

Karl Marx 3 : Surplus-value and exploitation

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Intro

- We have seen that **a product becomes a commodity only insofar as it is intended for exchange.**
- This brings us back to the question of exchange, which, according to Marx, was insufficiently explicated by classical political economy.
- The stakes of such an analysis are essential for **two reasons**:
 - because the capitalist mode of production is characterised by the **generalisation of commodity exchange**;
 - because the **sphere of exchange constitutes the underlying basis of the capitalist relation of exploitation**, which contributes to its opacity.

Simple circulation and the circulation of capital

- **Marx therefore begins his analysis of distribution (that is, exploitation) with an analysis of exchange (or “circulation”).**
- Within the sphere of the circulation of commodities and money, two distinct types of movement can be observed: the circulation of *money as money* (**simple circulation**), and the circulation of *money as capital* (**capitalist circulation, or the *general formula of capital***). These two forms of circulation are opposed in almost every respect, except that **both obey the law of the equivalence** of exchanged values.

Simple circulation and the circulation of capital

Simple circulation	Capitalist circulation or « the general formula of capital »
$C - M - C'$	$M - C - M'$
selling in order to buy	buying in order to sell
C is at the beginning and the end of the cycle M is the intermediary	M is at the beginning and the end of the cycle C is the intermediary
money is spent	money is advanced
qualitative objective : obtaining a use-value in order to satisfy a need	quantitative objective : obtaining surplus-value ($sv = M' - M > 0$)
M functions as money	M functions as money and capital
circulation limited by the satisfaction of needs (<i>good chrematistics</i>)	circulation unlimited, since driven by the pursuit of surplus-value (<i>bad chrematistics</i>)
exchange of equivalents	exchange of equivalents

Simple circulation and the circulation of capital

- From the preceding analysis, it first emerges **that money plays two distinct roles:**
 - In the cycle **C–M–C'**, money functions as a measure of value, a medium of exchange (an intermediary between two commodities), and a store of value. In this case, it is **money as money**.
 - In the cycle **M–C–M'**, money continues to fulfil these three functions, but it additionally acquires the property of producing value. It therefore appears as **both money and capital**—as Marx puts it, “money that begets money”, or “value in process”.

Contradiction of the general formula of capital

- The **appearance of surplus value** at the end of the $M-C-M'$ movement nevertheless raises an obvious **logical problem**.
- If the phases of purchase ($M-C$) and sale ($C-M'$) obey the law of the equivalence of exchanged values ($M = C$ and $C = M'$), then—by **mathematical transitivity**—one should obtain **$M = M'$** , that is, the reflux to the possessor of money of the same quantity of value in monetary form.
Yet, on the contrary, at the end of the cycle **M' is greater than M** .
- This is what Marx calls the “**contradiction of the general formula of capital**”, and it is this contradiction that he sets out to resolve

Contradiction of the general formula of capital

- “The form which circulation takes when money becomes capital, is opposed to all the laws we have hitherto investigated bearing on the nature of commodities, value and money, and even of circulation itself. **What distinguishes this form from that of the simple circulation of commodities, is the inverted order of succession of the two antithetical processes, sale and purchase.** How can this purely formal distinction between these processes change their character as it were by magic?” (*Capital*, vol.1, chap. 5)

Contradiction of the general formula of capital

- Since the exchange of equivalents ($M = C$ and $C = M'$) seems to rule out the emergence of surplus value, let us suppose instead that non-equivalent exchange takes place.
Let us assume that, “by some mysterious privilege”, the money-owner resells C above its value—at €110, having bought it for €100—thus realizing a 10% gain.
- If everyone does the same, that is, if everyone sells their commodities 10% above their value, this will merely result **in a general rise in prices of 10%, but no creation of value.**
- If, on the other hand, this overpricing is a one-off accident, not carried over into future transactions, then what occurs is simply a **transfer of value** from the buyer’s pocket to that of the seller: €10 changes hands.
The loss of one cancels out the gain of the other, and no **new value is created overall.**

Contradiction of the general formula of capital

- **Surplus value** therefore does not arise from the exchange of commodities above their value, and **one cannot stop at the sphere of circulation in order to understand its formation.**
- Since money merely realises the value of the commodities it purchases, exchange—that is, the acts of buying and selling—cannot by itself create value.

“We have shown that surplus-value cannot be created by circulation, and, therefore, that in its formation, **something must take place in the background, which is not apparent in the circulation itself.**” (Capital, vol.1, chap. 5)

Contradiction of the general formula of capital

- “The conversion of money into capital has to be explained on the basis of the laws that regulate the exchange of commodities, in such a way that the starting-point is the exchange of equivalents. Our friend, Moneybags, who as yet is only an embryo capitalist, **must buy his commodities at their value, must sell them at their value, and yet at the end of the process must withdraw more value** from circulation than he threw into it at starting. His development into a full-grown capitalist **must take place, both within the sphere of circulation and without it.** These are the conditions of the problem.” (*Capital*, vol.1, chap. 5)

Labour power, a specific commodity

- We have just seen that surplus value cannot arise either during the phase of purchase (M–C), nor during the phase of sale (C–M’).
- There remains only one solution: **that it originated in the interval between purchase and sale, and derived from the commodity C itself.**
- For this to be possible, there would have to exist, within circulation and at the disposal of the moneyed man, **a specific commodity that creates value when it is consumed**—or, which amounts to the same thing, **whose use-value consists in creating exchange value**, so that its consumption “is itself an embodiment of labour, and, consequently, a creation of value.”

Labour power, a specific commodity

- This specific commodity is what Marx calls **labour-power** (LP).
- Definition of labour-power: **“the aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use-value of any description”**.


Labour power, a specific commodity



- **Labour-power must not be confused with labour.**
- **Labour-power** = the *capacity* to labour (to be distinguished from labour itself).
- **Labour itself** = the *use-value* of labour-power.
- Labour-power stands in relation to labour as *potentiality to actuality*.

“What economists therefore call value of labour, is in fact the value of labour-power, as it exists in the personality of the labourer, which is as different from its function, labour, as a machine is from the work it performs.” (*Capital*, vol. 1, chap. 19)

Labour power, a specific commodity

-  **The consumption of labour-power cannot take place within circulation, where by definition there are only exchanges.**
- It is therefore necessary to leave the sphere of circulation, change spheres, and enter the **“hidden abode of production.”**

Consumption of labour power and generation of surplus value

- **“The consumption of labour-power is at one and the same time the production of commodities and of surplus-value.** The consumption of labour-power is completed, as in the case of every other commodity, **outside the limits of the market or of the sphere of circulation.** Accompanied by Mr. Moneybags and by the possessor of labour-power, we therefore take leave for a time of this noisy sphere, where everything takes place on the surface and in view of all men, and follow them both into the **hidden abode of production**, on whose threshold there stares us in the face “No admittance except on business.” Here we shall see, not only how capital produces, but how capital is produced. **We shall at last force the secret of profit making.**” (Capital, vol.1, chap. 6)

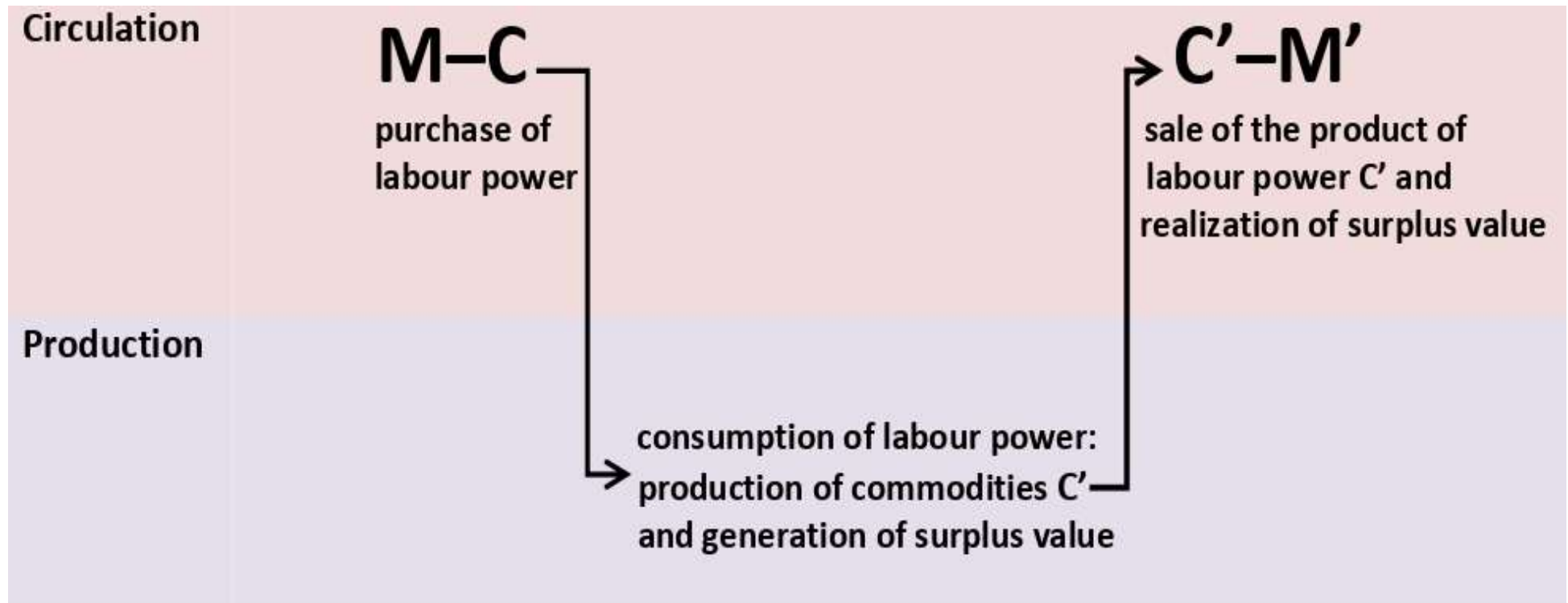
Consumption of labour power and generation of surplus value

- “Moneybags” (the capitalist / possessor of money) therefore purchases the worker’s labour-power in circulation; but **it is the consumption of labour-power in production that generates surplus value.**
- Actually, the capitalist purchases a **productive combination C**: raw materials, fixed capital, *and labour-power*.
In order to produce commodities and value, labour-power must be set to work upon material, and must benefit from machines and tools.
- However, the value of the means of production is merely transferred, unchanged, to the **product of the worker’s labour C’**.

Consumption of labour power and generation of surplus value

- **Only the worker's labour-power possesses the property of generating additional value**, such that the **finished product (C')** created in production **crystallizes more value than the productive combination (C)** purchased in circulation by the capitalist.
- The true general formula of capital (one that respects the law of equivalence) is therefore not $M-C-M'$, but rather **$M-C \dots C'-M'$** .

Consumption of labour power and generation of surplus value



The General Formula of Capital Revisited

Consumption of labour power and generation of surplus value

- We must now specify how, and to what extent, the worker's labour-power creates value and surplus value.
- Like all commodities, labour-power **has a use-value and an exchange value.**

Consumption of labour power and generation of surplus value

- The **exchange value of labour-power**, like that of any commodity, is determined by the **socially necessary labour time required for its production** (“necessary labour”), that is, for its reproduction:

«**The value of labour-power is determined, as in the case of every other commodity, by the labour-time necessary for the production**, and consequently also the reproduction, of this special article (...) the labour-time requisite for the production of labour-power reduces itself to **that necessary for the production of those means of subsistence**. (...) The labour-power withdrawn from the market by wear and tear and death, must be continually replaced by, at the very least, an equal amount of fresh labour-power. Hence the sum of the means of subsistence necessary for the production of labour-power must include the means necessary for the labourer’s substitutes, i.e., his children, in order that this race of peculiar commodity-owners may perpetuate its appearance in the market.” (*Capital*, vol. 1, chap. 6)

Consumption of labour power and generation of surplus value

- Marx thus takes over the Ricardian theory of subsistence wages ...
- With **one difference**, however—an absolutely essential one—namely that, for Marx, this **wage is the counterpart of the worker's labour-power being placed at the capitalist's disposal**, and not of the actual labour performed by the worker.

Consumption of labour power and generation of surplus value

- The **exchange value of labour-power** (EV_{LP}) is determined by the **socially necessary labour time required for its production** (necessary labour).
- The **use-value of labour-power** (UV_{LP}) is the **total labour** actually performed by the worker (actual labour).
To consume or make use of a worker's labour-power is, in fact, to make him perform labour, to produce commodities, and to create value.

Capitalist exploitation

- We may therefore write:

UV_{LP}	-	EV_{LP}	=	surplus value
actual labour	-	necessary labour	=	surplus labour
Value created by labour-power	-	cost of labour power (wage)	=	surplus value

- A part of the worker's labour time ("**surplus labour**") thus finds no equivalent in the wage paid to him; and it is this unpaid labour that corresponds to surplus value. Hence, there is **exploitation**.

Capitalist exploitation

- In order to obtain surplus value, the capitalist has only to **consume labour-power beyond the necessary labour time** during which the worker produces the value equivalent of his wage.
- Reasoning in terms of “simple labour”, if the working day lasts 12 hours and the daily value of labour-power is produced in 6 hours, the capitalist appropriates **6 hours of surplus labour, or surplus value, free of charge, per day and per worker.**

Capitalist exploitation

- Marx points out that **Ricardo commits a logical error in asserting, on the one hand, that wages are the price of labour performed, and, on the other hand, that this same labour is the determinant of value.**
- **If the worker were actually paid for all the labour he performs, the value of his labour would be equal to that of his product** (after deducting the cost of raw materials and the wear and tear of buildings and tools).

“In this case he produces no surplus-value for the buyer of his labour (...) the basis of capitalist production vanishes.” (Capital, vol. 1, chap. 19)

Capitalist exploitation

- The classical conception of wages as the “price of labour” moreover prevents us from drawing any **distinction between two moments of the working day**: the moment in which the worker produces the equivalent of the value of his wage (**necessary labour**), and the moment in which he produces surplus value for his employer (**surplus labour**).
- “The wage form thus extinguishes every trace of the division of the working-day into necessary labour and surplus-labour, into paid and unpaid labour. All labour appears as paid labour.” (Capital vol. I, chap. 19)

Capitalist exploitation

- Such an illusion tends to shift the origin of profit onto capital itself, and to make the capitalist the central figure in the production process.
- **The concept of labour-power, by contrast, makes it possible to bring capitalist exploitation to light** and to restore the worker to the centre of the system. The worker alone generates additional value in production (as Smith had already anticipated); yet, **since part of his labour is extorted by the capitalist through the wage relation**, he does not reap its fruits.

Capitalist exploitation



Capitalist exploitation is not theft, in the juridical sense of the term.

- Within the sphere of circulation, there is an **exchange of equivalents**.
- **The capitalist has therefore purchased the worker's labour-power at its value, and has become its legal owner for a determinate period of time.** He thus appropriates, in full legitimacy, its use and its results—that is, the commodities produced by the worker during the working day, and the surplus value associated with them.

Capitalist exploitation

- “The product is the property of the capitalist and not that of the labourer, its immediate producer. **Suppose that a capitalist pays for a day’s labour-power at its value; then the right to use that power for a day belongs to him**, just as much as the right to use any other commodity, such as a horse that he has hired for the day.” (*Capital*, vo.1, chap. 7)

Capitalist exploitation

For the worker's labour-power to be available as a commodity in circulation, a **historical condition must be fulfilled**—what Marx calls the “**free worker**”: free in a double sense:

► **Positive freedom**: the worker is a free person, in the philosophical and juridical sense. **He disposes at will of his own person, and therefore of his labour-power, of which he is the sole owner.**

Labour-power can thus be placed at the capitalist's disposal only temporarily: strictly speaking, **it is hired, not sold** (otherwise the worker would become a slave at the moment of sale). This implies a condition of **juridical equality** between capitalist and worker: labour-power is hired by contract.

► **Negative freedom**: the worker is “free of everything”, that is, **deprived of the means of production**—which would allow him to valorize his labour-power himself and sell his own products—**and of the means of subsistence**. The only commodity he possesses is his labour-power. He is therefore compelled to hire it out in order to survive, “like someone who has brought his own hide to market, and now has nothing to expect but—to be tanned.”

Absolute and relative surplus-value

- The capitalist's profit thus corresponds to the surplus value generated by the use of labour-power, that is, **unpaid labour**.
- It is nevertheless necessary to **distinguish between the rate of profit and the rate of surplus value** (also called “rate of exploitation”).
- The **rate of profit** is the ratio of surplus value — or, what amounts to the same, surplus labour — to the total amount of capital advanced in production, that is:

$$\text{rate of profit} = \frac{\text{surplus-value}}{\text{capital advanced}}$$

Absolute and relative surplus-value

- The **rate of surplus value** is the ratio of surplus value to wages advanced; in other words, it is the ratio between the value of “unpaid” labour (surplus labour) and that of “paid” labour (necessary labour). This is why it is also referred to as the **rate of exploitation**.

- That is:

$$\text{rate of surplus-value} = \frac{\text{surplus-value}}{\text{wages advanced}}$$

Or again:

$$\text{rate of profit} = \frac{\text{surplus labour}}{\text{necessary labour}}$$

Absolute and relative surplus-value

- **The rate of surplus value is therefore generally higher than the rate of profit:** the numerator is the same (surplus value—or, what amounts to the same, the amount of surplus labour), but the denominator of the former (the **wage fund**) is smaller than that of the latter (the **total capital advanced**, which includes the wage fund as well as raw materials, tools, machinery, etc.).
- There are three ways of increasing the rate of surplus value:
 - **absolute**
 - **relative**
 - **extra**

Absolute and relative surplus-value

- An **absolute increase in surplus value** is obtained primarily through the **lengthening of the working day**.
- This amounts to increasing the numerator of the rate of surplus value, while the denominator remains constant.
- Starting from our previous numerical example (12 hours of labour, divided into 6 hours of necessary labour and 6 hours of surplus labour, yielding a rate of surplus value of 1, or 100%), let us suppose that the working day is extended by 3 hours, to 15 hours. In that case:

$$\text{rate of surplus-value} = \frac{\text{surplus labour}}{\text{necessary labour}} = \frac{9}{6} = 1,5 \text{ (150\%)}$$

Absolute and relative surplus-value

- This method, however, runs up against temporal and physiological limits (a 24-hour day, the need for rest), as well as the potential resistance of workers.
- It is therefore preferable to achieve a **relative increase in surplus value by reducing the value of labour-power** (and thus “necessary labour”), through productivity gains in the sector producing workers’ means of subsistence.
- Thus, starting from our previous example (12 hours of labour, divided into 6 hours of necessary labour and 6 hours of surplus labour), let us suppose that technical progress reduces the daily value of labour-power, so that necessary labour falls to 4 hours. In that case:

$$\text{rate of surplus-value} = \frac{\text{surplus labour}}{\text{necessary labour}} = \frac{8}{4} = 2 \text{ (200\%)}$$

Absolute and relative surplus-value

- **Extra surplus value** is obtained by an individual capitalist insofar as, through technical or organisational innovations, they achieve productivity gains that allow them to produce the same commodities in less labour time than their competitors (that is, in **less time than the socially necessary labour time**).
- ⇒ See the final slides “Marx, Commodity and Value” and the text by C. Ramaux in the “Further Reading” of the French section of the EPI.

Conclusion: capital as a social relation

- Capital can be understood in the sense of physical or monetary capital, as Ricardo did when he assimilated it to a stock of commodities - tools & machines - necessary for production.
- **Marx, however, understood capital firstly as a social relation.** The generalisation of commodity relations, private ownership of the means of production, the worker's double "freedom", and the combination of legal equality with material inequality between capitalists and proletarians **are all specific social relations, peculiar to capitalism and to its functioning, and form the basis of the relation of exploitation that characterises it.**
- In the capitalist mode of production—and in no other—the worker's capacity to labour appears as a commodity that the capitalist can hire. And it is precisely because **this relation is rooted in an exchange based on the formal freedom and equality** of the contracting parties **that exploitation is rendered opaque** to social actors.