strategy in the crisis

Within months of the autumn 1973 oil price increases, the Social Contract had entered Labour's election manifesto. At first a voluntary agreement

between the TUC and the government over wage restraint in exchange for expanded social provision, it has become a system of compulsory wage control combined with inflation, unemployment and cuts in government expenditure.

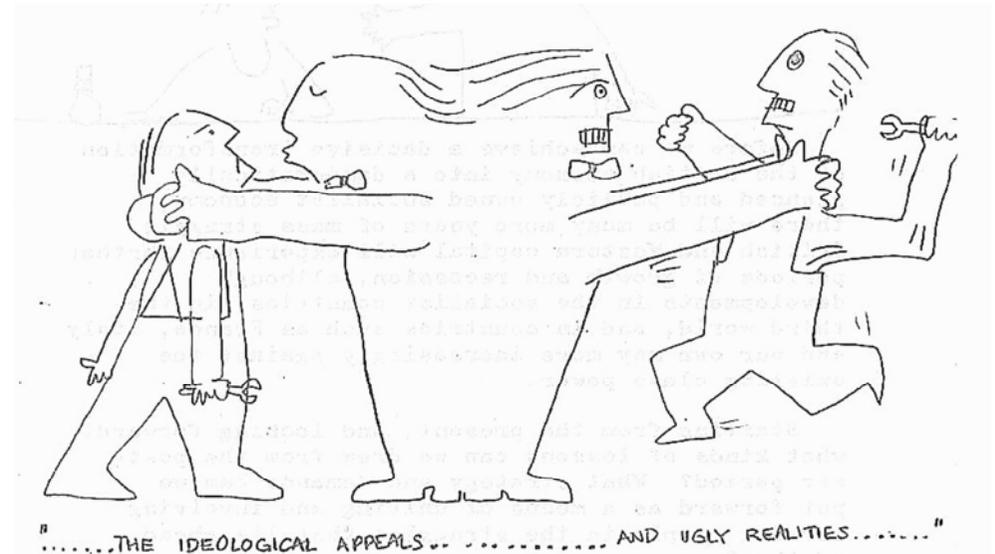
The Social Contract has had three main economic effects. Like income taxation, it has cut the real wage and working class purchasing power (over 1975, as the £6 pay limit began to bite, average money pre-tax earnings rose by 20.5%, while retail prices rose by 23.4%). Secondly, unlike income taxation, it reduces real wage costs in industry, and therefore increases profit assuming that the overall level of demand remains the same. But while working class purchasing power has fallen, capitalists have failed to increase investment; profits have merely stagnated at a low level, while unemployment has increased.

The third effect of the Social Contract remains an intention. It is to shift resources away from wages to profits, to encourage the optimism of capitalist investors, and to resume capitalist growth with a permanently weakened trade union movement, stable prices and stable, lower, money-wages.

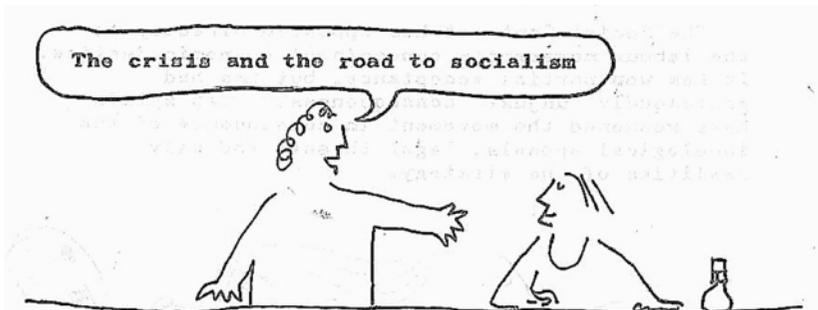
In other words the state has redefined, ideologically and legally, its conception of the "just wage". In carrying this into effect, it has exerted a two-fold downward pressure on what it considers to be the socially-necessary subsistence or labour-value of labour-power. Through wage control it has exerted direct pressure. Indirectly, the unemployment resulting from the Social Contract, the increases in taxation, the cuts in public expenditure and social provision, has told over one million working men and women that their energy and skills are no longer socially necessary. And if a section of capital has gone with them, it is for the benefit of "society as a whole".

We are told that we must "save more", and that the way to this is to waste human and material resources in unemployment. The element of truth involved is that this waste is a way of trying to save the economic and social system in which we live.

The Social Contract has appealed directly to the labour movement's concepts of economic justice. It has won partial acceptance, but has had grotesquely "unjust" consequences. Deep splits have weakened the movement in consequence of the ideological appeals, legal threats and ugly realities of the strategy.

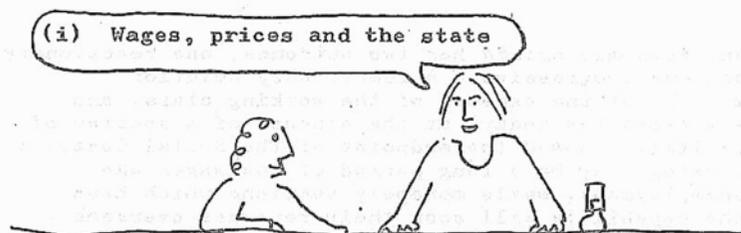


Any economic crisis has two outcomes, one reactionary and one progressive. A reactionary solution must be at the expense of the working class, and sometimes (as today) at the expense of a section of capital. Indeed the endpoint of the Social Contract strategy may be a long period of low wages and unemployment, while monopoly sections which have the capability will seek their revenues overseas -although renewed prosperity in other capitalist countries, and improved British export markets, may avert this most gloomy possibility. But capitalist crises have always been solved through "sacrifice", born most heavily by the working class. At the same time, such reactionary solutions can never be permanent. The task of the Left today is to reject that solution, and win back united mass support to the alternative.



Before we can achieve a decisive transformation of the British economy into a democratically planned and publicly owned socialist economy, there will be many more years of mass struggle. British and Western capital will experience further periods of growth and recession, although developments in the socialist countries, in the third world, and in countries such as France, Italy and our own may move increasingly against the existing class power.

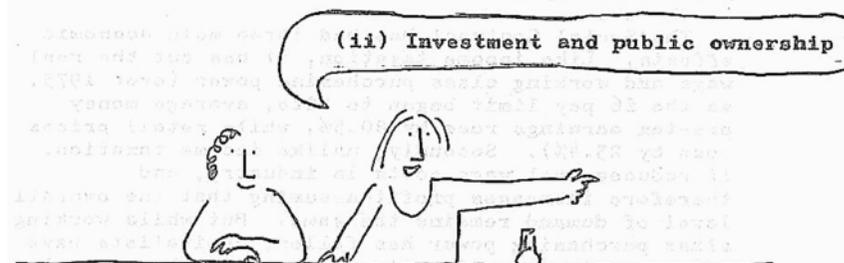
Starting from the present, and looking forward, what kinds of lessons can we draw from the post-war period? What strategy and demands can we put forward as a means of uniting and involving working people in the struggles that lie ahead of them?



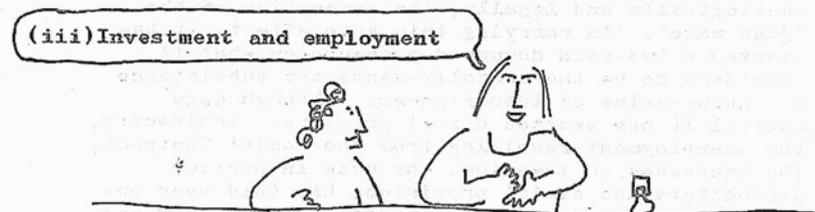
Today individual groups of workers are told that acceptance of wage cuts will reduce unemployment and lower prices. Instead, inflation and unemployment have increased, as part of a strategy to raise industrial profits within a reduced sphere of capitalist production.

The restoration of free collective bargaining and extended trade union struggles over jobs and wages can reverse this trend. But by itself it cannot be

enough, while monopoly discretion over prices remains. Price controls carried out by government regulation and backed by watchful and active trade unions can bring the elusive goal of stability and higher real wages within reach.



However, effective price controls may further accentuate the misallocation of investment resources out of the domestic productive economy. The state direction of investment in key sectors of trade, industry and finance can put an end to this tendency. But if the state is to be responsible for investment and jobs, it must also have the power to ensure the development of the economy in the correct proportions, through an extension of public ownership.



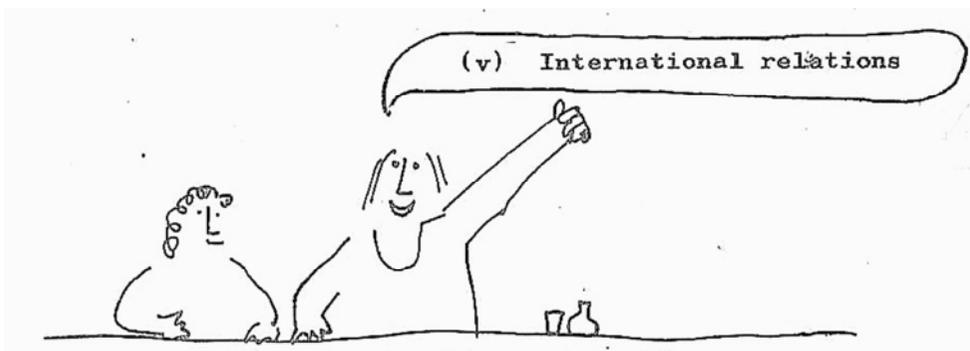
There are two aspects to ending the scourge of unemployment in Britain. One is the planning of investment to provide jobs for all who seek work. This requires an increase in working class purchasing power, and an increase in public investment.

It also requires consideration of the productivity of investment, or the social necessity of the commodities produced by plant and equipment. In an age of detente we can cut military expenditure drastically. This means

considering the alternative uses to which the plant and equipment, and human labour-power, at present employed in armaments production, can be put while taking into consideration the possibilities of re-equipment and retraining for more socially useful activities. In the same way, we need to take into account the future of the motor car and the “social and ecological criticism” of the private petrol driven car to which Chrysler shop-stewards have themselves pointed; decide the future needs of British transport and overseas markets; and put forward socialist plans for the restructuring of the motor industry.



To bring all the resources of our country into use we need to expand, not cut social provision. We need a better trained and better serviced working class. In particular, we need a rapid expansion of social provision to remove the choice most cruelly felt by women in the family, between housework and child-rearing on the one hand, and paid employment on the other.



Britain’s international payments will remain in deficit for the foreseeable future. Oil prices and the EEC will take their toll of foreign currency reserves. And the adoption of progressive policies by the government would worsen the situation through the danger of trade boycotts and retaliation.

Britain can stop the export of capital and realise some of her overseas assets. But we also urgently need selective import controls. Import controls restrict trade and cause the danger of unemployment elsewhere in the world, just as the lack of controls has promoted unemployment in Britain. Import controls would have to be combined with increased international trade union co-operation against this danger. They would be a temporary measure, since the aim must be not to restrict but to expand trade between nations to mutual advantage. But mutual advantage must be planned, not left to “free markets” dominated by ‘monopoly and multi-national capital.

As well as through international trade union links, the danger of retaliation against nationalisation and trade controls can be lessened by a flexible attitude and, if necessary, the offering of compensation to foreign owners of nationalised assets.



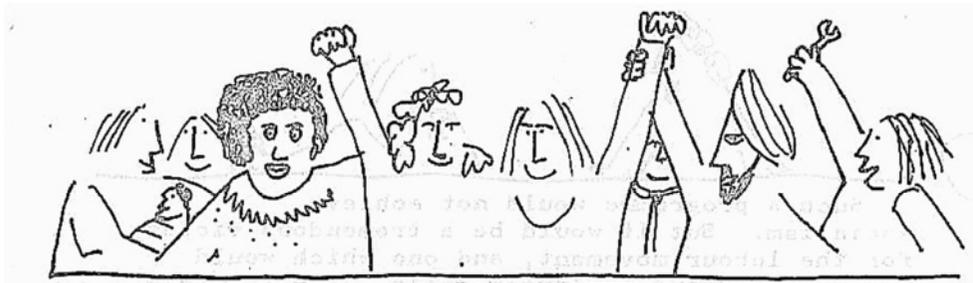
Such a programme would not achieve socialism. But it would be a tremendous victory for the labour movement, and one which would carry it forward to larger goals. For it would make the whole economy subject to the political pressure of wide democratic forces in a way which has never been achieved before in factory, boardroom or Civil Service.

Moreover, it is attainable, and becomes an action programme from the moment that we start to relate it to the felt experiences of our

people and of every individual in our recent history. Lessons are not learnt “from life itself”, but from the moment we start to apply our understanding to it.

Our path will encounter many problems. For example, in the process the state must acquire far more power than ever before. But we seek power for all working people, not for bureaucrats and civil servants. And in fact the struggle for democratic rights is an integral part of challenging the state power of monopoly and ultimately replacing it. Thus if the outcome is to mean more democracy, and not just more bureaucracy, the autonomy of the working class, and of its sectional mass organisations the trade unions, and of its allies, must be strengthened and extended. That is why the freedom of collective bargaining today is a guarantee for tomorrow.

For example, in a socialist economy, for the progress of society as a whole, one group of workers or another may sometimes have to be asked - not ordered - to moderate wage demands, or change jobs. But in a socialist state, for the first time, these processes will be open and subject to democratic control.



The most important of society's productive forces is the working class itself. The British working class today has skills, understanding and aspirations available to it as never before. Capitalist relations today hold back its development, and face it with low wages and stultifying labour discipline at work as the only alternative to unemployment. Beyond it lies the vision of a world in which “the free development of each is the condition for the free development of all”.

Questions for discussion

Why did price-inflation and unemployment rise simultaneously in recent years?

How would you argue with someone who said: “If we call for higher wages, the crisis will worsen and everyone will suffer”?

Is the 8-point economic programme of the Communist Party a programme for the long term or for the short term? Does it have to be achieved all at once, or should some elements be fought for first? What are the most important points of the programme?

Sources and Further Reading

1. CAPITAL AND VALUE

Royal Commission on the Distribution of Income and Wealth, Initial Report on the Distribution of Income and Wealth, Cmnd. 6171; Income from Companies and Its Distribution, Cmnd. 6172 (HMSO 1975)

Communist Party of Great Britain, "On the Distribution of Income and Wealth", Marxism Today, August 1975

A.B. Atkinson, Unequal Shares: Wealth in Britain (Allen Lane 1972)

Marx's Capital is the basis from which Marxist political economy has developed. However, it is a work of Victorian language, three volumes and well over 2,000 pages. Consequently it is best read collectively in an organised discussion group, starting with Volume 1 chapter 1

For those seeking a more general introduction, Marx summarised some of the basic concepts of value and surplus-value in Value, Price and Profit, sometimes also called Wages, Prices and Profits, sections VI-XIV

An excellent modern summary of Marx's own political economy is that of Ben Fine, Marx's 'Capital', (Macmillan 1975)

2. THE DEVELOPMENT OF CAPITALISM

R.H. Hilton, ed. , The Transition from Feudalism to Capitalism, (New Left Books 1976); a classic collection of essays from the 1950's by Maurice Dobb, Paul Sweezy, Rodney Hilton and others.

E.J. Hobsbawm, Industry and Empire (Pelican, 1968); the best general economic history of Britain from 1750 to the post-war period, and strongly recommended for additional reading.

K. Marx and F. Engels, Manifesto of the Communist Party.

V.I. Lenin, Imperialism as the Highest Stage of Capitalism.

S. Aaronovitch and M. Sawyer, Big Business (Macmillan 1975)

3. CLASS STRUGGLE AND THE JUST WAGE

E.P. Thompson, The Making of the English Working Class (Pelican 1968)

E.J. Hobsbawm, Industry and Empire (Pelican 1968)

R. Hyman and I. Brough, Social Values and Industrial Relations (Blackwell 1975)

V.L. Allen, Militant Trade Unionism (Merlin 1966)

Huw Beynon, Working for Ford (Penguin 1974)

4. CLASS STRUGGLE AND THE STATE

The absence of Marxist writing in this field, of a type which is both theoretically serious and accessible to non-specialists, is an embarrassing feature of British Marxism. On the historical side there is once again the excellent:

E.J. Hobsbawm, *Industry and Empire* (Pelican 1968).

Ian Gough, *State Expenditure in Advanced Capitalism*, NLR 92.

Tony Chater, *Public Ownership and Control* (CP pamphlet, 1973) takes up some issues related to the nationalised industries.

Counter-Information Services/Community Development Project, *Cutting the Welfare State (Who Profits)*, (Russell Press, 1975) looks at the threat to social provision.

Michael Stewart, *Keynes and After* (Pelican, 1967), provides a simple Keynesian explanation of Keynesian employment theory and policy.

5. BRITAIN'S ECONOMIC CRISIS

George Matthews, *Britain's Crisis: Cause and Cure* (CP 1975)

Cambridge Political Economy Group, *Britain's Economic Crisis* (Spokesman 1974)

Pat Devine, *Inflation and Marxist Theory*, *Marxism Today* March 1974

Ron Bellamy, *More on Inflation*, *Marxism Today* November 1974

Maurice Dobb, *Further Comments on Inflation*, *Marxism Today*, February 1975

CP Economic Committee, *Economic Problems of the Transition to Socialism in Britain*, *Marxism Today* August 1974

Up to date information on the current state of the economy, presented in a simple and readily accessible form, together with brief discussions of particular topics from a governmental point of view, can be found in the monthly *Economic Progress Report*, obtainable free of charge from the Information Division of the Treasury.

A Marxist guide to company accounts and profitability, and an invaluable aid to trade unionists, is Christopher Hird, *Your Employer's Profits* (Pluto 1975)

Appendix The Postwar Economy

The following tables show some important features of the UK economy in selected post-war years. 1955, 1959, 1964 and 1970 are all relatively prosperous election years.

Table 1. WAGES, PRICES AND EMPLOYMENT 1955-1975

	Index of average money weekly earnings of the adult male in manufacturing 1970 = 100	Index of retail prices 1970 = 100	Registered unemployed as a percentage of the working population
	(1)	(2)	(3)
1955	40	59	1.2
1959	49	67	2.3
1964		76	1.7
1970	100	100	2.6
1971	109	109	3.4
1972	125	117	3.8
1973	144	128	2.7
1974	170	149	2.7
1975	(220)	184	4.0

Sources: Annual Abstract of Statistics 1975, The British Economy, Key Statistics 1900-1970, Economic Progress Report No. 71, February 1976.

Notes: Between 1900 and 1955 the real weekly earnings of the adult male in manufacturing approximately doubled. Between 1955 and 1974 they doubled again. Over 1975 they probably fell. Prior to 1970 the maximum annual level of unemployment had been 2.6% in 1963. By December 1975 the current monthly level was 5.0% (in the 1970's each 1% of unemployment represented about 230,000 men and women out of work). Between 1921 and 1940 the level had never fallen below 9%, and reached a peak of (2.8 mn. people) in 1932.

Table 2. UK PRODUCTION AND INVESTMENT 1955-1975

	Index of gross domestic product at 1970 factor cost, 1970 = 100	Gross domestic fixed investment as percentage of GDP	
	(1)	Total	In manufacturing industry
	(1)	(2)	(3)
1955	67	17.7	4.1
1959	72	17.9	4.1
1964	87	20.6	4.2
1970	100	21.7	4.9
1971	102	21.3	4.5
1972	104	21.1	3.7
1973	109	22.0	3.9
1974	111	22.4	4.5
1975	(107)	--	--

Sources: National Income and Expenditure 1960 and 1964-1974, The British Economy, Key Statistics 1900-1970. Data for 1975 are approximate and provisional estimates, taken from Economic Progress Report No. 71, February 1976.

Notes: Since 1920, GDP has multiplied approximately two and one half times.

Table 3. PERCENTAGE SHARES OF INCOME IN UK GROSS DOMESTIC PRODUCT 1955-1974

	Income from employment	Self-employment	Rent	Gross domestic trading profits of all companies	
				Total	Net of stock apprec.
	(1)	(2)	(3)	(4)	(5)
1955	66.6	9.8	48	197	185
1959	66.4	89	55	196	192
1964	67.4	79	59	190	180
1970	70.0	87	77	163	136
1971	68.7	90	76	160	137
1972	685	99	76	160	135
1973	686	108	78	173	127
1974	716	109	79	169	87

Source: National Income and Expenditure 1960 and 1964-1974.

Notes: Reading across columns 1 + 2 + 3 + 5 yields 100% of GDP in each year, after allowing for residual accounting error.

The difference between columns 4 and 5 is the deduction of "stock appreciation": the increase in the course of the year in the money-value of stocks of raw materials and work in progress held at the beginning of the year, which results from price inflation.

Table 4. CURRENT INCOME AND EXPENDITURE IN UK INDUSTRIAL AND COMMERCIAL COMPANIES 1964-1975

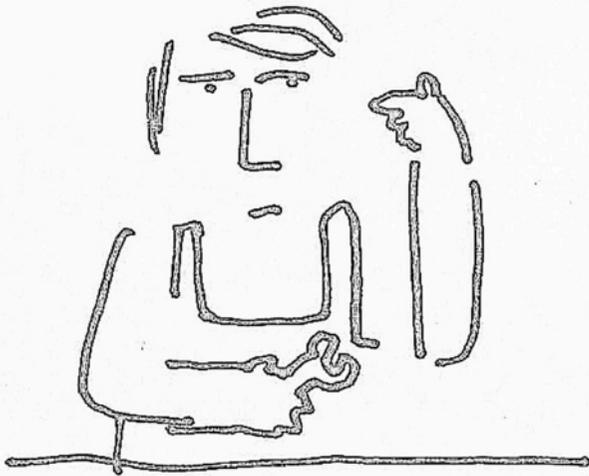
	Percentage shares of different sources of income in gross company income			
	Rent and non-trading income	Income from abroad	Stock appreciation	Gross domestic trading profits net of stock apprec.
	(1)	(2)	(3)	(4)
1964	4.8	17.9	3.8	73.5
1970	6.0	23.6	10.7	59.6
1971	5.5	24.4	9.2	60.9
1972	5.7	24.1	10.0	60.2
1973	5.9	28.9	17.5	46.7
1974	7.3	32.4	26.3	33.9
1975	--	--	(20)	(25)

	Percentage shares of allocated expenditures in gross company income			
	Taxes paid in UK	Profits and taxes paid abroad	Dividends and interest payments	Retained profits
	(5)	(6)	(7)	(8)
1964	13.1	10.8	31.2	44.5
1970	15.2	14.7	31.2	38.5
1971	12.1	17.0	30.0	40.5
1972	12.3	17.8	27.3	42.2
1973	11.8	17.9	26.7	43.3
1974	0.9	22.8	25.3	50.8
1975	--	--	--	--

Source: National Income and Expenditure 1964-1974. Data for 1975 are approximate and provisional estimates taken from Economic Progress Report No. 71, February 1976.

Notes; Columns 1-4 and 5-8 both add up to the same total in each year: 100% of gross company income.

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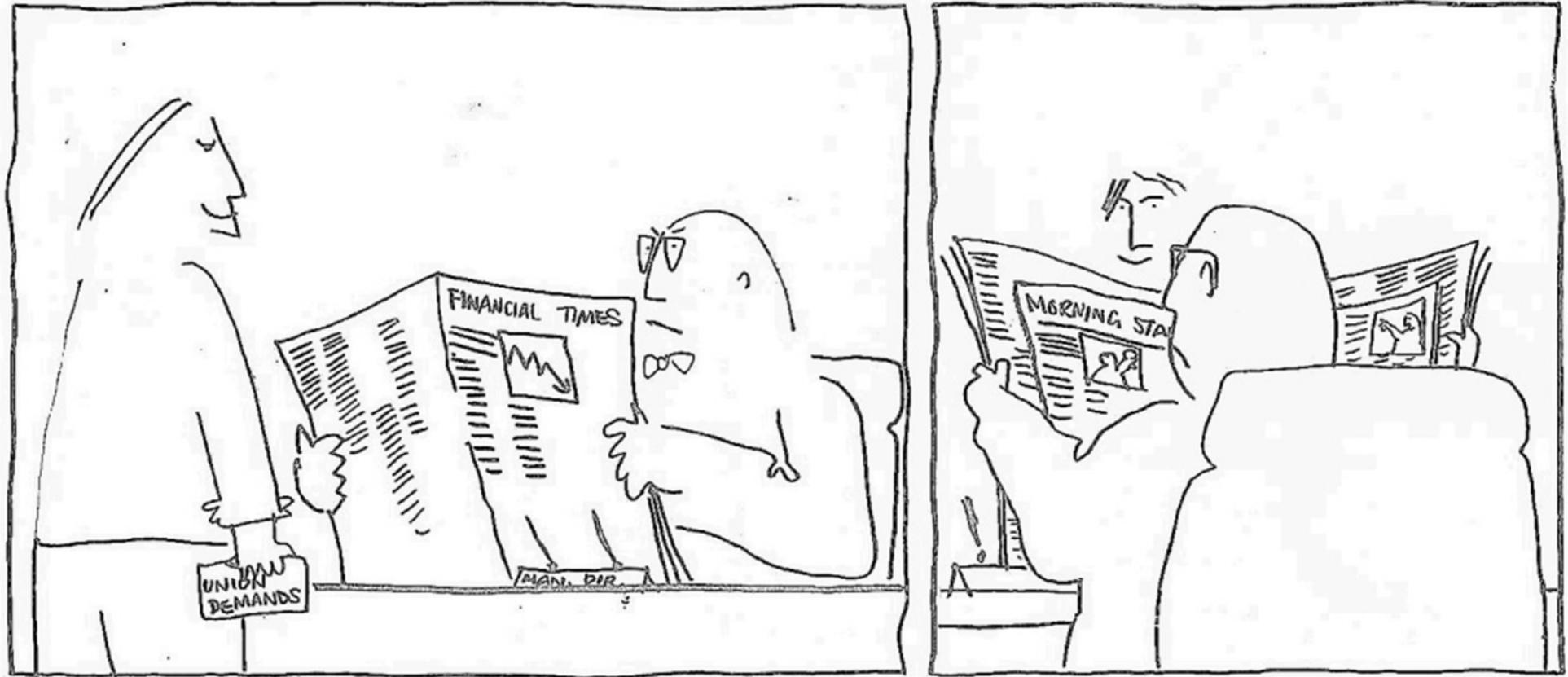
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