

Das Kapital in China

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Introduction of the author

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Dedicated to

• Karl Marx, Friedrich Engels •
• William • Wolffer and Jenny Marx

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Introduction to English Edition

When financial crisis in US triggered the current worldwide economic crisis and decline, capitalists and politicians in many countries began to read *Das Kapital*. In the past, *Das Kapital* was called the “Bible” of the working class. Why capitalists and politicians read such a “Bible”? In fact, in one of the many book reviews written by Engels for the first volume of *Das Kapital*, he called German factory owners then to not to be afraid of the position of the book. The history of English factory legislation and its results are especially worth studying. This is because, regardless of the position of *Das Kapital*, it “contains all of the scientific research and practical material worthwhile for people to pay attention to”.

In the Preface to the first German Edition of *Das Kapital*, Marx states that he has given so large a space in this volume to the history, the details, and the results of English factory legislation and has found that,

One nation can and should learn from others. And even when a society has got upon the right track for the discovery of the natural laws of its movement — and it is the ultimate aim of this work, to lay bare the economic law of motion of modern society — it can neither clear by bold leaps, nor remove by legal enactments, the obstacles offered by the successive phases of its normal development. But it can shorten and lessen the birth-pangs.

In order to oppose factory legislation shortening the working day, British capitalists launched a bloody battle against the working class. However, after they were forced to shorten the working day, they found that while the situation of workers improved, capitalist income also increased significantly at the same time. This is because, in the new circumstances, the capitalists had to upgrade their industry on the one hand; on the other hand, the work efficiency is greatly improved due to the improvement in the physical and mental state of the working class. Obviously, for capitalists in Germany to catch up the capitalists in Britain, and to compete with the world’s most powerful rival by then, they can not repeat the path of the early days of British factory legislation, but should shorten this stage.

In fact, *Das Kapital* did have practical effect on the German bourgeoisie for the time being. German

“cotton manufacturers in Gladbach have recognised that the working day is too long, and are forming an association among themselves to reduce the day from 13 hours to 12”.

Later Germany became the first capitalist country to pass legislation establishing a social security system, and soon rose from a backward capitalist country in Western Europe to a capitalist power competing with Britain and France. German capitalists’ knowledge of *Das Kapital* at least partly contributes to Germany’s rise. Today, the delay of the transformation of the economic growth mode and the adjustment of industrial structure in China has a direct relationship with the backwardness in Chinese factory legislation and its enforcement.

Besides the above points, capitalist worldwide can also learn from *Das Kapital* that British capitalists took the advantage of economic crisis to “pay” the debt owed to imported grain in the form of bankruptcy, which was put forwarded in the third volume of *Das Kapital* edited and published by Engels after Marx’s death. In this financial crisis, the United States, the most developed and richest country today, also “pay”, in the form of bankruptcy, the debt US owed the rest of the world, including both capitalists and the general public in other countries.

In fact, the shrewd capitalists are clear from the very early on that Marx is the “little boy” who tells the truth. That is why they have been, in self-deceit manner, trying their best to support the media and academia to deny him and his doctrine. Until the crisis broke out, they rushed to Marx’s book to find answers. Marx understood this early on. He once pointed out that the general crisis of capitalist society

“will drum dialectics even into the heads of the mushroom-upstarts of the new, holy Prusso-German Empire”.

It seems that the painful lesson brought about by US financial crisis also, once again, drums *Das Kapital* into the heads of capitalists and politicians. In fact, the oligarchs who control Wall Street are very familiar with Marx's view, since Marx, also a Jew, revealed the secrets of how they get rich. The maneuvers those oligarchs use to capture the economic benefits do not exceed the description in *Das Kapital*, while other capitalists and people who are not familiar with Marx's view, will inevitably played around by those oligarchs.

However, even with the help of the live examples of the current crisis, it is not easy to understand *Das Kapital*. Zhang Wuchang, Economist from Hong Kong, China, said in public, that he and his mentor Coase can not understand *Das Kapital*. Marx's wife Jenny Marx suggested in the letter to her friend that,

“if, like me, you have not yet managed to work through the dialectical subtleties of the first chapters, I advise you to read those on the primitive accumulation of capital and the modern theory of colonisation first”.

Therefore, it is necessary to write a popular guideline to *Das Kapital*.

Marx hoped that something could be made out of the material left by him. However, Engles have construed this task in its narrowest meaning as he said when he edited the second volume of *Das Kapital*,

“so far as this was at all possible, I have confined my work to the mere selection of a text from the available variants”.

This leaves us the space to make something out of the material left by Marx and Engels, or at least we do not have to rigidly adhere to the original words. Engels once pointed out that,

“socialism, having become a science, demands the same treatment as every other science – it must be studied”.

Therefore, the focus of this book is to grasp the core content of *Das Kapital* within as little length as possible, taking into account the consistency of the internal logic of the content. During the process, the book responds to the reality and analyzes some of the myths of the mainstream economics.

This book is written based on the reading of the first edition of *Marx/Engels Collected Works* in Chinese. In addition to the re-organization of the contents of the three volumes of *Das Kapital*, it also interspersed with a lot of sentences from *Marx/Engels Collected Works*. It will be tedious to give footnote to every citation. Therefore, only those citations outside *Marx/Engels Collected Works* are footnoted. Because of this, the book is dedicated to Marx and Engels, and the two persons *Das Kapital* dedicated to: William • Wolfffer (Volume I) and Marx's wife Jenny • Marx (Volume II and III). All the glory of this book belongs to Marx and Engels, and all the defects and problems are borne by the author.

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Part I Commodity and Money

Chapter 1 Commodity

Why *Das Kapital* begins with Simple Commodity?

Marx states in the preface to the first volume of that in this work he examines the capitalist mode of production, and the conditions of production and exchange corresponding to that mode. His ultimate goal is to reveal the economic evolutionary law of contemporary society. However, in the beginning of this volume what he analyzes is commodity.

People may question, why the analysis of *Das Kapital* named in capital, starts from commodity instead of capital? Why Marx didn't set out from demand and supply like mainstream economists did? According Marx's words, the wealth of those societies in which the capitalist mode of production prevails, presents itself as "an immense accumulation of commodities", with its unit being a single commodity. People may question again, why the unit of wealth is not money? Why doesn't the wealth of those societies in which the capitalist mode of production prevails present itself as huge amount of bank deposits and stock?

In fact, just as the study of calculus does not starts from the limit, but the narrative in calculus textbook has to start from it, rather than from the differential or integral after the study of calculus is completed. Similarly, Marx's study does not start from commodity, but his narrative must start from commodity. Marx and mathematicians all realized that

"if one wanted to 'explain' from the outset all phenomena that apparently contradict the law, one would have to provide the science before the science".^①

In comparison, authors of Mainstream economics textbook usually say that their research object is the allocation of scarce resource, and begin with several doctrines or the so-called law and principle which constitute the basis of mainstream economics. In their view, these rules and principles are not the results of research, but the starting points for research coming from God. After that, mainstream economists first study supply and demand. However, they do not study the object of supply and demand – commodity. They just draw two curves –the demand curve and the supply curve – according to some theological doctrine. Each line shows the amount of demand and supply of a certain good in a casual setting of price, such as the demand and supply for a car priced \$ 10. However, when they did not define what money is, what one dollar is, so they deliberately avoided the question of what price is. Why do they do so? Because of their hypocritical talk, they have to avoid problems and beat about the bush.

Meanwhile, mainstream economists have no idea that scarcity is a relative concept. To say that resources are scarce is the same to say that animal is thin, without comparison, such claim is meaningless. Mainstream economists have never been studied on such comparison, i.e. why resources are scarce, is it due to too much population, or because the resources are occupied by too few people? Mainstream economists have merely asserted that resources are scarce. They have also never studied that why resources are allocated as such, why some people have a lot

^① Marx & Engels Collected Works Volume 32. Beijing: Renmin Press, 1974, p541.
<http://www.marxists.org/archive/marx/works/cw/volume43/index.htm>

of resources while others almost have nothing. They have also never studied what will happen if the existing resources are reallocated, since in their view, it is inefficient to benefit more people by losing a small amount of someone's resources. They only consider under the existing allocation of resources, i.e. under the unknown so-called income constraints, what are the features of the results of the decisions taken by people in accordance with the provisions of the model constructed by mainstream economists. And they never study people's behavior after their decision, for example, the intensity and conditions of laboring after workers sell their labor under the conditions set by mainstream economists.

Mainstream economists have done so only to defend the existing capitalist system, thus they are unwilling and incapable to tackle the problems with capitalist system. In contrast,

“Marx only troubles himself about one thing: to show, by rigid scientific investigation, the necessity of successive determinate orders of social conditions, and to establish, as impartially as possible, the facts that serve him for fundamental starting-points”.^①

In short, no matter from where Marx started his research, he would eventually return to the starting point of commodity if it is scientific research and began discussion from this starting point. This is because the labor product in capitalist market economy generally takes the form of commodity, and commodity is also the basic form of consumption and production material with which human society survives and develops in capitalist market economy. More importantly, commodity will cease to exist without the human society. For example, it will cease to exist in a deserted island where a single individual lives. Thus, the commodity itself also reflects the basic economic relationships between people in capitalist market economy. We will see that it is from commodity that value, currency, price and economic crisis can be explained, and the mechanisms of capitalist market economy and part of the operating rules of the new society in the wake of capitalist society can be revealed in a consistent manner.

It is self-evident that where things and their interrelations are conceived, not as fixed, but as changing variables, their mental images, the ideas, are likewise subject to change and transformation; and they are not encapsulated in rigid definitions, but are developed in their historical or logical process of formation.^② This makes clear why Marx proceeds from the simple commodity instead of a logically and historically secondary form — from an already capitalistically modified commodity, just as the calculation of the area of trapezoidal and parallelogram can only be mastered after understanding that of the rectangular.

Why Marx never made moral demands for people?

Prior to the analysis of simple commodity, let's discuss about an “axiom” or assumption of mainstream economics: Any act of each person is selfish!^③ Mainstream economics further hold that only private ownership is consistent with this axiom.

There are two problems here. Firstly, similar to “scarcity”, “selfishness” is also a relative concept. Moreover, provision is denial. As long as there is the provisions of selfishness, there should exist selflessness denying selfishness. Just imagine, if the sun always hangs in the sky,

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p20. <http://www.marxists.org/archive/marx/works/1867-c1/p3.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p17. <http://www.marxists.org/archive/marx/works/1894-c3/pref.htm>

^③ Zhang Wuchang: *Economic Interpretation of Demand*, Hong Kong: Hua Qianshu Press, 2001, p69.

i.e. it is always the day, people will have no idea about the day, since, without the night as comparison, how is it possible for people to know the day? Secondly, even if human nature is selfish is an axiom, we can not arrive at the conclusion that private ownership must be implemented. In contrast, it serves as evidence to limit private ownership. This is because, if everyone is extremely selfish, each person wants to benefit himself or herself at the expense of others, the whole society will stuck in chaos where no person could benefit. There may have been such a society in the course of history, but it will certainly be eliminated by history. Therefore, societies that had survived must be ones limited private ownership to a certain degree.

Marx once pointed that,

“It is well known that a certain kind of psychology explains big things by means of small causes and, correctly sensing that everything for which man struggles is a matter of his interest, arrives at the incorrect opinion that there are only “petty” interests, only the interests of a stereotyped self-seeking.” ^①

Therefore, Marx didn’t think that people are born as selfish or selfless. He did not analyze from such a provision like mainstream economists.

There is such a sentence in *German Ideology* co-authored by Marx and Engels:

“Communists never make moral demands for people. For example, you should love each other, and do not become an egoist, etc.” ^②

Marx’s standpoint

“can less than any other make the individual responsible for relations whose creature he socially remains, however much he may subjectively raise himself above them”. ^③

Besides, Marx also points out that:

“What you think just or equitable is out of the question. The question is what is necessary and unavoidable with a given system of production. To clamour for equal or even equitable retribution on the basis of the wages system is the same as to clamour for freedom on the basis of the slavery system.” ^④

Incidentally, we briefly touch the issue of hypothesis in economics research. Mainstream economics often make a lot of assumptions such as “people are selfish” mentioned earlier. Mainstream economics also assumes that everyone can rationally calculates the benefits any behavior will bring to him or her, i.e., assuming everyone can reach the Mathematics level even top students from department of Mathematics at a university may not be able to reach and are capable to choose the behavior that will maximize his or her benefit. However, on the one hand,

^① Marx & Engels Collected Works Volume 1. Second Edition. Beijing: Renmin Press, 1995, p187.

<http://www.marxists.org/archive/marx/works/cw/volume01/index.htm>

^② Marx & Engels Collected Works Volume 3. Beijing: Renmin Press, 1960, p275.

<http://www.marxists.org/archive/marx/works/cw/volume05/index.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p10. <http://www.marxists.org/archive/marx/works/1867-c1/p3.htm>

^④ Marx & Engels Collected Works Volume16. Beijing: Renmin Press, 1964, p146.

<http://www.marxists.org/archive/marx/works/1865/value-price-profit/index.htm>

any choice to be made is made on the basis of the preconditions of a certain material and social relations. To talk about choice in an abstract manner without discussing the formation and development of the material basis and social relations will only serve to recognize the rights of vested interests and maintain the hegemony of bourgeois and international interest groups. On the other hand, if we assume that the earth does not move, which is so consistent with our everyday experience and feelings, then we can only come to the conclusions that the sun rotates around the earth, and totally agree with the geocentric claim of the Catholic Church in the past. Such a hypothesis does not stand in modern astronomy or branch of natural science today. Yet, similar assumptions are everywhere in mainstream economics. While the Catholic Church had admitted that Galileo is right, that the earth rotates around the sun, mainstream economists are still “proud” of their theories based on absurd assumptions.

Finally, although Marx did not raise more requests for people, he set out standards to show whether a person, scholar in particular, is base or not:

“When a man seeks to accommodate science to a viewpoint which is derived not from science itself (however erroneous it may be) but from outside, from alien, external interests, then I call him ‘base’.” ^①

According to this standard, most of the mainstream economists are base.

As far as human nature is concerned, Marx once suggested Feuerbach to

“attend a rally of French workers where you will confirm that these suffered people are immaculate and noble” ^②,

rather than dwelling on selfish or selfless, base or noble.

Why good harvest does not equivalent to good revenue?

We often hear people say that good harvest does not equivalent to good revenue. A number of reasons are mentioned for this phenomenon, such as it is difficult to grasp the changes of market, the difficulties in the access to market and so on. But the fundamental reason lies in the nature and the determination of value of commodities.

The primary nature of commodities is to meet people’s needs. Such usefulness constitutes the **use value** of a commodity. Usefulness is concrete and is not abstract. For example, teachers drink with tea and write with chalk not vise versa because different commodities often have different usefulness. However, the mainstream economists do not think so, they believe that the utility of chalk and tea to people is abstract, which can directly compare and replace each other. According to this logic one can drink with chalk.

The second nature of commodities is that, there is no use value for the producer of the commodity. This is because, for the product to become a commodity, it must be exchanged to the hands of the persons who use it, i.e., to the hands of consumers. This interchangeability of commodity constitutes the **exchange value** of commodity. For the producers, commodities are only a carrier of the exchange value with which they can exchange for other use values. This second nature of commodity reflects its historical and social attributes.

^① Marx & Engels Collected Works Volume26. Beijing: Renmin Press, 1973, p126.

^② Marx & Engels Collected Works Volume27. Beijing: Renmin Press, 1972, p450.

Before the advent of the commodity economy, or until the product becomes a commodity, the product is produced as use value to meet the immediate needs of producers themselves or the population the producers feed (including their families and their masters if they are slaves) . Except for a small amount of surplus goods, the majority of the products are not for exchange. In this case, high yield is equivalent to harvest. Since the larger the amount of the products, the more use value there is, the more wealth the producers gain. However, in the commodity economy, the product is produced for exchange to meet the needs of others. Producers need to exchange their own goods with goods in the hands of other people to meet their needs. Thus a problem arises — how to determine the proportion of commodity exchange? What if only few other products are exchanged with a large number of products?

Mainstream economics points out that this ratio of commodity exchange can be determined by the abstract utility commodities bring. For example, the reason I use an apple for exchange of an orange is that, the utility an apple brings to me is less than that of an orange, while the utility an apple gives to the other party is bigger than that of an orange. But firstly, this exchange is carried out based on inequality, even if there are benefits to both sides, this exchange can not be said to be equivalent. The benefits one side get may be far more than that of the other. Secondly, who should decide the utility of different commodities? The opinions of parties involved in the exchange alone? If so, there will always be one party who gets deceived. If a utility standard is used without consulting the parties involved in the exchange, then the exchange is mandatory, and each party would think that they are deceived. ^①Moreover, intermediate product produced during the production process, such as hot metal, does not bring direct utility to any consumer, then how to determine its exchange ratio with other commodities according to utility? Thirdly, how to explain, according to the utility law, the fact that the frequent upgrading of computer increases its utility, but its price gets lower after upgrading?

Different from mainstream economists, Marx noted that the exchange of commodities means in the first place the exchange of difference use value. Thus, the exchange of commodities is evidently an act characterised by a total abstraction from use value^②. Exchange value of commodities is expressed as such completely unrelated to their use value or utility. Secondly, the exchange of commodities means the exchange of labor products. Different use values of commodities reflect different specific forms of concrete labor. For example, the different use values of cotton yarn and book reflect differences between the labor of spinning and the labor of printing. However, the use value of cotton yarn and book can not replace each other, while human labor can be applied either for spinning and printing, and can easily be converted or reconfigured. Besides, no matter what kind of labor, in order to achieve certain effects after laboring, not only human labor force including both the physical and intellectual is required, a long sustained period of time of laboring is also required. Thus, if we make abstraction of the use value of commodities, all different kinds of specific concrete labor are reduced to one and the same sort of labour, human labour in the abstract^③. The exchange value of commodities all turn into the mere congelation of homogeneous human labour, into the **value** of commodities. At this point, commodities can be exchanged with a certain ratio, i.e. exchange of equivalent value according to the magnitude of the value of commodities.

However, with the development of capitalist market economy, such exchange of

^① Marx & Engels Collected Works Volume 1. Beijing: Renmin Press, 1956, p605.

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p50. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p51. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

equivalent value evolves over time, where commodities are exchanged not based on its magnitude of value, but the production price. Yet, on the one hand, the exchange of equivalent value according to the magnitude of the value of commodities is the general law in the early times of capitalist market economy and the commodity economy before it, and is still prevailing in some of the underdeveloped corner in capitalist market economy^①. On the other hand, the exchange of equivalent value according to production prices is still based on the premise of the magnitude of the value of commodities. All mainstream economists attempting to overthrow labor theory of value with other theories of value have never suggested reducing the factory's working hours in a day to less than two hours, nor have they objected to the requirements by capitalists to extend the working hours of workers. There is no better illustration than this to demonstrate that the labor time embodied is the only source of value.

Thus, in describing economic laws, we first need to be clear about the magnitude of value and the equivalent exchange by the magnitude of value, and then let us analyze the production prices. This makes our theory conform to historical logic.

Since the appearance of commodity itself means exchange, hence the relationship among people, the labor reflected in the amount of commodities is not individual labor, but the common human labor. Therefore, when investigating the magnitude of value of a commodity, we use the labour time average necessary or socially necessary. The labour time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time. For example, the introduction of power-looms into England probably reduced by one-half the labour required to weave a given quantity of yarn into cloth. The hand-loom weavers, as a matter of fact, continued to require the same time as before; but for all that, the product of one hour of their labour represented after the change only half an hour's social labour, and consequently fell to one-half its former value. ^②

It has to be noted that, the human labor here is the expenditure of simple labour power, i.e., of the labour power which, on an average, apart from any special development, exists in the organism of every ordinary individual. A commodity may be the product of the most skilled labour, but its value, by equating it to the product of simple unskilled labour, represents a definite quantity of the latter labour alone. The different proportions in which different sorts of labour are reduced to unskilled labour as their standard, are established by a social process that goes on behind the backs of the producers, and, consequently, appear to be fixed by custom. ^③

Therefore, the ratio of the value of one commodity to the value of the other is the ratio of the labour time necessary for the production of the former to that of the latter. Commodities, in which equal quantities of labour are embodied, or which can be produced in the same time, have the same value.^④ The value of a commodity would therefore remain constant, if the labour time required for its production also remained constant. But the latter changes with every variation in the productiveness of labour. This productiveness is determined by various circumstances, amongst others, by the average amount of skill of the workmen, the state of science, and the degree of its practical application, the social organisation of production, the extent and capabilities of the means of production, and by physical conditions. For example,

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p198. <http://www.marxists.org/archive/marx/works/1894-c3/ch10.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p52. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p57. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

^④ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p52-53.
<http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

the same amount of labour in favourable seasons is embodied in 8 bushels of corn, and in unfavourable, only in four.^① This is why, in the age of commodity economy, good harvest does not equivalent to good revenue.

Here, the production force belongs to the specific concrete form of labor which is irrelevant to the abstract human labor and therefore productivity does not relate to the magnitude of value either. However then productive power may vary, the same abstract labour, exercised during equal periods of time, always yields equal amounts of value. But it will yield, during equal periods of time, different quantities of use values; the quantity is larger if productivity rises; fewer if productivity falls.^② Of course, if the labor intensity increases, the expenditure of muscle and brain will be more intense than the average cases, more value will be generated in the same amount of time. The common abstract human labor is the abstract human labor with the average degree of intensity prevalent in the society. The more intensive laboring under a certain compressed period of time should be regarded as greater magnitude of labor. However, the more intensive one works the shorter the working can last.

In short, the higher the productivity of labor needed to produce a commodity, the smaller the amount of labor embodied in the commodity, the smaller the value of it. Conversely, the lower the productivity, the longer the labor time needed to produce the commodity, the greater the value of it. Therefore, the magnitude of value of a commodity is proportional to the amount of labor embodied in it, and inversely proportional to the productivity of labor.^③ If not, there would have such abnormal situation where the higher the productivity, the greater the value of unit commodity, the more expensive it sells, which would put the commodities produced with higher productivity at a disadvantage in competition and the production mode with higher labor productivity would be eliminated.

Since the magnitude of value can not increase with the improvement of productivity, what is the point to develop productivity? For capitalist society, the development of productivity means that a small number of capitalists can beat other capitalists in competition, which means more people will lose their freedom. We will see later that, the capitalist system has become fetters for the development of production force. While in socialist or communist society, the development of productivity means that the same use value can be obtained with less working time, so people can have enough time for more variety of work or other activities, which is to free people from the survival pressure to achieve the freedom of humanity.

Finally, we'll make a bit of theoretical description. In fact, as the physicist Newton once used infinitesimal in a vague manner, the terminology of use value and exchange value are also immature words used by classical economists before Marx. It is Marx's accurate theoretical analysis that saves these concepts. For example, he measures use value with the physical units of objects themselves, such as five kilograms of flour, ten meters of fabric, etc., instead of using certain abstract unit to be uniform measurement of use value, like cardinal utility adopted by the mainstream economic school. However, people now directly turn back to the historical origin of these concepts in an attempt to put aside Marx, resulting in a lot of theoretical confusion today. The most common one is the confusion between use value and value, where people try to obtain value directly from use value, i.e., the usefulness of the commodity. For

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p53. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p60. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p53-54.
<http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

example, the founder of modern mainstream economics, Adam Smith, once lamented that the exchange value of water is so small compared to its great use value. Others claim that there are two use values of a commodity, one is the use value of the product itself, the other is commodities can be exchanged with this commodity. This is to confuse the usefulness and the interchangeability of a commodity. There are even others attempting to replace Marx's twofold theory about the use value and value of a commodity, with the trinity theory of use value, exchange value and value. These theoretical mistakes are not analyzed in detail here; I'd like to bring to your attention one viewpoint raised by Marx:

In a capitalist society, because of the poverty of workers, the capitalists use the least cost to "feed" the workers, and thus the cheapest commodities are the most prevalent with the greatest "utility" ^①. In an ideal society, those cheap commodities which do not really meet the needs of the people will lose their once (larger) utility.

Why US does not turn into an agriculture country?

The theory of comparative advantage, simply put, is to let A gifted in producing wine and B gifted in growing grains to specialize in the production of wine and grains respectively and then to exchange their products. In such cases, A can get more grain and B can get more wine comparing to the situation where A and B have to produce both wine and grains and do not exchange with each other. Therefore, according to the theory of comparative advantage, a country should specialize in producing what it relatively good at.

The US mainstream economist Mankiw have pointed out in his textbook that, Japan has a comparative advantage in producing cars, while the United States have a comparative advantage in producing food. Therefore, Japanese should produce more cars than they need and export some cars to the United States; the Americans should produce more food than they consume and export some food to Japan. ^② However, if the theory of comparative advantage does hold, why the U.S. did not turn into an agricultural country? Mankiw's explanation is that there are groups of citizens with different interests in each country. When the US exports food and imports cars, the impact on American farmers and American auto workers is different. However, he did not explain what prevents American auto workers from becoming farmers in accordance with the theory of comparative advantage.

In fact, long before Mankiw, even before Marx, Mercier de la Rivière pointed out that,

"A man who has plenty of wine and no corn trades with a man who has plenty of corn and no wine; an exchange takes place between them of corn to the value of 50, for wine of the same value. This act produces no increase of exchange-value either for the one or the other; for each of them already possessed, before the exchange, a value equal to that which he acquired by means of that operation."

Marx commented that as regards the use-values exchanged, both buyer and seller may possibly gain something; this is not the case as regards the exchange-values. ^③ This reasoning is the same as that good harvest does not equivalent to good revenue.

^① Marx & Engels Collected Works Volume 4. Beijing: Renmin Press, 1958, p105.

<http://www.marxists.org/archive/marx/works/1847/poverty-philosophy/ch01.htm>

^② N. G. Mankiw, translated by Liang Xiaoming, *Economics*, third edition. Beijing: China Machine Press, 2003, p47.

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p183-185.

<http://www.marxists.org/archive/marx/works/1867-c1/ch04.htm>

In fact, the theory of comparative advantage views use value as the aim of commodity production and thus also the market economy. However, in commodity production, use value such as hot metal, is not itself what producers pursue. In a market economy, a certain use value is produced because that only with production of a certain use value, can labor be embodied in the corresponding commodity. Therefore, capitalists will produce hot metal he himself does not need in order to obtain the magnitude of value embodied in the hot metal.

Marx pointed out that,

“we are told that free trade would create an international division of labor, and thereby give to each country the production which is most in harmony with its natural advantage. You believe, perhaps, gentlemen, that the production of coffee and sugar is the natural destiny of the West Indies. Two centuries ago, nature, which does not trouble herself about commerce, had planted neither sugar-cane nor coffee trees there. And it may be that in less than half a century you will find there neither coffee nor sugar, for the East Indies, by means of cheaper production, have already successfully combatted his alleged natural destiny of the West Indies. And the West Indies, with their natural wealth, are already as heavy a burden for England as the weavers of Dacca, who also were destined from the beginning of time to weave by hand.”^①

Engels pointed out that,

“if one looks at the matter impartially and without being misled by the cries of the interested parties, the Irish landowners and the English bourgeois, one finds that Ireland, like all other places, has some parts which because of soil and climate are more suited to cattle-rearing, and others to tillage, and still others — the vast majority — which are suited to both. Compared with England, Ireland is more suited to cattle-rearing on the whole; but if England is compared with France, she too is more suited to cattle-rearing. Are we to conclude that the whole of England should be transformed into cattle pastures, and the whole agricultural population be sent into the factory towns or to America — except for a few herdsmen — to make room for cattle, which are to be exported to France in exchange for silk and wine?”^②

If, the theory of comparative advantage does not hold in simple commodity production, then it is harmful to developing countries in the transformed commodity production, i.e. the current market economy, which will be described later. In fact, the theory of comparative advantage is to sacrifice developing countries for the interests of developed countries. Marx laughed at those free-traders who stress the few specialties in each branch of industry, throwing them into the balance against the products used in everyday consumption and produced most cheaply in those countries in which manufacture is most highly developed.^③ Apparently, the labor-intensive, pollutant and resources depleting industries of which developing countries are considered to have a comparative advantage can not be thrown into the balance against high value-added manufacturing industries in which developed countries have a comparative advantage. Marx pointed out that, as all have been monopolied, in the present, there are some industries dominate all others, and ensure that those nations engaged most extensively and

^① Marx & Engels Collected Works Volume 4. Beijing: Renmin Press, 1958, p457-458.

<http://www.marxists.org/archive/marx/works/cw/volume06/index.htm>

^② Marx & Engels Collected Works Volume 16. Beijing: Renmin Press, 1964, p549.

<http://www.marxists.org/archive/marx/works/cw/volume06/index.htm>

^③ Marx & Engels Collected Works Volume 4. Beijing: Renmin Press, 1958, p458.

<http://www.marxists.org/archive/marx/works/cw/volume06/index.htm>

deeply in these industries rule the world market.^① Today, the developed countries continue to rule the world market through industrial sectors in which they have gained comparative advantage. If developing countries are to get rid of this position, they must enter industries where the developed countries have a comparative advantage, and place behind the theory of comparative advantage. For example, the cars produced in Japan were not as good as that of US in the beginning, according to Mankiw's theory, it was better for Japan to become an agricultural country then. But the Japanese insisted on producing cars on their own and caught the United States in car industry, according to Mankiw's theory it was now better for US to become an agricultural country. However, although the United States did not turn into an agricultural country according to Mankiw's theory, he still dominates the teaching of Economics at Harvard University, until the "Occupying Wall Street Movement" when students question his theory.

Why the Protestant Ethic represents capitalist spirit?

In societies comprised by commodity producers, the labour of the individual producer acquires socially a twofold character. On the one hand, it must, as a definite useful kind of labour, satisfy a definite social want, and thus hold its place as part and parcel of the collective labour of all, as a branch of a social division of labour that has sprung up spontaneously. On the other hand, it can satisfy the manifold wants of the individual producer himself, only in so far as the mutual exchangeability of all kinds of useful private labour is an established social fact, and therefore the private useful labour of each producer ranks on equality with that of all others.^② This is the viewpoint which the most sacred tenet of mainstream economics — the "invisible hand" — tries to say but is incapable to clearly explain.

The general social production relations are as such: the producers in general enter into social relations with one another by treating their products as commodities and values, whereby they reduce their individual private labour to the standard of homogeneous human labour.^③ Since the producers do not come into social contact with each other until they exchange their products, the specific social character of each producer's labour does not show itself except in the act of exchange. In other words, the labour of the individual asserts itself as a part of the labour of society, only by means of the relations which the act of exchange establishes directly between the products, and indirectly, through them, between the producers. To the latter, therefore, the relations connecting the labour of one individual with that of the rest appear, not as direct social relations between individuals at work, but as what they really are, material relations between persons and social relations between things.^④

In a world of business competition, success or failure does not depend on the individual activities or intelligence, but on the conditions out of his or her control. A product which meets a social need today could be crowded out as a whole or in part by a similar product tomorrow. Even some kind of labor, such as woven linen, is a part of the social division of labor with special permission, there's no guarantee that the use value of the linen produced must realize

^① Marx & Engels Collected Works Volume 4. Beijing: Renmin Press, 1958, p458.

<http://www.marxists.org/archive/marx/works/cw/volume06/index.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p90-91.

<http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p97. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

^④ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p90. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

and people who need this amount of linen will necessarily be found. Social need of linen, like the need for other things, is limited, if the producer's competitors have already met this need, their products become superfluous and surplus. Even if the product is not excessive, and there is need for it, the magnitude of value exchanged has changed, namely, socially necessary labor time to produce it has varied. The same amount of labor time, which was indeed socially necessary labor time to produce a certain amount of linen yesterday, is not so today. And this change is behind the producer, which will happen without his content. He will discover that, while the division of labor makes him and other person become individual private producer, it takes away their own control over the process of social production and their relationship in this process.^① What plays a decisive role is not a person's will or action, but the "invisible hand" advocated by mainstream economics, which is unknown supreme economic power putting every one at its mercy: Man proposes, God disposes (i.e. the alien dominant force of capitalist mode of production). However, since the Almighty God advocated by mainstream economics can not stop the capitalist economic crisis, nor let capitalists avoid losses, liabilities and bankruptcy or let workers avoid unemployment and poverty, the religion would come to the stage.

All religion, however, is nothing but the fantastic reflection in men's minds of those external forces which control their daily life, a reflection in which the terrestrial forces assume the form of supernatural forces. In the globalized market economy, men are dominated by the economic conditions created by themselves, by the means of production which they themselves have produced, as if by an alien force. The actual basis of the religious reflective activity therefore continues to exist, and with it the religious reflection itself.^② For such a society, Christianity with its cult of abstract man, more especially in its bourgeois developments, Protestantism, Deism, &c., is the most fitting form of religion.^③

Therefore, religion only then finally vanishes when the actual basis of religion is eliminated and the domination of all kinds of alien forces to humanity is terminated. This is only possible when the practical relations of every-day life offer to man none but perfectly intelligible and reasonable relations with regard to his fellowmen and to Nature. The life-process of society, which is based on the process of material production, does not strip off its mystical veil until it is treated as production by freely associated men, and is consciously regulated by them in accordance with a settled plan. In other words, religions only then finally vanish on the basis of the material living conditions and the social relations in the communist society. This is the root cause why we emphasize religious freedom today.

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p717. <http://www.marxists.org/archive/marx/works/1867-c1/ch25.htm>

^② Marx & Engels Collected Works Volume 20. Beijing: Renmin Press, 1971, p341-342.

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p97. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

Chapter 2 Money

Why economists cannot answer the question: what is one pound?

Sir Robert Peel who was once the Prime Minister of UK, proposed a very famous question, “what is one pound?” However, today's mainstream economics teachings do not answer this question. Furthermore, money is always discussed in several chapters later in the mainstream economics textbooks, although price measured by money has been talked much before. This arrangement of the mainstream economics textbooks is just to avoid answering “what is one pound”. The reason is that if mainstream economists want to answer this question, they have to go back to labor theory of value which they endeavor to avoid.

Mankiw points out in the textbook written by him that, there is the same sentence written in each note in your pocket that

“This note is legal tender for all debts, public and private.”^①

Nevertheless, you cannot use one dollar to repay the mortgage purchase for a house. In the definition of money, the amount of money is very critical. If you do not state what is the certain amount of money, you cannot state what the money is. So, how does Marx define money? He puts it in this way:

The commodity that functions as a measure of value, and, either in its own person or by a representative, as the medium of circulation, is money. Gold (or silver) is therefore money.^②

Here, measurement of value is the prescription of the amount of money. Why does Marx define money in this way? Because he is first aware of that money is produced in commodity exchange. Money, which can be exchanged by commodity, is a commodity. Although we usually use notes not commodity to exchange commodity, the note is only the representative of money commodity, namely currency symbol.

There are two contradictions in commodity exchange, and one of them originates from the dual character of commodity.

“Commodities come into the world in the shape of use values, articles, or goods, such as iron, linen, corn, &c. This is their plain, homely, bodily form. They are, however, commodities, only because they are something twofold, both objects of utility, and, at the same time, depositories of value.”^③

However, they are not able to play the roles both of use value and value at the same time, namely that they cannot be consumed by possessors as use value, and meanwhile exchange other commodities by possessors as depositories of value.

^① Mankiw, N, G. *Principles of Economics II*, (The third edition of the original version) translated by Liang Xiaomin, Beijing: China Machine Press, 2003, p.204. The note here refers to dollar banknote.

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p152. <http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p61. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

“The opposition or contrast existing internally in each commodity between use value and value, is, therefore, made evident externally by two commodities being placed in such relation to each other.”^①

For example, in the exchange formula that 2 kilograms of tea= 1 coat, tea represents use value in contrast relation, and coat represents value in contrast relation. In other words, tea is bought to consume, playing the role of use value. While the price for buying 2 kilograms of tea is one coat. So the coat is not used to wear directly, but to buy tea. Here, one coat embodies the value of 2 kilograms of tea. If the formula is reversed, namely 1 coat=2 kilograms of tea, the meanings of both are different. Coat becomes the representative of use value, while tea becomes the representative of value.^② Due to diverse defects of tea, coat and other commodities in representing value, such as not convenient to divide, not convenient to carry; especially, the single product's quantity of value will devalue much with the improvement of Labor productivity, therefore, the representatives of value in the contrast relation, namely that the commodities representing value tends to become a kind of fixed, unique commodities. This kind of unique commodities works as the agent in commodities' circulation, playing the role of means of circulation. Then, money is produced. The kind of unique commodities is gold^③, namely money. Because money itself is the commodity with quantity of value, so it could work as the measurement of value to compare other commodities' quantity of value.

The other contradiction of commodity exchange is how to exchange commodities according to the proper exchange ratio. In other words, when coat is used to represent value and 2 kilograms of tea=1 coat, how to use one coat to change only one kilogram of tea and at the same time keep the left quantity of value of another one kilogram of tea? With the appearance of money, as all the commodities can be transferred into money commodity—gold that is easy to divide, all of their quantities of value could be transferred into the same name of quantities, namely gold quantities. This contradiction is resolved by gold as money commodity to perform general value scale function. Different commodities' value can be compared and calculated as different gold quantities.

However, it is necessary to consider a certain gold quantity as the unit of measurement of commodity value technically. This unit, by subsequent division into aliquot parts, becomes itself the standard or scale. Before they become money, precious metals already possess such standard measures in their standards of weight. It is owing to this that, in all metallic currencies, the names given to the standards of money or of price were originally taken from the pre-existing names of the standards of weight.^④ For example, a pound is the original name of real one pound silver's money name.

It is need to be aware that as measure of value, and as standard of price, money has two entirely distinct functions to perform. In the formula that a coat=3 gram gold, gold measures the coat as the measure of value; while in the formula that 3 gram gold=3 × 1 gram gold and 6

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p77. <http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm>

^② This is the difference between Marxist economics and Mathematics. In Mathematics, the meanings of two sides of formula will not changed if they are exchanged; but in Marxist economics, the meanings of two sides of formula will definitely changed if they are exchanged. The mainstream economics often reverse cause and effect by the nature of Mathematical equation to make up teaching, arguing for all the exploiting classes including the capitalist class.

^③ Silver and copper were once used as money in history. However, production costs of silver and copper decreased much faster than that of gold, namely that the quantities of value of the unit weights of silver and copper decreased faster. In the end, gold beat silver and copper in the competition of money commodity, which emphasized the stabilization of money value.

^④ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p117-118.
<http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm>

gram gold=6×1 gram gold, one gram gold measures 3 gram gold and 6 gram gold as standard of price. So, if gold's value fell to half, while coat's value kept the same, thus the formula that a coat=3 gram gold had to be changed into the formula that a coat=6 gram gold, but the formula that 3 gram gold=3×1 gram gold and 6 gram gold=6×1 gram gold kept the same. Gold's value is decided by its production socially necessary labor time, and displays by other commodity quantities which contain the same labor time.

Since the standard of money is on the one hand purely conventional, and must on the other hand find general acceptance, it is in the end regulated by law. A given weight of one of the precious metals, an ounce of gold, for instance, becomes officially divided into aliquot parts, with legally bestowed names, such as pound, dollar, &c. ^① Therefore, one dollar appears gradually.

Although, a given weight of metal is still the standard of metal money, as the change of dividing methods and names, the trace of value relation in the formula that 100 kilogram wheat equals certain gram gold has disappears in the formula that 100 kilogram wheat equals certain pounds or dollars. This is because that certain pounds or dollars have not already indicated the concrete quantities of certain precious metal directly. Furthermore, it makes people come upon the strange idea that gold's value is regulated by states. In other words, when one ounce gold is regulated as 35 dollars, dollar, originally as the symbol of gold, regulates the gold quantity which it represents. Therefore, one dollar can measure commodity's value like one gram gold as measure of value; as a result that people mistakenly take dollar to fix gold's value, and name dollar as dollar gold.

Under this misunderstanding, when some countries reached the agreement in Bretton Woods in US in the end of World War II to determine the principle that the US dollar linked with gold, and other currencies were linked with dollar, people thought world money had changed from gold standard to dollar standard. While Richard Nixon, the U.S president announced that cut the fixed parity that one ounce gold=35 dollars between dollar and gold in 1971, people thought the world entered into diversified standard system.

Actually, today's money system is still gold standard. This is not decided by politics, even international politics, but by commodity's dual characters. In history, with labor productions becoming commodities, commodity, not some symbol, became money to the same extent. Paper or electrical dollar, euro, pound and RMB are only the money symbols, just the representatives of money; they are just something of money for short, but not the money itself. Money, especially the world money, is still gold; however, the ratio between gold and its representatives is not fixed, but floating. On September 20th 2010, the gold trading price in New York arrived at 1278.5 dollars one ounce. That means dollar has depreciated 97.3% from Nixon's time under the gold standard system. In other words, US dollars' holders' the quantity of value in Nixon's time has been already grabbed 97.3% by American financial magnate, less than 3% left, even if from the quantity of use value, more than 3% will be left. With the development of labor productivity, less quantity of value can assume more quantity of use value. If there is the phenomenon that Warm water boils frogs, it is that. If the value of gold itself, namely the socially necessary labor time of gold falls, and gold's labor productivity rises, dollar will depreciate more. The US dollars' holders like US and people around the world, including industrial capitalists, will be deprived more.

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p120. <http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm>

What is price and what decides price?

With the appearance of money, commodity's value representation in money, like a coat=one ounce gold, is the money form of commodity or commodity's price.^① Of course, the price will be displayed by some given names of a certain gold quantity, like pound, or certain quantity of money symbols, like 38 dollars.

Although price only expresses commodity's magnitude of value by commodity's exchange-ratio with money, the price's expression can deviate from commodity's real magnitude of value. Suppose that 1 kilo of wheat's socially labor time is 2 dollars, and then 2 dollars is the expression in money of the magnitude of the value of the 1 kilo of wheat, or its price. If the government provides subsidies to farmers, farmers can sale wheat by 1 dollar one kilo, so 1 dollar is the expression in money of the magnitude of the value of the 1 kilo of wheat. Nevertheless, both 1 dollar and 2 dollars are both the prices of wheat. This exchange-ratio may express either the real magnitude of that commodity's value, or the quantity of gold deviating from that value, for which, according to circumstances, it may be parted with. The possibility, therefore, of quantitative incongruity between price and magnitude of value, or the deviation of the former from the latter, is inherent in the price-form itself.^② This is no defect of this form, but, on the contrary, only this form can secure price could express the commodity's magnitude of the value in the long mean motion under the circumstance of irregular market economy.

As price can deviate from magnitude of the value, those factors to adjust price are considered as the deciding factors of price by mainstream economics. That is the supply and demand relationship. Indeed, when supply is greater than demand, price will go down; when supply is less than demand, price will go up. However, on the base of equilibrium of supply and demand price emphasized by mainstream economics, when supply is equal to demand, the supply and demand relationship cannot explain why the price of a toy car will lower than the price of a real car. Actually, this thus again shows how absolutely nothing can be explained by the relation of supply to demand before ascertaining the basis on which this relation rests.^③

If the price of a commodity rises dramatically for the shortage of supply or the large demand, then another commodity's price will inevitably fall accordingly, because a commodity's price is only the exchange- ratio with other commodities in the form of money^④. For example, if a coat's price goes up from 10 dollars to 15 dollars, although tea's price keeps the same, it falls compared with the price of the coat. People have to supply more tea or other commodities of the same price to get the same amount of coats.

What is the result that will be caused by the rise of commodity's price? A large amount of productive resources will flow over to this prosperous industrial sector, till the price of this sector's products falls to the normal magnitude of the value, or it is to be put more accurately that till the price of this sector's products falls below the level of magnitude of the value for over production.

On the contrary, if a commodity's price falls below the level of its magnitude of the value, productive resources will go away from the industrial sector. Except for the industrial sector

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p115. <http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p123. <http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p202. <http://www.marxists.org/archive/marx/works/1894-c3/ch10.htm>

^④ Marx & Engels Selected Works Volume 1. Beijing: Renmin Press, 1995, p340.

will inevitably decline if it cannot satisfy time require, the commodity's production, namely the commodity's supply will be curtailed because of the outflow of productive resources, till the commodity's supply and demand gear with each other, or till the commodity's price rises to its magnitude of the value again, or more accurately to say that till the supply is less than demand, namely the commodity's price is higher than the level of magnitude of the value.

In long term, the fluctuation of supply and demand will always lead the commodity's price to the level of market value. The commodity's real price is always higher than market value or is lower than market value, but rise and fall are mutually complementary. So, in a certain time, from the recession and prosperity of one industry, we could see that all kinds of commodities mutually exchange by their market values. In other words, their prices are decided by their market values. Certainly, the rule is not fit for the single industrial product, but for all industrial sectors.

On one hand, if market value changes, the sale situation for gross merchandise volume will change accordingly. If market value falls, affordable social demand (effective demand in mainstream economics) will averagely go up, and can absorb the greater amount of commodities to some extent; if market value rises, social demand will go down, and can only absorb the fewer number of commodities. Therefore, if the supply and demand regulate the deviation between market price and market value, thus market value regulates supply and demand relationship. ^①

On the other hand, if one commodity's output outnumbers its social demand, a part of social labor time will be wasted. Then, at this time, the social labor quantity represented by the quantity of the commodity is much less than its real social labor quantity. ^② Therefore, these commodities' values do not change, but their market prices have to sell under their values, even a part of them cannot sell at all.

What need to be point out that the price-form, however, is not only compatible with the possibility of a quantitative incongruity between magnitude of value and price, i.e., between the former and its expression in money, but it may also conceal a qualitative inconsistency, so much so, that, although money is nothing but the value-form of commodities, price ceases altogether to express value. Objects that in themselves are no commodities, such as conscience, honor, &c., are capable of being offered for sale by their holders, and of thus acquiring, through their price, the form of commodities. Hence an object may have a price without having value. ^③ On the other hand, the price of things which have in themselves no value for they cannot be reproduced by labor, such as antiques^④, etc., may be determined by many fortuitous combinations. In order to sell a thing, nothing more is required than its capacity to be monopolized and alienated. ^⑤ Those imaginary price-forms cover the real value relations or derived relations, and then become arguments which some mainstream economics use to attack labor theory of value. Those arguments make a false impression that Marx seemed to never study these kinds of issues.

We have to emphasize that when we talk about the general rules of commodity economy, the commodity we mention is David Ricardo's commodity of which the amount can be

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p202. <http://www.marxists.org/archive/marx/works/1894-c3/ch10.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p208. <http://www.marxists.org/archive/marx/works/1894-c3/ch10.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p123. <http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm>

^④ Value here only refers to economic value. It is not defined as historical or cultural value or use value.

^⑤ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p714. <http://www.marxists.org/archive/marx/works/1894-c3/ch37.htm>

increased by labor and the production can be stimulated by competition without any impediments.^①

How does paper money appear?

The appearance of money does not eliminate the inner contradiction of dual character of commodity, but creates the movements of those contradictions in economic activities. However, it also makes that money commodity's use value dualized. Money as commodity has special use value, such as gold, which could be used in dental prosthesis or used as raw material for luxuries. Besides that, gold obtains another formal use value by its unique social function. Nevertheless, money commodity cannot be commodity as well as money. When it implements monetary function, it cannot implement commodity function, vice versa. In ancient china, government used to limit the consumption of bronze ware, for bronze itself was the material of casting coins. The way to resolve the inner contradictions is to build external oppositions, to create the movements of those contradictions. Thereupon, there appears the money symbol to substitute money commodity to implement monetary function.

The reason why money symbol can appear is involved with some features of monetary function. When money implements value measure function, for example, a coat's price is 10 dollars; 10 dollars do not means real money, but imaginative or conceptive money. It is enough to have money concept in commodity circulation.

Because money commodity can be substituted by pure money symbol, mainstream economists assert that money commodity, as value measure and price standard is superfluous. That means all countries around the world do not need to reserve gold. How about US? America does not only control its gold reserve, but compels other countries to transfer their own gold reserve to American to keep, and also forces Russia and Korea to repaid their debts by gold not other things during their finical crises.

In fact, only when paper money represents magnitude of gold, it becomes money symbol.^② But the magnitude of gold represented by paper money can change. When paper money first appeared, it was issued by private institutions with the guarantee of certain amount of metal money, and it could be exchanged with metal money according to the fixed ratio. Since paper money with the guarantee of plenty metal money, its function was only convenient for carrying with and trading, not increasing the circulating quantity of money. Only when paper money is issued over reserve, namely the institutions issue paper money over their metal money reserve, or the institutions recirculate original metal money reserve without recovering all the paper money issued, will the circulating quantity of money (including metal money and paper money) increase, thus issuing paper money can increase he circulating quantity of money. However, social need, namely the shortage of the circulating quantity of money caused by economical development, soon urges the super reserve issue of paper money.

With the super reserve issue of paper money, the dual contradiction of use value for money commodity is relieved momentarily. At that time, commodity money, such as gold or

^① Requited from Marx & Engels Collected Works Volume 4. Beijing: Renmin Press, 1958, p90.

<http://www.marxists.org/archive/marx/works/1847/poverty-philosophy/ch01b.htm>

^② Paper money issued by new China before and after new China was founded and the paper money used in liberated areas did not represent quantity of gold directly, but represented the value magnitude of commodity made up of food and clothes, etc. However, the economy in liberated areas and of new China was not typical capitalist market economy. This book's assumption is based on typical capitalist economy.

silver can be consumed as ordinary commodities, not affecting circulating quantity of money. However, the credit deficiency of private institutions is exposed. When people ask to exchange metal money with paper money over-reserved issued by private institutions, there comes bank run, which necessarily will be resolved by government. When the governments realize that issuing paper money is profitable, the issue of paper money is monopolized by governments with the guarantee of national credit and national power, thus largely extending the use range of paper money. However, in some European and American countries, the authority to issue the paper money in the name of the state, is completely occupied by private oligarchs who control the countries. The Federal Reserve, the American central bank issuing US dollar is a private-owned and private-operated institution, like the bank of England issuing pound in Marx's time.

The appearance of paper money resolves an old contradiction, but causes a new contradiction. Because of the low cost of printing paper money, institutions issuing paper money could fraudulently obtain fortune according to par value of paper money with very low production costs. That is seigniorage. Because the seigniorage is the necessary circulating cost in socioeconomic development, it ought to be used for social public enterprise. So, it is more reasonable for the seigniorage owned by government and used for public finance than owned by very few people, such as the private shareholders of the central banks which issue paper money.

If paper money's super reserve issue caused that the circulating quantity of gold was more than the quantity of gold which was real needed in circulation, and the institutions issuing paper money did not recover superfluous paper money and limit the issue of paper money, it would lead to the depreciation of paper money, namely inflation. Before the disintegration of Bretton Woods's system in last 1970s, 35 US dollar still represented 1 ounce of gold, but now, 1 ounce of gold represents over 1000 US dollars. However, American people, even people from other countries all over the world have no choice but to use this kind of US dollar as money in front of American military and economic hegemony.

The only way to eliminate or resolve the contradiction caused by paper money is to eliminate the root of all contradictions: commodity economy. The way of eliminating commodity economy is to develop commodity economy, improving labor productivity and finally entering into the advanced stage of socialism or communism, fulfilling the real planned economy. We will account for it in the later chapter.

Why US dollar becomes stronger during American Financial Crisis?

In global financial crises in recent twenty years, from Russian, Southeast Asia to South America, the money (symbol) in each country in financial crises depreciated compared to US. However, the financial crisis erupted first in America in 2008 strangely made US dollar stronger than Euro and other money symbols. Why?

In order to explain this issue, we have to begin with the payment function of money.

With the development of commodity circulation, buy and sell on credit of commodity have correspondingly develop. Commodity's buyers can take the commodity away and promise to pay it in a certain time. Thus, sellers become creditors, and buyers become debtors.

The money functions now, first as a measure of value in the determination of the price of

the commodity sold; the price fixed by the contract measures the obligation of the debtor, or the sum of money that he has to pay at a fixed date. Secondly, it serves as an ideal means of purchase. Although existing only in the promise of the buyer to pay, it causes the commodity to change hands. It is not before the day fixed for payment that the means of payment actually steps into circulation, leaves the hand of the buyer for that of the seller. ^①

However, before the fixed date, seller maybe needs money to purchase commodity of the third party. At this time, seller can pay the third party with bonds or drafts promised to pay by buyer. On the fixed date, the money paid by buyer will transfer to the third party. This kind of bonds or drafts constitutes credit-money. To the same extent as the development of commodity economy and the system of credit are extended, so is the function of credit-money as a means of payment. And the general money (symbol), such as US dollar, is mostly relegated to the sphere of retail trade or to settle the balance after credit-money compensates each other. ^②

The function of money as the means of payment implies a contradiction without a terminus medium. In so far as the payments balance one another, money functions only ideally as money of account, as a measure of value. In so far as actual payments have to be made, money needs to serve as a real existence. This contradiction is exposed apparently when financial crisis erupts. At that time, credit system is dislocated, and some people cannot pay credit-money because of bankruptcy; while others face huge risk of bankruptcy. Millions of creditors no longer have confidence in their debtors, thus credit-money cannot balance each other. The whole or most part of credit-money needs to transfer to real money (symbol), or to be used for payment or removed away from circulation to wait for next advantageous commercial opportunity. Therefore, money (symbol) becomes severely insufficient, and hence, there erupts money famine. ^③ That explains why when American financial crisis implicated other countries, the central banks of those countries all injected money (symbol) to the financial system. However, the injection of this money (symbol) cannot resolve credit crisis basically. For example, the debt-laden American workers are not able to afford huge debt as long as there is money in bank. Even though the injection of money is used to discharge workers' debt or purchase non-performing asset, what it represents is only the value magnitude which does not exist yet, thus will cause the depreciation of money (symbol). That is the real cause why international gold price will go up, when the Federal Reserve announces it will further loosen money issue if necessary. ^④ Actually money issued by financial oligarchs will not help workers, even small and medium-sized capitalists to be free of debt; on the contrary, issuing money only can help their banks out of trap and make money. According to some revealed relevant information, 'in the week of the summit of the crisis, around 70% of the money issued by the Federal Reserve went out to foreign banks. They told us that saving banks was to evade a great depression. But whose great depression it was? We now realize that the bailout of the Federal Reserve does not help American people. People lose the jobs and houses, and feel the horrible effect of depression. But now, we also know that quite a number of loans are not infused to American banks.' ^⑤ After American crisis, many small and medium-sized

²⁰ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p159-160.

<http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p164. <http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p162. <http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm>

^④ 'The Federal Reserve implies that it will restart loose money policy Gold price arrives at another new high point', <http://money.sohu.com/20100922/n275201398.shtml>

^⑤ 'Paul's Congress Weekly: the Federal Reserve injures the effectiveness of foreign policy. (Ron Paul)',

closed down, but the share of the market of the big banks owned by shareholder of the Federal Reserve had increased. That is one of the reasons why bailout of European and American countries is ineffective.

Due to US dollar's status as the universal money symbol stolen by American hegemony, a large amount of credit-money is valued by US dollar in international trades and financial activities in economical globalization. Hence, when American financial crisis dislocated universal credit system, a large amount of credit-money would transfer to US dollar. Therefore, the requirement of US dollar increased sharply, and correspondingly, many countries sold other money such as euro and pound in order to obtain US dollar; thus, in this event, US dollar become stronger compared with other money. US dollar's issuer not only use US dollar's fame to get rid of the risk made by US dollar's long over issue, but also enjoy a good reputation for bailout. However, the big depreciation of US dollar compared with the real universal money, namely gold, fully account for that US dollar's 'strong' is only compared with other weaker money symbols. In front of the real money commodity, US dollar is very weak.

After American financial crisis, many people doubted the US dollar's status as the main international reserve money, namely universal money symbol, and even some people advocated that IMF dominated by US should establish new super-sovereign money. However, plundering people by over issue money symbol is not only conducted by the Federal Reserve, but turns out to be the common behavior of money issue intuitions of the capitalist countries. At the same time, when US dollar constitutes many countries' foreign exchange reserve, those countries' money issue and value are gradually controlled by American financial Oligarchs, and have to depreciate with the depreciation of US dollar. As long as the economic globalization dominated by America is not changed, many countries' money issue occupied by American financial oligarchs is not changed, the new super-sovereign money as the universal money symbol will not behave better than US dollar. Furthermore, because the issue of the super-sovereign money gets rid of the last possibility for sovereign states' control, the issuer of this money will unscrupulously plunder people. In order to change this situation thoroughly, we have to eliminate the exploitative capitalist institution, turning the aim of production to use value, namely to satisfying people's gradually increasing material and cultural needs, not for chasing value magnitude (surplus value magnitude mentioned in later chapters). In fact, this American financial crisis is the economic crisis in nature. We will find that this economic crisis is cause by the nature of capitalist institution, and thus it cannot be eliminated by money system's reform.

Part II Money transferring to Capital

Chapter 3 Nature of Capitalist Economy

Why capitalists have to run the firms?

Coase argues that if production is regulated by price system, then production can be carried out without any organization; just because the market's operation asks for cost, so it will save some operative cost if there is an organization and an authority (an enterpriser) allowed dominating resources.^① But, firstly, capitalists themselves do not produce, even though production can operate without any organization, just like early European people cultivated lands in Americas, capitalists cannot bear this situation. Their theoreticians namely mainstream economists used to find many ways to stop this free cultivation of lands, tried to force immigrants work for capitalists. Secondly, since the operation of market requires costs, why we do not try to eliminate market economy and thus save cost thoroughly?

The mainstream economists' another more common point of view is that the aim of capitalists to run firm is to maximize profit. However, in their mathematic model of profit maximization, they argue that production is not workers to use machines to process materials, but workers to process an amount of money either in machines or in plants without any materials. Although there are some other problems, after all they admit the aim of capitalists to run firm is to seek profit. In order to get profit, capitalists have to run firm.

Then, what is profit? The profit is surplus-value, or more accurately, it is transformed from surplus-value. The cotton that was bought for 100 dollars is perhaps resold for 100 dollars + 10 dollars or 110 dollars. Thus, the money take out from circulation is more than money put in circulation before. There is an increment of 10 dollars. This increment or excess over the original value is "surplus-value."^② When it comes to production, this surplus-value is the difference between the value of the product and the value of the elements consumed in the formation of that product, in other words, of the means of production and the labor-power.^③

Then, if some capitalists lose money in business or do not make money, is there no surplus-value? The answer is Yes: there is surplus-value. We will make it clear that surplus-value comes from workers' surplus-labor. So, as long as workers' supply surplus-labor, there is surplus-value. A certain capitalist' loss only shows that the surplus-value has not been seized by the capitalist who directly exploits this worker, and has been lost by the capitalist's individual fault in competition. Capitalists' loss does not impede him seeking surplus-value. Metaphorically speaking, even though a thief is robbed by a robber, losing the money he has gotten, he is still a thief and he cannot deny that he did not steal money.

On the other hand, from the scientific point of view, the research of surplus-value cannot only focus on the individual cases of capitalists, but to study the general rules, namely study the whole capitalist class. For the whole capitalist class, it is not doubt that there is surplus-value, although many small and medium-sized capitalists have been gone bankrupt forced by big capitalists.

^① Coase, R. H. 1937. The Nature of the Firm. *Economica*, New Series, 4 (16): 386-405.

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p176. <http://www.marxists.org/archive/marx/works/1867-c1/ch04.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p242. <http://www.marxists.org/archive/marx/works/1867-c1/ch08.htm>

Actually, capitalists' aim is not to produce commodity, but to seek surplus-value. Therefore, once they cannot get surplus-value or cannot make money, they will close their business, and dismiss workers. So, it is not strange to see this scene in capitalist market economy: textile workers need cotton cloth, but they cannot afford it because they had lost their jobs. The cause why they lost the jobs is that they can no longer produce cotton cloth. The cause why they can no longer produce cotton cloth is that they had produced too much, making cotton cloth flood into market, although the textile workers themselves are short of cotton cloth.^①

Last, we should point it out that for capitalists the process of production appears merely as an unavoidable intermediate link, as a necessary evil for the sake of money-making. All nations with a capitalist mode of production are therefore seized periodically by a feverish attempt to make money without the intervention of the process of production.^②

What is the secret of capitalists to make money?

The mainstream economics defending capitalists assert that the first secret of capitalists to make money is capitalists' excellent administrative capacity, doing administrative work. Marx use capitalists' *'overlooker and his manager try to hide their smiles'*^③ to answer this statement. With the separation of ownership and management right, many modern capitalists are no longer engaged in management by themselves.

The second secret lies in capitalists' merit of abstinence. Instead of consuming their capital, capitalists use it in production, so they deserve reward. Nevertheless, the level of capitalists' consumption is much higher than that of workers, so the workers are real abstinent. Moreover, the ancient rich people used to bury gold and silver beneath earth, but they never got any reward from doing that. So, we can see that abstinence is not a justification for reward.^④

The third secret is that capitalists provide production factors. For example, when a capitalist in a textile mill provides cotton and spindles for spinning, he also provides service for workers, so he deserves reward. But if workers did not use spindles and cotton to spin, cotton would rot away and spindles would rust. So spinning itself reserves the value of cotton and spindles, thus they have served the capitalist, and paid capitalist back. Therefore, instead of seeking for any profit or surplus-value, the capitalist should be satisfied with getting back the things of the same value.

The fourth secret lies in the distribution of production factors. Although mainstream economists repeatedly try to use disordered macroeconomic data and functions to 'calculate' the contributions of capital, land, labor and other production factors, they are just satisfied with getting some result to defend capitalists. However, they never plan to calculate and regulate how much every capitalist, landowner and work should obtain in the real life. Moreover, the production factors which have made huge contributions to agricultural production, such as sunshine, rain and air have never be engaged in distribution of agricultural products. Therefore,

^① Marx & Engels Collected Works Volume 26. Beijing: Renmin Press, 1973, p597.

^② <http://www.marxists.org/archive/marx/works/cw/volume43/index.htm>

^③ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p67-68.

^④ <http://www.marxists.org/archive/marx/works/1885-c2/ch01.htm>

^⑤ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p225. <http://www.marxists.org/archive/marx/works/1867-c1/ch07.htm>

^⑥ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p223-224.
<http://www.marxists.org/archive/marx/works/1867-c1/ch07.htm>

even though we accept that capital and land have contributed to making money, the contribution has nothing to do with capitalists and landowners, because they themselves have never participated in production. If we really distribute products according to production factors, the allotments ought to be owned by capital and land, like burying money in earth or sticking money in machines, ought not to be taken away by capitalists and landowners. If capitalists and landowners can take those allotments away as the owners of capital and land, then slaveholders can naturally take slaves' fruits of labor away as the owners of slaves. So, the justification of capitalist institution confirms the justification of slavery.

The fourth secret lies in the fact that capitalists stand everywhere for a system of robbery. However, the famous religious reformer Martin Luther once pointed out merchants' much complaint about the great danger of being kidnapped, beaten, blackmailed, and robbed. He argued that if they would suffer these things for the sake of justice, the merchants would be saintly people. But since such great wrong and unchristian thievery and robbery were committed all over the world by merchants, and even among themselves, was it any wonder that God should procure that such great wealth, gained by wrong, should again be lost or stolen, and they themselves be hit over the head or made prisoner? ^① An unfamous earl made it clearer. He thought merchants just ran the risk with other people or commodity and money. If they put others into danger in order to make money, then they had committed evil acts. If they risked in order to make money, they would not make some contribution. ^② When it comes to the financial capitalists, who buy a lot of national debts, they do not need to run any risk to obtain a lot of rewards. Moreover, mainstream economics do not think that the capitalists in textile mill could ask for some rewards from merchants and capitalists who sale cotton and spindles to them, even though they buy cotton and spindles from them and thus run the risk.

Actually, workers run much more risk than capitalists. If capitalists' commodity cannot sale out or capitalists go bankrupt for their purely individual acts, workers will lose their jobs, and even lose salaries in default. If economy is in recession, and commodity's price is always lower than market price, workers' salaries will be lower than average level, and then factories will be under production. So workers run the greatest risk^③, but they are far from making money.

Then, what is the secret of capitalists to make money? The secret lies in labor power as a commodity, which is special commodity bought by capitalists in market.

Please notice that the commodity is labor, not laborer. Just like Samuelson points out: 'it is very interesting that labor, the most valuable economical source, cannot be commodity like personal property. Since the abolishment of slavery, it is illegal to treat people's capacity of making money as some other capital property. You are not allowed to sale yourself freely; you can only rent yourself for some price.' ^④ It should be noticed that can labor only be traded as long as it is condensed in commodity; while in the exchange at equal values, capitalists cannot get any increment of values. Secondly, there are deep economical elements behind political

^① Requoted from the footnote in Das Kapital Volume 3. Beijing: Renmin Press, 2004, p369.

<http://www.marxists.org/archive/marx/works/1894-c3/ch20.htm#4>

^② Marx & Engels Collected Works Volume 26. Beijing: Renmin Press, 1972, p409.

<http://www.marxists.org/archive/marx/works/cw/volume43/index.htm>

^③ Marx & Engels Collected Works Volume 26. Beijing: Renmin Press, 1972, p340.

<http://www.marxists.org/archive/marx/works/cw/volume43/index.htm>

^④ Samuelson, P & Nordhaus, W. Macro-Economics, (The 17th edition), translated by Xiao Chen, Beijing: Posts & telecom press, 2004, p. 27.

acts. The abolishment of slavery is neither the result of universal value, nor the result of primacy of law. The reason of triggering the abolishment of slavery is that the labor price of slaves is more expensive than that of workers. If both slaves and workers can work for 30 years, but slaveholders afford a one-time payment for slaves' 30 years' labor, while capitalists only buy workers' labor according to days. Once capitalists are no longer interested in workers' working and survival, they can dismiss them at any time, causing them into starvation, without any loss of capital they put in production. ^① But slaveholders cannot take the similar convenient actions upon slaves. If a slave dies from overwork after 10 years' working, the left 20 years' working becomes the slaveholder's loss; but if a worker dies from overwork, the capitalist could replace him for another one easily. The Times made use of the circumstance to defend the American slave-owners against Bright, &c.

"Very many of us think," says a leader of July 2nd, 1863, "that, while we work our own young women to death, using the scourge of starvation, instead of the crack of the whip, as the instrument of compulsion, we have scarcely a right to hound on fire and slaughter against families who were born slave-owners, and who, at least, feed their slaves well, and work them lightly." ^②

Why can capitalists make money by buying labor power as a commodity? It is because the price of labor power as a commodity is determined by production or the socially necessary labor time. However, labor's production and reproduction are workers' survival and breeding (including education and medical treatment) which require a certain amount of means of subsistence. Labor's values are constituted by the values of those necessary means of subsistence. On the other hand, as a commodity, labor has its own use value, thus namely it can create value by working. In other words, labor's use value is the source of value. ^③ But the consumers of labor power as a commodity is not workers, its sellers, but capitalists, its buyers, so laborers work for capitalists.

Assume that labor's value is calculated by days, and it is worth 24 dollars per day. Then assume the laborer is textile worker, material is cotton and product is cotton yarn, and the cost of spindles is the cost of machines. Assume one kilogram of cotton can be spun in one hour. Assume capitalists have already bought 6 kilograms of cotton at the price of 5 dollars one kilogram, and one-hour spinning costs the spindles of 1 dollar. Assume the value workers can create one hour is 4 dollars, while capitalists pay workers 24 dollars a day; in other words, the salary of 24 dollars is the labor value. Workers can transfer 6 kilograms of cotton into 6 kilograms of yarns in 6 hours. Thus, the value of 6 kilograms of yarns is 60 dollars, which is constituted of the values of raw materials and machine (the value of cotton = $5 \times 6 = 30$ dollars, and the value of spindles = $1 \times 6 = 6$ dollars) and the new value created by workers (24 dollars). So, the price of one kilogram of yarns is 10 dollars.

At the time, product's value is equal to the value of advanced capital: 30 dollars to buy cotton, 6 dollars buy spindles and 24 dollars to buy labor. Under this circumstance, advanced capital does not get any increment and produce any surplus-value, so money has not been

^① Marx & Engels Collected Works Volume 2. Beijing: Renmin Press, 1957, p364.

<http://www.marxists.org/archive/marx/works/1845/condition-working-class/ch05.htm>

^② Requested from the footnote in Das Kapital Volume 1. Beijing: Renmin Press, 2004, p296.

<http://www.marxists.org/archive/marx/works/1867-c1/ch10.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p226. <http://www.marxists.org/archive/marx/works/1867-c1/ch07.htm>

transferred into capital.

However, although a worker's 24-hour life needs only 24 dollars, and that is to say a worker only has to work 6 hours a day, this situation does not keep a workers from working 10 hours or more. But the reality is if a worker does not work 10 hours a day, he cannot not get 24 dollars a day. So, the means of production for a worker need to process is not for 6-hour working, but 10-hour working. If 6 kilograms of cotton can absorb 6-hour working time, and transfer into 6 kilograms of yarns, then 10 kilograms of cotton will absorb 10-hour working time and transfer into 10 kilograms of yarns.

One kilogram of yarns is still worth 10 dollars, and then 10 kilograms of yarns are worth 100 dollars. But the cotton put into production is worth $5 \times 10 = 50$ dollars, spindles are worth $1 \times 10 = 10$ dollars, and labor is worth 24 dollars. The total is 84 dollars. Under this circumstance, 84 dollars transfer into 100 dollars, making 16-dollar surplus-value, and money transfers into capital.

Here, the reason why surplus-value is equal to 16 dollars is that the workers' labor of the 7th to 10th hour has gotten no reward. Workers' 4-hour surplus-labor creates surplus-value.

This is the secret of capitalists' making money. If we consider the process of production from the point of view of the simple labor process, the laborer stands in relation to the means of production, not in their quality as capital, but as the mere means and material of his own intelligent productive activity. But it is different as soon as we deal with the process of production from the point of view of the process of creation of surplus value. The means of production are at once changed into means for the absorption of the labor of others. It is now no longer the laborer that employs the means of production, but the means of production that employ the laborer. ^① So, workers' relative surplus and unemployment are unavoidable.

From the abovementioned statement, the nature of capitalist economy can be summarized by one sentence: constant capital + variable capital + surplus-value, and it could be denoted in formula: $c+v+m$.

The constant capital means the capital which capitalists use to buy the commodity of means of production except labor power of a commodity. From the above example, we see the value of this part of capital continually transfers to the value of products; the variable capital is the capital which capitalists use to buy labor power as a commodity. In the above example, we see this part of capital changes its value, not only compensating itself, but producing surplus-value.

We will see that the analysis of capitalist economy cannot be separated from the essential formula.

What is needed to be pointed out is that in constant capital, a part of the use value of means of production is consumed at a single time in production. Therefore, the values of the part of constant capital have been transferred into products in a single time, namely this part of constant capital is named circulating constant capital. Usually speaking, raw material and some auxiliary material, such as cotton and electricity in spinning, are the forms of the circulating constant capital. Both circulating constant capital and variable capital constitute circulating capital. While the values of another part of means of production are gradually consumed in production, such as machines and plants, etc. They always implement the same function till

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p359. <http://www.marxists.org/archive/marx/works/1867-c1/ch11.htm>

they are worn-out in endlessly repeated production in a long or short time. Then, the values of this part of constant capital have been transferred into products in production. The part of constant capital is named fixed constant capital or fixed capital. Its depreciation, namely its values transferred, is the values of fixed constant capital divided its tenure of use.

Who are fed by capitalists?

Someone argues that capitalists feed workers and governments, and some other people think the contract between workers and capitalists is free and equal. If workers claim that capitalists exploit them, they can resign, or work on their own. The reason why workers do not choose to work on their own is that they earn more for by working for capitalists, so there is a win-win situation between workers and capitalists, and there is no exploitation. But, on one hand, the statuses of two sides of labor contract are unequal. For capitalists, it is only the question of more or less profit; while when it comes to workers, it is about survival.^① On the other hand, according to this statement, slaveholders can also claim that they do not exploit slaves, and the relationship between them and slaves are equal, because many slaves sell themselves voluntarily. Both slaves and workers lose the material conditions of working for themselves, so they have to survive humbly by working for others.

Actually, Engels have already point out that capital class knows the horrible situations of textile workers should be imputed to the faults of factory system and machines, when British capital class complacently defend the exploitation on textile workers by workers' more horrible living situations. The cheap machine spinning destroys manual spinning separating from agriculture in competition, but there are not enough posts to absorb superfluous manual spinners, so those desperate manual spinners have to compete with machine spinning in the largely deteriorative situations, to work very hard to get meager income, or starve to death.

British capitalist class defends themselves that if they do not employ 9-year old boys in their dirty, damp and stuffy factories, the living conditions of those boys are still detrimental to their growth. In this term, Engels points out sharply that capitalist class has defended their present crime by past crime.^② It is capitalist class that puts workers' children into that terrible condition firstly, and then uses the terrible condition to pursue benefits.

In the homeland of capitalism—Western Europe, capitalist class required a large number of workers in capitalist inception, but the main mode of production at that moment was agriculture, and a lot of labor were still in rural areas. Obviously, if workers cannot be attracted from countryside, they have to be forced out from countryside; otherwise there will not be a lot of labor. If there are no workers, then there are no capitalists, and the mode of capitalist production cannot form and develop. Moreover, how could we talk about capitalists' making money and who capitalists feed? Just at this moment, the Western European governments of the time supported and anticipated in Enclosure Movement and housing dismantlement during this movement.

However, although peasants were compelled from countryside by Enclosure Movement, urban capitalists did not obtain workers naturally. Even if they employed some workers,

^① Marx & Engels Collected Works Volume 6. Beijing: Renmin Press, 1961, p643.

<http://www.marxists.org/archive/marx/works/cw/volume46/index.htm>

^② Marx & Engels Collected Works Volume 2. Beijing: Renmin Press, 1957, p437.

<http://www.marxists.org/archive/marx/works/1845/condition-working-class/ch08.htm>

capitalists had to pay high wages; that means the surplus labor time obtained by capitalists was very little. That is because the land-lost farmers of the time were not accustomed to factories' disciplines and life, so they would rather go begging, stealing and wandering. At the end of 15th century and the whole 16th century, all Western European promulgated bloody laws to punish vagrants. British Government used to stipulate that strong vagrants should be whipped and imprisoned. If a vagrant was arrested for the second time, he would be cut a piece of ear; and if he was arrested for the third time, he would be sentenced to death as a felon and social enemy. Those bloody laws had been lasted till 18th century, continuing for hundreds of years, to force the ancestors of working class to get used to capitalist institution's necessary disciplines in factories. Since then, because of the development of capitalist mode of production, 'free' workers were willing (in fact, they were forced by social conditions) to sell their life-time and working capacity at the price of their daily living materials. Moreover, more than 400 years, since 14th century, Western European governments just stipulated the maximum wages, and always stipulated the decrees to reduce wages in order to compulsively limit the wages within the bound of capitalists' benefits. Till the early 19th century, the security of the minimum wages became necessary with the capitalist development, thus making those decrees to stipulate maximum wages ridiculous. ^①

Hereafter, when Western European Laborers fled their capitalist homeland to American and Oceanian colonies, history displayed such a picture to us. A British capitalist brought living and production materials worth 50,000 pounds and 300 members of working class—men, women and children from Britain to Australia. However, on arriving at the destination, this capitalist was unable to find a servant to make beds and fetch water from river. The reason is very simple that the production relations in the colony are different from the production relations in Britain. Every immigrant was able to transfer a part of land into his personal property and individual means of production without keeping others from doing the same thing. Since laborers can be the owners of their own means of production, they can and will work for themselves. Today's employees will become tomorrow's independent farmers or handicraftsmen. When employees constantly become independent producer, they do not work for capital, but for themselves; they will not make capitalists be rich, but themselves. ^② The so-called win-win situation between capitalists and workers, namely the capitalist mode of production cannot exist under that circumstance. It is the best case to explain what on earth this win-win situation in capitalist homeland is. Till the free colonial 'freedom' had been eradicated by wars and governments, could this win-win situation appear?

On the other hand, if workers' labor efficiency can only produce the products to sustain workers' basic living requirement, there is no balance, namely no surplus-value for capitalists to occupy. No matter whether there is the surplus-value, workers are breeding without others' support; meanwhile, as long as there is the surplus-value which is represented in the form of profits with the help of governments, can capitalists breed.

Therefore, if we say that capitalist class feeds governments as taxpayers, thus capitalist class is always fed by working class with the support of governments. ^③

^① Marx & Engels Collected Works Volume 2. Beijing: Renmin Press, 1957, p850.

<http://www.marxists.org/archive/marx/works/1886/02/25.htm>

^② Marx & Engels Collected Works Volume 2. Beijing: Renmin Press, 1957, p876-878.

<http://www.marxists.org/archive/marx/works/1886/02/25.htm>

^③ Department of education in Henan Province of China issued a regulation to compel the students of secondary vocational

While in contrast, there is no problem of being fed by capitalists in the governments of socialist countries, because public ownership economy itself is the biggest support to the proletarian governments.

What is the main impediment of transforming the mode of economic development?

Transforming the mode of economic development and realizing industrial upgrading are always the appeal of developing countries, but they cannot succeed till now. What is the reason? The most important reason is that the workers' wages are too low. Let us give you an example with the essential formula of capitalist economy to illustrate this reason.

We still presume that a worker's wage per day is 24 dollars. And presume he works for 12 hours per day, and he produces 48 dollars' new value per day, including 24 dollars' surplus-value. In other words, rate of surplus-value = $24/24=100\%$ (the ratio of surplus-value to variable capital). (This hypothetical ratio is on the low side. '*American economical situation of 1948 to 1988 shows that productive labor exploitation rate had been continually increasing, far exceeding the Marx's hypothetical level at his time. The rate had been increasing from 170% in 1948 to 244% in 1989.*' ^①)

Presume that the old machines are worth 1800 dollars, and they are worn out after being used for 180 days, so the loss is 10 dollars per day. And we presume the raw materials for one product are worth 10 dollars, and the factory will produce 100 products per day under workers' operation, so the constant capital in the whole value of products per day is 10 dollars (the loss of machines) + 1000 dollars (raw materials) = 1010 dollars; the variable capital is 480 dollars (the wages for 20 workers), surplus-value is 480 dollars (provided by 20 workers), the total is 1970 dollars, so every product is worth 19.7 dollars.

Now, the factory uses new machines which are worth 36000 dollars, and the new machines are worn out after being used for 180 days, so the loss is 200 dollars per day, but the new machines only require 15 workers to operate, and the output is increasing 10% per day, namely the factory will produce 110 products per day. And we presume that the raw materials for one product are still worth 10 dollars, so the constant capital in the whole value of products per day is 200 dollars (the loss of machines) + 1100 dollars (raw materials) = 1300 dollars; the variable capital is 360 dollars (the wages for 15 workers), surplus-value is 360 dollars (provided by 15 workers), the total is 2020 dollars, so every product is worth 18.4 dollars.

Obviously, using new machines can reduce the value of unit commodity and improve productivity. But, for capitalists, using new machines will make production more expensive. This is because when using old machines, the whole costs of 100 commodities are 1490 dollars (the constant capital 1010 dollars + the variable capital 480 dollars = 1490 dollars), namely the cost of one commodity is 14.9 dollars; when using new machines, the whole costs of 110 commodities are 1660 dollars (the constant capital 1300 dollars + the variable capital 360 dollars = 1660 dollars), namely the cost of one commodity is 15.1 dollars. Therefore, when competition is fierce, if a capitalist who uses old machines could sell the commodity at a price of 15.1 dollars, so each commodity can still bring him 0.2 dollars as surplus-value; but if the

school 'willing' to spend a internship and work overtime in Foxconn, a Taiwan firm.

http://news.qq.com/a/20101011/000434.htm?pgv_ref=aio

^① Milan Kavrowski, the measurement and explanation of contemporary social labor: a comparative analysis, Shanghai regional economics, Vol. 10, Shanghai: Shanghai financial university press, 2005, p. 45- 64.

capitalist who uses new machines sells the commodity at the same price, he cannot get any surplus-value, then withdrawing. Only when the higher labor productivity is beneficial to capitalists, could it draw capitalists' attention. This is the limit of capitalist production, the boundary of capitalist production as well.

However, if we raise the wages from 24 dollars per day to 30 dollars per day, and reduce the rate of surplus-value to 60% (= 18 dollars/30 dollars), then, if we repeat the calculation above, we could get following result:

	the value of unit commodity	the cost of unit commodity
using old machines	19.7 dollars	16.1 dollars
using new machines	18.4 dollars	15.9 dollars

Presume the value of unit commodity is not affected by the wage change, while the cost of unit commodity changes, the cost of unit commodity will be lower when using new machines, so the capitalists are willing to use new machines to participate in competition and expand production scale.

This example shows that the lower wages really impede industry upgrading and the transformation of economic development mode. The reason why machines made in Britain could only be used in North America is that the wages in Britain were too low, so to capitalists, it was more profitable to use workers. The reason why now the industry upgrading in developed countries is good is that capitalists compromised with workers, raising workers' wages under the pressure of working-class' long bloody struggle and the rise of the world socialist movement. Chinese entrepreneurs survey system also finds that when the rise of labor cost becomes the main difficulty to private enterprises, the speeds of industry upgrading and structural adjustment are accelerating as well. ^①

Those years, wages of Chinese peasant workers have begun to rise. Someone argues that there not many Chinese rural surplus laborers left, and China has reached 'Lewis Turning Point'. However, that is only the surface phenomenon, and the fundamental reason is that new regeneration of peasant workers has already separated from rural economy, and their family lives and education of children have broken away from low-cost rural environment, moving to high-cost urban environment. This change requires higher wages to make up. Certainly, the rise of wages is concerned with long mild currency inflation, and it is the result of the eruption of long inflation.

By the way, once capitalists generally use new machines in expanded reproduction in the example above, the value of unit commodity will reduce from 19.7 dollars to 18.4 dollars, reflecting the rule that the magnitude of value of commodity is in inverse proportion of productivity. At this time, the value of unit left commodity has reduced to 18.4 dollars. Here, we can see the value of commodity is changing, and not determined by the labor-time originally expended in their production, but by the labor-time expended in their reproduction, and this decreases continually owing to the development of the social productivity of labor. On a higher level of social productivity, all available capital appears, for this reason, to be the result of a relatively short period of reproduction, instead of a long process of accumulation of

^① China labor meets a turning point: the incomes of peasant workers rise firstly,
<http://business.sohu.com/20100930/n275362231.shtml>

capital. ^①

Chapter 4 The Production of Surplus-value

Why there are frequent over work in private enterprises?

A rough survey shows that Chinese private enterprises always require workers to work overtime. Thereinto, the overtime of Electrical/electronic industry is longest; the workers' average overtime is 90 hours per month. ^② However, the regulation of labor law is that a worker's longest overtime is 36 hours. But, this law has an escape clause which almost abolishes the whole law. The escape clause is that an enterprise could implement other work and rest system as long as the new system is permitted by the labor administrative department. ^③

The mainstream economists argue that the legitimacy for capitalists obtaining profits is that they have an entrepreneurial spirit, a strong management capacity; even they consider the entrepreneurial spirit as a production factors. Nevertheless, if capitalists or their managers do have some management capacity and super talent, please make them perform 12 working-hours per week in their enterprises.

Someone says that working overtime will supply overtime pay. But, on one hand, a lot of people complain about not getting overtime pay on the internet; on the other hand, capitalists can reduce daily wages with the compensation of overtime pay. It is a fact generally known that, the longer the working-days, in any branch of industry, the lower are the wages. ^④ And the low wages promote overtime work in turn. From the law,

“the price of labor being given, the daily or weekly wage depends on the quantity of labor expended,”

It follows, first of all, that the lower the price of labor, the greater must be the quantity of labor, or the longer must be the working-day for the laborer to secure even a miserable average wage. The lowness of the price of labor acts here as a stimulus to the extension of the labor-time. The determination of the price of labor by daily value of labor power/ working day of a given number of hours shows that a mere prolongation of the working-day lowers the price of labor, if no compensation steps in. But the same circumstances which allow the capitalist in the long run to prolong the working-day, also allow him first, and compel him finally, to nominally lower the price of labor until the total price of the increased number of hours is lowered, and, therefore, the daily or weekly wage. Reference to two circumstances is sufficient here. If one man does the work of 1½ or 2 men, the supply of labor increases, although the supply of labor-power on the market remains constant. The competition thus created between the laborers allows the capitalist to beat down the price of labor, whilst the falling price of labor allows him, on the other hand, to screw up still further the working-time. ^⑤

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p448. <http://www.marxists.org/archive/marx/works/1894-c3/ch24.htm>

^② The survey of office workers' overtime work: 70% post 80 has overtime. Office workers in stateowned enterprises rarely overwork. <http://finance.sina.com.cn/roll/20100524/13197991620.shtml>

^③ Many laws have those escape clauses which in fact abolish the whole law. This is perhaps the tradition of early the French bourgeoisie constitution.

^④ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p629. <http://www.marxists.org/archive/marx/works/1867-c1/ch20.htm>

^⑤ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p629-630. <http://www.marxists.org/archive/marx/works/1867-c1/ch20.htm>

This is different from the mainstream economists' curve that the wage is high, the labor supply is more. Mainstream economics use consumption and leisure to construct the workers' utility function, arguing that workers have the freedom to select to consume more or rest more in analyzing workers' determination. But, the majority of the "over-times" declared:

"They would much prefer working ten hours for less wages, but that they had no choice; that so many were out of employment (so many spinners getting very low wages by having to work as piecers, being unable to do better), that if they refused to work the longer time, others would immediately get their places, so that it was a question with them of agreeing to work the longer time, or of being thrown out of employment altogether." ^①

Finally, this "either-or" is the free selection which is advocated by mainstream economics and jurisprudence.

Marx called the surplus-value which is obtained by extending working day absolute surplus-value. ^②

On the other hand, under the circumstance that those workers do not work overtime, if capitalists want to obtain the same surplus labor time, they have to employ more workers, and at the same time, buy more machines. Nevertheless, if workers work overtime, capitalists only need to ask workers to use machines longer. This method could not only save the cost of buying machines, but also accelerate the transformation from the value of machines to new commodities, in order to recover the cost in machines as soon as possible, and reduce the risk of devaluation of old machines with the appearance of new machines.

So, capitalists who always seek for surplus-value naturally tend to require workers to work overtime, even though they have to pay a little more overtime pay. But workers overly consume their lives during tiresome overtime. Therefore, besides the legal restriction, overtime will also meet laborers' health restriction, mental restriction and moral restriction. There is a typical example that around a dozen workers in Foxconn, a Taiwan firm which produce ipad, iphone and Nokia, jump from the building one after another.

The trade of labor power as a commodity does not make any limit to working-day. So, Marx insists that the issue that what is working-day is much more important than the issue what is one dollar. ^③ On one hand, capitalists insist the right as the buyers of labor power as a commodity; on the other hand, workers claim the right as the sellers, and both of those rights are admitted by rule of commodity exchange. Strength is decisive between equal rights. So the creation of a normal working-day is, therefore, the product of a protracted civil war, more or less dissembled, between the capitalist class and the working-class. ^④ Besides the threat brought by workers' movement, this result is also influenced by deep economical factors.

If averagely a worker can work for 30 years or 10950 days ($=365 \times 30$), then according to the rule of labor exchange, his daily wage should be $1/10950$ of his labor power value for his whole life. If his capitalist extends his working-day unlimitedly, using him three-day in one day, thereby causing him only to work for 10 years or 3650 days because of karoshi, occupational diseases and overwork, then the capitalist ought to pay the work $1/3650$ of his labor power value for his whole life, namely 3 times as many as normal wage. However, if under this

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p328-329.

<http://www.marxists.org/archive/marx/works/1867-c1/ch10.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p366. <http://www.marxists.org/archive/marx/works/1867-c1/ch12.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p269. <http://www.marxists.org/archive/marx/works/1867-c1/ch10.htm>

^④ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p346. <http://www.marxists.org/archive/marx/works/1867-c1/ch10.htm>

circumstance, the capitalist still pay the worker the wage as 1/10950 of his labor power value for his whole life, he has plundered 2/3 of the labor power value. This practice not only disobeys the rule of labor exchange, but cannot sustain for long. 90 years cotton textile industry in Britain has existed for three generations, but it devours or consumes three generations of textile workers. While when labor power as a commodity is used up sooner, it is needed to be compensated sooner, and then more fees are needed to pay on the reproduction of labor power.

^① So, for his own sake, capitalist class also needs a normal working-day. ^②

Through several centuries' struggle, working-day has legally transformed from mandatory extension to mandatory shortening. Factory legislation, that first conscious and methodical reaction of society against the spontaneously developed form of the process of production, is, as we have seen, just as much the necessary product of modern industry as cotton yarn, self-actors, and the electric telegraph. ^③ The consequence is that capitalism develops more rapidly. This is because with the shortening of working-day, both of workers' physical and mental strength can revive, then working strength accordingly increases, and workers' daily wages increase, too, so capitalists can obtain more. Since capitalists cannot obtain more surplus labor time by extending working-day, they have to turn to shorten workers' necessary labor time to get more surplus labor time. Therefore, capitalists tend to use machines more or use more efficient machines to achieve this aim. Once machinery becomes necessary, owing to the necessity it imposes for greater outlay of capital, it hastens on the decline of the small capitalists^④, and the expansion of production scale, transforming small and sporadic production to large scale production, and promoting industrial upgrading and productivity.

Just because those positive consequences of the shortening of working-day in Britain, Marx points out that the most infallible means for reducing this qualitative difference between the English and Continental working hour would be a law shortening quantitatively the length of the working-day in Continental factories. ^⑤ (Actually, this is also the most infallible means for reducing this qualitative difference between developing and developed countries.)

How does Anglo-American Legal System practice dictatorship on workers freely?

In the working class's struggles for shortening of working-day and its own sake, capitalist legal system becomes the powerful tool to fight against and oppress working class.

Since 1802, British workers had not stopped struggling to restrict working-day in legislation. Till 1847, with the help of the abolishment of Corn Laws, which was the consequence of land nobles' revenge on capitalist class, working class finally forced British parliament to pass the ten -hours' bill. In 1948, capitalists brought a suit to higher court on this bill, and higher court's judgment was it was totally legal to implement double shift work of child laborers and the ceaseless shift work of adult workers. So, capitalist class reclaimed its privilege which had been lost in legislative struggle by judicial power. One year later, owing to landlords' compromise with capitalists, ten-hour' bill turned to be ten and a half-hours' bill. ^⑥

^① One of the reasons why there are labor shortages in some places of China is that young laborers are used up too soon because of frequent overtime, and the slightly older workers cannot be adjusted to overtime. One of results of labor shortage is that workers' wages go up.

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p307. <http://www.marxists.org/archive/marx/works/1867-c1/ch10.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p553. <http://www.marxists.org/archive/marx/works/1867-c1/ch15.htm>

^④ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p549. <http://www.marxists.org/archive/marx/works/1867-c1/ch15.htm>

^⑤ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p600. <http://www.marxists.org/archive/marx/works/1867-c1/ch15.htm>

^⑥ Marx & Engels Collected Works Volume 8. Beijing: Renmin Press, 1961, p612.

Engels once pointed out a strike in Belu. In that strike, local council dominated by workers not only admitted the justifiability of strikers, but decided to allocate 50000 francs to support strikers. However, owing to the opposition from the governor, this amount of money was not paid finally. Because according to the French law at that time, as long as the governor confirmed that city council exceeded its authority, he had the right to stop any decisions made by city council. ^①

Montesquieu, the famous thinker in the 18th century France Enlightenment period used to advocate the separation of powers, namely separating national power into three branches: executive, legislative and judicial powers, and the controlled by three independent departments, which are have their own authorities, and as well as mutual check and balance. In fact, the theory of the separation of powers truly reflected the struggle and share of powers among royalty, aristocrats and capitalist class in early capitalism. ^② However, in capitalist time, the separation of powers is only the convenient means for capitalist class to retrieve its interests which used to be lost in one branch through another branch. When talking about workers' housing supervision, Engels argues that every free government in Britain obeys the rule that only can social reform acts be raised if extremely necessary; as for the existent laws, government should not implement them as possible. ^③ What is more serious is that when overturning a king, the so-called separation of powers makes a judge who is appointed for life become thousands of dictators in the name of judicial independence. ^④ This is especially obvious in Anglo-American Legal System.

The main distinction between Anglo-American Legal System and Continental Legal System is that Anglo-American Legal System implements case law. That means judges who exercise jurisdiction can abolish legislative power through their judgments, thus becoming dictators. So, we will see this kind of case in Capital: the Factory Act of 1844 forbid the factories to use children and women in 15-hours' working-day by changing shifts, because this relay system in fact avoids the legal restriction to use children and women, and extends their working-day. But capitalists assert to the Factory Inspectors in the most imperturbably way that they will not ignore this law, and they will recover the old system by themselves. When the inspectors submit a suit to the court, but the judges formed by unpaid bourgeois people acquit the capitalists. There is an example. One Eskrigge, cotton-spinner, of the firm of Kershaw, Leese, & Co., had laid before the Factory Inspector of his district the scheme of a relay system intended for his mill. Receiving a refusal, he at first kept quiet. A few months later, an individual named Robinson, also a cotton-spinner, and if not his Man Friday, at all events related to Eskrigge, appeared before the borough magistrates of Stockport on a charge of introducing the identical plan of relays invented by Eskrigge. Four Justices sat, among them three cottonspinners, at their head this same inevitable Eskrigge. Eskrigge acquitted Robinson, and now was of opinion that what was right for Robinson was fair for Eskrigge. Supported by

<http://www.marxists.org/archive/marx/works/cw/volume11/index.htm>

^① Marx & Engels Collected Works Volume 19. Beijing: Renmin Press, 1963, p292-293.

<http://www.marxists.org/archive/marx/works/cw/volume24/index.htm>

^② Marx & Engels Collected Works Volume 3. Beijing: Renmin Press, 1960, p52.

<http://www.marxists.org/archive/marx/works/cw/volume05/index.htm>

^③ Marx & Engels Collected Works Volume 18. Beijing: Renmin Press, 1964, p287.

<http://www.marxists.org/archive/marx/works/cw/volume23/index.htm>

^④ Marx & Engels Collected Works Volume 7. Beijing: Renmin Press, 1959, p48.

<http://www.marxists.org/archive/marx/works/cw/volume10/index.htm>

his own legal decision, he introduced the system at once into his own factory. ^①

Someone may say that the judges now in the court are professional. But those judges are not saints, or according to mainstream economics, they are also selfish rational homo economics, so, it is very normal for them to favor large taxpayer and court-fee payers. We should be aware of that the law is not made by God, not something sacred, but just the creature of material production relations in reality. Marx pointed out that Linguet overthrew Montesquieu's illusory "Esprit des lois" with one word: "L'esprit des lois, c'est la propriété." (The spirit of laws is property) ^② This also can explain why in the market economy of present China real right is superior to human right, making law for real right first, thus forcing human right to succumb to real right. Engels once pointed out that no matter what capitalists had done, police were always very kind to them and acted according to law strictly; however, to proletarian people, legal protection did not exist, and police can break into their home, arrest them, beat them without permission. That is because

"officials treat poor people not according to legal provisions but the spirit of laws." ^③

Logically speaking, the system of check and balance does not exist. The result of the separation of powers is not mutual supervision, but mutual opposition or mutual compromise. This is why the presidents impeached are less than the president assassinated in American history.

In fact, the separation of powers is only a means for the capitalist class to get dominance. Once the capitalist class succeeds, it becomes a trick of "democracy and freedom" which is played with by the capitalist class, a safety valve for the capitalist class to deal with domestic boiling emotions and the proletarian requests. ^④

Why does the gap between the rich and the poor become bigger and bigger?

The amplification of the gap between the rich and the poor relates to accumulation. The capitalists accumulate great wealth with a portion of surplus-value produced by workers, but workers can only accumulate with a portion of their wages. However, the wages are fixed by labor value. So, in general, the wages can only meet workers' basic living and breeding, and there are not many left for accumulating. Furthermore, diseases and unemployment will also consume workers' little accumulation largely. What is more important is that while a worker is converting a – portion of the means of production into products, a portion of his former product is being turned into money. It is his labor of last week, or of last year, that pays for his labor-power this week or this year. ^⑤

The capitalist production must make workers keep selling their labor power and make workers' own productions transform to be capitalists' means to purchase workers' labor power. Thus it came to pass that the former sort accumulated wealth, and the latter sort had at last

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p334. <http://www.marxists.org/archive/marx/works/1867-c1/ch10.htm>

^② Requoted from the footnote in Das Kapital Volume 1. Beijing: Renmin Press, 2004, p711.

<http://www.marxists.org/archive/marx/works/1867-c1/ch25.htm>

^③ Marx & Engels Collected Works Volume 2. Beijing: Renmin Press, 1957, p577.

<http://www.marxists.org/archive/marx/works/1845/condition-working-class/ch05.htm>

^④ Marx & Engels Collected Works Volume 10. Beijing: Renmin Press, 1962, p274.

<http://www.marxists.org/archive/marx/works/cw/volume11/index.htm>

^⑤ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p665. <http://www.marxists.org/archive/marx/works/1867-c1/ch23.htm>

nothing to sell except their own skins. And from this original sin dates the poverty of the great majority that, despite all its labor, has up to now nothing to sell but itself, and the wealth of the few that increases constantly although they have long ceased to work. ^① However, a worker could choose not to work for a certain capitalist, but he has to find a boss to employ him and work for this boss's wealth accumulation, or he will die from poverty.

So, Marx points out that in reality, the laborer belongs to capital before he has sold himself to capital. ^② The characteristic thing of capitalist production is not that the commodity labor-power is purchasable but that labor-power appears as a commodity. That means the capitalist relation arises out of the fact that the conditions required for the realization of labor-power, viz., means of subsistence and means of production, are separated from the owner of labor-power, being the property of another. So, the class relation between capitalist and wage-laborer therefore exists, is presupposed from the moment the two face each other in the act $M - L$. Therefore, capitalists can buy commodity labor-power, and then money can transform into capital. ^③ Capitalists will meet difficulty in employing workers in some places in which this class relation does not develop. This is one of the reasons that some private enterprisers worry about the shortage of laborers in some places. The workers' unfree subordinate status seems free apparently, because he can lose jobs freely, choose to work for another employer freely, even ask for different wages freely. This is the so-called freedom which the mainstream economists and jurists try hard to advocate to the world people. But, the aim of this freedom is only to perpetuate capitalist institution and capitalist exploitation.

Different from mainstream economists who just consider the differences of the quantity or quality of products in production function, Marx finds in researching capitalist production that capitalist production, therefore, under its aspect of a continuous connected process, of a process of reproduction, produces not only commodities, not only surplus-value, but it also produces and reproduces the capitalist relation; on the one side the capitalist, on the other the wage laborer. ^④ This can also explain why private economy developed so rapidly after the performance of the policy open and reform.

Besides that, Marx's research on relative surplus-value also shows that in capitalist institution, the development of productivity is an important element of the amplification of gap between the rich and the poor. Now, we will take the example in Chapter III to illustrate the production of relative surplus-value and how it amplifies the gap between the rich and the poor.

Presume that a work's daily wage is 24 dollars, and he uses old machines to produce commodities, we will find that the value of every commodity is 19.7 dollars, including 4.8 dollars (=480 dollars/100) as the worker's wage, 4.8 dollars as surplus-value, so the rate of surplus-value is 100%. (4.8dollars/4.8dollars) However, when the work use new machines to produce commodities, we will find that the value of every commodity is 18.4 dollars, including 3.3 dollars (=360dollars /110) as the worker's wage, 3.3 dollars as surplus-value, and the rate of surplus-value is still 100%. Nevertheless, if new machines are not used widely, but only used by some individual capitalist and the competition is not that fierce, so the capitalist who uses new machines is able to sell every commodity for 19.7 dollars or less. If he sell one commodity

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p821. <http://www.marxists.org/archive/marx/works/1867-c1/ch26.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p666. <http://www.marxists.org/archive/marx/works/1867-c1/ch23.htm>

^③ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p37-39.
<http://www.marxists.org/archive/marx/works/1885-c2/ch01.htm>

^④ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p666-667.
<http://www.marxists.org/archive/marx/works/1867-c1/ch23.htm>

for 19.6 dollars, then he could get 1.2 dollars ($=19.6 \text{ dollars} - 18.4 \text{ dollars}$) as extra surplus-value, and consequently the whole surplus-value of each commodity amounts to 4.5 dollars ($=3.3 \text{ dollars} + 1.2 \text{ dollars}$), and the rate of surplus-value is 136% ($=4.5 \text{ dollars} / 3.3 \text{ dollars}$). Now, it is easy to find that the socially necessary labor time of the workers in this factory reduces from 6 hours ($=4.8 / (4.8 + 4.5) \times 12$) to 5.1 hours ($=3.3 / (3.3 + 4.5) \times 12$). Therefore, the surplus labor time occupied by capitalists for free increases from original 6 hours to 6.9 hours, and then the use of new machines amplifies the gap between the rich and the poor on this occasion. And the extra surplus-value which is obtained by using new machines has been advocated as the (surplus) value created by machines. But this extra surplus-value is not created by new machines, but produced by workers' work on the occasion that other capitalists do not use new machines. Once other capitalists use new machines as well, every commodity's price will be decided by new reproduction way, namely 18.4 dollars for each commodity. Then, we will find that the extra surplus-value and the false appearance that machines create value disappear.

Once using new machines can not only reduce the value of unit commodity, but reduce the cost of unit commodity, like the example in Chapter III (the daily wage is 30 dollars), then it will be a necessary consequence of market competition that a capitalist uses new machines firstly, and then others generally use the new machines quickly. Even though, because of the widely use of new machines, the extra surplus-value does not exist, as long as the commodity produced by new machines is workers' consumer goods or the means of production for producing workers' consumer goods, there is another necessary consequence of using new machines: the value of workers' consumer goods is reduced.

Because it is the quantity of consumer goods that secure laborers' survival and breeding, not the value of consumer goods, with the reduction of the value of consumer goods, the labor value reduces, too; while the value created by labor in working-day remains the same, so if wages are equal to labor value, namely wages are also reduced according to the reduction of labor value, capitalists will get more surplus-value. Marx points out that whenever an individual capitalist cheapens shirts, for instance, by increasing the productiveness of labor he by no means necessarily aims at reducing the value of labor-power and shortening, pro tango the necessary labor-time. But it is only in so far as he ultimately contributes to this result that he assists in raising the general rate of surplus-value. ^①That is what Adam Smith's theory of "invisible hand" tries to express but avoided by mainstream economics. This is also why America seldom implements anti-dumping measures to China's exporting cheap consumer goods for American working-class, even though American government always vocally opposes fiercely, for the anti-dumping measures will really hinder capitalists reducing American workers' wages, and hinder them getting more surplus-value.

Presume the prices of all the consumer goods reduce 2/3, and wages only reduce 1/3, for instance, from 24 dollars to 16 dollars, now, although a worker can buy more commodities with 16 dollars than what he bought with 24 dollars before, compared with capitalists' profit, this worker's wages are still reduced. The capitalist gets 8 dollars more on one worker, and then he will get 160 dollars more on 20 workers. ^② In this way it is possible with an increasing productiveness of labor, for the price of labor-power to keep on falling, and yet this fall to be

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p367. <http://www.marxists.org/archive/marx/works/1867-c1/ch12.htm>

^② It is the same to the capitalists who produce non-consumer goods and consumer goods. This is because that although the unit price of consumer goods reduces, the total value of consumer goods produced by workers remains the same, so the reduction of unit price of this commodity synchronizes with the increase of the quantity of commodity.

accompanied by a constant growth in the mass of the laborer's means of subsistence. But even in such case, the fall in the value of labor-power would cause a corresponding rise of surplus value, and thus the abyss between the laborer's position and that of the capitalist would keep widening.^① Marx calls the surplus-value arising from the curtailment of the necessary labor-time, and from the corresponding alteration in the respective lengths of the two components of the working day relative surplus-value.^②

Mainstream economists do not research this relative surplus-value, but research real wages, in order to keep the quantity of workers' consumer goods the same, especially not increasing,^③ although the value of wages has been largely reduced with the improvement of productivity. Mainstream economists comfort workers with the constant real wages, in order to cover up the fact that the whole or almost the whole interests owing to the improvement of productivity have been occupied by capitalists for centuries.

On the other hand, the quality of workers' consumer goods may reduce according to the "improvement" of productivity. There are used to be two kinds of bakeries: one sells bread for overhead price, and another sells bread for discounted price. The breads sold for discounted price are all adulterated with alum, soap, pearlash, chalk, Derby limestone, etc. The French chemist, Chevallier, in his treatise on the "sophistications" of commodities, enumerates for many of the 600 or more articles which he passes in review, 10, 20, 30 different methods of adulteration. He adds that he does not know all the methods and does not mention all that he knows. He gives 6 kinds of adulteration of sugar, 9 of olive oil, 10 of butter, 12 of salt, 19 of milk, 20 of bread, 23 of brandy, 24 of meal, 28 of chocolate, 30 of wine, 32 of coffee, etc.^④ Some legal fake commodities are popular, too. For example, in 1930s, the cheap spam once sold in Great Depression stages a comeback in American financial crisis after being deserted for decades.^⑤ Under this circumstance, the same 100 dollars have different means to workers and capitalists. Workers have to buy worse commodities at higher prices. The commodities they buy with 100 dollars are less and worse than what capitalists could buy with the same amount of money. Workers are forced to be wasters, trading by violating all economical principles.^⑥

Most people today who advocate free-trade do not know that English capitalists used to admit frankly that Free-trade meant essentially trade with adulterated, or as the English ingeniously put it, "sophisticated" goods.^⑦ When agricultural workers in England do not want to eat the fixed flours which are adulterated with grains, polymaths remind them that

"many poor people, particularly in Scotland, live, and that very comfortably, for months together, upon oat-meal and barley-meal, mixed with only water and salt." "The most wholesome mixtures of flour having been refused (by the English agricultural labourer)... in Scotland, where education is better, this prejudice is,

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p597-598.

<http://www.marxists.org/archive/marx/works/1867-c1/ch17.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p366. <http://www.marxists.org/archive/marx/works/1867-c1/ch12.htm>

^③ According to the workers working in Shenzhen, the wages have been the same for 10 years.

<http://news.sohu.com/20100222/n270359488.shtml>

^④ Requested from the footnote in Das Kapital Volume 1. Beijing: Renmin Press, 2004, p288-289.

<http://www.marxists.org/archive/marx/works/1867-c1/ch10.htm>

^⑤ "Crisis changes life Spam stages a comeback", <http://women.sohu.com/20091130/n268568067.shtml>

^⑥ Marx & Engels Collected Works Volume 6. Beijing: Renmin Press, 1961, p643.

<http://www.marxists.org/archive/marx/works/cw/volume46/index.htm>

^⑦ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p288. <http://www.marxists.org/archive/marx/works/1867-c1/ch10.htm>
That can explain why there are a lot of fakes.

probably, unknown.” ^①

Finally, apart from the absolute reduction of the quality of consumer goods, there is the relative reduction. No matter how small a house is, when neighboring houses are all small, it can satisfy all housing-requirement. However, once there is a palace nearby this small house, this house shrinks as a miserable cottage. At this time, this small and narrow house proves that its dwellers are by no means exquisite, or low-demanded. No matter how this small house is extended according to the improvement of civilization, as long as the nearby palace is extended the same or more, the dwellers in the small house will find more uncomfortable, unsatisfactory and contemptible. ^② It shows that making a bigger cake does not only ask for the absolutely big, but relatively big. Obviously, only if allot the cake fairly, can cake be relatively bigger.

How should we treat managers' high incomes?

Marx points out that if, then, the control of the capitalist is in substance two-fold by reason of the two-fold nature of the process of production itself, which, on the one hand, is a social process for producing use-values, on the other, a process for creating surplus-value in form that control is despotic. ^③ The form of that control is originated from the fact that workers do not work for themselves but for capitalists, so they work under the control of capitalists and their agents. Since more workers work together to produce the same kind of commodities for the sake of capitalists at the same time, in the same space, the workers' cooperation and the management of this cooperation become the necessary condition of the process of production itself, the real productive condition. All the large direct social works or co-works require management more or less, in order to coordinate individual activities, and perform all sorts of functions in the whole movement of production. A single violinist directs himself, but an orchestra needs a professional conductor. Once the labor subordinated to capital becomes cooperation labor, the functions of management, supervision and regulation become the functions of capital. Now, the workplace cannot lack capital's command, just like the troop in battlefield cannot lack general's command. Whereas the reason why the side on behalf of capital can become the commander of industry is that he is the representative of capital, ^④ not for his so-called enterprising talent. It is just like at early stage, the posts of commanders were always taken by aristocrats.

This function of management obtains special nature as capital's especial function. Firstly, the motive and decisive aim of capitalist production is to proliferate capital by itself as much as possible, namely produce surplus-value as much as possible, and thereby exploit workers as much as possible. With the increase of the quantity of workers, workers' resistance to capitalists aggravates. So, the pressure on this resistance imposed by capital necessarily increase. The management of capital is not only an especial function created by and subordinated to the nature of social process of labor, but a function of exploiting social process of labor. So the substance of the management necessarily relates to the unavoidable confrontation between exploiters and exploitees, and the confrontation and according

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p694. <http://www.marxists.org/archive/marx/works/1867-c1/ch24.htm>

^② Marx & Engels Collected Works Volume 6. Beijing: Renmin Press, 1961, p492.
<http://www.marxists.org/archive/marx/works/cw/volume46/index.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p385. <http://www.marxists.org/archive/marx/works/1867-c1/ch13.htm>

^④ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p386. <http://www.marxists.org/archive/marx/works/1867-c1/ch13.htm>

management do not exist in the production without exploitation. As well, as other's property, the increase of scale of means of production opposing to workers cause it necessary to supervise the reasonable use of means of production. Secondly, when capital operates on workers at the same time, the cooperation of workers appears. The relation of their functions and the unification of them as total productivity exist outside themselves, but inside the capital which gathers and connects them. So the relation of them in labor is the capital's plan in abstract, the capital's authority in practice and the power forcing them to subordinate to others' will, thereby opposing to themselves.

Therefore, we by no means confuse the management function produced in co-labor with the management function produced from opposing nature of capitalism.^① Metaphorically speaking, we can not confuse the directing function of Chinese army's operational preparations and apportionments in 1940s with the supervisory function of forcing soldiers to charge forward.

The exploitation of capitalist management decides that this management formally is necessarily despotic. With the development of mass collaboration, this despotism has also developed its own unique form. Just like once a capitalist's capital arrives at the minimum requirement for real capitalist production, he gets rid of physical work, now, he passes the function of supervising individual worker and work-team to some special employees, making the supervision become this kind of special employees' profession. Just like a troop need both commanders and soldiers, the workers under the direction of the same capital also need industrial commanders (manages) and soldiers (supervisors) to direct them in the name of capital in the process of labor.

It has, therefore, come to be useless for the capitalist to perform it himself. An orchestra conductor need not own the instruments of his orchestra, nor is it within the scope of his duties as conductor to have anything to do with the "wages" of the other musicians. Inasmuch as the capitalist's work does not originate in the purely capitalistic process of production, and hence does not cease on its own when capital ceases; inasmuch as it does not confine itself solely to the function of exploiting the labor of others; inasmuch as it therefore originates from the social form of the labor-process, from combination and co-operation of many in pursuance of a common result, it is just as independent of capital as that form itself as soon as it has burst its capitalistic shell. To say that this labor is necessary as capitalistic labor, or as a function of the capitalist, only means that the mainstream economists are unable to conceive the forms developed in the lap of capitalist production, separate and free from their antithetical capitalist character.^②

Perhaps someone will say that except for the function of exploitation, the function of directing of the capitalists or their managers has contributed a lot, so they deserve huge rewards, because a single worker or the same number of workers, who work by their own, cannot reach the same productive effect. However, to a large extent, the contribution of this directing is only the contribution of workers' cooperative labor.

Presume that a capitalist employs 100 workers. Compared with the total of 100 workers' working-day, who work their own, 100 workers who work cooperatively can produce more use value in the same working-day, thus reducing socially necessary labor time. No matter how to arrive at the increase of productivity with working-day: to increase mechanical force in labor,

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p386. <http://www.marxists.org/archive/marx/works/1867-c1/ch13.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p435. <http://www.marxists.org/archive/marx/works/1894-c3/ch23.htm>

to widen the spatial scope of the impact of mechanical force, to relatively shrink the room for working place compared with production scale, to mobilize a tremendous amount of hard labor, to stimulate personal competitive spirit and rouse workers' energy, to organize a lot of workers to do the same work, to economize cost by using means of production together, or to make individual labor become average social labor, under all these circumstances, the special productivity combining with working-day is the social productivity of labor or the productivity of social labor. This productivity is produced by cooperation itself. A laborer work with others plannedly, getting rid of his personal limitation, and exerting his capacity as a cooperative worker, not as a single worker.

However, a capitalist is at liberty to set the 100 men to work, without letting them co-operate. He pays them the value of 100 independent labor-powers, but he does not pay for the combined labor-power of the hundred. Being independent of each other, the laborers are isolated persons, who enter into relations with the capitalist, but not with one another. This co-operation begins only with the labor-process, but they have then ceased to belong to themselves. On entering that process, they become incorporated with capital. As co-operators, as members of a working organism, they are but special modes of existence of capital. Hence, the productive power developed by the laborer when working in co-operation, is the productive power of capital. This power is developed gratuitously, whenever the workmen are placed under given conditions, and it is capital that places them under such conditions. Because this power costs capital nothing, and because, on the other hand, the laborer himself does not develop it before his labor belongs to capital, it appears as a power with which capital is endowed by Nature a productive power that is immanent in capital. ^①

Today, mainstream economists advocate that there is a kind of operational capacity which is not grasped by workers, but by capitalists. The social productivity of labor is the important part of it. However, the thing which is free or can be bought is not equal the thing you can grasp. Just like many people have cell phones, but they do not how to produce cell phones. Marx points out that

“Dr. Ure himself deplors the gross ignorance of mechanical science existing among his dear machinery-exploiting manufacturers, and Liebig can a tale unfolds about the astounding ignorance of chemistry displayed by English chemical manufacturers.” ^②

Assuming a uniform degree of exploitation, we have seen that regardless of all modifications originating in the credit system, regardless of the capitalists' efforts to outwit and cheat one another, and, lastly, regardless of any favorable choice of the market – the rate of profit may differ considerably, depending on the low or high prices of raw materials and the experience of the buyer, on the relative productivity, efficiency and cheapness of the machinery, on the greater or lesser efficiency of the aggregate arrangement in the various stages of the productive process, elimination of waste, the simplicity and efficiency of management and supervision, etc. And this circumstance misleads the capitalist, and even the mainstream economists, convince them that capitalist's profits are not due to exploiting labor, but, at least

^① However, as long as this cooperative productivity has already been the socially necessary labor form, it will not form extra surplus-value.

^② Quoted from the footnote in Das Kapital Volume 1. Beijing: Renmin Press, 2004, p444.
<http://www.marxists.org/archive/marx/works/1867-c1/ch15.htm>

in part, to other independent circumstances, and particularly his individual activity.^①

Nevertheless, one hand, most part of the individual activities of a capitalist or his manager is not necessary in noncapitalist production. On the other hand, the experiments of workers' cooperative factories in the past England had given those mainstream economists a good lesson. At that time, capitalist newspapers found that the institutions of cooperative production established by workers under the influence of utopian socialists showed that the

"Associations of workmen could manage shops, mills, and almost all forms of industry with success, and they immediately improved the condition of the men; but then they did not leave a clear place for masters."^②

In fact, the enterprise's management is not so profound and complicated as mainstream economists boast, so the quality of enterprise managers is not so high. Today, some private owners are willing or reluctant^③ to listen to the business management courses in universities at home and abroad, and to get some legitimate degrees in diploma mills, or some illegitimate degrees in legitimate universities after they become billionaires. Some bankrupt capitalists in Britain become the managers in workers' cooperative factories; become the employees who also rely on wages like the workers he used to employ. And some other bankrupt capitalists work for their own creditors to manage the factories which used to belong to them. Those examples show that the labor of directing can only obtain or deserve the similar pay as workers' labor if it is necessary under the control of noncapitalist production, because the magnitude of value it creates has not much difference with the magnitude of value created by workers.

Therefore, today, the managers working in capitalist enterprises have gotten much more payments than ordinary workers, and most of the payments originate from the share of exploitation profits. Marx points out that as Adam Smith correctly deduced, this portion of profits presents itself in pure form, independently and wholly separated from profit (as the sum of interest and profit of enterprise), on the one hand, and on the other, from that portion of profit which remains, after interest is deducted, as profit of enterprise in the salary of management of those branches of business whose size, etc., permits of a sufficient division of labor to justify a special salary for a manager.^④ Not only the managers' wages, but the wages of junior managers and security personnel^⑤ who abuse and corporal punish workers in Foxconn we mentioned before also originate from the surplus-value produced by exploiting workers. The supervising labor which does not organize production, but only force workers to work, for capitalists, is naturally productive, because it help capitalists get more surplus-value, so it must be approved by mainstream economists. But this labor is just the most substantial exploitation, and the supervisors' wages are just the substantial fees for exploitation, the pure social burden which must be eliminated.

On the other hand, in the institution which emphasizes personal interests, what the

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p155. <http://www.marxists.org/archive/marx/works/1894-c3/ch07.htm>

^② Requoted from the footnote in Das Kapital Volume 1. Beijing: Renmin Press, 2004, p385.

<http://www.marxists.org/archive/marx/works/1867-c1/ch13.htm>

^③ "Zhejiang government pays the bill 30 billionaires go to study in Tsinghua University", <http://news.sina.com.cn/c/2005-11-09/01247393763s.shtml>

^④ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p431. <http://www.marxists.org/archive/marx/works/1894-c3/ch23.htm>

^⑤ "The open letter from university research group of Foxconn to All China Federation of Trade Unions", <http://it.sohu.com/20101009/n275494339.shtml>

professional managers (people who are employed by capitalists to manage the enterprises without investing capital) consider at first is not the enterprises' profit or loss, not the enterprises' success or failure, not the staff's jobs, but their own interests. It is very common to find the interests conflicts between professional managers and entrepreneurs (the real investors). Obviously, the more complicated the management is, the bigger the room for professional managers' own interests is, and that can explain why management becomes so complicated. However, once an enterprise fail in management, its professional manager will not lose his job or reduce his interests necessarily. If a professional manager gets himself enough original capital or corresponding technique and market in management, thus he can use these resources to run a company and manage it by himself; thereby he can occupy all the surplus-value produced by workers. Even though he does not run a company, as long as he obtained enough capital before, he can also rely on the interests of capital, as a parasite. Several years before, some leaders of the bankrupt state-owned enterprises just did it like that. Most of them fled to other countries.

Finally, by the way, let us talk about the high income of entertainment stars. Some mainstream economists argue that Marx's theory has already outdated, because there is no exploitation when the bosses of record companies beg for music stars to sign the contracts. Nevertheless, just like we cannot consider the price of an antique as the price of an ordinary commodity, we cannot consider the living situation of a top music star as the living condition of an ordinary worker, either. On one hand, the incomes of a lot of singers are not very high. The bosses will not beg for them to sing, but on the contrary, they have to beg for the bosses to give them a chance to sing, or they have to be the minstrels singing in the streets. On the other hand, some top music stars should be regarded as petty bourgeois. They cooperate with the bosses, and share the profits; while their assistants, service staff and record production staff are the real employees.

Chapter 5 Capitalist Economy's Vulnerability

Why capitalist countries' intervention cannot resist economic crisis?

There is an intersection point in supply and demand curve in mainstream economy, and this intersection point is named equilibrium point. At this point, aggregate supply is equal to aggregate demand. However, John Maynard Keynes, a mainstream economist raises an objection to this theory, because he observes the capitalist overproduction crisis, and refers to former Soviet Union's experience; thus, he proposes a viewpoint of insufficiency of effective demand. In other words, aggregate supply is more than aggregate demand. However, he insists the insufficiency of effective demand comes down to mental factors, and counts on government remedying the insufficiency of effective demand by intervention, and thereby preventing economic crisis. It should be said that government's public construction has some positive influence on removing overproduction economic crisis to some extent. This is because the departments, like railway construction, do not supply any means of production and livelihood in one year or longer, do not have any positive influence, but they will abstract labor, means of production and livelihood from total annual production. If this situation happens in an economic boom, on the one hand pressure is brought to bear on the money-market, while on the other, an easy money-market calls such enterprises into being en masse, thus creating the

very circumstances which later give rise to pressure on the money-market. Pressure is brought to bear on the money-market, since large advances of money-capital are constantly needed here for long periods of time. And this regardless of the fact that industrialists and merchants throw the money-capital necessary to carry on their business into speculative railway schemes; etc., and make it good by borrowing in the money-market. On the other hand pressure on society's available productive capital. Since elements of productive capital are for ever being withdrawn from the market and only an equivalent in money is thrown on the market in their place, the effective demand rises without itself furnishing any element of supply. Hence a rise in the prices of productive materials is as well as means of subsistence. To this must be added that stock-jobbing is a regular practice and capital is transferred on a large scale. A band of speculators, contractors, engineers, lawyers, etc., enrich themselves. ^① When it happens in depression, or the prices of means of production and livelihood going down, the tension of overproduction will be relieved. But, when the corresponding construction project is finished, on one hand, the corresponding demand disappears, and on the other hand, it will require more supply, so the contradiction of overproduction becomes more serious. This is why Keynesianism was forsaken by Western governments in 1970s after being popular for a while in post-war Western world.

Someone attributes the eruption of this economic crisis to Neoliberalism, and someone says it is the result of implementing Keynesianism. Actually, the difference between these two doctrines is governments' intervention degree to economy. The former requires the governments to intervene less, and the latter requires more. It should be said that America mainly implemented Neoliberalism before the eruption of crisis, and began to practice Keynesianism more after crisis. However, neither of them can stop the occurrence of crisis, and cannot succeed to save the market.

This is because the overproduction is decided by the nature of capitalist economy, so overproduction economic crisis is an unavoidable crisis of capitalist market economy. It has been mentioned before that the formula of the nature of capitalist economy is $c+v+m$. in this formula, constant capital C reflects the capitalists' demand for means of production, and variable capital V reflects capitalists' demand for laborers. Because the purchasing power of working-class originates from their wages, so this V reflects working-class's aggregate demand for commodity. Surplus-value M is shared by capitalists, managers, capitalist governments and other parasites. Since the aim of capitalist production is to seek surplus-value, not to satisfy living consumption, so the consumption of capitalists and other relevant classes who share the M will be less than M , and the left M will be accumulated for expanded reproduction, in order to obtain more surplus-value. As a result, the whole social production and living consumption, namely the aggregate demand is less than $c+v+m$, while the aggregate supply provided by capitalists is equal to $c+v+m$, so the overproduction appears necessarily. Moreover, the more the surplus-value is, the surplus-commodity, as the carrier of surplus-value is more, and then overproduction is more serious. This is also why there is a relative more trade surplus in the states of which the domestic consumption and new-added output are relatively low.

Since the capitalist' aim is to seek surplus-value, so his aim is not to equalize his supply and demand, but to make the inequality between them, the excess of his supply over his demand, as great as possible. ^② Certainly, accumulation namely the portion of overproduction

^① Das Kapital Volume 2. Beijing: Renmin Press, 2004, p349. <http://www.marxists.org/archive/marx/works/1885-c2/ch16.htm>

^② Das Kapital Volume 2. Beijing: Renmin Press, 2004, p134. <http://www.marxists.org/archive/marx/works/1885-c2/ch04.htm>

could realize the balance between aggregate supply and aggregate demand when the capitalist carries out expanded reproduction, namely expanding next constant capital C , even expand variable capital V a little. However, the expanded $c+v$ necessarily brings to expanded m , so thus expands the discrepancy between next aggregate supply and demand. The way which uses accumulate to balance aggregate supply and demand is unsustainable. The final balance can only be fulfilled by the eruption of an economic crisis, thereby making the values of the commodities and capital depreciate compulsively, namely sacrificing the productivity which has been produced already. So, there is a periodic circulation of crisis, depression, revival and boom.

Of course, the overproduction is not absolute, but relative, because laborers still lack the dead stock. So, it is ridiculous to talk about how to expand domestic demand in capitalist institution, for the magnitude of laborers' demand for consumption is far more than these relative surplus-commodities. On the contrary, in the advanced stage of socialism or communist society, laborers are the owner of products, and expanded reproduction is carried out for satisfying laborers' gradually increasing material and cultural demands, so there is no possibility of the crisis caused by relative overproduction. The only possibility is the relative shortage of productivity. The crisis of overproduction shows that the capitalist institution has already been the shackles of the development of productivity.

Obviously, as long as the intervention conducted by capitalist countries cannot eliminate profit, namely surplus-value, it cannot eliminate overproduction, and of course cannot expand even the relative domestic demand; thereby it cannot eliminate the crisis of overproduction. It can only postpone the occurrence of economic crisis, making economic crisis erupt in a larger scale later. Some developed countries even intend to make or ignite economic crisis in developing countries, for example the Southeast Asia 's financial crisis in 1997, in order to sacrifice those countries to eliminate partial overproduction. But these measures cannot prevent but only postpone the eruption of economic crisis in developed countries.

There is another fact should be pointed out that the intervention of these capitalist countries is an important method for financial capital to plunder the masses. This is because the capitalist countries can only intervene economy in the economic way, so whether tax reduction or the expansion of fiscal expenditure, will both cause the expansion of fiscal deficit. And the governments can only remedy the part of discrepancy by borrowing money from financial capitalists under the circumstance of tax reduction. As a result, financial capitalists directly control the governments' future tax, namely control the power to directly plunder the masses through their creditors' rights to the governments. At the same time, while lending money to governments, the financial capitalists start their bank-note printing machines to print money, thus plundering seigniorage from the masses.

Furthermore, the public debt becomes one of the most powerful levers of primitive accumulation. As with the stroke of an enchanter's wand, it endows barren money with the power of breeding and thus turns it into capital, without the necessity of its exposing itself to the troubles and risks inseparable from its employment in industry or even in usury. The state creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would. ^① If the public debt issued by governments is used to invest in financial capitalists' banks, just like the

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p865. <http://www.marxists.org/archive/marx/works/1867-c1/ch32.htm>

American government's bailout policy, they have gotten a good chance to use capital for free again. At the same time, more and more tax burdens have been imposed on working-class and other low-middle classes, including some industrial capitalists.

By understanding the formula $c+v+m$, we can not only illustrate why aggregate supply is always inconsistent with aggregate demand, and the root cause of the eruption of capitalist economic crisis briefly, but find that market, especially the market for surplus-commodity is the vulnerability of capitalist economy. This can explain why developed capitalist countries have to invade around the world and force other countries to open their markets. And this is also why the CEO of Toyota Auto went to America to apologize for quality problem by himself after the eruption of American financial crisis. The reason is that during the crisis, the function of market becomes more important, and accordingly, the trade frictions and conflicts become more, and the threat of war becomes more. This is also the economic element behind Japan-America military alliance and Korea-America military alliance. Since they have to rely on American market, capitalist countries, Japan and Korea have to be dependencies of America, and keep impeding other Asian countries. However, these measures at the same time keep them integrating into the big Asian market, thus being controlled by America more.

Why does the Chinese old woman laugh last?

After the outbreak of the financial crisis, one point of view is that the crisis is caused by the excessive effective demand mainly demonstrated through the US workers' overdraft consumption. This is clearly different from either the Marxist view of overproduction or the Keynesian view of insufficient effective demand. But the question which should be asked here is: does the overdraft consumption or debt-financed purchase mean the excessive effective demand?

As we noted earlier, wage is the monetary expression of the value of labor-power. As price always deviates from the value, wage always deviates from the value of labor-power. But unlike other commodities, the value of labor-power is determined by the physical conditions such as the climate and the degree of civilization which include the historical and moral elements, and more particularly by the conditions under which the class of free laborers has been formed and their habits and the degree of comfort has been developed.^① For example, the wage in cold countries must include the cost of fuel and clothing to meet workers' natural wants. This makes the deviation of wage from the value of labor-power more complicated. So, the higher wage level in developed countries doesn't mean that the deviation from the value would be beneficial to workers who are living there. In fact, the wage gap is probably smaller than the value gap of the labor-power.

Theoretically speaking, the minimum limit of wage is the value of means of subsistence which are physically indispensable. If the wage is below the minimum, the laborer's physical strength can not get maintained, their intelligence can not get improved and the labor force can only develop in a crippled state.^② And this will happen as the relative surplus population becomes huge. Historically, it did happen at the end of the 18th century and the first ten years of the 19th century. As the English Poor Law was carried out, the English farmers and landlords enforced the absolute minimum of wage by paying the agricultural laborers less than the minimum in the form of wages and the remainder in the shape of parochial relief.^③ Obviously, the relief funds did not improve the living conditions of laborers, but turned out to be the subsidies of capitalists, in that if there are no such funds at all the wage had to be paid to meet the minimum. So the truth in this case is that the law and administration helped capitalists to deprive farmers, producers and other tax-payers. Similarly, today the welfare systems also helped monopolists to deprive middle classes in Europe and America.

Even when the wage is above the minimum it may not reach the value of labor-power. If a laborer failed to support his dependent wife, raise his children and afford his children's educational cost only by using his wage income, this means his wage is still below the value of labor-power.^④ The shortage probably has to be made up by relief and borrowing. The latter can be seen in the American workers' overdraft consumption case. The overdraft itself showed the insufficiency of their wage income. And since the variable capital (v) is lower than the value of labor-power, the surplus value (m) must be higher. Accordingly, the overproduction and the insufficient demand would become more serious. The capitalists have to provide loans and encourage overdrafts to maintain the low wage and abate the overproduction. To workers, however, the current overdrafts have to be paid by their future earnings, which will squeeze the

^① Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.199.

^② Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.201.

^③ Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.776.

^④ Obviously, there is a big gap between urban and rural labor value levels.

future consumption funds and more overdrafts would be needed to fill in the bigger gaps until the loans would never get provided. It is not surprising that the US financial crisis first hit in the subprime mortgage domain.

To capitalists, the workers' overdraft consumption means more. As it was described in the early 1700s:

The only thing then that can render the laboring man industrious, is a moderate quantity of money, as too little will either dispirit him or make him desperate depending on his disposition, while too much will make him insolent and lazy ; As they [the poor] ought to be kept from starving, they should receive nothing that can be saved; most of the poor should never have nothing to do but should use up their whole income; those who make a living by their daily labor ... have nothing to stir them up to be serviceable but their wants, and it is wise to relieve their poverty, but a folly to cure...^①

Obviously, if most of the workers are debtors, they will be firmly tied to capitalists, obey their command and work for them until death. Even fired by one capitalist, they still need to find another to sell their labor to, so that they can pay the debts and loans to survive. This is the so-called "free choice". This is the "freedom" enjoyed by the working class in the capitalist countries and the so-called universal value favored by some mainstream economists in China.

In order to encourage Chinese people to follow the US example and get such "freedom", a widespread story has been told by some economists: A Chinese old woman bought a new house by using her life time savings, but she could not enjoy the house for long; meanwhile, a US old woman just paid off her mortgage but she had been living there for a long time. US Treasury Secretary Henry Paulson also had criticized Chinese people for saving too much and spending too little, but soon after the outbreak of the financial crisis, his comment became a public ridicule according to a Canadian newspaper.^② The US old woman finally lost her house in the crisis for she could not afford to pay the mortgage any more, while the Chinese old woman still kept her money.^③

Most importantly, the different perspectives on consumption of the two old women reflected the different degree of capitalization of the two countries. As Engels once pointed out:

To save is unavailing to a worker, for what he can save can at the utmost suffice to sustain his life for a short time, while if he falls out of work, it is for no brief period, consequently to accumulate lasting property for himself is impossible, and if he could, he would only cease to be a working-man and another person would take his place.^④

Influenced by the capitalistic culture, the working class in the developed countries knows that they can not change their destiny of being employed anyway. So they choose to enjoy their lives, instead of laying up treasures which are of no lasting use to them, and which in the end the bourgeoisie get possession of. But such a life is demoralizing and desperate beyond all others.^⑤ By comparison, China has a relatively short history of capitalism, and Chinese workers, including those migrating to the capitalist countries, are still hoping for changing their lives through hard-working, which is the reason why they save more. Nevertheless, the Chinese old woman probably won't laugh longer because her saving will shrink when the house price is rising. Only when China gets rid of the capitalistic components can the Chinese old woman's laugh last.

^① Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.710.

^② <http://news.sohu.com/20081011/n259968755.shtml>.

^③ <http://www.chinanews.com.cn/hr/mzhrxw/news/2008/11-21/1457658.shtml>

^④ Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.402.

^⑤ Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.402.

How to deal with the China-US trade surplus?

In recent years, US government often criticizes that RMB is undervalued and forces China to allow Yuan to appreciate against US dollar, and their excuse is the China-US trade surplus, which means China exports more to US than she imports from US. But China argues that there is no direct connection between exchange rate and trade surplus. Some economists pointed out that when Yuan is appreciated significantly the surplus still continued to expand based on relevant data. And others demonstrated econometrically that currency appreciation only had a limited effect on trade surplus in the long run and no effect in the short time at all. But the US took no account of these conclusions which were related to the mainstream economics they favored, and still urged the appreciation and called for each country to control the ratio of current account balance (foreign trade balance) to GDP at no more than 4% during the G20 finance ministers and central bank governors meeting.^① And although China asserted that exchange rate had little to do with trade surplus, the surplus narrowing had been set out long before the financial crisis broke out, which made some Chinese export enterprises suffer a lot.^② Even when the US proposal was generally opposed by most major exporters of G20, the senior Chinese official who studied orthodox economics still consented to cut surplus and drop the ratio to 4%^③. The reason may be that China only knew how but did not know why in their understanding of the relationship between exchange rate and trade surplus, therefore failed to cope with the pressure from US.

In fact, the US proposal is based on a mainstream economic model, which is that

“the appreciation of the exchange rate can bring about two results, one is the decrease of exports because of the dropping of the foreign demand, the other is the increase of imports because of the relative lower price of oversea commodities, and both results can reduce the country’s foreign trade surplus”.

But the model still has some premises. No matter whether the premises can be met in China-US trade case, the mainstream economic theory can hardly explain the reason of US foreign trade deficit.

First of all, some countries cannot use their domestic currencies to pay for the imports. For example, Vietnam can only use second or third party money such as dollars, not their VND to pay. This is quite different from the US which can use their own currency printed at a very low cost to pay their imports. So the change in exchange rate just has little impact on their imports. And the greater the appreciation of other countries’ currency, the higher the depreciation of US dollars, the stronger the impetus US has to use the cheap dollars to exchange for the wealth of other countries. The US is unwilling to give up the profitable trading opportunities as well as to cut the trade deficit, which is just used as an excuse to force China to relinquish her interests.

Secondly, even if the US is not involved in creating money, they have no reason to complain about the trade deficit. As we know, about one and a half century ago, the Britain had the same status as the US has today, as well as the huge trade deficit.

^① <http://finance.sina.com.cn/roll/20101025/06013493035.shtml>

^② http://news.xinhuanet.com/fortune/2008-05/11/content_8143600.htm

^③ <http://finance.qq.com/a/20101014/000061>

Marx responded to the Britain's complaint on trade-deficit in *The Times*, in which he said:

The simple fact of the excess of British imports over exports, amounting in three years to £97,000,000 would by no means warrant the cry now raised by the Britishers "of carrying on their trade at a yearly sacrifice of £33,000,000," and benefiting by that trade foreign countries only. The enormous and increasing amount of British capital invested in all parts of the world must be paid for in interest, dividends and profits, all of which are to be remitted to a great extent in the form of foreign produce, and consequently go to swell the list of British imports. Beyond the imports corresponding to their exports, there must be a surplus of imports, remitted not in payment for commodities, but as revenue of capital. Generally speaking, the so-called balance of trade must, therefore, always be in favor of the world against England, because the world has yearly to pay to England not only for the commodities it purchases from her, but also the interest of the debt it owes her.^①

Today, the great trade imbalance between China and US is also due to the large-scale capital flows from US to China and the fat profits US earned in China. Obviously, China cannot pay for the US profits by Yuan printed in China, but by dollars exchanged in export trade. The appreciation of Yuan has little influence on the US profits earned in China, so it is unlikely to eliminate the US trade deficit only by the appreciation of Yuan. And this is also why China did not want to keep the trade surplus but the surplus still remained high. The reason behind still must be the surplus value (m).

It is almost impossible that China drop the ratio of current account surplus to 4% without reducing the foreign capital share especially the US share at home.

In fact, GDP can be seen as an indicator of economic power only when foreign capital takes a very small proportion. For example, during the Japanese aggressive war, Japan forcibly occupied major mineral resources in China, forced Chinese laborers to work for them and shipped the raw materials to Japan at last. If GDP were calculated at that time, the output value of the mining product would be counted in China's GDP, as long as the mineral resources was sold (exported) to Japan and the money was brought back to Japan with troops. So, the higher this kind of GDP is, the bigger interests the Japanese invaders get, and the weaker China's economy becomes. Today, with the foreign capital inflowing, which is quite different from military aggression, the GDP contributed by the foreign enterprises also has nothing to do with the economic power of China.^②

As to reducing the trade surplus, the key lies in the policies taken by US. Instead of pushing China to revalue RMB, US should implement tight monetary policies and control their investment in China. By sticking to the exchange rate, the imbalance problem would never be solved, no matter the actions were taken by China or by US.

Seen from another perspective, the great number of foreign investment and the huge trade surplus can be seen as China's contribution to the world economy, especially to the US economy. Through the opening up policy, China shares with other counties the benefits its rapid economic growth brings about. But unfortunately, China has always been accused of conducting unfair production and trade, and vulnerable to the economic pressure exerted by US.

Suppose China make things clarified and suggest US government to tax more on overseas companies, especially those financial enterprises, force them to withdraw from foreign markets,

^① *The Complete Works of Marx & Engels*, Vol. 1. Beijing: People's Publishing House, 1962,p.393.

^② The formulation used by China's national bureau shows that, the national income calculated neither represents the real income scientifically, nor the income of the Chinese people.

and use the extra money to help the majority suffering from the crisis. The US government neither dares to displease the enterprises nor is willing to lose the votes of the people, and finally expose themselves to stress and shoot themselves in the feet.

China should rethink the policy of foreign capital introduction since US is quibbling about the trade surplus. In particular, China should reduce the reliance on foreign capital by shrinking the proportion of foreign capital in national economy and making more spaces for domestic state-owned or private capital.^① Moreover, China should develop the “market for market” strategy and demand for the equal opening market in foreign countries, loosen the restrictions on acquisitions of foreign firms and support domestic enterprises in making profits overseas, which can produce trade deficit to offset the surplus.

Why a Nobel-Prize winner’s accusation of China is groundless?

Paul Krugman, an American mainstream economist as well as a Nobel-Prize winner, once said that the global economy would grow 1.5 % if China stopped restraining its currency and cut the trade surplus. The logic of his argument is that if half of China's foreign reserves, which is as much as \$2.4 trillion, can be used for import, then the global GDP which is about 78.3 trillion US dollars in total will increase 1.5%. Obviously, in his view, trade can generate GDP directly. But the truth is that trade itself can hardly produce anything although transportation can create some GDP.

Trade or circulation is a very important phase in the industrial capital hyperplasia process. And the industrial capital hyperplasia process includes three phases:^②

In the first phase, capitalist as a buyer appears on the commodity market and the labor market. His money transforms into commodities which can be consumed and used in productive process. We mark this phase as G (money-capital) —P (productive-capital). Through this circulation phase, monetary capital is exchanged for commodities which represent the natural form of productive capital. From money-capital to productive-capital, the value of capital has assumed a natural form which cannot continue to circulate, but must enter the areas of consumption, more accurately the productive consumption. The capitalist cannot resell laborers as commodities, because laborers are not slaves. What the capitalist purchased is just the privilege of utilizing labor-power for a certain period. The capitalist cannot use the labor-power in any other way than using it up in transforming the means of production into commodities. The ending of the first phase is therefore the entrance into the second phase.

The second phase is the productive consumption of the purchased commodities by the capitalist. His capital passes through the process of production and the result is commodities produced of more value than that of the elements composing them. Commodities become commodity-capitals by springing into existence as a direct result of commodity-productions, embodying in the new form the capital values already utilized. We mark this phase as P (productive-capital) — W (commodity-capital).

In the third phase, the capitalist returns to the market as a seller and his commodities utilized in the second phase are exchanged for proliferated money. We mark this phase as W (commodity-capital) —G’ (money-capital). With the completion of this phase, the advanced

^① Cheng Enfu, The “Five Promotions” to the Development Mode of Foreign Trade, *Journal of Chinese Economic weekly*, issue 11, 2008.

^② Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.31.

capital-value as well as the surplus-value is recovered.

So in the circulation phases, the G (money-capital) and P (productive-capital) in the first phase, or the W (commodity-capital) and G' (money-capital) in the third phase are the same value of capital in the different modes, although the value in the first phase is smaller than that in the third phase. The surplus-value just acquired in the second phase and circulation or trade can not create the new value. We mark the whole Rotation of capital as:

G(money-capital)—P(productive-capital)...W(commodity-capital)—G' (money-capital).

It can be seen that the ending point turns to a new starting point with a greater value added. And the new value is created in the productive process and not in the buying and selling process, which obeys the rules of equivalent exchange. Every ending phase is followed by a starting phase, so the rotation seems endless. But the real world and the real market are limited. If the movement of capital stops in the first phase, money-capital assumes the rigid form of a hoard. If the movement stops in the phase of production, the means of production remain lifeless on the one hand while labor-power remains unemployed on the other. And if the movement stops in its last phase, masses of unsold commodities accumulate and block the flow of rotation.

Among the three phases, the third one is more important.^① On the one hand, commodities are naturally perishable. The use-values do not remain the bearers of perennial capital-value and increase by the addition of surplus-value, unless they are continually reproduced and replaced by new use-values of the same or of some other order. The sale of the use-values in the form of finished commodities, their transfer to the productive or individual consumption by means of this sale, is the ever recurring requirement for their reproduction. They must change their old use-form within a certain time, in order to continue their existence in a new form. Exchange-value maintains itself only by means of this constant renewal of its substance. The limit of circulation time for a certain commodity-capital imposed by the spoiling of the substance of the commodity is the absolute limit of circulation time in the third phase. Capitalist can postpone the buying but can not postpone the selling. On the other hand, because of the randomness rooted in the capitalist market economy, a commodity which sells well today probably will be substituted by a new product tomorrow. And this makes the third phase a “salto mortale” of the commodity, which is a leap taken by value from the body of the commodity into the body of the gold. If it falls, although the commodity itself is not harmed, its owner decidedly is.^②

When the financial crisis turned out to be a worldwide economic crisis, how to sell surplus production becomes a big problem. The Nobel-Prize winner Krugman proposed that China should buy off the surplus by using dollars; also his offer aroused the enthusiasm of other countries in putting pressure on China. Sure it can help US escape from the blame for its Subprime Crisis and shift the pressure away to China. But Krugman forgot that the dollars printed in US just has been used as means to loot the treasuries in China. He'd better suggest that US financial oligarchs, who are in charge of the money printing, use the dollars directly to buy the surplus products instead of injecting capital into their own banks. However, the fraud of the oligarchs can be covered by attacking China. As one of the mainstream economist who is in the pay of oligarchs, Krugman has the responsibility to make up such an excuse for the covering, even the very bad one.

^① Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.144.

^② Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.127.

He also forgot that China's massive dollar reserves settled and stored by RMB are not the net income and can not be used to buy off the surplus. The reserves can only be used in the productive consumption which would bring about more surpluses in the world market. Furthermore, with the RMB appreciation, China needs to pay more dollars for the exchange; therefore, the reserves can hardly get spent.

The criticism reminded China of the disadvantage of keeping so many reserves. And the reduction should be carried out step by step. For example, by cancelling some foreign-invested enterprises, the burden of foreign exchange can be lightened. China also can exchange part of the printed foreign currencies, just the representative of the value, for some useful commodities and productive materials, after setting aside a predetermined budget for debt service and import payment.

China should import at least 1,000 tons of gold on the one hand. China's gold reserve growth is far behind the economic growth since the reforming and opening in the 1980s, not to mention half the reserve (about 600 tons) was kept in US after 1990. Importing 1,000 tons gold could double the reserve in China, although the rank in terms of gold reserve in the world can not get improved to match the GDP. And it just costs less than \$50 billion in price of \$1500 per ounce, which only accounts for 2% of the total dollar reserves. So, China should import at least 1,000 tons of gold even if the price doubled. On the other hand, China had better discourage the export and encourage the import of long-storage- period raw materials. Marx has talked about the speculation rule of the change of value:

We therefore find that speculators make it a rule when such sudden changes in value occur, to speculate in that material on which the least possible quantity of labor has been spent: to speculate, therefore, in yarn rather than in cloth, in cotton itself, rather than in yarn.^①

Especially in the recession, the import of products can neither help to solve the problem of unemployment, nor add new value to products through trade. Besides, some kinds of products can easily go bad while others can be easily pushed by new technology. In contrast, the raw materials imported can be used in the reproduction process to promote the economic recovery. And the raw materials are unlikely to be affected by the new technology, which is mostly developed to improve the processing rather than inventing new materials. This is the reason why Japan imported so many rare earth resources from China at present.

If China does take the advices above, some Nobel-prize winners will say no for the sake of their benefactor, the financial oligarchs. It is common for them to go back on their words or play a double standard from the selfish "Homo economicus" hypothesis. But it is a pity that they are not so rational that they can't understand the economic science.

Why are commerce and commercial profits invisible in the mainstream economics?

In the classical economics textbooks, whether in microeconomics or macroeconomics, we can not find any discussion about commerce and commercial profits. The reason is that the mainstream economics in fact can not explain how and where the commercial profits come from. Once the commerce is taken into account, the basic equilibrium theory can hardly work. Because the commerce is separated from the productive process, the production function can not be applied to analyze the forming process of commerce profits and its maximization. In the general equilibrium theory, supply refers to the production supply and demand refers to the

^① Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.243.

consumer demand. Commerce, as the reservoir between supply and demand, can serve both of supply and demand, so the supply-demand equilibrium point would enlarge to an area when the commerce is taken into account. Hence, the equilibrium point theory of mainstream economics becomes invalid in explaining the mechanism of price formation. Without the commerce involved, the trade in mainstream economics is just the direct exchange between producers and consumers. But as we know, the commercial field is very important to the capitalist market economy. A theory with no any analysis of commerce and commercial profits can hardly be qualified as a scientific research on the modern economy and resource allocation.

We have discussed the whole rotation of industrial capital above and marked the circulation as: $G(\text{money-capital}) \rightarrow P(\text{productive-capital}) \dots W(\text{commodity-capital}) \rightarrow G'(\text{money-capital})$.

The rotation of capital not only proceeds uninterruptedly from one phase into the other, but also includes the stopping of capital for a certain length of time in the various sections of its cycle. In each of these sections, industrial capital is poured into a definite mold: money-capital, productive-capital, or commodity-capital. It does not assume a form in which it may enter a new metamorphosis, until it has gone through the function corresponding to the form preceding the new metamorphosis.^①

The total capital of society always exists in part in commodities on the market about to be converted into money, and this part is naturally made up of ever changing elements and is continually changing in quantity. Another part exists as money on the market, ready to be converted into commodities. These portions of the total capital are perpetually passing through these metamorphoses. To the extent that this function of capital in the process of circulation becomes a special function of independent capital and becomes an established service assigned by division of labor to some particular species of capitalists, the commodity-capital becomes commercial or financial capital.^②

Capital flows from production phase to circulation phase in time sequence. The production time is the length of the time in which capital stayed in the production phase and the circulation time is the length of the circulation phase. So, the whole rotation time is the production time plus the circulation time. In circulation phases, capital assumes the form of commodity-capital or money-capital, which can not produce value as well as surplus value. The transformations of capital from commodity into money are the results of purchasing by capitalist, and from money into commodity, are the selling by capitalist. From a capitalist's view, the time of transformations includes purchasing time and selling time, the time he performs as a buyer and a seller on the market, which is part of his business time.

But the buying and selling create neither products nor values. This is never going to change even when the capitalist gives the business to other agents as his company grows in size. The hired buyers and sellers share the profits in some cases. This is because that buying, selling or bookkeeping never adds value to capital, although they are necessary to the realization of the value, and the pure cost of circulation can only be deducted from gross benefits.

The general law is that all expenses of circulation, which arise only from changes of form, do not add any value to the commodities. They are merely expenses required for the realization of value, or for its conversion from one form into another. The capital invested in those expenses (including the labor employed

^① Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.63.

^② Marx, *Capital*, Vol 3, Beijing: Renmin publishing house, 2004, p.298.

by it) belongs to the dead expenses of capitalist production. They must be made up out of the surplus-product and are, from the point of view of the entire capitalist class, a deduction from the surplus-value or surplus product, just as the labor required for the purchase of the necessities of life is lost time for the laborer.^①

So, when industrial capitalists give the buying and selling business to commercial capitalists, the former should pay for the latter with the unproductive cost. As to how the latter make profits and how to decide the amount of the profits, we will discuss later.

The transportation is an exception. In transportation, the quantities of products can not get increased; even the qualities may get reduced, such as the breakage of glassware and the spoilage of agricultural goods or beers.

“But the use-value of things has no existence except in consumption, and this may necessitate a change of place on the part of the product for consumers who live everywhere, in other words, it may require the additional process of production of the transportation industry. The productive capital invested in this industry adds value to the transported products, partly by transferring value from the means of transportation, partly by adding value through the labor-power used in transportation. This last-named addition of value consists, as it does in all capitalist production, of a reproduction of wages and of surplus-value.”^②

That means transportation capital can directly create profits.

“In short, the time of circulation of a certain capital limits its time of production and the process of creating surplus-value. And this limitation is proportional to the duration of the time of circulation.”^③

“One of the sections of the time of circulation—relatively the most decisive—consists of the time of selling, the period during which capital has the form of commodity-capital. According to the relative length of this time, the time of circulation, and to that extent the period of turn-over, are lengthened or shortened.”^④

“One cause which acts continuously in differentiating the time of selling, and thus the periods of turn-over in general, is the distance of the market, in which a commodity is finally sold from its regular place of sale.”^⑤

“While on one hand, the development of the means of transportation and communication by the progress of capitalist production reduces the time of circulation for a given quantity of commodities, the same progress, on the other hand, coupled to the growing possibility of reaching more distant markets to the extent that the means of transportation and communication are improved, leads to the necessity of producing for ever more remote markets, in one word, for the world market. The mass of commodities in transit for distant places grows enormously, and with it also grows absolutely and relatively that part of social capital which remains constantly for longer periods in the phase of commodity-capital, within the time of circulation.”^⑥

The purpose of capitalistic production is to pursue surplus value instead of satisfy the people's material and cultural life needs.

“Therefore, the quantity of commodities produced by capitalist production depends on the scale of production and on the continual necessity for expansion following from this production. It does not depend on a predestined circle of supply and demand, nor on certain wants to be supplied.”^⑦

This is why the capitalistic production always pursues to extend the market. The capitalist

^① Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.167.

^② Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.168.

^③ Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.142.

^④ Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.275.

^⑤ Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.276.

^⑥ Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.279.

^⑦ Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.88.

mode of production is conditioned on the large-scale production as well as the mass marketing. And the direct buyers, apart from some industrial capitalists, mostly are the wholesale merchants who do not buy for the satisfaction of their own individual wants, but concentrate the transactions of many buyers in one commercial transaction. Nowadays, the so-called “production to market ability” means that the mass production should adapt to the order of merchants, not the human needs. So, conflicts must continually ensue between the limited conditions of consumption on a capitalist basis and a production which forever tends to exceed its immanent barriers.

“As soon as commodity has been sold for money, it may re-enter into the material elements of the labor process, and thus of the reproductive process. Whether commodity is bought by the final consumer or by a merchant, does not alter the case.”^①

But the large-scale buying by merchants does shorten the circulation time and increase the rate of industrial capital. Otherwise, a large proportion of capital will be stuck in the market as the form of commodity capital and can not be put into productive process. With the emergence of the commercial capital, the process of reproduction may take place on the same or increased scale although the commodities which are kept by merchants may not enter productive or unproductive consumption. Although commercial capital creates neither value nor surplus value, it does help to speed up the circulation and indirectly increase the surplus value in productive field. It also can improve the efficiency of industrial capital and promote the accumulation of industrial capital because its intermediary function makes capital run in a greater size. This is an important role of commerce in the capitalist market economy.

However, it may have some adverse effects. From the view of capitalist producer, as long as the products can be sold, the rotation of capital-value will not be interrupted and everything will follow its regular course. However,

“The entire process of reproduction may be in a flourishing condition, and yet a large part of the commodities may have entered into consumption only apparently, while in reality they may still remain unsold in the hands of dealers, in other words, they may still be actually in the market. Now one stream of commodities follows another, and finally it becomes obvious that the previous stream had been only apparently absorbed by consumption. The commodity-capitals compete with one another for a place on the market. The succeeding ones, in order to be able to sell, do so below price. The former streams have not yet been utilized, when the payment for them is due. Their owners must declare their insolvency, or they sell at any price in order to fulfill their obligations. This sale has nothing whatever to do with the actual condition of the demand. It is merely a question of a demand for payment, of the pressing necessity of transforming commodities into money. Then a crisis comes. It becomes noticeable, not in the direct decrease of consumptive demand, not in the demand for individual consumption, but in the decrease of exchanges of capital for capital, of the reproductive process of capital.”^②

This is why crisis always breaks out in the spheres of wholesale and the banking which provide their money-capital, and not the spheres of retail which are only involved in the direct consumption.

Without any analysis of commerce, the mainstream economists are unlikely to find the real cause of commercial crises, so they have to make up some reasons, like weak supervision, incomplete information, limited rationality and insufficient effective demand. Accordingly, the

^① Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, p.87.

^② Marx, *Capital*, Vol 2, Beijing: Renmin publishing house, 2004, pp.88-89.

solutions they suggested are always proved wrong.

Chapter 6 Capitalist Accumulation

Why is the payment negative for more than one month work?

A society can not cease to consume, so it can not cease to produce. No society can go on producing unless it constantly reconverts a part of its products into means of production, or elements of fresh products. If production is capitalistic in form, reproduction will be too.

“Employing all or part of the surplus-value produced earlier as capital, or reconvertng it into capital, is called accumulation of capital.”^①

So, if the surplus-value only serves capitalists as fund to support their consumptions, the process of production will be repeated on the primary scale and the simple reproduction will take place. But does the simple reproduction have no capital accumulation involved at all?

If a capital of \$1000 beget a yearly surplus-value of \$200, and if this surplus-value is consumed every year, it is clear that at the end of 5 years the surplus-value consumed will amount to $5 \times \$200$ or the \$1000 originally advanced. If only a part, say one half, were consumed, the same result would follow at the end of 10 years, since $10 \times \$100 = \1000 . So, the General Rule is:

The value of the capital advanced divided by the surplus-value annually consumed, gives the number of years, or reproduction periods, at the expiration of which the capital originally advanced has been consumed by the capitalist and has disappeared. The capitalist thinks, that he is consuming the produce of the unpaid labor of others, i.e., the surplus-value, and is keeping intact his original capital; but what he thinks cannot alter facts. After the lapse of a certain number of years the capital value he then possesses is equal to the sum total of the surplus-value appropriated by him during those years, and the total value he has consumed is equal to that of his original capital. It is true, he has in hand a capital whose amount has not changed, and of which a part, viz., the buildings, machinery, &c., were already there when the work of his business began. But what we have to do with here, is not the material elements, but the value, of that capital. When a person gets through all his property, by taking upon himself debts equal to the value of that property, it is clear that his property represents nothing but the sum total of his debts. And so it is with the capitalist; when he has consumed the equivalent of his original capital, the value of his present capital represents nothing but the total amount of the surplus-value appropriated by him without payment. Not a single atom of the value of his old capital continues to exist.”^②

So even the mere continuity of the process of production, in other words, the simple reproduction, converts every capital into accumulated capital or capitalized surplus-value sooner or later. Even if the capital was originally acquired by the personal labor of its employer, it sooner or later becomes value appropriated without an equivalent, the unpaid labor of others materialized either in money or in some other object.^③

Obviously, the higher the rate of surplus-value and the degree of exploitation, the greater the accumulation of capital, and the larger part of the surplus-value can be used for lowering the product price, getting more market shares, and winning the competition against other peer

^① Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.668.

^② Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.657.

^③ Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.625.

companies or state-owned enterprises. In order to get higher degree of exploitation, apart from increasing the absolute surplus-value by the prolongation of the working day and the relative surplus-value by raising the productiveness of labor, another trick for the capitalist is cutting wages under the value of labor-power.

Capitalists are very fond of the separation of powers, especially the representative system. Some experts and professors supported by capitalists always slander the leaders of the socialist countries by labeling them as tyrants, trying to make the socialist leaders into the loyal servants of capitalists as the western leaders are. However, the experts and professors ignore the true tyrant in every single capitalist company. So,

“the less authority presides over the division of labor inside society, the more the division of labor develops inside the workshop, and the more it is subjected there to the authority of a single person. Thus authority in the workshop and authority in society, in relation to the division of labor, are in inverse ratio to each other.”^①

Jurists always stress on the supremacy of law and the importance of ruling countries in accordance with law. But without any legislation procedure, the capitalist exercise his autocracy over his workpeople at his own will. The slave driver's lashes now are taken by the overlooker's book of penalties. Accordingly, all punishments are reduced to fines and deductions, whatever the reason is being late or producing defective works. The capitalist with law-giving talents so arranges matters that violation of his laws is more profitable to him than obeying them. In *Capital*, Marx mentioned an England cloth manufacturer who indulged in the habit of making deductions for late punishment in the morning:

“6d. for 2 minutes; 1s. for 3 minutes, and 1s. 6d. for ten minutes. This is at the rate of 9s. per hour, and £4 10s. 0d. per diem; while the wages of the weavers on the average of a year, never exceed 10s. to 12s. weekly.”^②

Because there was no clock on the premises, the unfortunate workers were at the mercy of a young time-keeper. So they went on strike and offered to resume work if the time-keeper could be replaced by a clock and a more reasonable scale of fines could be introduced. But finally each of them was mulcted in a fine of 6d. and court costs for 2s. 6d.

Similarly, a Chinese netizen showed his pay slip of February 2010 on internet: 4 Yuan real pay of 1, 300 Yuan base pay for 900 Yuan was deducted as fines for being late 4 times. The private law the Chinese employer used for punishment in this case is the same as the England predecessor did. Another case is even worse in this report:

“Mr. Chan was a salesman working in Futian Home Company. He worked for more than one month and got a negative pay, and he owed the company 131 Yuan. His pay slip showed the details as: 94 Yuan sale commission, 225 deductions including advance, telephone overspent and fines, no basic pay at all.”^③

Why was the unemployment theory favored by Nobel Prize?

In 2010, three mainstream economists won Nobel Economics Prize for their further

^① Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, p.413.

^② Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, pp.189-190.

^③ <http://news.sohu.com/20100311/n270730078.shtml>

analysis of “how the economic policy influences the unemployment rate”. Based on a report, their contributions include: to explain why unemployment remains high even at times when there are large number of job vacancies, and draw a conclusion that searching for jobs and stabilizing the labor market can take up so much time and resources that economies can have both high jobless numbers and high vacancy rates simultaneously; to consider that more generous unemployment benefits give rise to higher unemployment and longer searching times; to oppose the classic view that improving the social welfare can ensure high employment and raising the unemployed relief can reduce the unemployment rate. They thought high jobless numbers, high growth rates and high vacancy rates can exist simultaneously. They proposed that social welfare cutting, relief reduction and retraining program could make a “hungry” job market and lower the expectation of job hunters, so that job vacancies can be easily filled and the employment rate will increase.^①

We can see that, where common people think about unemployment the three economists think about job vacancies. And from their point of view, the problem of high unemployment in recessions after crisis is just the problem of high job vacancies. It is a great irony that the unemployment theory has been presented in the 1970s and high jobless rate still remains high today, which proves that the theory of unemployment can never solve the problem of unemployment, even can give little help.

Why such a useless theory is favored by the Nobel Prize? The reason is that it can make a good excuse than solve the problem. It helps to transfer the blame from the capitalist system and the greedy financiers to the public. It is also welcomed by Western governments who are busy cutting benefits regardless of the high unemployment rate and the ongoing strikes in their countries.

Another Nobel Prize winner Samuelson has told a story of the Great Depression in his book:

“Thousands of people waited outside a refined sugar refinery, then a guy with two cops came out and said to the crowd, ‘I need two buffalo herders and two drillers’, hardly had his speech finished, the crowd rushed into the factory gate just like the wild dogs in Alaska, but clearly just four of them can get the job.”^②

Under such circumstances could the job hunters remain wait-and-see or picky? How could the government let the four positions meet more than 1000 people by reducing the relief? Why unemployment (or high vacancies, in their words) always increase rapidly in the crisis?

Since the mainstream economists treat both labor and capital equally as factor of production, when unemployment or job vacancies increase, why they do not encourage the devaluation of capital such as selling the General Motors which was on the edge of bankruptcy to the United Auto Workers union, instead of just call for the cutting of wages and benefits to relieve the capitalists? Why workers have to get retrained to meet the needs of capital, rather than the capitalists adapt to the demand of workers in crisis? Why workers are required to take low-paid jobs with no complaints, rather than capitalists offer high-paying jobs and low-price commodities? Is this because of labor surplus and capital shortage? If so, where the job vacancies come from?

^① http://www.chinadaily.com.cn/hqgj/jryw/2010-10-15/content_1014809.html

^② Samuelson, Nordhaus, *macroeconomics* (17 edition), Trans, Xiao Chen, Beijing: People's Post and Telecommunication Publishing House, 2004, pp. 254.

In *Capital*, Marx explained why the relative surplus populations are coexistent with relative surplus capital. He distinguished two kinds of capital composition, one is the value-composition which is determined by the proportion in which it is divided into constant capital and variable capital. Because values do not play the practical role in the real process of production while the means of production and the living labor-power do, the other composition, which is determined by the relation between the mass of the means of production employed and the mass of labor necessary for their employment, is called the technical composition. Between the two there is a strict correlation, and to express this, Marx called the value-composition of capital, which

“is determined by its technical composition and mirrors the changes of the latter, the organic composition of capital”.^①

When capitalists turn the surplus-value into additional capital to expand reproduction, the organic composition of capital might remain the same, then the demand for laborers will increase. The demand may exceed the supply, therefore, wage may rise, and laborers may extend the circle of their enjoyment. But the more or less favorable circumstances in no way can alter the fundamental character of capitalist production. Laborers can only sell their labor-power and get the payment back by producing the surplus value for capitalists. So,

“A rise in the price of labor, as a consequence of accumulation of capital, only means, in fact, that the length and weight of the golden chain the wage-worker has already forged for himself, allow of a relaxation of the tension of it.”^②

However, the most powerful lever of accumulation is the development of the productivity of labor. In a given society, the degree of productivity of labor is expressed in the relative extent of the means of production that one laborer turns into products with the same labor intensity during a given time. The greater the materials transferred by the same worker, the higher the productivity of social labor will be, and the value of constant capital (c) will rise relative to variable capital (v) which means the organic composition of capital will increase. With the growth of total capital, the variable constituent or the labor incorporated in it will increase, but in a constantly diminishing proportion. And with the new and more efficient machine equipment replacing the old one in the reproduction, more materials will be consumed, therefore, even to keep the original labors, the more accelerated accumulation will be needed, not to mention that additional number of laborers will be involved. The increasing accumulation becomes a source of new changes in the composition of capital, of a more accelerated diminution of its variable as compared with its constant constituent. As the productiveness of labor increases and the productivity of social labor develops, the supply of laborers will be much higher than the demand for them. So, the real cause of unemployment in capitalist country is that

“the capitalistic accumulation itself constantly produces in the direct ratio of its own energy and extent, a relatively redundant population of laborers, a population of greater extent than suffices for the average needs of the self-expansion of capital, and therefore a surplus-population.”^③

^① Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, pp.707.

^② Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, pp.714.

^③ Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, pp.726.

The surplus-population or unemployment is a necessary product of accumulation, or of the development of wealth on a capitalist basis, which can not be eliminated by some relief cutting or retraining programs. And the surplus-population is the lever of capitalistic accumulation, even the necessary condition of the existence of the capitalist mode of production. On the one hand, the mass of social wealth, which is over-flowing with the advance of accumulation and transformable into additional capital, thrusts itself frantically into old branches of production whose market suddenly expands or into newly formed branches for the needs of the development of the old ones, such as railways or express railways. In these cases, there must be the possibility of throwing great masses of laborers suddenly on the decisive points without affecting the scale of production in other spheres, so the surplus-population can serve as the reserve army of labor. On the other hand, the greater pressure of the employed exerted by the competition of the unemployed, forces the former to submit to over-work and the dictates of capital, meanwhile the over-work of the former swells the ranks of the latter by accelerating the accumulation and reducing the positions. So,

“The condemnation of one part of the working-class to enforced idleness by the over-work of the other part, and the converse, becomes a means of enriching the individual capitalists, and accelerates at the same time the production of the industrial reserve army on a scale corresponding with the advance of social accumulation”.^①

And this is why mainstream economists always emphasize the certain unemployment as long as they talk about the full employment.

Marx also answered the question of “Why unemployment and job vacancies coexist”, which the three economists try to avoid:

“The consumption of labor-power by capital is, besides, so rapid that the laborer, half-way through his life, has already more or less completely lived himself out. He falls into the ranks of the supernumeraries, or is thrust down from a higher to a lower step in the scale. It is precisely among the work-people of modern industry that we meet with the shortest duration of life”.^②

Job vacancies need young people to fill in while the unemployed always are middle-aged. And the structural barrier of age can not be removed by cutting the social security benefits, reducing unemployment relief, carrying out retraining programs, creating the “hungry” job market and lower the expectation of job seekers. Even the retraining program helped the elder workers to get reemployed; the consequences could be that when there is a surplus of workers in one industry, the same occurs at once in all industries. Those treatments are just temporary solutions, and the spread of unemployment and the falling of the wage of the employed are unavoidable in a long run.

“As soon as the laborers learn the secret, how it comes to pass that in the same measure as they work more, as they produce more wealth for others, and as the productive power of their labor increases, so in the same measure even their function as a means of the self-expansion of capital becomes more and more precarious for them; as soon as they discover that the degree of intensity of the competition among themselves depends wholly on the pressure of the relative surplus-population; as soon as, by Trades' Unions, &c., they try to organize a regular co-operation between employed and

^① Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, pp.733-734.

^② *The Complete Works of Marx & Engels*, Vol. 6. Beijing: People's Publishing House, 1962, p.638.

unemployed in order to destroy or to weaken the ruinous effects of this natural law of capitalistic production on their class”^①,

so soon capital and its mainstream economists along with jurist will oppose the so-called “monopolization”.

“The law by which a constantly increasing quantity of means of production, thanks to the advance in the productiveness of social labor, may be set in movement by a progressively diminishing expenditure of human power, this law, in a capitalist society—where the laborer does not employ the means of production, but the means of production employ the laborer—undergoes a complete inversion and is expressed thus: the higher the productiveness of labor, the greater is the pressure of the laborers on the means of employment, the more precarious, therefore, becomes their condition of existence, viz., the sale of their own labor-power for the increasing of another's wealth, or for the self-expansion of capital. The fact that the means of production and the productiveness of labor, increase more rapidly than the productive population, expresses itself, therefore, capitalistically in the inverse form that the laboring population always increases more rapidly than the conditions under which capital can employ this increase for its own self-expansion.”^②

The problem of unemployment becomes more apparent in crisis because the problem of relative surplus of production becomes more serious. Laborers can not produce surplus value for capitalists any more because the products can not be sold. Finally, laborers stop to employ the means of production, or say, they stop to be employed by the means of production.

“But all methods for the production of surplus value are at the same time methods of accumulation; and every extension of accumulation becomes again a means for the development of those methods.”^③

Regardless of the protests of workers, whether the payment is high or low, the status of workers must grow worse as capital accumulates.

“Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, mental degradation, at the opposite pole, i.e., on the side of the class that produces its own product in the form of capital.”^④

This is the absolute general law of capitalist accumulation, although it can be modified under some circumstances.

It also demonstrates that the common prosperity will never be realized in capitalism system. In history, if Soviet Union and China had never succeeded in socialist revolutions, the capitalists in Europe and US would never make compromises to their workers, which made part of them not so poor. And

“most industrial occupations demand a certain skill and regularity, and for these qualities, which involve a certain grade of civilization, the rate of wages must be such as to induce the worker to acquire such skill and subject himself to such regularity. Hence it is that the average wages of industrial workers are higher than those of mere porters, day-laborers, etc.”^⑤

With the collapse of Soviet Union and the decline of world socialist movement, The

^① Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, pp.737.

^② Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, pp.743.

^③ Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, pp.743.

^④ Marx, *Capital*, Vol 1, Beijing: Renmin publishing house, 2004, pp.743-744

^⑤ *The Complete Works of Marx & Engels*, Vol. 6. Beijing: People's Publishing House, 1962, p.363

Bourgeois government in Europe and America turned to raising retirement age for the longer exploitation and cutting welfares. According to a US official survey completed at the beginning of the financial crisis, “one American can not get enough food among seven”^①. And this is the so-called model advocated by some Chinese economists, which would lead the Chinese laborer to a “brighter future”.

^① <http://fashion.people.com.cn/GB/10399860.html>

Part III Deformed commodity economy

Chapter 7 Value Transforms into Price of Production

Why do 100 million Chinese jeans only exchange 1 Boeing aircraft?

In accordance with the comparative advantage theory of mainstream economics, China should make all efforts to develop its labor-intensive industry to trade with the capital-intensive industry of developed countries. But the ratio of trade is approximately 100 million Chinese jeans: 1 Boeing aircraft. ^①Then is it an equivalent exchange ratio corresponding to law of value? To explain this ratio, we should start with deformed commodity economy.

According to law of value revealed by labor value theory, excluding interference of other factors, that is, assuming that all other conditions are identical, two capitals employing equal quantities of equally paid living labor all other conditions being equal, produce commodities of equal value and likewise surplus-value, or profit, of equal quantity in equal periods of time. Or strictly speaking, under the circumstances those variable capitals (v) and the rates of surplus-value are both equal, two capitals can reproduce the same magnitude of value ($v+m$), thus produce the same surplus value (m). Taking no account of the partition of surplus value here, we count all surplus value as the profit of capitalists, or as the profit before partition which is similar to profit before tax. Consequently, if they employ unequal quantities of living labor, they cannot produce equal surplus-values, or, as said above, equal profits under the circumstances of equal surplus value rate. Yet, the opposite takes place in ordinary circumstances of capitalist society. In actual fact, equal capitals, regardless of how much or how little living labor is employed by them; produce equal average profits in equal times.^② Here there is therefore a contradiction of the law of value. The contradiction lies in the transformation of commodity economy.

Firstly an example, supposing that a cotton mill has three different departments, as cotton carding, spinning and weaving. We shall assume, for the sake of simplicity, that the constant capital is everywhere uniformly and entirely transferred to the annual product of the capitals. It is further assumed that the capitals in the different spheres of production annually realize the same quantities of surplus-value proportionate to the magnitude of their variable parts, viz. different spheres of production have same (annual) surplus value rate.^③ Let the capital in each have a different organic composition as follows:

^① The exportation of 100 million pairs of jeans from China equals to one Boeing aircraft , http://money.163.com/economy2003/editor_2003/031212/031212_173630.html

^② Das Kapital Volume 2. Beijing: Renmin Press, 2004, p24. <http://www.marxists.org/archive/marx/works/1885-c2/ch00.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p173. <http://www.marxists.org/archive/marx/works/1894-c3/ch09.htm>

workshop	constant capitals	variable capitals	total capitals	Rate of surplus- value	surplus value	value of product	rate of profit
	(1)	(2)	(3)=(1) +(2)	(4)	(5)=(2)× (4)	(6)=(3) +(5)	(7)= (5)/(3)
cotton	80c	20v	100	100%	20m	120	20%
carding							
spinning	70c	30v	100	100%	30m	130	30%
weaving	60c	40v	100	100%	40m	140	40%
total	210c	90v	300	—	90m	390	—
average	70c	30v	100	—	30m	—	30%

Here, in different spheres of production with the same degree of exploitation, we find considerably different rates of profit corresponding to the different organic composition of these capitals.^①

The sum total of the capitals invested in these three spheres of production = 300; the sum total of the surplus-value produced by them = 90; the aggregate value of the commodities produced by them = 390, the average rate of profit would = 30%. The composition of this capital of 300 would = 210c+90v, the composition of each of the capitals of 100= 70c+30v, for every 100 there would be an average surplus-value of 30 according to average rate of profit.

Supposing that with the refining of social division, these three workshops are divided into three different production departments belong to different capitalists. Now if the commodities are still sold at their values, then, very different rates of profit arise in different spheres of production, depending on the different organic composition of the masses of capital invested in them. But “capital is by nature a leveller, since it exacts in every sphere of production equality in the conditions of the exploitation of labor”,^② naturally such concept of equality requires that equal capital makes equal rate of profit. That is to say, each of 100 capital investments in cotton carding sphere requires equal profit to each of 100 capital investments in weaving sphere. Just as when these two spheres belong to one capitalist, the capitalist would consider that each 100 of capital he invested in as total capital delivers him the same profit. Capital withdraws from a sphere with a low rate of profit and invades others, which yield a higher profit if different spheres have different rate of profit.^③ Through this incessant outflow and influx, or, briefly, through its distribution among the various spheres, which depends on how the rate of profit falls here and rises there, it creates such a ratio of supply to demand that the average profit in the various spheres of production becomes the same. In the above example i.e. each of 100 capital in each sphere gain the same average profit 30, so the products of 100 capital in each sphere of production are sold not according to their respective values, but according to the same (production) price 130. Values are, therefore, converted into prices of production, and commodities occurs transformation.^④

Commodities are not exchanged simply as commodities, but as products of capitals in the capitalism

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p174. <http://www.marxists.org/archive/marx/works/1894-c3/ch09.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p457.

<http://www.marxists.org/archive/marx/works/1867-c1/ch15.htm#S3a>

^③ Unless meeting some kind of monopolistic obstacle. Here we put this obstacle aside firstly when discussing general rule.

^④ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p218. <http://www.marxists.org/archive/marx/works/1894-c3/ch10.htm>

system, and this is the root cause of the transformation of commodities.^①

That is to say, when commodities are products of labor viz. products owned by laborers themselves, naturally the equal rule of equivalent exchange is the exchange of products of equivalent labor.

Or is it believed that the peasant and the artisan were so stupid as to give up the product of 10 hours' labor of one person for that of a single hours' labor of another? ^②

But when commodities are products of capital viz. products owned by capitalists, naturally the “equal” rule of exchange is going to transform into the exchange of products of equivalent capitals. Otherwise, we have to imagine that there is such a stupid capitalist that his profits earned by ten-million-dollars-capital are equal to other capitalist' profits earned by only 100,000-dollars-capital.

In the early stage of capitalism, competition succeeds in this equalization commodity's transformation, to a greater or lesser degree. With the mobility of capital enhanced increasingly, viz. the more easily it can be shifted from one sphere and from one place to another, and the more quickly labor-power can be transferred from one sphere to another and from one production locality to another, the more easily capital succeeds in this equilibration, and the more easily commodities make fully transformation. ^③

With the advancement of free trade and economic globalization, this kind of equilibration and commodity's transformation spread worldwide. However, the development of monopolistic capitalism interferes with this kind of equilibration to a large extent. The degree of free competition and equilibration in production sphere of jeans is much greater than in production sphere of large-scale passenger aeroplanes. Consequently Boeing Co. achieves abundant monopoly profits in this commodity exchange.

To avoid entirely erroneous conclusions it must not be assumed that all cost-prices = 100. We must remember in comparing the values produced by each 100 of the different capitals, that they will differ in accordance with the different composition of c as to its fixed and circulating parts, and that, in turn, the fixed portions of each of the different capitals depreciate slowly or rapidly as the case may be, thus transferring unequal quantities of their value to the product in equal periods of time. ^④

That, in turn, difference appears among cost-prices viz. those parts of commodity value that merely compensate for the costed capital value in the process of commodity production.^⑤ To make this still plainer, we let different portions of constant capital go into the value of product of the same five capitals on the above example, in other words, the value of constant capitals does not depreciate completely in certain period (e.g. within one year), and there are also differences in depreciations of constant capitals among different production spheres.

^①Das Kapital Volume 3. Beijing: Renmin Press, 2004, p196. <http://www.marxists.org/archive/marx/works/1894-c3/ch10.htm>

^②Das Kapital Volume 3. Beijing: Renmin Press, 2004, p1016. <http://www.marxists.org/archive/marx/works/1894-c3/supp.htm>

^③Das Kapital Volume 3. Beijing: Renmin Press, 2004, p218. <http://www.marxists.org/archive/marx/works/1894-c3/ch10.htm>

^④Das Kapital Volume 3. Beijing: Renmin Press, 2004, p 175. <http://www.marxists.org/archive/marx/works/1894-c3/ch09.htm>

^⑤ The difference between cost prices and production prices lies in the (average) profits containing in the latter.

Production spheres	Constant Capitals	Variable Capitals	Rate of Surplus -Value	Surplus- Value	Used up C	Cost- Price	Value of Commodities
	(1)	(2)	(3)	(4)	(5)	(6)=(2)+ (5)	(7)=(6) +(4)
I.	80c	20v	100%	20m	40	60	80
II.	70c	30v	100%	30m	20	50	80
III.	60c	40v	100%	40m	30	70	110
total	210c	90v	—	90m	90	180	270
average	70c	30v	—	30m	—	—	—

In this case as well, the composition of the sums of these three $100\text{capital} = 300 = 210c + 90v$, so that we get the same average composition $= 70c + 30v$, and, similarly, the average surplus-value remains 30. However, not all constant capitals (c) are completely moved to the value of commodities, hence **cost prices** (viz. constant capitals plus variable capitals consumed away in productive process) are not equal to total capitals, and the sum of value of commodity is not the same as the previous calculated results either. For the sake of obtaining equal rate of profit in different spheres of production, the average profit must be added to the cost-prices of each of the departments. Certainly, the capitalists' chasing to higher profit rates as well as capitalistic competition makes this process accomplished. Hence we get the following result:

Spheres	Capitals	Surplus -Value	Value Of Comm odities	Cost- Price	Ave- rage profits	Production Prices	Rate Of Profit	Deviation of Price from Value
	(1)	(2)	(3)	(4)	(5)	(6)=(4) +(5)	(7)=(5) /(1)	(8)=(6) -(3)
I.	80c+20v	20m	80	60	30	90	30%	10
II.	70c+30v	30m	80	50	30	80	30%	0
III.	60c+40v	40m	110	70	30	100	30%	-10
total	210c+90v	90m	270	180	—	270	—	0
average	70c+30v	30m	—	—	—	—	—	—

The commodities produced by sphere I are sold at 10 above their value, and the commodities produced by sphere III are sold at 10 below their value. To all production spheres, the deviations of price from value balance out one another, and then each of production spheres obtains the same rate of profit.^① (The rate of profit is calculated by total capitals, not profit divided by cost prices of commodities.) This rate of profit is called **general rate of profit**. By multiplying the general rate of profit by the capitals of each of production spheres, we can get the profits distributed to each of production spheres. Then by adding the profits of each of production spheres and their cost prices of commodities together, we can get **the production prices** of each of production spheres.

^① The calculation of rate of profit is not the profit divided by the cost price included in commodities, but the profit divided by total capital.

They have as their prerequisite the existence of a general rate of profit, and this, again, presupposes that the rates of profit in every individual sphere of production taken by itself have previously been reduced to just as many average rates.

That is to say, the rate of profit accomplishes equilibration firstly within each of particular spheres of production, then among different spheres of production.

These particular rates of profit = s/c in every sphere of production, and must be deduced out of the values of the commodities.

In other words, each of production spheres produces the same commodities in accordance with its own average socially necessary labor-time even with similar capital composition.

Without such deduction the general rate of profit (and consequently the price of production of commodities) remains a vague and senseless conception.^①

And this is why the starting point is with the commodities *not* transformed.

In capitalist system which is freely competitive and chasing equal exploitation, *although in selling their commodities the capitalists of various spheres of production recover the value of capital consumed in their production, they do not secure surplus-value, and consequently profit, created in their own sphere by production of these commodities, but just like all capitalists are in one stock company, they share quantities of surplus-value (profit) from total surplus-value (profit) in proportion to their own contributed capitals. That is to say, equivalent capitals obtain equivalent profits equally, and similarly nonequivalent capitals equally secure as much surplus-value, and hence profit, as falls, when uniformly distributed, to the share of every aliquot part of the total social capital from the total social surplus-value, or profit, produced in a given time by the social capital in all spheres of production. Every 100 of an invested capital, whatever its composition, draws as much profit in a year, or any other period of time, as falls to the share of every 100, the Nth part of the total capital, during the same period. So that profits differ in the case of the individual capitalists only in accordance with the amount of capital invested by each in the aggregate enterprise^②.*

In turn, the profits obtained by every individual capitalist become mystified because of disjointing with the surplus-value produced by his own workers, and so does the capital relationship because all parts of capitals appear similarly as the source of profits.

The value of constant capital and variable capital in the process of reproduction will transform with the transformation of commodities. That is to say, in the process of reproduction, the capitalist purchase raw materials and new machines by the prices of production rather than by the relevant quantity of value. Similarly, workers purchase new consumer goods by the prices of production rather than by their value. Under the circumstances that workers' consumer goods remain unchanged in quantity, workers' wages will be adjusted in accordance with the prices of production of these consumer goods. Therefore, in the process of reproduction, cost-price should be calculated in accordance with constant capital and variable capital which have been transformed already. And we already knew that new rate of surplus value comes into being as a result of the variation of wages, then the average profit calculated by this new rate of surplus value should be added to this new cost-price to form new price of production. But anyhow, socially necessary labor time is still the criterion of calculating the quantities created by workers, and therefore still the basis of calculating surplus value, and then

^①Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp176-177.

<http://www.marxists.org/archive/marx/works/1894-c3/ch09.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp177-178.

<http://www.marxists.org/archive/marx/works/1894-c3/ch09.htm>

general rate of profit and prices of production.

A change in the prices of production^① is, therefore, always traceable prima facie to actual changes in the value of commodities, i. e., to changes in the total amount of labor-time required for their production.^②

So, through a series of intermediary links, the point that capitals of equal magnitude yield mean and equal profits in equal periods, or, the amount of profits is determined by the amount of applied capitals, is dialectically associated with the law of value which is seemingly contradictory.

By the way, after Marx and Engels died, Western scholars raised a centennial debate to challenge the theory of value transformation in 1905; and like making Ricardo's theory of value bankrupt, they attempted to deny Marx's labor value theory. In this debate, Marxist economist from China refuted western economics for its confusion on this problem and defended the scientific nature of Marx economy doctrine with practical attitude and rigorous mathematical tools. See Yu Bin, Calculating Problems of Steedman's Reproach to Marx's Labor Theory of Value, *Teaching and Research*, 2007(3), pp49~56.

Getting back to my point, the formation and transformation of general rate of profit are not the result of forcible distribution after theoretical calculation, but always the result causing by a series of fluctuations which last quite a long period.

Generally speaking, under capitalist production, the general law acts as the prevailing tendency only in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations.^③

And this action can not only be explored by theoretical research, but also be experienced by capitalists. Because according to the statements of mainstream microeconomics, the decision rule of capitalists' profit-maximization is that marginal revenue (price) equals to marginal cost. In other words, capitalists should set price in accordance with marginal cost. Yet Paul Samuelson, the famous mainstream economist, had to admit too, that actually capitalists do not set price in accordance with the comparison between marginal revenue and marginal cost, but generally set price by adding a settled ratio to the calculated average cost of a product, viz. cost-plus pricing.^④ Certainly, it is impossible for Samuelson to discuss the reason of this ubiquitous cost-plus pricing. And he can but generally says that cost-plus pricing can reasonably approach maximized profit and save time for capitalists. Otherwise, the whole mansion of mainstream microeconomics will be demolished. In fact, this settled ratio is exactly an actual reflection of general rate of profit in the mind of capitalists.

We can see from the chart above that sphere I has a higher organic composition of capital, and the production prices of its commodities are higher than the values. And that makes capitalists in sphere I to obtain more profits than the surplus value produced by their workers. While sphere III has a lower organic composition of capital, and the production prices of its commodities are lower than the values. And that makes capitalists in sphere III to obtain less profit than the surplus value produced by their workers. Only sphere II has an equal organic composition of capital as the average composition, and the production prices of its commodities are equal to the values. And that makes capitalists in sphere II to obtain profit equal to the surplus value produced by their workers. Here we can also see that variable capitals of sphere I are half of sphere II, in other words, the amount of workers employed in

^① Differing from market price, production price is the centre of market price fluctuation, and it represents the transformed value in the transformed commodity economy.

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p186. <http://www.marxists.org/archive/marx/works/1894-c3/ch09.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p181. <http://www.marxists.org/archive/marx/works/1894-c3/ch09.htm>

^④ Paul Samuelson, Williams Nordhaus, *Economics* (17th Edition), Beijing, Posts & Telecom Press, 2004, p157.

sphere I is half of sphere II, yet sphere I has equal rate of profit as sphere II, and these two spheres obtain equal profits on the condition of equal capital investment.

It shows that monopolistic capitalism aside, even in freely competitive capitalist market economy or fully-transformed commodity economy, the fruits of workers' labor are undervalued in labor-intensive industry, and part of the fruits shift to capital-intensive industry. Hence, some theories trumpet that developing countries have comparative advantage of cheap labor and demand developing countries to develop labor-intensive enterprises; and these theories attempt to eliminate the quantitative advantage of labor in developing countries, militate against developing countries rapidly cumulating fruits of labor, and militate against the economic development of developing countries. Actually this kind of theory is a variety of advanced-country-centered theory^① that in history once regarded England as the one and only great manufacturing centre of an agricultural world. Eagles indicated that the actual fact is that this assumption has turned out to be a pure delusion.

The conditions of modern industry, steam-power and machinery, can be established wherever there is fuel, especially coals. And other countries besides England-France, Belgium, Germany, America, even Russia have coals. And the people over there did not see the advantage of being turned into Irish pauper farmers merely for the greater wealth and glory of English capitalists. They set resolutely about manufacturing, not only for themselves, but for the rest of the world; and the consequence is that the manufacturing monopoly enjoyed by England for nearly a century is irretrievably broken up.^②

Similarly, with regard to current developing countries esp. such countries as China which have industrial base and numerous higher educated talented person, it seems that there are no conditions to interfere with their manufacture of large aircrafts and development of capital-intensive industry, as well as there is no benefit to change 100 million pairs of jeans for one airplane of advanced country merely for the sake of making advanced countries to obtain greater wealth and glory.

If developing countries have to develop labor-intensive industry to solve the problem of employment just because of overpopulation (esp. absolute overpopulation), then they should implement family-planning policy firmly, and meanwhile, persist in developing capital-intensive industry to eliminate the advantages of advanced countries and reduce the quantity of value transferring to advanced countries.

Does wages' rising have nothing to do with inflation?

Here we only talk about the relationship between rising of wages and rising of commodity prices. Since mainstream economics considers that inflation means the rising of general level of prices, so what we are talking about here is the relationship between wages rising and inflation, but the inflation we discuss here is not in its real sense, but in a sense of mainstream economics, or, what people usually see on media. We will explore the latter in more detail later.

The mainstream economics considers that modern inflation is cost-push-type inflation, *i.e.* the inflation caused by cost rising in the case of high unemployment rate and low utilization of resources. For explaining cost-push-type inflation clearly, mainstream economists often start from wages to hint that the reason of inflation and unemployment etc. is wages rising. For

^① Now it is rediscovered and talking about again by modern western scholars as centre-periphery theory.

^② Marx & Engels Collected Works Volume 22. Beijing: Renmin Press, 1974, p322.

<http://www.marxists.org/archive/marx/works/1892/01/11.htm>

example, the fact that the American's unemployment rate in 1982 nearly reached to 10% will be mentioned closely followed by the fact that the wages were raised 5%.^① However, even the mainstream economists have to acknowledge that the rising sequence of wages and prices in America in the end of 1999 and the beginning of 2000 is prices-wages-prices^②. That is to say, prices rose first, then did wages, and then did prices further.

In fact, as for mainstream economists, it is just to provide a cover for financial capitalists to explain prices rising by wages rising. You know, wage is merely the price of labor force commodity. If inflation leads to the general rise of commodity prices, then, naturally, the prices of labor force commodity, thus wages, are about to rise too. Otherwise, even if the wages remain the same when other prices of commodities rise, it implies the decrease of wages.

Wage advances are the consequence, not the cause, of advances in the prices of commodities.^③

Logically speaking, if wages rise, the capitalists will raise the prices of their commodities.

Then, they could and would do so without a rise in wages. And then, wages would never rise if commodity prices fell. The capitalist class would never resist the trades' unions, because they can avail itself of every rise in wages in order to raise prices of commodities much higher yet and thus pocket greater profits.^④

Yet, since capitalists and their mainstream economists strenuously object to the trade unions, it illustrates that the rising of wages just reduces the capitalists' surplus value and profits, and will not makes prices of commodities to rise in general.

It is argued, the rise of wages and the increase of workers' purchasing power will lead to the expansion of demands, and consequently, from the perspective of demand, lead to a rise in the prices of commodities. Marx replied to this formulation:

If in consequence of a rise in wages, the demand of the laborers for the necessities of life will rise particularly, so the sudden and large-scale increase in the demand for the indispensable means of subsistence will doubtless raise their prices immediately. The consequence: a greater part of the social capital will be employed in the production of necessities of life and a smaller in the production of luxuries, since these falls in price on account of the decrease in surplus-value and the consequent decrease in the demand of the capitalists for these articles. On the other hand, if the laborers' demand for articles of luxury increases because of the rise in their wages, the rise in their wages does not promote an increase in the prices of the necessities of life but simply displaces buyers of luxuries. More luxuries than before are consumed by laborers, and relatively fewer by capitalists. Voilà tout. After some oscillations the value of the mass of circulating commodities is the same as before.^⑤

Thus, by way of exception, under definite, special, so to say local, circumstances, the rise in wages might cause the rise in the prices of commodities. And this is merely a reaction against the local disturbance in the uniform distribution of surplus-value among the various spheres of production, a means of equalizing the particular rates of profit into the general rate.^⑥

Below is an example for further illustration. It is assumed that in the example of previous section, the wages rise by 50%, so the rate of surplus value falls to 33.3%, and other cases stay the same. Thus, we get the table as follows:

^① Paul Samuelson, Williams Nordhaus, Economics (17th Edition), Beijing, Posts & Telecom Press, 2004, p274.

^② Paul Samuelson, Williams Nordhaus, Economics (17th Edition), Beijing, Posts & Telecom Press, 2004, p272.

^③ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p377. <http://www.marxists.org/archive/marx/works/1885-c2/ch17.htm>

^④ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p376. <http://www.marxists.org/archive/marx/works/1885-c2/ch17.htm>

^⑤ Das Kapital Volume 2. Beijing: Renmin Press, 2004, pp375-376.

<http://www.marxists.org/archive/marx/works/1885-c2/ch17.htm>

^⑥ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p983. <http://www.marxists.org/archive/marx/works/1894-c3/ch50.htm>

spheres	constant capital	variable capital	rate of surplus value	surplus value	used up c	cost prices	commodity value
	(1)	(2)	(3)	(4)	(5)	(6)=(2) (7)+(5)	(7)=(6) +(4)
I	80c	30v	33.3%	10m	40	70	80
II	70c	45v	33.3%	15m	20	65	80
III	60c	60v	33.3%	20m	30	90	110
total	210c	135v	—	45m	90	225	270
average	61c	39v	—	13m	—	—	—

Here we can see that the cost prices increase, but commodity value does not have any variation because of the synchronous reducing of surplus value. And at the same time, we can also see that the average organic compositions of capital reduce. The general rate of profit is total surplus value 54m divided by total capital 345 (=210c+135v) equals to 13%. In other words, each 100 of capital can obtain average profit 13. The variation of production prices, see table below.

spheres	capitals	surplus value	commodity value	cost prices	general rate of profit	average profit	production prices
	(1)	(2)	(3)	(4)	(5)	(6)=(1) × (5)	(7)=(4) +(6)
I	80c+30v	10m	80	70	13%	14.3	84.3
II	70c+45v	15m	80	65	13%	15.0	80.0
III	60c+60v	20m	110	90	13%	15.6	105.6
Total	210c+ 135v	45m	270	225	—	—	270
average	61c+39v	13m	—	—	—	—	—

Here we can see, though cost prices increase significantly, the total amount of production prices barely changes after the wages increase, and the prices of production in sphere II which has similar composition with the average organic composition of capital remains unchanged, too^①. Meanwhile, we also notice that after the wages increase, the price of production of commodity in sphere I, which has a higher organic composition of capital, decreases; while the price of production of commodity in sphere III, which has a lower organic composition of capital, increases by 5.6%. Thus, in market economy, the general rule of general rates or profits is, as wages rising, the total prices of commodities remains unchanged, the prices of production of commodity in the sphere with higher organic composition of capital will decrease, but the prices of production of commodity in the sphere with lower organic composition of capital (i.e. labor intensive production sphere) will increase.

However, even if the price of production of consumer goods in the sphere with lower

^① Round off errors in calculation are ignored here.

organic composition of capital rises, the capitalists' rate of profit still decrease, thus not to mention compensating the rising of wages by raising prices of production. Generally speaking, the workers bear less exploitation than before, or the rate of surplus value decreases, thus, the rising of wages causes the prices of production of consumer goods to rise, and this kind of rising is less than the rising of wages in magnitude. Meanwhile, because the working class has small currency savings, and even has to use overdraft consumption, thus the rise of prices will not somewhat reduce workers' purchasing power saved previously, and thus, generally speaking, wages rising has benefit to the workers.

On the other hand, if we study the above example in an opposite way, supposing that we meet the latter situation first, and then the former one, that is to say, the wage does not increase by 50% but decrease by 33.3%, then we will see that, with the decrease of wage, the total price of commodity remains unchanged, the production price of commodities in production sphere with higher organic composition of capital will increase, while the production price of consumer goods in production sphere with lower organic composition of capital will decrease, but with a much smaller magnitude comparing with the decrease of wages. The mainstream economists constantly criticize that sticky wages (viz. wages can increase but can not decrease) cause resistance for capitalists to obtain more profits by further sacrificing workers' interests. And the analysis here indicates that instead of the workers' wages, the production prices are sticky actually.

Here, capitalists in certain production spheres have the experience that the average prices of commodities increase along with the increase of wages, and vice versa. As for the adjustment of commodity value which is independent of wages to this increase and decrease, capitalists' "experience" can not give any illustration. That is to say, there is limit in the lives of capitalists; and since mainstream economists' thoughts and theories can not transcend such limit, they could only systematize (part of) capitalists' trite ideas in a pedantic way^① to build the mansion of mainstream economics. Hence, they will still relate the rise of wages to inflation even not for the purpose of speaking for capitalists' profit.

Intentionally or unintentionally, Mainstream economists take the average price of commodities in labor-intensive consumer goods production sphere as consumer-price index (CPI) to calculate inflation, so, naturally, by using econometrics tools and choosing data of specific time, mainstream economists can plausibly "testify" that inflation is the result of wages rising. On one hand, they blame the guilt of inflation on workers or the trade unions; on the other hand, they intimidate workers not to pursue higher wages.

Under the previous circumstances of simple commodity, we once mentioned that price is the currency form of commodity value. Then, under the circumstances of transformed commodity, price is the currency form of production price (transformed value). Thus, the variation of prices is influenced by the variation of production price as well as the variation of currency. Furthermore, as the increase of magnitude of value, the increase of production prices has nothing to do with inflation, and it merely indicates the increase of time of socially necessary labor that commodity involves or allocates. Therefore, even if the increase of wages can result the increase of prices of production even market prices of consumer goods in the transformed commodity economy, it is nothing to do with inflation as well.

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p99.
<http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm#S4>

Chapter 8 Commercial Profit and Ground-rent

Where do advertisement expenses and the "value" of brand come from?

In recent years, group purchasing becomes a popular shopping pattern in China. Consumers who know each other or not join together to increase the negotiating capability with merchants and thus get the best price. According to the theory of small profits but quick returns or larger quantities for better prices, merchants can provide consumers group purchasing discount price which is below retail price as well as better services that can not obtain in retail way.^①

According to the viewpoint of mainstream economists, the reason of small profits but quick returns or larger quantities for better prices is that the demand curve declines towards the bottom right. On other words, "when the price of certain commodity rises (other conditions remain unchanged), purchasers will tend to reduce the quantity of commodity. Similarly, when the price falls and other conditions remain unchanged, the demand for commodity will increase."^② Then, why does the demand curve display itself in this way? The mainstream economists have such a set of plausible explanations as diminishing marginal utility, substitution effect, income effect, etc. However, these explanations here do not have any effect, even in a plausible way. Because group purchase just joins scattered purchasing power together, but price can fall through this kind of combination even if the total purchases and those variables (i.e. marginal utility) used by the mainstream economists as explanations all remain unchanged. Why?

To illustrate this point, we should start from the form of commercial profit, while that is always avoided by mainstream economics.

We have previously pointed out that merchant capital is nothing but the capital which performs functions in circulation; it can produce neither value nor surplus value whereas it can obtain commercial profit. Why? Here is the reason: The merchant capital reduces current time, and consequently improves the ratio of surplus value to advanced capital, i.e. improves the rate of profit during a certain time. For example, supposing that with \$1 million capital, an industrial capitalist produces \$1.1 million commodities (including \$100,000 surplus value) in a production time of 3 months. If the industrial capitalist himself sells his commodities through door-to-door selling or waits for customers to come to purchase sporadically, it takes him 3 months to sell out all of \$1.1 million commodities, too. So, it takes him 6 months to finish the turnover of \$1 million and obtain surplus value of \$100,000. Here, if a merchant purchases all commodities produced in 3 months with a one-off payment and then retail them, thus, it takes 6 months for this capitalist to finish the turnover of \$1 million twice and obtain surplus value of \$200,000, i.e. extra \$100,000 are produced. Here, the industrial capitalist will be glad to share the extra \$100,000 with the merchant. That is to say, if the merchant proposes to purchase commodities of \$1.1 million with \$1.08 million every time, the industrial capitalist will accept it with pleasure. Because in this way, although the industrial capitalist delivers part of the surplus value to the merchant, the industrial capitalist can obtain \$160,000 of surplus value in 6 months, and the rate of profit in 6 months rises from 10% to 16%. And the delivered surplus value from the industrial capitalist is the real source of commercial profits. Therefore, low

^① <http://baike.baidu.com/view/16979.htm>

^② Paul Samuelson, Williams Nordhaus, Economics (17th Edition), Beijing, Posts & Telecom Press, 2004. p38.

price of group purchase with small profits but quick returns or larger quantities for better prices, as well as factory price and trade price which are below retail price are all from the shortening of current time.

However, the merchant can also bargain the factory price of commodities of \$1.1 million to \$1.07 million, or \$10.6 million, or even \$1.05 million. Then, finally, what kind of factory price is acceptable to both sides, or, is balanced in mainstream economics terms? Naturally, the principle of exploiting equally is the determining factor.

Since the circulation phase of industrial capital is just as much a phase of the reproduction process as production is, the capital operating independently in the process of circulation must yield the average annual profit just as well as capital operating in the various branches of production. Should merchant's capital yield a higher percentage of average profit than industrial capital, then a portion of the latter would transform itself into merchant's capital. Should it yield a lower average profit, then the converse would result. A portion of the merchant's capital would then be transformed into industrial capital. No species of capital changes its purpose, or function, with greater ease than merchant's capital^①.

It is possible that additional costs (costs of circulation) may enter into the commodities after their purchase and before their sale, and it is also possible that this may not happen. If such costs should occur, it is plain that the excess of the selling price over the purchase price would not be all profit.^②

However, the additional costs ask for annual average rate of profit, too.

Suppose, the total industrial capital advanced in the course of the year = $720_c + 180_v = 900$ (say 1 billion \$), and that $s' = 100\%$. The product therefore = $720_c + 180_v + 180_s$. Let us call this product or the produced commodity-capital, C , whose value, or price of production (since both are identical for the totality of commodities) = 1,080, and the rate of profit for the total social capital of 900 = 20%. These 20% are, according to our earlier analyses, the average rate of profit, since the surplus-value is not calculated here on this or that capital of any particular composition, but on the total industrial capital of average composition. Thus, $C = 1,080$, and the rate of profit = 20%. Let us now assume, however, that aside from these 900 of industrial capital, there are still 100 of merchant's capital, which shares in the profit pro rata to its magnitude just as the former. According to our assumption, it is 1/10 of the total capital of 1,000. Therefore, it participates to the extent of 1/10 in the total surplus-value of 180, and thus secures a profit of 18%. Actually, then, the profit to be distributed among the other 1/10 of the total capital is only = 162, or on the capital of 900 likewise = 18%. Hence, the price at which C is sold by the owners of the industrial capital of 900 to the merchants = $720_c + 180_v + 162_s = 1,062$. If the dealer then adds the average profit of 18% to his capital of 100, he sells the commodities at $1,062 + 18 = 1,080$, i.e., at their price of production, or, from the standpoint of the total commodity-capital, at their value, although he makes his profit only during and through the circulation process, and only from an excess of his selling price over his purchase price. Yet he does not sell the commodities above their value, or above their price of production, precisely because he has bought them from the industrial capitalist below their value, or below their price of production^③.

Someone might question that how 100 of commercial capitals can purchase the commodities with a total price of 1,062 provided by industrial capital. It turns on the point of turnover of commercial capitals. The commercial capitals need purchase only commodities

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p314.
<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p315.
<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp317-318.
<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

with the amount of 100 at one time, and after selling out of them, purchase commodities with the amount of 100 again for selling, again and again.

Thus, merchant's capital enters the formation of the general rate of profit as a determinant pro rata to its part in the total capital. Hence, if we say in the given case that the average rate of profit = 18%, it would = 20%, if it were not that 1/10 of the total capital was merchant's capital and the general rate of profit thereby lowered by 1/10. This leads to a closer and more comprehensive definition of the price of production. By price of production we mean, just as before, the price of a commodity = its costs (the value of the constant + variable capital contained in it) + the average profit. But this average profit is now determined differently. It is determined by the total profit produced by the total productive capital; but not as calculated on the total productive capital alone.^①

Since industrial capitals transfer part of profits to commercial capitals, *the price of production, or the price at which the industrial capitalist as such sells his commodities, is thus smaller than the actual price of production of the commodity; or in terms of all commodities taken together, the prices at which the class of industrial capitalists sell their commodities are lower than their value. Just as industrial capital realizes only such profits as already exist in the value of commodities as surplus-value, so merchant's capital realizes profits only because the entire surplus-value, or profit, has not as yet been fully realized in the price charged for the commodities by the industrial capitalist. The merchant's selling price thus exceeds the purchase price not because the former exceeds the total value, but because the latter is below this value.*^②

Merchant's capital, therefore, participates in leveling surplus-value to average profit, although it does not take part in its production. Thus, the general rate of profit contains a deduction from surplus-value due to merchant's capital, hence a deduction from the profit of industrial capital.^③

In order to share in the mass of surplus-value, to expand the value of his advance as capital, the commercial capitalist need not employ wage-workers. If his business and capital are small, he may be the only worker in it. He is paid with that portion of the profit which falls to him through the difference between the purchase price paid by him for commodities and their actual price of production.^④

But, on the other hand, the profit realized by the merchant on a small amount of advanced capital may be no larger, or may even be smaller, than the wages of one of the better-paid skilled wage-workers. In fact, he brushes shoulders with many direct commercial agents of the productive capitalist, such as buyers, sellers, travelers, who enjoy the same or a higher income either in the form of wages, or in the form of a share in the profit (percentages, bonuses) made from each sale. In all these cases, although his income may appear to the circulation agent as an ordinary wage, as payment for work performed, his income is derived solely from the mercantile profit. This follows from his labor not being labor which produces value.^⑤

The relation of merchant's capital to surplus-value is different from that of industrial capital. The latter produces surplus-value by directly appropriating the unpaid labor of others. The former appropriates a portion of this surplus-value by having this portion transferred from industrial capital to itself.^⑥

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p318.
<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p319.
<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^③ ditto.

^④ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p323.
<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^⑤ Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp323-324.
<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^⑥ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p327.

Like industrial capitalists, merchant capitalists also employ workers to undertake most functions which should be performed by themselves.

Since the merchant, as a mere agent of circulation, produces neither value nor surplus-value, it follows that the mercantile workers employed by him in these same functions cannot directly create surplus-value for him either.^①

The unpaid labor of these clerks, while it does not create surplus-value, enables him to appropriate surplus-value, which, in effect, amounts to the same thing with respect to his capital. It is, therefore, a source of profit for him. Otherwise commerce could never be conducted on a large scale, capitalistically.^②

Just as the laborer's unpaid labor directly creates surplus-value for productive capital, so the unpaid labor of the commercial wage-worker secures a share of this surplus-value for merchant's capital.^③

Thus, although commercial workers produce no surplus-value, they still suffer exploitation from merchant capitalists. For unify the expression of exploitation suffered by industrial and commercial workers, I personally advocate to name the product of commercial wage-worker's unpaid labor, viz. the surplus value occupied by merchant capitalists, *deriving-surplus-value* produced by commercial wage-worker's.

In addition,

the number of turnovers of merchant's capital in the various branches of commerce has a direct influence on the mercantile prices of commodities.^④

If a commercial capital of \$100,000 turns over 6 times a year, and the general annual rate of profit is 18%, then the rate of profit in one turnover is 3% and \$3,000 is added to the commodity-capital, and the mass of commercial capital in one turnover is \$103,000. If another commercial capital of \$100,000 turns over only 2 times a year, with equal general annual rate of profit to the former one, the rate of profit in one turnover is 9% and \$9,000 is added to the commodity-capital, and the mass of commercial capital in one turnover is \$109,000. In other words, if a certain merchant's capital is turned over 3 times than another merchant's capital a year, it will add to a commodity-capital of equal value but 1/3 of what another merchant's capital, which turns over just once a year, adds to a commodity-capital of equal value. Otherwise, neither their average rates of profit nor the exploitation will be equal. To industrial capitals,

under otherwise equal circumstances, the same industrial capital is turned over four times a year instead of twice, it produces twice as much surplus-value and, consequently, profit. Conversely, differences in the periods of turnover in different branches of commerce manifest themselves in the fact that profit made on the turnover of a given commodity-capital is in inverse proportion to the number of times the money-capital turns over this commodity-capital. That is to say, to the turnover of merchant's capital, the faster in speed and more times in one year, the less profit at one time. Small profits and quick returns appear to the shopkeeper to be the principle which he follows out of sheer principle.^⑤

<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p326.

<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp326-327.

<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p327.

<http://www.marxists.org/archive/marx/works/1894-c3/ch17.htm>

^④ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p347.

<http://www.marxists.org/archive/marx/works/1894-c3/ch18.htm>

^⑤ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p349.

And that is one of important reason why supermarket with faster turnover has lower prices than that with slower turnover.

Here we can also see where do the advertisement cost and the so-called value of brand come from? Similarly, they come from the surplus-value delivered by industrial capitalists. The reason why industrial capitalists spend money in advertising and building brands is to reduce the circulation time and turn over his capital more rapidly.

Which is better for China's local governments, selling housing or selling land?

It was reported in March 19, 2011 that China's central government set a tough target of constructing ten million indemnificatory apartments, and it disrupted many cities' fixed plans. Among these cities, Guangzhou was given the target of 130,000 indemnificatory apartments. One official in the department of Housing and Urban-Rural Development of Guangzhou expressed difficulties to the reporter: how to settle the problems of "capitals and land" is extremely urgent under the circumstances of such a huge amount of new housing starts. This report indicated that in 2011, Guangzhou planned to invest 8.9 billion Yuan to the planned construction of 43,000 indemnificatory apartments, and "did not take the new task of central government into consideration". Moreover, even the funding of 8.9 billion Yuan still put Guangzhou's current finance under "huge pressure". The data published by Bureau of Finance of Guangzhou Municipality indicated that in 2010, Guangzhou obtained only 45.56 billion Yuan from land transfer proceeds. And supposing that 10% of them are used on the construction of indemnificatory apartments, it is still less than 5 billion Yuan. It is noticeable that for the sake of fiscal subsidies the Bureau of Finance of Guangzhou Municipality proposed a plan of "selling land for 64.65 billion Yuan" in its financial programs in two sessions of 2011. Yet such plan might not necessarily be fulfilled^①. Soon afterwards, it was reported in April 2, 2011 that Guangzhou planned to construct 84959 indemnificatory apartments with total annual investment of 11.8 billion Yuan, including 5.2 billion Yuan of financial investment from both municipality and districts and 6.6 billion Yuan from entrepreneurs' own capitals or bank loans.^②

Leaving aside the data contradictions between these two reports, esp. the decrease of financial investment with the increasing number of indemnificatory apartments, we can see just from the latter report that every indemnificatory apartment needs only 139,000 Yuan on average. According to Guangzhou's average new housing prices of 13,074 Yuan per sq m in 2010 as well as the provision that the growth of new housing prices can be lower than the growth of annual GDP and per-capita disposable income of urban residents,^③ the investment on one indemnificatory apartment is merely equivalent to the market price of 10 sq m of new commercial housing. In other words, supposing that each indemnificatory apartment has an average area of 60 sq m,^④ then only by spending the same investment of 118.8 billion Yuan in building about 5.1 million sq m of commercial housings and selling them directly according to the average new commercial housing price in 2010, the government can obtain an income of 66.65 billion Yuan. That means not only the investment on commercial housing can be taken

<http://www.marxists.org/archive/marx/works/1894-c3/ch18.htm>

^① <http://business.sohu.com/20110319/n279894902.shtml>

^② http://news.ifeng.com/mainland/detail_2011_04/02/5531004_0.shtml

^③ http://news.ifeng.com/gundong/detail_2011_03/30/5455577_0.shtml

^④ <http://finance.qq.com/a/20101206/005745.htm>

back, but also the funds of 49.65 billion Yuan can be remained to subsidy government finance, after making up the capitals of 5.2 billion Yuan which were undertaken by municipality and districts during the construction of over 80,000 indemnificatory apartments. And this remainder is greater than the total revenue of Guangzhou from selling land in 2010.

This indicates that so long as the government of Guangzhou municipality chooses selling housing instead of selling land, that is, does not sell land to private land agents and allow them to reap colossal profits from commercial housing constructions and sales, but the government itself directly builds apartments and sell them out, then not only the financial pressure on indemnificatory apartments construction can be defused easily, but also more funds can be used in public welfare construction.

The above project of selling housing instead of selling land is suitable not only for Guangzhou, but also for other cities. The reason lies in the general low proportion of land price in housing price.

In recent years, housing price in China has raised in an extremely unreasonable way. Facing public queries, the land agents have to find some excuses to defend themselves. One of the plausible views is that the rising of housing price primarily lies in the rising of land price.^① In order to illustrate how does land price promote housing price, one of the land agents gave an example as follows: “if the outrageous land price is calculated by the current trading price which dropped already, we will find that the proportion of land price in housing price is approximately greater than 50% or even more. For example, compared the land price of 5,300 Yuan per sq m with the forward delivery housing price of 8,000-9,500 Yuan per sq m in Tong Zhou District, the proportion of land cost in housing price is far more than 50%.”^②

However, if it is really the land price that pushes up the housing price, then, why does not the government of Tong Zhou District set the land price as 530,000 Yuan per sq m, so that land agents can set the forward delivery housing price as 800,000-950,000 Yuan per sq m? While just like British manufacturers once became tutors of vulgar economists in those years, similarly the developers in today’s China can be and have been tutors of mainstream economists and media person in China. However, just as Marx had said, both the views of current Chinese developers and the views of British manufacturers in those years are similarly “really nonsense”.

The reason lies in that the developers do not know the principle of the formation of land price. Actually ground-rent so capitalized constitutes the purchase price or value of the land.^③ For a brief example, supposing the average interest rate is 5%, and then a land which can obtain a rent of 20,000 dollars each year can be considered as a 400,000-dollars-capital. For this capital can also averagely obtain a ground-rent of 20,000 dollars each year, thus this land is worth 400 thousand dollars. It is exactly the same principle that mainstream economists base their calculation of land price on—they calculate land price by adding discounted value of ground-rent within several years together. Hence, the factors causing the raise of ground-rent are always the factors causing the raise of land price.

To analysis ground rent, we should draw the third party—landowners—into capitalist production relations. If land is used in planting crops, then capitalist is called tenant farmer, and wage-laborer is called agricultural laborer; and if land is used in constructing housing, then

^① http://news.hoomee.com/newshtml/2007-09/252638_1.html

^② <http://news.163.com/09/0702/11/5D7CJOHB00012Q9L.html>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p702. <http://www.marxists.org/archive/marx/works/1894-c3/ch37.htm>

capitalist is called developer or constructor, and wage-laborer is called build laborer. In any case, all of the output value is composed of new value created by wage-laborer as well as constant capital value transferred in the process of production. The laborer gets wage, while the capitalist gets surplus value or profit besides the compensation of his capital expenditure. Now, where does the landlord's ground rent come from?

In normal market economy, capitalist should, and should only, obtain general rate of profit. If the rate of profit is lower than the general one in certain project, the capitalist will quit and turn to other investment project which can bring him general rate of profit; consequently the production on this project will be stopped with no output, and naturally, no ground rent; but if he gets higher rate of profit than the general one, the excess part viz. surplus rent will transform into ground rent and be owned by landowner. Otherwise, the market mechanism will be abnormal. Under the latter circumstances, the reason why landlord can appropriate surplus value to himself is the existence of land ownership.

The mere legal ownership of land does not create any ground rent for the owner. But it does, indeed, give him the power to withdraw his land from exploitation until economic conditions permit him to utilize it in such a manner as to yield him a surplus, be it used for actual agricultural or other production purposes, such as buildings, etc.^①

Thus, the landlord's ownership of land constitutes a limitation to the investment of capitalists. Without such kind of monopoly, surplus profit would not be transformed into ground rent nor fall into the possession of landowners instead of capitalists. Thus, if the investment of capital in the land can take place without payment of rent, we shall find that they are all based on a de facto abolition of landed property, if not also the legal abolition.^②

On the other hand, is it true that someone can certainly get ground rent as long as owning land? It is not the case. All of relatively developed countries have considerable parts of idle lands. Not all these idle lands are ownerless. To those idle lands with owners, they are left uncultivated just because operation on this kind of land does not produce surplus profit. Therefore, in capitalist system, the domination of landlords gives its place to the domination of capitalists. Here we bypass the situation of small peasant economy. In the case of small peasant economy or individual cases that capitalistic economy is permitted to exist in its corners, provided that the small farmers can get enough output to survive by cultivating land, and can not earn a living in any other way but renting land, the landlords can get ground rent without involving surplus profit.

So, in what conditions can surplus profit be obtained? First, individual production price of commodities is lower than general price of similar production. Thus, surplus profit can be obtained when selling price is equal to general production price. Take capitalist agriculture for example, because certain soil is especially fertile, the tenant farmer needs only fewer constant capitals and variable capitals to get the same output as other tenant farmer who put more capitals into other soils. In the case of equal selling price of commodity, the former can get more profit. The characteristic of soil—especial fertile—is not the source of surplus-profit, but only its natural basis, because this natural basis permits an exceptional increase in the productiveness of labor,^③ just as certain engines once have done. However, if the individual characteristic of especial fertile only belongs to certain soil has, and can not be freely

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p856. <http://www.marxists.org/archive/marx/works/1894-c3/ch45.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p849. <http://www.marxists.org/archive/marx/works/1894-c3/ch45.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p728. <http://www.marxists.org/archive/marx/works/1894-c3/ch38.htm>

controlled by all capitals like mass-produced machines, then such characteristic is monopolistic and can be used by individual capitalists who get landowners' permission. Therefore, the surplus-profit which arises from the employment of natural force

is not due to capital, but to the utilization of a natural force which can be monopolized, and has been monopolized, by capital. Under these circumstances, the surplus-profit is transformed into ground-rent,^①

that is, it falls into possession of the landlord.

Considering that other soils, as compared with this soil, can provide ground rent, too, otherwise can not be cultivated, thus, this kind of rent is **differential rent**.

It does not enter as a determining factor into the general production price of commodities, but rather is based on it. It invariably arises from the difference between the individual production price of a particular capital having command over the monopolized natural force, on the one hand, and the general production price of the total capital invested in the sphere of production concerned, on the other.^②

In other words, the existence of this kind of ground rent can not make the production price to be higher, while because the commodities produced in this production sphere are more expensive, thus it makes the landlord to get more ground rent, or, get higher price in selling soil.

Besides fertility, the location of land is the key factor to form differential rent, too. Because in the case of capitalism, productions are produced for market, and productions will finally be sold on market; if we take freight into account, compared with a soil which is fertile but far from market, a soil which is relatively poor but close to market usually shows greater natural forces, and consequently can get more ground rent. During the process of industrial production esp. construction, land location is the most important factor in the formation of differential rent, compared with agricultural production.

The selling price of commodity is higher than the production price, and the excess part is surplus profit—that is the second approach to get surplus profit. But we should distinguish two different situations. First, the selling price of commodity is higher than production price but not higher than the value of commodity. Second, the selling price of commodity is higher than both production price and the value of commodity. The formation of production price is based on the premise of free competition. On this premise, the commodity of certain production sphere with lower organic composition of capital will be sold by production price which is lower than their value. But because of the monopoly in landed property, unlike industrial products with values higher than the general production prices, agricultural products and other products bound by lands will not equalize into production prices; or, the process of equalization will partly be impeded. Hence, the selling prices of these commodities will be higher than production prices but not be higher than their value. This part of surplus profit will transform into **absolute ground rent**.

At any rate this absolute rent arising out of the excess of value over the price of production is but... its being filched by the landlord; just as the differential rent arises out of... its being filched by the landlord under a generally regulating price of production. These two forms of rent are the only normal ones. Apart from them the rent can be based only upon an actual monopoly price, which is determined neither by price of production nor by value of commodities, but by the buyers' needs and ability to pay.^③

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p727. <http://www.marxists.org/archive/marx/works/1894-c3/ch38.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p728. <http://www.marxists.org/archive/marx/works/1894-c3/ch38.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p864.
<http://www.marxists.org/archive/marx/works/1894-c3/ch45.htm>

And its selling price is higher than not only price of production but also value of commodities.

It should be noted that among three situations of surplus profit we talk about here, the surplus profit is firstly obtained by industrial capitalists, then transformed into ground rent and obtained by landowners instead of falling into possession of industrial capitalists.

Now we begin to analyze the relationship between land price and housing price. What the developers get after building and selling housing are merely construction cost and land prices. Marx had pointed out already that,

It is the ground-rent, and not the house, which forms the actual object of building speculation in rapidly growing cities, especially where construction is carried on as an industry, e.g., in London.^①

Not only the population increase and with it the growing demand for shelter, but also the development of fixed capital, which is either incorporated in land, or takes root in it and is based upon it, such as all industrial buildings, railways, warehouses, factory buildings, docks, etc., necessarily increase the building rent. A confusion of house-rent, in so far as it constitutes interest and amortization on capital invested in a house, and rent for the mere land, is not possible in this case, even with all the goodwill of a person like Carey, particularly when landlord and building speculator are different persons, as is true in England.^②

Obviously, in normal market economy, developers in China should merely get general rate of profit in accordance with the capitals they own. And their rapidity of wealth increase should not obviously surpass capitalists' in other trades. However, within just a few years, developers in China have gathered and forcibly occupied the top of rich list in China. These phenomena can but indicate that although the developers have paid for land price, the first and foremost origin of their profit is still land price which should not have been owned by them. That is to say, what they actually paid for land price is much lower than what they should pay. The proportion of land price in housing price is not excessively high but low.

It can be figured out from the above case about Guangzhou that, if the area of each apartment is 60 sq m, the total housing price of over 80,000 commercial housing is 66.65 billion Yuan. Deducting 11.8 billion Yuan of investment (which includes the profits of builders) and 10% of rate of return, the surplus part of 53.67 billion Yuan is actually the land price, and the proportion of land price in housing price is 81%. Thus, judging from reasonable and scientific principle of proportion of land price in housing price, the proportion at present is not excessive high but low, either; and the developers have indeed grabbed mass profits which ought to be the part of land price.

Besides the profits of developers, the speculation gains of real mission come from the division of land prices, too. As capitalized ground rent, land price ought to have been owned by landowner. But the owner of land in China is the whole Chinese people, thus, the land price of real estate ought to have been owned by all Chinese people.

However, except part of land price is used for financial expenditure, most income from land interests is possessed by the minority.

Moreover, it is not reasonable either that government occupies the land cost owned by the whole people. Although government financial expenditures are used in providing public goods, the expenditures should come from tax revenue, not from land cost. The government can tax the land-sale revenue which is owned by the whole people, but it can not occupy this land-sale revenue directly. Basing on the fact that government levies 20% of income tax on the

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p875. <http://www.marxists.org/archive/marx/works/1894-c3/ch46.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p876. <http://www.marxists.org/archive/marx/works/1894-c3/ch46.htm>

second-hand transaction, the government's taxation on land-sale revenue should be 20%, too, and the other 80% should be returned to the whole people.

So, how to return these Chinese socialistic land-interests to the whole people? One of the most convenient ways is to spend them in retirement pension security and basic medical security.

Where do the profits of research and development come from?

Some people consider that Marx's labor value theory has a defect of only catching sight of workers' labor and not catching sight of the others. From their point of views, the current capitalist productivity has a great improvement compared with the productivity in the years Marx lived, and researching and developing work in multi-national companies has become very important part in creating value. Thus, something has changed in capitalist production rules. Therefore, they think that Marxism, esp. Marx's labor value theory are out of date and need some improvement.

However, although human have produced robots and clone sheep, the laws of evolution theory are still not outdated. Similarly, only if wage labor generally disappears from the main countries in the world, otherwise the laws of capitalist economy uncovered by Marx are far from outdated.

When criticizing James Mill, Marx once pointed out that

Here the contradiction between the general law and further developments in the concrete circumstances is to be resolved not by the discovery of the connecting links but by directly subordinating and immediately adapting the concrete to the abstract. This moreover is to be brought about by a verbal fiction, by changing the correct names of things.^①

Obviously, when noticing that there are contradictions between some specific relations of capitalist world that have been further developed after Marx died and the general laws uncovered by Marx, we should look for some intermediary links to solve the contradictions. Neither can we directly put specific relations into general laws, nor can we misinterpret general laws to directly adapt to specific relations, esp. fabricate terms and change the correct definition of things.

In fact, among person who emphasize that research and development teams can create value, only a few of them consider that natural scientists, i.e. physicist Einstein, similarly can create commercial value. Then, why do they think that the research and development team in nuclear power plant can create value while the presenter of the fundamental principle on which this research and development depends can not create value?

On the other hand, supposing that it cost a mobile phone manufacturing company millions of dollars on the research and development team's work and wages, thus, if research and development work can create value, and because the value created by this team contains surplus-value, then the value will exceed the amount of millions of dollars. However, each of new mobile phones does not be sold in one million dollars but in hundreds of dollars or even lower price. Someone might say that, just like the value of tools, the value of such research and development is shared and transformed into each product. Yet, the magnitude of value of tools

^① Marx & Engels Collected Works Volume26. Beijing: Renmin Press, 1974, p91.

<http://www.marxists.org/archive/marx/works/1863/theories-surplus-value/ch20.htm#vol32-p274>

is independent on such law's violence as intellectual property, while the so-called magnitude of value of research and development can not exist without such law's violence as intellectual property and labor contracts prohibiting developers from randomly job-hopping. Moreover, the production of tools participates in the adjustment to general rate of profit, and the capitalists get general rate of profit; while the production of researching and developing usually does not participate in the adjustment to general rate of profit, and the capitalists, i.e. Bill Gates, the boss of the Microsoft Co. of the United States, usually get profits higher than the general rate of profit.

In *Capital* Marx says that the utility of a thing makes it a use value. He pointed out,

Every useful thing, as iron, paper, etc. . . . may be looked as an assemblage of many properties, and may therefore be of use in various ways. To discover the various uses of things is the work of history. The property which the magnet possesses of attracting iron became of use only after by means of that property the polarity of the magnet had been discovered. The utility of a commodity is independent of the amount of labor required to appropriate its useful qualities. The use values of commodities furnish the material for a special study, that of the commercial knowledge of commodities.^①

Science, generally speaking, costs the capitalist nothing, even though scientific research itself will cost labor power, material resources and financial capacity. For example, once discovered, the law of the deviation of the magnetic needle in the field of an electric current, or the law of the magnetization of iron, around which an electric current circulates, cost never a penny. But that by no means hinders him from exploiting it^②.

This indicates that the significance of scientific work in economic activities is not related to the value of a thing, but merely related to the use-value of a thing. Therefore, individual capitalist will not invest in the research of natural science, and even if he does so out of charity, he by no means counts on this to make a fortune. Usually, it is the nation that invests in natural science research work through the utilization of capitals from the whole society.

But science and technology can transform into productivity and discover certain production capacity that can improve labor productivity, including the capacity of obtaining certain combination of various objects with relatively cheap prices. Yet in this term, just as naturally fertile soil, if only one can get such monopolistic power like landed property, i.e. intellectual property, he can get such monopolistic profits like ground-rent, rent. At the same time, as one soil's ground-rent may decrease or lose in the case of appearing a soil which is more fertile or with better location, new research and development achievements with higher productive efficiency can also make the old ones lose their monopolistic rents, though the intellectual property of old one is still monopolized in the hands of its owner.

Therefore, although research and development work creates productivity when directly relating to production, and produces monopolistic rent on modern capitalistic condition, it does not create value.

Certainly, in any case, we should pay high attention to research and development work to improve labor productivity, and should positively estimate its contribution on improving labor productivity and give reasonable rewards to research personnel. After all, higher labor productivity is one of the preconditions for us to entering into more advanced society, let alone

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p48.
<http://www.marxists.org/archive/marx/works/1867-c1/ch01.htm#S1>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p444.
<http://www.marxists.org/archive/marx/works/1867-c1/ch15.htm#S2>

we are in a global capitalist monopolistic competition. But we must object to the legal monopoly to knowledge, even though similarly we have to apply intellectual property to protect the interest of our own during international competitions, and thus we only do this within limited range. After all, even a mainstream economist once “strongly criticized the agreement of intellectual property in WTO, and considered that this new global rule is deadly”. We should not be inferior to the scholars with non-proletarian position on the issue of consciousness. In the meantime of such objection, public finance should subsidize state-owned research institutions and state-owned enterprises to research and develop scientific and technological products with intellectual property, and state-owned research institutions and state-owned enterprises can freely use these products, at the same time, domestic non-state-owned enterprises and institutions can use them in lower prices. As for foreign enterprises, we should treat them according to the international practice, i.e. the way they treat us.

As for the research and development work of some financial derivatives in financial market, neither does it create value, nor does it create productivity, but it creates the tool for capital centralization and tool for large capitals depriving small and medium capitals, and triggered this financial crisis in the United States. Because this kind of research and development promotes capitalist economic crisis, intensifies the magnitude of economic crisis, thus hastens the social revolution, therefore, just as Marx’s attitude to free trade^①, it is in this revolutionary sense alone that I vote in favor of this kind of research and development.

Finally, it was impossible for Marx to merely catch sight of the labor of workers and did not take notice to activities of others. He already pointed out,

The capitalist mode of production begets a vast number of employments, at present indispensable, but in themselves superfluous.^②

While the mainstream economist, Steven Cheung’s claim of “over 60% of national income is supposed to be transaction costs in today’s Hong Kong”^③ is a good enough mirror to the waste causing those superfluous functions that Marx had criticized. Naturally, all “labor” which is involved in such huge transaction costs does not create value, but just useless labor participating in the division of surplus value.

^① Marx & Engels Collected Works Volume 4. Beijing: Renmin Press, 1974, p459.

<http://www.marxists.org/archive/marx/works/1848/01/09ft.htm>

^② Das Kapital Volume I. Beijing: Renmin Press, 2004, p605.

<http://www.marxists.org/archive/marx/works/1867-c1/ch17.htm#S42>

^③ Zhang Wuchang, Economic explanation: supply behavior (Volume 2), Hong Kong: Arcadia Press Ltd., 2002, p145.

Part IV the Domination of Financial Capital

Chapter 9 Interest-Bearing Capital and Stock Capital

Is the mortgage interest rate of the first suit on the high side?

Someone inquired on the internet that is it high or low for housing loans with the monthly interest rate of 5.5462%^①? To answer this question in a practical way, we should consider whether we can get a much lower monthly interest rate. And if we can, then the rate is too high, otherwise it is not. While to answer this question in a theoretical way, we should analysis how does the rate of interest come into being.

Money may be converted into capital on the basis of capitalist production, and may thereby be transformed from a given value to a self-expanding, or increasing, value. In this way, aside from its use-value as money, it acquires an additional use-value, namely that of serving as capital. Its use-value then consists precisely in the profit it produces when converted into capital. In this capacity of potential capital, as a means of producing profit, it becomes a commodity sui generis.^②

However, as such a special commodity, money can not be bought and sold like other commodities.

What the buyer of an ordinary commodity buys is its use-value; what he pays for is its value.

And the sum of value holding in his hands will translate its form from money into commodity.

And No change of form occurs in the value passing between borrower and lender, as occurs between buyer and seller. ...The sum of value, i.e., the money, is given away without an equivalent, and is returned after a certain period. The lender always remains the owner of the same value, even after it passes from his hands into those of the borrower. In an ordinary exchange of commodities money always comes from the buyer's side; but in a loan it comes from the side of the seller.^③

After giving away money for a certain period, the lender alienates the money's use-value of serving as capital. But borrower needs to return a portion of the profits realized by this capital to the lender as interest. If the borrower does not pay any interest, he would pay nothing for the use-value alienated by lender; if the borrower pays all of the realized profits as interests, the lender would not alienate the use-value of serving as capital to the borrower, for the borrower does not get any surplus value there from. Therefore, interest is, and can only be, a portion of the realized profit. Of cause, the borrower can also spend the borrowed money lavishly or in other purpose instead of actually transforming it into capital for the production of surplus-value. But he still has to pay for interest, because the lender loans out the currency as capital.

It is indeed only the separation of capitalists into money-capitalists and industrial capitalists that transforms a portion of the profit into interest, that generally creates the category of interest.^④

The price of ordinary commodity is determined by value, viz. determined by the time of socially necessary labor for commodity producing. Differently, there is no "natural" rule for the lending price of use-value of money, namely that of serving as capital, or, interest (the rate of

^① http://szbbs.soufun.com/2810148662~-1~1637/44473454_44483300.htm

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p378. <http://www.marxists.org/archive/marx/works/1894-c3/ch21.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p395. <http://www.marxists.org/archive/marx/works/1894-c3/ch21.htm>

^④ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p415. <http://www.marxists.org/archive/marx/works/1894-c3/ch23.htm>

interest in terms of unit of currency). Mainstream economists once used the growth rate of trees in primitive forest as the natural interest rate. However, although the exchange value of trees largely depends on the increase of trees, the increase of trees is definitely independent of the exchange value of trees.

Since interest is merely a part of profit paid,... the maximum limit of interest is the profit itself, in which case the portion pocketed by the productive capitalist would = 0.

Considering that the industrial capitalist himself has to obtain a so-called supervisory wage from profit for his subsistence,

one might consider as the maximum limit of interest the total profit minus the portion which resolves itself into wages of superintendence. The minimum limit of interest is altogether indeterminable. It may fall to any low above zero,^①

esp. in today's society that banknotes can be issued recklessly. It is indeed only the competition between money-capitalists and industrial capitalists that creates the category of interest.

As for the interest rate of housing loans, we can lower its upper limit according to an argument from Engels. Actually, although money loaning is generally the business among capitalists, it does not rule out the possibility that some money is loaned to workers. This is because that with the economic development and the struggles of workers, the necessary consumer goods of workers may also include some consumer durables, even housings. Thereby, the value of these consumer durables may also be included in the labor force value of workers. With the improvement of wages, workers can buy these consumer durables on installments. Engels once talked about French workers,

Compared with English conditions, the extra rent paid for the purchase of these houses is rather high. For instance, after having paid 4,500 francs by installments in fifteen years, the worker receives a house which was worth 3,300 francs fifteen years before.^②

If we calculate according to today's bank loans mode, the monthly interest rate of this 15-year mortgage with zero down payment is merely 3.6287‰, lower than the rate of the netizen above, while it was still in a higher level in those days. Therefore, if possible, the monthly mortgage interest rate of the first suit in China (since it is named the first suit, it is not for investment and speculation but for living) should be capped by 3.6287‰ (about 4.354% of annual interest rate).

Incidentally, we can also see here, the statement that urbanization can generate mass migration into city and huge housing demand can greatly push up housing prices does not have theoretical basis. It is only the wages of migrant workers that finally support the housing prices. If they do not have enough income to buy houses, they will not buy houses. And if the housing prices are even too high for them to rent houses, they will not migrate into city. And if they are needed to work in city, then their wages should be increased to cope with the rising housing prices. And then, the upward pressure on employment cost of enterprises and commodity prices will greatly increase in China, the competitiveness of enterprises will be weakened, and certainly the increase of economy in China would be severely restricted.

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p401. <http://www.marxists.org/archive/marx/works/1894-c3/ch22.htm>

^② Marx & Engels Collected Works Volume 18. Beijing: Renmin Press, 1964, p279.
<http://www.marxists.org/archive/marx/works/1872/housing-question/ch02.htm>

Why did Marx endorse that shareholding system is industrial feudalism?

Marx once mentioned the formation of stock companies in *Capital III* ,

The capital, which in itself rests on a social mode of production and presupposes a social concentration of means of production and labor-power, is here directly endowed with the form of social capital (capital of directly associated individuals) as distinct from private capital, and its undertakings assume the form of social undertakings as distinct from private undertakings. It is the “abolition” of capital as private property within the framework of capitalist production itself.^①

And the academia of China once argued fiercely about the comprehension of this “abolition”. Thus someone specified shareholding system as the form of public ownership. What’s more, shareholding system was flattered as “modern enterprise system with clear property rights”.

However, firstly, the following part in *Capital III* states clearly:

The capitalist stock companies, as much as the co-operative factories, should be considered as transitional forms from the capitalist mode of production to the associated one, with the only distinction that the antagonism is resolved negatively in the one and positively in the other.^②

Thus, no matter how to explain this “abolition”, the stock company is firstly marked the brand of capitalism, and secondly passive in abolition and far inferior to workers’ cooperative factories which abolish capitals positively. In fact, when Marx talked about the general principles of co-operation system in the International Working Men's Association, he once indicated that,

“in order to prevent co-operative societies from degenerating into ordinary middle-class joint stock companies (societies par actions), all workmen employed, whether shareholders or not, ought to share alike. As a mere temporary expedient, we are willing to allow shareholders a low rate of interest.”^③

Therefore, with the purpose of self-improving socialist system, even if we do not have sufficient conditions to carry out real public ownership system, we should highly advocate co-operation systems like collective ownership enterprises rather than something like shareholding system, even Marx thought that co-operation system also had deficiency --it will never transform capitalist society.^④

Secondly, mainstream economists advocate that modern corporate governance, which consists of shareholders' meeting, board meeting, supervisory board and senior managers, has the characteristics of interdependence and checks and balances. And on the basis of the current case in England, Marx indicated,

On the basis of capitalist production a new swindle develops in stock enterprises with respect to wages of management, in that boards of numerous managers or directors are placed above the actual director, for whom supervision and management serve only as a pretext to plunder the stockholders and amass wealth. ... The proceedings of the Court of Bankruptcy show that these wages of supervision were, as a rule, inversely proportional to the actual supervision performed by these nominal directors.^⑤

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp494-495.

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p499.

^③ Marx & Engels Collected Works Volume16. Beijing: Renmin Press, 1964, p219.

^④ <http://www.marxists.org/history/international/iwma/documents/1866/instructions.htm#05>

^⑤ ditto.

^⑥ Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp438-439.

<http://www.marxists.org/archive/marx/works/1894-c3/ch23.htm>

Furthermore, shareholding system also reproduces a whole set of activities of speculation and fraud in company construction, shares issuing and stock exchange. And the scandals frequently appear in stock companies of modern western developed countries, bankruptcy of Enron in U. S. for instance, perversely and persistently support Marx's argument, as well as prove that this modern enterprise system has already been anachronistic broken antique.

On the other hand, the mainstream economists always attack public ownership on its unclarity of property rights, while shareholding system has so-called "clear property rights". Then how does a system with clear property rights become the realization form of another system with unclear property rights? So far Chinese mainstream economists still closely keep this point a secret to foreign mainstream economists. For without such nonsense, the former can not disorganize traditional public-ownership system with the hands of shareholding system.

However, it is the shareholding system that indeed has unclear property rights. Deqiang Han indicated that the property rights of listed companies "are divided into tens of millions parts and traded all the time. The vast majorities of shareholders do not care for the operation and dividends of enterprises, but only want to get profits from the fluctuation of share prices. Thus the property rights of listed companies are the most ambiguous".^① Thomas Murphy, the former president of GM, had also said angrily that "many so-called 'investors' merely stare at short-term stock exchange speculation and are not worthy of being called 'owners' at all".^②

Actually, we can not completely blame those shareholders and investors esp. those who have small capitals. Marx had said,

it must not be forgotten, that in joint-stock companies it is not the individuals that are associated, but the capitals. By this contrivance, proprietors have been converted into shareholders, i.e., speculators. The concentration of capital has been accelerated, and, as its natural corollary, the downfall of the small middle class. A sort of industrial kings have been created, whose power stands in inverse ratio to their responsibility—they being responsible only to the amount of their shares, while disposing of the whole capital of the society—forming a more or less permanent body, while the mass of shareholders is undergoing a constant process of decomposition and renewal, and enabled, by the very disposal of the joint influence and wealth of the society, to bribe its single rebellious members. Beneath this oligarchic Board of Directors is placed a bureaucratic body of the practical managers and agents of the society, and beneath them, without any transition, an enormous and daily swelling mass of mere wages laborers—whose dependence and helplessness increase with the dimensions of the capital that employs them, but who also become more dangerous in direct ratio to the decreasing number of its representatives.^③

Marx considered that it was the immoral merit of Fourier to have predicted this form of modern industry, under the name of Industrial Feudalism.^④

This suggests that most of the property rights that small and medium shareholders of stock companies nominally enjoy, i.e. disposition rights etc., have actually been deprived by magnates in company and bureaucratic groups. More often, magnates and bureaucratic groups take risks by using others' property or social property instead of themselves'. Sometimes

^① Han De qiang, Mixed economic system and the influences of neoliberalism on China's reform, Probe, 200504, pp149-154.

^② Tang Geng hua, Wang Xue li, New Structure of Allocation of American Enterprises' Control Rights and Inspiration from It, Journal of Guangdong University of Technology (Social Sciences Edition), Jun.2003.pp29-32.

^③ Marx & Engels Collected Works Volume 12. Beijing: Renmin Press, 1962, pp37-38.

<http://marxengels.public-archive.net/en/ME0978en.html>

^④ Marx & Engels Collected Works Volume 12. Beijing: Renmin Press, 1962, p38.

<http://marxengels.public-archive.net/en/ME0978en.html>

bankruptcy is not bad but good rather for them. For the legislative power manipulated by themselves makes them take only limited, even insignificant responsibility for the loss they created. In this American financial crisis, we can see the premeditated bankruptcies in the history of western countries reappear, i.e. by using the international practices of picking up goods first and paying later, some foreign importers declared bankruptcy after imported a batch of goods from China. But local court just posted local notice to require creditors for registration for the purpose of “protect” the benefits of creditors, while the largest creditors, viz. Chinese importers, could not see this notice and register, and hence suffered big losses. In this American financial crisis, we can also see some executives in collapsed big enterprises still achieved huge compensation, i.e. before the collapse of Lehman Brothers Inc in the U.S., the CEO Fuld asked US federal for assistance while at the same time he put tens of millions dollars of severance into executives’ pockets.^① On this condition, is there anything that small and medium shareholders can do? How could such kind of property system to be clear in property rights? As an outdated and conservative private economic thought, clear property rights actually emphasizes the isolating and individualization of production, and it runs counter to the socialized production in modern market economy. But now it becomes the production of emancipating minds which is advocated by someone in China. It is too ridiculous for us to say anything.

The appearance and development of industrial feudalism indicates that, the development of capitalism has a characteristic of turning back. Since the appearance of stock companies, capitalistic republicanism has been developed to feudal imperialism from a higher stage. John Perkins, the American economic hit man and senior economist, also disclosed in his confessions the existence of global empire and corporatocracy headed by American financial oligarchy--*Confessions of an Economic Hit Man*. (John Perkins, 2004. *Confessions of an Economic Hit Man*. Berrett-Koehler Publishers, Inc. San Francisco.)

Definitely, shareholding system also has its positive significance in history—it made industrial enterprises to have a scale beyond the individual capitalist’s power. As the expansion and invasion into new production sections, shareholding system also eradicated private industries operated by individual capital to the same extent. In stock company, each separated private properties of producers are put together, and the function of operation and management is separated from capital ownership, too. All these not only provide conditions of translating these combined private properties into properties of united producers, viz. direct social properties, but also provide conditions of translating confrontational operating and management functions into non-confrontational and pure cooperating functions of united producers, viz. social functions. In other words, it makes a good preparation for the whole society or the whole people to expropriate those expropriators in the future. The shareholding system is the final development form of contradiction between socialized production and the private ownership of means of production in capitalist system, as well as is the highest level of imperfect form of public use of means of production. If this capitalist tail of private ownership is cut off, the public ownership of means of production viz. the perfect form of public use of means of production, will be realized, and the productivity will be further liberated and developed on a base of highly developed capitalistic production.

Additional, shareholding system also has important meaning in economic science.

^① Denounce well-paid executives, http://www.cnstock.com/08haiwaigs/2009-01/06/content_3977615.htm

Because it makes some defending arguments which were more or less valid in capitalist production mode disappear. Modern mainstream economics divide production factors into labor, soil, capital and capitalists' gift, and consider that the corresponding allocation is wage, ground-rent, interest and profit. Although the profit here is merely the surplus of actual profit exceeding interest, viz. is something as the income of business owners. However, in stock company, the capitalist who actually performs functions changes into pure manager, the administrator of other's capital, and the capital owner translates into pure owner, pure monetary capitalist. Most of profit of the stock company still belongs to pure monetary capitalist, instead of managers with so-called entrepreneurial talent. Thus,

even the last pretext for the confusion of profit of enterprise and wages of management was removed, and profit appeared also in practice as it undeniably appeared in theory, as mere surplus-value, a value for which no equivalent was paid, as realized unpaid labor.^①

How are the prices of stocks determined?

Supposing that a stock company issues 100 thousand shares with \$50 each share and raises 5 million dollars of capital on production and management. Hence, each share becomes an ownership certificate of hundred thousandth of realized profit. That is to say, each share can get hundred thousandth of profit allocated in this company every year. Meanwhile, each share also represents hundred thousandth of net assets of this company. And if this company stops operating, the holder of each share can obtain hundred thousandth of net assets of this company after liquidation. Generally, we can see that the price of stock is far above the net assets it represents. This is because buying stock is not for allocating the net assets it represents, but for obtaining the profit (dividend) it can bring in the future. Even though the stock trade is for buying cheap and selling dear for profit, it is because someone thinks it can produce profit, thus selling dear can be realized. The theoretical price of stock is determined by its future profit.

For example, supposing that a one-year deposit account rate is 5%, then the current \$100 will be \$105 after one year. If someone wants to exchange one of his securities which can get \$105 after one year for our cash, then how much money would we give him? We would give him at most \$100; otherwise we'd rather to deposit money in banks. Supposing that the one-year deposit rate stays unchanged forever, we deposit \$100 now, and withdraw and spend the interests of \$5 on maturity every year, and renew the deposit of \$100 for another year, then, the \$100 can annually bring us the interests of \$5. Thus, one bill or title of ownership which can bring us an annual income of \$5 obtains a capital-value amount to a deposit of \$100. People are willing to buy it (also called invest on it) with \$100, and the annual income of \$5 represents indeed the interest on his capital invested at 5%. This procedure is called **capitalization**. In other words,

every periodic income is capitalized by calculating it on the basis of the average rate of interest, as an income which would be realized by a capital loaned at this rate of interest,^②

and the equivalent capital is called fictitious capital.

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p438.

<http://www.marxists.org/archive/marx/works/1894-c3/ch23.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp528-529.

<http://www.marxists.org/archive/marx/works/1894-c3/ch29.htm>

As we mentioned above that ground price is the capitalization of ground-rent, stock is the certificate of ownership, and its price is the capitalization of stock dividend. Supposing that the above stock company merely maintains simple reproduction and does not expand its equity, nor has any debt, and all of the annual after-tax profits are entirely distributed, and its annual rate of profit is 10%. Thus, each share can bring its holder \$5 ($=5 \text{ million dollars} \times 10\% / 100,000 \text{ shares}$) of profit every year, as the profit that \$100 of deposit can bring in the former case. Then, the capital value of each share is also \$100 and is twice as the net asset it represents. This is the basic principle of the formation of stock's theoretical price. We can see from here that if the annual rate of profit is improved from 10% to 20%, although its (net) asset stays unchanged, yet the theoretical price of its stock doubles to \$200 per share and is four times that of its net asset. And similarly, when the average rate of profit drops to 2.5%, the theoretical price of its stock can double, too.

Now we suppose that one half of the total capital of the stock company above is translated from fixed capital into fixed assets (workshop, machinery equipment), and the other half of the total capital is translated from monetary capital into current assets (currency). Supposing that the fixed assets are bought from a capitalist Mr. Smith, and then Mr. Smith obtains the sales of \$2.5 million through providing this company fixed assets which are half of its total assets. If Mr. Smith buy the stock of this company with this money, because the theoretical price of stock is twice as the net asset, then Mr. Smith can only buy 25,000 shares (taking no account of the fluctuation of stock's market price deviating from theoretical price), and is only a quarter of total capital. While the original stockholder who contributed 5 million dollars of capitals for founding the company, withdraws half of his capitals by transferring only a quarter of his shares to Mr. Smith. If this original stockholder sells out all of his shares, he will obtain twice profit.

What kind of transaction is it? It is a transaction between commodity and fictitious capital: what the original stockholder of this company bought is the (net) asset that enters into enterprise in the form of commodity, while what he sold is the (net) asset in the form of fictitious capital. What kind of transaction is it? It is a transaction between today and the future: it is an exchange between surplus value created and realized in the future and the value stock buyers have had now. Such kind of deficit-spending transaction carries on in stock markets all over the world every day. Hence financial bubbles inherently exist in these surplus values that may be realized yet may not be truly realized in the future as well.

We know that in market economy, all of the production of each enterprise is private production. And only when commodities are sold out and translated into currency, can private production translate into social production, realize value and surplus value, and provide possible profits. Therefore, the transaction of stock is the exchange between current social labor (currency) and future private labor (enterprises produce commodities instead of currency). Although future private labor is not unable to translate into social labor, after all, the jump from commodity to currency is adventurous. Although this adventurous jump is considered as the risk of investment in stock market, the capital's nature of pursuing surplus value determines that its response is merely buying more kinds of stocks to scatter the individual risk and slightly adjusting the stock price downward. When the economic crisis of capitalistic overproduction, which had been demonstrated by Marx, outbursts periodically, the jump from large amount of commodities to currency will be blocked, the surplus value and value could not be realized, the stock prices will slump generally, financial bubbles will burst, crisis will blow

up, and the portfolio theory of scattering individual risk can only be a disappointment when facing the market risk,.

Thus it can be seen that financial bubble manifests the nature of modern capital, reflects the capital's self-confident to permanently possess surplus value, and exists in the expectation that whether these future surplus value can be realized by required time and quality or not.

In financial crisis, some voices of enhancing the confidence of investors also exist. What is called confidence here means believing that one can get enough surplus value in the future. This kind of confidence goes hand in hand with the expectation for surplus value which can be realized. Because surplus value is realized in the future, thus, to determine the value of present stock according to how much surplus value can be realized in the future, there is no other way but through expectation. If the market expects that one stock company can realize twice surplus value as expected in the future, or expects that the deposit rate will reduce by half, the value of stock will double. And when one stock company's total stock market value falls down from 1 billion dollars to 0.5 billion dollars because of the market expectation that the surplus value which can be realized in the future is only half of expected, someone would exclaim that the capital of 0.5 billion dollars disappears. However, at this moment, the amount of workers' future surplus labor stays the same; the only difference lies in the market price of these labors which is reflected in the stock price. What has disappeared is just something does not exist or just exist in imagination. When production has already been excess and the surplus value has been difficult to realize, although the stock price falls, yet financial bubbles relatively greatly upsurge. If we still make investors to "firm" the confidence of obtaining high returns and lift or stabilize stock price at this moment, then at the same time of obtaining confidence, gold will be lost.

Chapter 10 Inflation

Where does a mint of U.S. dollars come from?

We have mentioned above that the formula of the nature of capitalistic economy is $c+v+m$. The currency that capitalist invests in circulation is used to purchase productive consumption goods and workers' personal consumption goods, corresponding to $c+v$. In consequence, the amount of currency invested in equals to $c+v$. While the magnitude of value of the commodities on sale consists of $c+v+m$, thus the amount of currency obtained from circulation equals to $c+v+m$. That is to say, capitalist obtains more currency than he invested from circulation. Meanwhile, owing to the continuous capitalistic reproduction, thus capitalist can continuously get out more money than he invested from circulation. Thereupon, someone questions that how did capitalist do this?

Marx's answer is that capitalist spends this so-called extra money as a means of purchase for its individual consumption.^① A new capitalist has to be able to live on means in his possession until surplus-value begins to return. Thus, the money which the capitalist throws into circulation for individual consumption can be used to realize part of the surplus value. In other words, the money capitalist threw into circulation is greater than $c+v$, and the extra part is the money which capitalist has thrown into circulation, which he did not advance, but spent as a consumer, not as a capitalist. However, even so, the money capitalist threw into circulation will not equal to, even exceed $c+v+m$. In other words, it is impossible for capitalist to consume all of the surplus value, he needs accumulation. Thus there is always a part of money that is not thrown into circulation by the capitalist who produce commodities. Then who did so?

According to the historical situations at that time, Marx considered that this part is thrown by the capitalist who produce money commodity viz. gold (or silver).^② The money thrown into circulation by capitalist who produces gold equals to $c+v+m$, and the money drawn out from circulation is zero. In other words, the capitalist producing gold purchases means of production, workers' consumption goods and his private consumption goods by using the product of gold (of last stage). Part of the surplus value accumulated by the capitalist himself exists directly in the form of gold, and need not be translated into gold by selling.

Whereas one part of the capitalists constantly pumps more money out of the circulation than it pours into it, the part that produces gold constantly pumps more money into it than it takes out in means of production.^③

However, in return, the magnitude of capitalistic production and circulation will be limited by the magnitude of precious metal production. On the other hand, when settled as a circulation tool in currency form, the gold itself can not be used on productive consumption or luxury consumption. At the same time, the whole society has to spend much labor force and means of production on the production of gold, instead of on the production of other commodities that can be used by the whole society. Thus,

^① Das Kapital Volume 2. Beijing: Renmin Press, 2004, p371.
<http://www.marxists.org/archive/marx/works/1885-c2/ch17.htm>

^② Das Kapital Volume 2. Beijing: Renmin Press, 2004, pp371-372.
<http://www.marxists.org/archive/marx/works/1885-c2/ch17.htm>

^③ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p372.
<http://www.marxists.org/archive/marx/works/1885-c2/ch17.htm>

*the entire amount of labor-power and social means of production expended in the annual production of gold and silver intended as instruments of circulation constitutes a bulky item of the **faux frais** of the capitalist mode of production, of the production of commodities in general. It is an equivalent abstraction from social utilization of as many additional means of production and consumption as possible, i.e., of real wealth. To the extent that the costs of this expensive machinery of circulation are decreased, the given scale of production or the given degree of its extension remaining constant, the productive power of social labor is **eo ipso** increased. Hence, so far as the expediciencies developing with the credit system have this effect, they increase capitalist wealth directly, either by performing a large portion of the social production and labor-power without any intervention of real money, or by raising the functional capacity of the quantity of money really functioning.*^①

In addition, in an ordinary way, capitalists are not interested in currency commodity; what they need is capital. If they can not translate the currency commodity in their hands into capital, they won't be real capitalists. Thus, they will constantly translate the currency commodity in their hands into capital and labor force, and won't let currency commodity stay too much time in their hands.

And only when economic crisis happens and production comes to a standstill, do they need to hold currency commodity to store capital and its value. Thus, in an ordinary way, the entity of currency commodity is not important to them, and it is enough to have a representative symbol. And this is also the reason why it's paper money but not gold coin we meet today.

So, how do these notes enter into circulation? There are three forms: firstly national notes, secondly fiduciary notes, and thirdly oligarch notes.

National note means the note printed with name or amount and forcibly thrown into circulation by nation. Acting as a capitalist producing gold, the nation here uses paper notes as gold to exchange the commodities or gold produced by capitalists or other producers, and uses these commodities or gold on financial expenses or national reparations. For instance, after the First World War, the Germany government issued notes to arbitrage goods and materials for war reparation. The nation could do so just because as the development of currency economy, the emergence of currency symbol became necessary. Therefore, as long as such kind of notes enters into circulation as currency symbol to a certain extent, then it can promote not impede the development of economy. The national notes are usually issued according to the amount of financial deficits; it is equivalent that the nation additionally levies a tax to make up financial deficits. And this is precisely the seigniorage we mentioned above. Because the commodities or gold exchanged back with national notes are consumed or expended, hence, national notes are not allowed to be cashed, in other words, the holders of national notes are not allowed to use national notes to directly exchange commodities or gold from the issuer of national notes, and they could but purchase commodities or gold from other people in society.

Fiduciary note means the note issued by nation or private organizations with the reserve of certain materials esp. gold. The main difference between national note and fiduciary note is that national or private organizations reserve goods and materials or gold exchanged with fiduciary notes and do not use them in consumption, and permit the holders of fiduciary notes to exchange these goods and materials or gold with fiduciary notes from the issuer of fiduciary

^① Das Kapital Volume 2. Beijing: Renmin Press, 2004, p382-383.
<http://www.marxists.org/archive/marx/works/1885-c2/ch17.htm>

notes. This is equivalent that the capitalist producing gold hands in his gold to the national or private organization (bank) to exchange fiduciary notes first, and then throws fiduciary notes into circulation. Thus, Whereas one part of the capitalists constantly pumps more fiduciary notes out of the circulation than it pours into it, the part that produces gold constantly pumps more fiduciary notes into it than it takes out, at the same time, while issuing abundant fiduciary notes, national or private organizations also use these fiduciary notes to purchase and store certain goods and materials such as gold etc., to support the monetary value of fiduciary notes. Therefore, it is unnecessary to forcibly rule fiduciary notes to circulate interiorly as means of payment. What is necessary to be forcibly ruled is the right of issuing fiduciary notes, that is, not all people can issue fiduciary notes. Both the bank notes issued by some British banks in the age of Marx and the U.S. dollars before the collapse of U.S. Bretton Woods Agreements in 1973 are such kind of fiduciary notes. Under the system of fiduciary notes, financial deficits could not be directly recovered through issuing paper money, but through issuing government bonds. Therefore, fiduciary notes which are stored in full do not have seigniorage. However, on the one hand, the necessity of commodity circulation makes large amount of paper money deposit in the field of circulation and could not return to issuers of paper money to exchange commodities or gold; on the other hand, the magnitude of economic development causes the production of precious metal to be insufficient to support the enormous demand for money. Additionally, it is also an enormous nonproductive cost to reserve excessive commodities or gold but not to come into use. Hence, the issue of fiduciary notes usually exceeds the reserving issue, viz. the amount of issued money exceeds the magnitude of value of reserved commodities or gold. The exceeding part of fiduciary notes has the character of national notes. Today, although RMB can not be cashed directly, and even in a short term may be issued too much to cause price rise, actually it takes the whole state-owned land, resources and net assets of state-owned enterprises as its reserves, thus, it is fiduciary note.

Oligarch note means the note issued by central bank which is owned or controlled by private bankers and could not be cashed. Today's U.S. dollar and Euro are both such kind of oligarch notes. Although the issuers of these paper notes more or less have some reserve, it is very little comparing with the issued paper notes, and may be neglected. The Hong Kong dollar is oligarch note, too. The Hong Kong dollar is not issued under the control of certain central bank, but issued by HSBC (Hong Kong Shanghai Banking Corporation), SCB (Standard Chartered Bank) and Bank of China with a U.S. dollar-based reserve system. Superficially, Hong Kong dollar is a kind of fiduciary note which has reserve, but its counterpart of reserve is not commodities or gold which have intrinsic value, but oligarch note. Thus, Hong Kong dollar itself is oligarch note, too. This kind of currency system is almost the same as some small countries as directly using of U.S. dollar as local currency. They both pay seigniorage to the U.S. for such a circulation tool as currency.

The central bank owned and controlled by financial oligarch owns the seigniorage of oligarch note. We can not find any information even conception about seigniorage in the textbooks of mainstream economics. And financial oligarch would never permit mainstream economics to step into this restricted zone. And the reserving and expending situation of commodities or gold arbitrated by oligarch notes could not be in public, either. Thus the main channel that oligarch note enters into circulation is kept secret to the public. What can we see from the textbook of mainstream economics is merely the secondary channel, viz. through purchasing public loan and private loan. Take the U.S. for instance, through purchasing the

public loans of the U.S. or private loans, the American private central bank viz. FRB (Federal Reserve Board) delivers U.S. dollars to American government or private organizations to arbitrage goods and materials. Thus U.S. dollars enter into the circulation domestically and overseas. Once the American government and private organizations recover U.S. dollars respectively through collecting taxes and selling commodities or services, and pay them back to FRB to redeem their bonds, U.S. dollar will quit the circulation. Hence, it is unreasonable to briefly explain the increase of money in circulation on purchasing public or private loans, unless indicating that American government and private organizations do not intend to repay the debt at all, or merely refinance, can we explain the circulation of U.S. dollars on market. Certainly, however, even so, the public magnitude of these debts is far below the magnitude of circulating U.S. dollars. This indicates that enormous U.S. dollars enter into circulation from some unknown and secret channels. Because the American government does not get this money (otherwise there won't be so many debts), it is quite possible that these paper notes are secretly and privately shared by those financial oligarchs who are out of the American government's supervision and become their tools to get something from nothing. Because U.S. dollar occupies the position of symbol of world currency in a stealing way, these out-of-supervision channels also become threaten to the world economy.

It should be noted that today's China holds a foreign exchange reserve of more than 2,000 billion U.S. dollars. While the collection and reserve of these foreign oligarch notes are carried through printing RMB for exchange. Additionally, under the circumstances of holding huge sum of foreign exchange reserve, RMB appreciates relatively to these foreign exchange, large amount of bad debts is written off, foreign exchange reserves or additional RMB are injected to commercial banks, state-owned property suffers huge loss, the participation in international monetary and financial market speculation suffers defeat after defeat, and hundreds of tons of gold reserve is locked in the U.S., cause a large number of RMB without supporting of relevant commodities (reserve) enters into the society. Therefore, gradually RMB has both characters of oligarch note and national note, and becomes the main reason of domestic price rise and inflation.

In addition, according to the former exchange rate of RMB against U.S. dollar, for holding this foreign exchange reserve of more than 2 thousand billion U.S. dollars, in turn, RMB is additionally issued over 100,000 billion Yuan. While a large part of these RMB are grasped in the hands of foreign-invested companies. Therefore, we should not only see that China has vast foreign exchange reverses, but also see that other countries grasp vast RMB and reverses of goods and materials. Supposing a foreign company invested 10 million U.S. dollars in China in 2004, and exchanged 80.922 million RMB according to the exchange rate of 1 to 8.0922 at that time; and with the revaluation of RMB against U.S. dollars, one U.S. dollar could only exchange 6.8189 Yuan in 2009, then only by returning 68.189 million RMB can this company exchange the whole 10 million U.S. dollars invested in 2004 and hold the surplus 12.733 million RMB in hands. In other words, even if this company has not earned a penny at all in these five years, it still can earn over 10 million RMB or materials that these more than 10 million RMB can purchase through the revaluation of RMB.^① And this is exactly the reason why the American government and Congress would compel China to reevaluate RMB. It is the right time for China to remove foreign-invested companies and make ways for state-owned

^① To ship these free goods and materials abroad will statistically show as another favorable balance of trade to China, thus once again add the weight to press RMB to appreciate.

enterprises and domestic private enterprises with more space for development.

Why is there inflation without price rising?

The monetarism of mainstream economics considers that, inflation is a phenomenon of money. But this sentence is just tautology. The question is, how does this monetary phenomenon come into being? When monetarists explain inflation as monetary phenomenon, they think that it's because excessive money leads to the rise of commodity prices. The mainstream economists who explain the world with two curves (supply curve and demand curve) ridiculously consider that, when entering into the circulation process, commodity does not have price, and currency does not have value, either, and in this process, a bunch of commodities in circulation exchange with a bunch of currencies they happened meet, then the so-called balanced price comes into being. In other words, if this bunch of commodities meets with much more currencies, the price will be high; vice versa.

However, it is not true for monetary commodity. Because monetary commodity itself is also a kind of commodity, and only when the magnitude of value or production price of monetary commodity varies, the exchanging rate between monetary commodity and other commodity, and consequently, the price of other commodity could vary. In history, great discovery of rich gold mines reduced the operating cost of gold, and consequently reduced the magnitude of value contained in a certain amount of gold, and then led to the devaluation of gold and the rising of commodity price, viz. the appearance of slight inflation. However, vulgar economists only partially see the increase of production of gold, and thus believe that excessive currency leads to the rise of commodity price. Actually, if the amount of monetary commodity exceeds the amount of money circulation needs, the surplus monetary commodity could absolutely withdraw from circulation and be reserved, or be consumed as materials of luxury viz. as commodities. Won't or hard to be destroyed or devaluated for long-term storage is exactly an important property for gold to turn into currency. And gold's success of finally defeated silver in world currency competition is also because that large cost reductions can hardly be achieved in the production of gold, while silver is otherwise. Thus the magnitude of value of gold becomes more stable, and it is more difficult to appear inflation.

But things changed with the introduction of paper note. When the issue of paper notes does not exceed in amount the gold (or silver as the case may be) which would actually circulate if not replaced by symbols, the paper notes merely take the place of gold to the same amount, and it won't cause inflation. If the paper money exceeds its proper limit, which is the amount in gold coins of the like denomination that can actually be current, then for fiduciary currency, the surplus paper money will go back to the hands of issuers and quit the field of circulation just like surplus gold quitting circulation, thus it could not cause inflation. But for national paper money or oligarch paper money which is unable to quit circulation, these paper money still merely represents that quantity of gold, which, in accordance with the laws of the circulation of commodities, is required, and is alone capable of being represented by paper. For example, if 1 gram of gold in the proper limit is represented by a paper note of \$ 10, after exceeding its proper limit, it will be represented by two paper notes of \$ 10. Now, \$1 would be the money-name not of 1/10 of a gram, but of 1/20 of a gram of gold. Thus, the monetary price of 1 gram of gold rises from \$10 to \$20, and the monetary price of other commodities also

doubles with the magnitude of value staying the same. And thus inflation comes into being.^①

While the reason why the issue of national paper money or oligarch paper money can exceed its proper limit is that nation or oligarchs seize circulating commodities too much and consume them away. For example, during the Vietnam War, the American government and financial oligarchs joined hands to switch on banknote printing machine and seized a large number of goods and materials for war expenditure. Relatively more paper notes represented relatively less gold that commodity circulation needed, thus caused serious inflation, and eventually caused the collapse of Bretton Woods's system. However, the mainstream economists explained that it was overheated economy that caused inflation, and the blame of American government and financial oligarchs is merely that they postponed financial measures aimed to lower the rate of economic growth and tolerated the expansion of economy.^②

Though excessively issuing national paper money or oligarch paper money is the nature of inflation and significant reason for prices rising, it does not mean that the monetarism's opinion-price can be controlled by controlling currency issue-is correct. Firstly, the mechanism deciding magnitude of value of commodities or production price and market price is totally different from the mechanism deciding the issuing and circulation of currency. Secondly, it also depends on the issuing way of currency. For example, after financial crisis, the American financial oligarchs issued a large amount of U.S. dollars and it did not cause serious rise of price. The first reason is that during the economic crisis, a mass of commodities could not be sold out and dropped in prices. The second reason is that some U.S. dollars were returned to financial oligarchs. A fairly large number of U.S. dollars which were injected by FRB to the American financial institutions were injected as loan, and the American financial institutions use these money with certain cost and need to pay back them. At the same time, there are less profitable investment opportunities during the period of crisis, thus the financial institutions returned part of U.S. dollars which were difficult to use to FRB, and it caused the excess savings of American commercial banks in FRB to greatly increase. The third reason is that mass of U.S. dollars were taken to other countries in the form of investment or importing commodities to arbitrage materials and resources. In this way, the foundation of U.S. dollars' currency value could be guaranteed by the arbitrated materials and resources from other countries. But for those countries which imported materials and gave domestic resources away to the U.S. for dollars, if they issues vast domestic currency to reserve U.S. dollars and has a vast dollar reserve, in the contrary, they have huge pressure of inflation, unless they can use U.S. dollars at any time to redeem those goods and materials imported to the U.S. and withdraw resources gave away to the U.S. without losing money, or they use U.S. dollars to get goods and materials from other countries just as the U.S. does to shift the risks to others.

On the other hand, if the total prices of circulating commodities and payment of maturing debts are raised, with other conditions unchanged, the demand for currency in circulation will increase. And if the issue of currency is intentionally controlled at this moment, it can cause shortage of currency in circulation and thus initiate disastrous consequences. At the late of 1970s, the inflation in the U.S. was quite serious. Many economists and policy makers all believed that monetary policy was the one and only hope to effectively cope with inflation. To reply this opinion, Paul Volcker, agent of financial oligarchs and newly appointed Fed

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p150.

<http://www.marxists.org/archive/marx/works/1867-c1/ch03.htm#S2c>

^② Paul Samuelson, Williams Nordhaus, *Economics* (17th Edition), Beijing, Posts & Telecom Press, 2004, p61.

Chairman, adopted a high-profile policy of controlling currency issue to launch violent attack on inflation. And this action was called experiment of monetarists. At last, from 1979 to 1982, the rate of inflation marked by price index descended rapidly, but the real GDP of the U.S. (the GDP calculated at the price after offsetting inflation) was stagnant. In other words, nominal GDP (the GDP calculated at current price) descended synchronously with the descending speed of inflation rate. At the same time, the rate of interest in the U.S. rose, consequently the financial expenses on business operations increased, and the rate of unemployment rose from less than 6% to the peak of 10% in the late of 1982.^①

It seemed that this monetarists' experiment achieved obvious success on reducing inflation rate, but it made industrial capitalists who were against financial capital for grabbing them through inflation, viz. the supporters of monetarism, suffered hard hit. It was a glorious action of the American financial oligarchs. Since then, the monetarism moved toward decline. Several years later, this monetarism with the core had already been criticized by Marx was introduced into China^②. And the experiment in China ended with the economic turbulence in 1988 and the social instability in the next year.

It also shows that, it won't work to lower inflation by raising interest rate. Although raising interest rate can limit certain investment and consumption demand, and partly create difficulties in commodity sale and thus lead to the reduction of commodity price, yet, reduction of price does not equal to inexistence or declining of inflation. Raising interest rate does not overcome the basic problem causing inflation, namely, the problem that the amount of issued currency exceeds the amount of currency needed in circulation, and does not block off the main channel of currency entering into circulation, but needs more currency to pay for the increased interest rate due to the increase of interest rate, and thus results in issuing more currency. Meantime, due to the reduction of production scale, the amount of currency needed in circulation reduces further, and the basic problem causing inflation becomes more serious.

More significantly, inflation is still possible even without price rising; and the mainstream economics including monetarism could not understand this at all. The advancement of technology and development of social productivity mean that the price of individual commodity would certainly descend. If the price of individual commodity esp. the production price after transformation has already descended, while its (paper currency) price stays unchanged, especially when it happens on many commodities included in price index, although the price index stays unchanged, while inflation has already happened. Actually, financial oligarchs usually use the moment of price falling caused by economic crisis to recklessly issue paper currency, too, just as what FRB does today. At this moment, on the one hand, the commodity price does not exceed the level before crisis, thus by the misleading of mainstream economics, people believe that inflation does not exist; on the other hand, the industrial capitalists and merchants whose commodities can not be sold out are mistaken in thinking that the deficiency of currency is the result, and then they merely solve the problem without considering the effects to allow financial oligarchs to print paper money randomly. But shrewd capitalists with surplus currency in hands will buy gold for a store of value. At this moment, the note prices of gold will rise. The mainstream economics usually explains this phenomenon as a result of gold speculation instead of depreciation of paper currency.

^①Paul Samuelson, Williams Nordhaus, *Economics* (17th Edition), Beijing, Posts & Telecom Press, 2004. pp295-296.

^②A letter from Friedman to Zhao Ziyang (about exchange rate, inflation etc., 1988.6),
<http://bbs.icxo.com/thread-199539-1-1.html>

In short, it is the self-evident obligation for mainstream economics to cover (although inferior, sometimes even unconsciously) the predatory behavior of financial oligarchs.

How did financial oligarchs gain monopoly power?

As the function of commodity capital stands apart from the circulation of industrial capital and forms commercial capital, the purely technical movements performed by money in the circulation process of industrial, and commercial capital, e.g. paying and receiving money, settling accounts, keeping current accounts, storing money, etc. if individualized as a function of some particular capital performing just these, and only these, operations as its specific operations, convert this capital into money-dealing capital. In this activity itself, the mass of money-capital with which the money-dealers operate is the money-capital of merchants and industrial capitalists in the process of circulation, and that the money-dealers' operations are actually operations of merchants and industrial capitalists, in which they act as middlemen; the money-dealers' profit is nothing but a deduction from the surplus-value, since they operate with already realized values (even when realized in the form of creditors' claims).^①

However, as the development of money-dealing, the management of interest-bearing capital, or money-capital—borrowing and lending money—develops alongside this money-dealing as a special function of the money-dealers. Money-dealing capital develops into bank-centered financial capital. On the one hand,

the bankers concentrate large amounts of the loanable money-capital in the bankers' hands, so that, in place of the individual money-lender, the bankers confront the industrial capitalists and commercial capitalists as representatives of all moneylenders. They become the general managers of money-capital. On the other hand by borrowing for the entire world of commerce, they concentrate all the borrowers vis-à-vis all the lenders. A bank represents a centralization of money-capital, of the lenders, on the one hand, and on the other a centralization of the borrowers. Its profit is generally made by borrowing at a lower rate of interest than it receives in loaning. ^②

The loanable capital which the banks have at their disposal streams to them in various ways. In the first place, being the cashiers of the industrial capitalists, all the money-capital which every producer and merchant must have as a reserve fund, or receives in payment, is concentrated in their hands. These funds are thus converted into loanable money-capital. In this way, the reserve fund of the commercial world, because it is concentrated in a common treasury, is reduced to its necessary minimum, and a portion of the money-capital which would otherwise have to lie slumbering as a reserve fund, is loaned out and serves as interest-bearing capital. In the second place, the loanable capital of the banks is formed by the deposits of money-capitalists who entrust them with the business of loaning them out. Furthermore, with...banks came to pay interest on deposits, money savings and the temporarily idle money of all classes, as well as the revenues, which are usually but gradually consumed, were deposited with them. Small amounts, each in itself incapable of acting in the capacity of money-capital, merge together into large masses and thus form a money power. ^③

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp351-359.

<http://www.marxists.org/archive/marx/works/1894-c3/ch19.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p453.

<http://www.marxists.org/archive/marx/works/1894-c3/ch25.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp453-454.

<http://www.marxists.org/archive/marx/works/1894-c3/ch25.htm>

Hence,

with the development of large-scale industry money-capital, so far as it appears on the market, is not represented by some individual capitalist, not the owner of one or another fraction of the capital in the market, but assumes the nature of a concentrated, organized mass, which, quite different from actual production, is subject to the control of bankers, i.e., the representatives of social capital. ^①

On the other hand, capitalist production exists and can endure only so long as capital-value is made to create surplus-value. Yet, technical revolutions which emerge from time to time might lead to the depreciation of capitalists' productive capital; some elements of production might fluctuate wildly in their value because of the variation of production condition; the crisis of overproduction might cause the price of commodity produced by capitalist decline; in all these situations, capitalist's capital value might meet with deficit or be misappropriated. Obviously,

the course of capitalistic production is practically normal so long as the disturbances during the repetitions of the circuit balance one another. But the greater these disturbances, the more against the foresight and calculation of the individual capitalist, the more does the course of normal production become subservient to abnormal speculation, and the greater is the danger that threatens the existence of the individual capitals. Here, the greater the money-capital which the industrial capitalist must possess to tide over the period of readjustment; and at the same time as the scale of each individual process of production and with it the minimum size of the capital to be advanced increases in the process of capitalist production. Thus, both of these two sides force industrial capitalists to be dependent on the financial support from big monetary capitalists, and the function of the industrial capitalist is transformed more and more into a monopoly of big money-capitalists, who may operate singly or in association. ^②

At the same time,

at their birth the great banks, decorated with national titles, were only associations of private speculators, who placed themselves by the side of governments, and, thanks to the privileges they received, were in a position to advance money to the State. Hence the accumulation of the national debt has no more infallible measure than the successive rise in the stock of these banks, whose full development dates from the founding of the Bank of England in 1694. The Bank of England began with lending its money to the Government at 8%; at the same time it was empowered by Parliament to coin money out of the same capital, by lending it again to the public in the form of banknotes. It was allowed to use these notes for discounting bills, making advances on commodities, and for buying the precious metals. It was not long ere this credit-money, made by the bank itself, became the coin in which the Bank of England made its loans to the State, and paid, on account of the State, the interest on the public debt. It was not enough that the bank gave with one hand and took back more with the other; it remained, even whilst receiving, the eternal creditor of the nation down to the last shilling advanced. ... The loans enable the government to meet extraordinary expenses, without the tax-payers feeling it immediately, but they necessitate, as a consequence, increased taxes. On the other hand, the raising of taxation caused by the accumulation of debts contracted one after another compels the government always to have recourse to new loans for new extraordinary expenses. ^③

And thus nation also gradually fell into the control of financial capitalists.

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p413.
<http://www.marxists.org/archive/marx/works/1894-c3/ch22.htm>

^② Das Kapital Volume 2. Beijing: Renmin Press, 2004, p124.
<http://www.marxists.org/archive/marx/works/1885-c2/ch04.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, pp865-866.
<http://www.marxists.org/archive/marx/works/1867-c1/ch31.htm>

As paper money replaced metal currency and became the only legal currency in circulation, financial oligarchs who monopolized cash printers further strengthened their power. If financial oligarch loan out \$100 with an interest rate of 5%, in order to pay back the money, the borrower has to pay \$105. The surplus \$5 still comes from the cash printer of financial oligarch, thus this \$5 either comes from new loans and leads to the constant accumulation of loans that can not be paid off forever, or comes from tribute to financial oligarch, that is, in order to keep financial oligarch from providing an extra \$5 in credit way, the borrower has to let financial oligarch get commodity viz. seigniorage priced in \$5 freely. Since there are huge amount of interest loans need to be paid back, thus there must be huge amount of U.S. dollars entering into circulation in this way, and bringing financial oligarch huge profit.

Since getting the power of determining base rate through FRB, thus, in all kinds of financial derivative trades which are speculated in or influenced by interest rate, financial oligarchs have foresight and will never lose money. Only capitalists outside the group of oligarchs and national capitals of certain countries suffer losses. No big bank and commercial organization owned by financial oligarchs bankrupted in this American economic crisis, and the commercial banks owned by shareholders of FRB expanded their market shares in the crisis.

By the way, although today's financial industry has made significant development compared with those days before one and half centuries, while its principle had been determined at that time. For example, once Marx indicated that as to the French adventurer emperor Napoleon Bonaparte and his companions, the leading principle of establishing joint-stock bank should be the creation of a vast number of industrial companies, not with the view of productive investments, but simply for the object of stock-jobbing profits.^① This idea of rendering the industrial feudalism tributary to stock-jobbing is exactly the guiding principle of today's investment banking and security market. What is interesting, it was exactly the bankruptcy of a big American investment bank namely Lehman Brothers that caused this American economic crisis. However, although five great investment banks of U.S. either bankrupted or were forced to transform into commercial banks to cast off burden, yet the business of American investment banks did not reduce at all. Just as Marx had said, this class of parasites

can not only periodically despoil industrial capitalists, but also interfere in actual production in a most dangerous manner — and this gang knows nothing about production and has nothing to do with it.^②

^① Marx & Engels Collected Works Volume 12. Beijing: Renmin Press, 1962, p38.

<http://marxengels.public-archive.net/en/ME0978en.html>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p618.

<http://www.marxists.org/archive/marx/works/1894-c3/ch33.htm>

Part V Daylight of New Society

Chapter 11 Desperate Capitalism

How long could magic cube of GDP growth play?

In the past 30 years of reform and opening-up, China has achieved great success in economic construction, but some people just regard it as rapid speed of GDP growth. According to data of China's Bureau of Statistics, China's GDP had increased from 364.52 billion Yuan in 1978 to 30067 billion Yuan in 2008,^① and that is to say, the growth rate of China's GDP during the last 30 years averagely reached 15.8%. Probably, in order to continuously keep and reflect this digitalized achievement of growth, for a fairly long time, the goal of China's economic growth was determined as not less than 8 percent of GDP growth. However, this rapid growth can not be sustainable, for it neglects the condition of reproduction. Marx had criticized this kind of superstition to growth.^② his was because, leaving evaluation of currency aside, even such tiny economic scale as 1 gram of gold, put out to 8% compound interest continuously for 742 years, would have increased to a magnitude of value of a greater sum, than would be contained in one globe, all solid gold, namely, over 6 billion billion tons of gold. And if calculated by the population of 6 billion, the magnitude of value per person would exceed 1 billion tons of gold. Is that possible?

Similarly to this magic cube of growth, capitalists constantly translate a portion of profits into capitals and chase greater profits and greater capital accumulations by expanded reproduction, but how long can they do this? In terms of advanced mathematics, unless the average rate of profit tends downward to zero, otherwise the accumulation rate of capital could be a sequence which is in proportion to rate of profit and does not tend to zero, and the capital accumulation would tend to infinite. The whole universe would be not enormous enough for capitalists' greed to swallow.

Therefore, we can understand that why the rate of interest in western developed countries could be low enough to tend to zero. For example, in Dec.16, 2008, FRB announced to cut federal funds rate by 0.75% to 0-0.25%, a historic low record.^③ The reason is, firstly, it was already highly profitable for financial oligarchs to throw into paper currency and get seigniorage, and they did not care about such a small interest income; secondly, with the limitation of existing condition of working and reproduction, a mass of capitals even could not get the general profit rate which tends to fall, and they could only be satisfied with small interest income; thirdly, in case of economic crisis, and in the name of bailout, financial oligarchs plundered depositors by reducing interest rate.

As to the falling tendency of the rate of profit, Marx analyzed as follows:

With the progressive development of the social productivity of labor, the same number of laborers, in the same time, i.e., with less labor, converts an ever-increasing quantity of raw and auxiliary materials into products, thanks to the growing application of machinery and fixed capital in general.^④

^① Website of National Bureau of Statistics of China, <http://www.stats.gov.cn/tjsj/ndsj/2009/indexch.htm> (Dec18,2010)

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp445-446.
<http://www.marxists.org/archive/marx/works/1894-c3/ch24.htm>

^③ FRB lowered benchmark interest rate to 0-0.25%, hitting a record low, Global Times (Beijing), Dec.17,2008.

^④ Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp236.

As the example in chapter 3, in a lower stage of production, it takes a 20-days labor to translate \$1,000 of raw materials into production; while in a higher stage, it only takes a 15-days labor to translate \$1,100 of raw materials into production, and transfer more value from machine.

Thus, this mode of production produces a progressive relative decrease of the variable capital as compared to the constant capital, and consequently a continuously rising organic composition of the total capital. The immediate result of this is that the rate of surplus-value, at the same, or even a rising, degree of labor exploitation, is represented by a continually falling general rate of profit.^①

For example, in the above case, supposing that the rate of surplus value is 60%, in the lower stage of production, the organic composition of capital of every single production, i.e., the ratio of constant capital (c) to variable capital (v) is $10.1/6=1.7$, the rate of profit of every single production i.e., the ratio of surplus value (m) to (c+v) is $3.6/16.1=22.4\%$; while in the higher stage of production, the organic composition of capital of every single production is 2.9, and the rate of profit is 15.4%. As far as total capital is concerned, this tendency of the rate of profit to fall is further reasonable.

The law of the falling rate of profit, which expresses the same, or even a higher, rate of surplus-value, states, in other words, that any quantity of the average social capital, say, a capital of 100, comprises an ever larger portion or means of labor, and an ever smaller portion of living labor. Therefore, since the aggregate mass of living labor operating the means of production decreases in relation to the value of these means of production, it follows that the unpaid labor and the portion of value in which it is expressed must decline as compared to the value of the advanced total capital.^②

It is not because the laborer is exploited any less, but because generally less labor is employed in proportion to the employed capital.^③

The law of the progressive falling of the rate of profit...does not rule out in any way that the absolute mass of exploited labor set in motion by the social capital, and consequently the absolute mass of the surplus-labor it appropriates, may grow; Nor, that the capitals controlled by individual capitalists may dispose of a growing mass of labor and, hence, of surplus-labor; the latter even though the number of laborers they employ does not increase.^④

But it can express itself only in a growth of the total capital at a pace more rapid than that at which the rate of profit falls. For an absolutely increased variable capital to be employed in a capital of higher composition, or one in which the constant capital has increased relatively more, the total capital must not only grow proportionately to its higher composition, but still more rapidly. It follows, then, that as the capitalist mode of production develops, an ever larger quantity of capital is required to employ the same, let alone an increased, amount of labor-power.^⑤

Thus on the one hand the accumulation of capital is needed because at this time all kinds of production conditions have demand of using a large amount of capital; on the other hand, concentration of capital, i.e. small capitalists are swallowed up by big capitalists, small

<http://www.marxists.org/archive/marx/works/1894-c3/ch13.htm>

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp237.

<http://www.marxists.org/archive/marx/works/1894-c3/ch13.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, p240.

<http://www.marxists.org/archive/marx/works/1894-c3/ch13.htm>

^③ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p274.

<http://www.marxists.org/archive/marx/works/1894-c3/ch15.htm>

^④ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p241.

<http://www.marxists.org/archive/marx/works/1894-c3/ch13.htm>

^⑤ Das Kapital Volume 3. Beijing: Renmin Press, 2004, p248.

<http://www.marxists.org/archive/marx/works/1894-c3/ch13.htm>

capitalists lose their capitals and a mass of workers lose their jobs, is needed, too.

As the rate of profit is the stimulating principle of capitalist production and the fundamental premise and driving force of accumulation, its fall appears as a threat to the development of the capitalist production process. Here, the limitation of capitalistic production, its relativity and dead end, are reflected by capitalistic production itself, and reflect in economic crisis.

In economic crisis, on the one hand, big capital can relatively improve their rate of profit by swallowing up small capital; on the other hand, mass commodities and social general capital encounter devaluation, the starting point of accumulation becomes low, the average profit rate of whole society achieves space for improvement, and thus the average profit rate which has been greatly lowered once gets increasing in the succeeding recovery stage and prosperous stage until the average profit rate begins to lower again and another economic crisis comes into being.

Periodic economic crisis of capitalism indicates that,

the real barrier of capitalist production is capital itself. It is that capital and its self-expansion appear as the starting and the closing point, the motive and the purpose of production; that production is only production for capital and not vice versa, the means of production are not mere means for a constant expansion of the living process of the society of producers. The limits within which the preservation and self-expansion of the value of capital resting on the expropriation and pauperization of the great mass of producers can alone move—these limits come continually into conflict with the methods of production employed by capital for its purposes, which drive towards unlimited extension of production, towards production as an end in itself, towards unconditional development of the social productivity of labor. The means—unconditional development of the productive forces of society—comes continually into conflict with the limited purpose, the self-expansion of the existing capital. The capitalist mode of production is, for this reason, a historical means of developing the material forces of production and creating an appropriate world-market and is, at the same time, a continual conflict between this its historical task and its own corresponding relations of social production.^①

And this conflict can only, and must be overcome constantly through crises.^②

How long could global economy recover?

The economic globalization magnifies the depth and width of crisis influences, thus the influence of this global economic crisis is more serious both in depth and width than that in the late 1920s and early 1930s. Although the western countries adopted certain interventions, yet just as after the American president Roosevelt came to power and adopted interventions, the American economy still remained weak in recovery and fell into crisis once again during 1937-1938, the economic depression caused by this crisis still would not revive quickly due to such simply interventions.

In fact, after the Great Depression of last century, the American GNP did not surpass that in 1922 until 1941 after the Second World War broke out. During this period, some events contributed to the economic recovery happened as follows: firstly, the former Soviet Union was just in the new upsurge of socialist construction, and it imported machines and industrial

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp278-279.

<http://www.marxists.org/archive/marx/works/1894-c3/ch15.htm>

^② Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp287.

<http://www.marxists.org/archive/marx/works/1894-c3/ch15.htm>

consumer goods from such countries as the Great Britain and the U.S. *etc.* in large quantity, attracted surplus capitals from western countries, introduced technology and professional technicians, thus effectively relieved overproduction in Britain and the United States and other countries. The former Soviet Union and eastern European countries continued these trades after the Second World War, thus it alleviated the overproduction of capitalist countries after the Second World War, and made the western capitalist countries possess a better developing period of over 20 years after the Second World War till the economic crisis was ignited by oil crisis in 1970s. Hence, naturally, in the mainstream economics, these “contributions” of the former Soviet Union and eastern European countries were improperly counted as the effect of Keynesianism intervention policy carried out by the western capitalist countries. Secondly, large quantities of “surplus” commodities were initiatively destroyed, and large quantities of commodities as corn, wheat, cotton, milk *etc.* were taken as fuel or dumped into rivers and sea. Thirdly, the outburst of the Second World War in Europe made the demand from the U.S. such as the American aviation productions to have great increase. Fourthly, technological progress in large scale, drove industrial demand and enhanced profits, such as the development of aviation technology, heavy oil decomposition technique and food preservation technology, and the innovations of FM radio, sound film and color film; some novel, fashionable and charming commodities were constantly produced out in further lower costs, such as cellophane, synthetic rubber, nylon, alloy steel, synthetic resin, synthetic photocell, television, sodium lamp, radio telephone, electric organ, *etc.* Fifthly, trade protection measures were adopted. In 1930, the U.S. Congress passed a bill to advance the import tariff of nearly 900 kinds of main products by an average of almost 40%. Because the U.S. has the largest domestic market in the world, thus the trade protection measures guaranteed the space for the American industrial capital to recover.

Nowadays however, compared with the 1930s, firstly, the Soviet Union does not exist. Although many western countries expect China to purchase their surplus commodities just as the former Soviet Union had done, yet, on the one hand, what they are willing to sell are just something unnecessary or less necessary to China, while they are not willing to sell commodities with higher level to China, who has already had certain industrial foundation; on the other hand, as China's economic mainstay, public-owned economy encounters obstructions from some people in its development, so that China's National Bureau of Statistics is embarrassed to publish the proportion of public-owned economy to national economy. Because the proportion of public-owned economy is relatively low, while private economies, including foreign-invested companies, are all in big trouble themselves, and additionally, domestic public are trapped in the high cost of education, medical treatment and housing, the wage income growth of the majority people is lower than the growth of average wage income. Thus, except the government procurement with debt, the domestic demand has been so weak that China is in no mood for, and incapable of purchasing surplus commodities from western countries without restraint.

Secondly, economic globalization leads to further strengthen on monopoly; the pricing power to bulk stock is under the control of big enterprises in developed countries. Since monopoly enterprises do not need to keep the commodity prices by means of destroying mass commodities, then, the surplus commodities can but be gradually digested by market in a long time.

Thirdly, it is unlikely to break out world war in this nuclear weapon age. Local wars

would end with the only result of playing both ends against the middle, and war among great powers could be less possible. Moreover, the U.S. and Europe have not gotten away from the war in Iraq and Afghanistan, and their public still has weariness about war. So they would not start new and bigger war easily, otherwise they might have more difficulties to pick up the pieces and get away from the war. While local wars between small countries provides have small contributions to the economic recovery of great powers. Certainly, it is also an essential condition to prevent new war that people all over the world are making great efforts for peace and firmly preparing for war.

Fourthly, the achievements of new technological revolution such as computer and internet *etc.* have been widely used, but new and massive technological progress has not emerged. The technologies of new energy and environmental protection merely have some development in old manufacturing field, and thus it is also impossible to drive the recovery of global economy by means of applying those new technologies within several years.

Fifthly, American's consumption in the past has over-drafted their purchasing power, and increased the difficulty for economic crisis to digest surplus commodities. At the same time, the working class and petty and middle bourgeoisie in the U.S. and Europe suffered great losses in this crisis, yet the governments of these countries still attempted to rescue the market by cutting down their welfare. Hence consumers of these countries could only, intentionally or unintentionally, reject the former consumption pattern, and further reduce consumption scale, and consequently, the market space that economic growth has been relied on for many years is difficult to recover.

Sixthly, with the development of economic globalization, trade protectionism has been a tool to grab export profits from other countries instead of protecting similar domestic enterprises. For example, the *EU Child Safe Act* restricts the export of cheap lighter from China to EU, with the main purpose of compelling Chinese export enterprises to purchase related patents about safety lock developed by European enterprises in high price. In Sept. 11, 2009, U.S. president Barack Obama determined to implement punitive tariff to all car and light-truck tires imported from China for three years. However, many big American tire companies have set up companies in forms of sole proprietorship or corporation in China and a large portion of production are exported to the U.S., thus this decision also made these American enterprises to be direct "victims", and meanwhile, would raise the costs of American domestic automakers. Such decision made by the U.S. government is just a political gesture to put pressure on China and force China to open finance market. It serves the American financial oligarch and does not have substantive assistance to American industrial capitalists.

Judging from the present situation, the economic crisis and economic depression in the U.S. are still developing deeply and fully, meanwhile the situation of Europe is not optimistic, either. Since western countries carried out rescue package, just as Engels had said, "as often as we seem to perceive its heralding symptoms, so often do they again vanish into air."^① Some pundits from the U.S. and Europe and some international organizations deduced that the world economy has been stabilized, but their deduction has been repeatedly proved to be untenable.

To sum up, because we can not see that the huge market capacity has the prospect of recovering rapidly, and without market that can expand constantly and rapidly, the operation of capitalistic production system will be impossible. Hence, the recover of global economy this

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, p36. <http://www.marxists.org/archive/marx/works/1867-c1/p6.htm>

time will come through longer time than that 80 years ago. In other words, the global economic depression caused by this crisis will last over 10 years.

Why should the production be adjusted by the whole society?

As we mentioned above, the capitalist expanded reproduction demands to expand market continuously. If the speed of market expansion can not keep pace with the speed of productivity expansion, the crisis of overproduction will appear. Then, in condition of simple reproduction which has no demand to expand market, in other words, if capitalist himself consume all of the surplus value, will the crisis not appear? The answer is, the crisis will appear, too.

Marx divided the total product of society into two major departments: Means of Production and Articles of Consumption. *Means of Production* means commodities having a form in which they must, or at least may, pass into productive consumption; *Articles of Consumption* means commodities having a form in which they pass into the individual consumption of the capitalist and the working-class. Hence, all the various branches of production are divided into two departments: means of production and articles of consumption. The aggregate capital employed in each of these two branches of production constitutes a separate large department of the social capital, respectively recorded as department I and department II. ^①

Based on this, we begin to analyze simple reproduction and its process of transformations. Assuming that the rate of surplus-value s/v to be 100 per cent, the total capital of department I is 5,000, with 4,000 of constant capital (marked as Ic), 1,000 of variable capital (marked as Iv) and 1,000 of surplus value (marked as Im); the total capital of department II is 2,500, with 2,000 of constant capital (marked as IIc), 500 of variable capital (marked as IIv) and 500 of surplus value (marked as IIm).

After one time of production, we can get 6,000 of means of production and 3,000 of articles of consumption. To simplify, for the present, we leave out of account that portion of value which is transferred from the fixed capital to the annual product by wear and tear, unless fixed capital is replaced in kind during the year. Hence, we get various kinds of commodities with a total value 9,000, exclusive of the fixed capital persisting in its natural form, according to our assumption. If we were now to examine the transformations necessary on the basis of simple reproduction, where the entire surplus-value is unproductively consumed, and then we should obtain at the outset three great points of support.

1) The 500 v , representing wages of the laborers, and 500 m , representing surplus-value of the capitalists, in department II, must be spent for articles of consumption. But their value exists in articles of consumption worth 1,000, held by the capitalists of department II, which replace the advanced 500 v and represent the 500 m . Consequently the wages and surplus-value of department II are exchanged within this department for products of this same department. Thereby articles of consumption to the amount of (500 v +500 m) $II = 1,000$, drop out of the total product.

2) The 1,000 v plus 1,000 s of department I must likewise be spent for articles of consumption; but their value is present in 2,000 Ic produced by department I, and the 2,000 Ic need be exchanged with the for the articles of consumption of department II. And there is 2,000 IIc , namely constant capital in department II that

^① Das Kapital Volume 2. Beijing: Renmin Press, 2004, pp438-439.
http://www.marxists.org/archive/marx/works/1885-c2/ch20_01.htm

just need to be replaced to maintain simple reproduction. Thereby 2,000 Ic and $(1,000v + 1,000s)$ I drop out of the calculation.

3) There still remain 4,000 Ic . These consist of means of production which can be used only in department I to replace its consumed constant capital, and are therefore disposed of by mutual exchange between the individual capitalists of I .^①

It follows that, on the basis of simple reproduction, the sum of the values of $v + m$ of the commodity-capital of I (and therefore a corresponding proportional part of the total commodity-product of I) must be equal to the constant capital Ic , which is likewise taken as a proportional part of the total commodity-product of department II ; or $I(v+m) = Ic$.

Here it is the first macroeconomics model in the history of economics.^② In the above example, the formula is: $1000Iv + 1000Im = 2000Ic$. Later Marx analyzed the commodity exchange formula in the condition of expanded reproduction.

By Contrast, subsequently the mainstream economics also divided market into two departments: product market and resource market, and focused on the general equilibrium between these two major markets. But the mainstream economists just consider that, the variation of prices can adjust supply and demand, and make the supply and demand of various markets to be balanced. They take neither the quantity relationships among various markets in the balance nor the influences to reproduction from this balance into consideration. In fact, what the mainstream economics consider more is not reproduction but one-time reproduction.

Marx further indicated that, the product of an individual capital has a bodily form of one kind or another. But it is different with the product of the aggregate social capital. All the material elements of reproduction must in their bodily form constitute parts of this product^③. In other words, even if the above formula about magnitude of value is tenable, still the simple reproduction will be destroyed.

This is because, the fixed capital such as machines *etc.* among constant capital need not to be replaced in kind every year. The value that transfers year by year from machine to production is converted into currency firstly, which gradually accumulates into a sum total until the time for the renewal of the fixed capital in its bodily form arrives. Then, in the above example,

A money balance in favor of II could arise only if it sold 2,000 worth to I and bought less than 2,000 from I , say only 1,800. In such an event we would have a money-fund for II , placed to the credit of the wear and tear of its fixed capital. But then we would have an over-production of means of production in the amount of 200 on the other side, the side of I , and the basis of our scheme would be destroyed, namely reproduction on the same scale, where complete proportionality between the various systems of production is assumed.^④

Hence, there would be a crisis—a crisis of over-production—in spite of reproduction on an unchanging scale.^⑤

^① Das Kapital Volume 2. Beijing: Renmin Press, 2004, p441.

^② http://www.marxists.org/archive/marx/works/1885-c2/ch20_01.htm

^③ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p446.
http://www.marxists.org/archive/marx/works/1885-c2/ch20_01.htm

^④ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p482.
http://www.marxists.org/archive/marx/works/1885-c2/ch20_02.htm

^⑤ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p508.
http://www.marxists.org/archive/marx/works/1885-c2/ch20_02.htm

^⑥ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p524.
http://www.marxists.org/archive/marx/works/1885-c2/ch20_02.htm

Obviously, the production should be adjusted by the whole society to avoid such crisis.

Once the capitalist form of reproduction is abolished, it is only a matter of the volume of the expiring portion—expiring and therefore to be reproduced in kind — of fixed capital (the capital which in our illustration functions in the production of articles of consumption) varying in various successive years. If it is very large in a certain year (in excess of the average mortality, as is the case with human beings), then it is certainly so much smaller in the next year. The quantity of raw materials, semi-finished products, and auxiliary materials required for the annual production of the articles of consumption—provided other things remain equal — does not decrease in consequence. Hence the aggregate production of means of production would have to increase in the one case and decrease in the other. ^①

It is somewhat like that although the earth moves around the sun on and on, the distance between earth and sun is sometimes farther and sometimes closer. This kind of dialectical balanced way could not exist in metaphysical mainstream economics.

This can be remedied only by a continuous relative over-production. There must be on the one hand a certain quantity of fixed capital produced in excess of that which is directly required; on the other hand, and particularly, there must be a supply of raw materials, etc., in excess of the direct annual requirements (this applies especially to means of subsistence). This sort of over-production is tantamount to control by society over the material means of its own reproduction. But within capitalist society it is an element of anarchy. ^②

Hence,

certain conditions of normal exchange and therefore of the normal course of reproduction change into so many conditions of abnormal movement, into so many possibilities of crises, while balance is itself an accident. ^③

Production has become a *social* act. Exchange and appropriation continue to be *individual* acts, the acts of individuals. The social product is appropriated by the individual capitalist. The collision becomes inevitable, and as this cannot produce any real solution so long as it does not break in pieces the capitalist mode of production, the collisions become periodic. Capitalist production has begotten another "vicious circle". ^④

Why not the history end?

For nearly three decades, although various crises, *esp.* the drastic changes in former Soviet Union and Eastern Europe, has happened continuously, the western developed countries experienced just slight economic recessions instead of real economic crisis, thus some perspectives consider that, Marxism has been out of date, and human's history will end in capitalist system (viz. so called "the end of history"), and such perspectives cause a great clamor.

However, Marx had already criticized such perspective as "there has been history, but there is no longer any" ^⑤. And the explosion of this economic crisis in western developed countries not only declares once again that the capitalist economic crisis, whose historical

^① Das Kapital Volume 2. Beijing: Renmin Press, 2004, p526.

http://www.marxists.org/archive/marx/works/1885-c2/ch20_02.htm

^② Das Kapital Volume 2. Beijing: Renmin Press, 2004, p526.

http://www.marxists.org/archive/marx/works/1885-c2/ch20_02.htm

^③ Das Kapital Volume 2. Beijing: Renmin Press, 2004, p557.

<http://www.marxists.org/archive/marx/works/1885-c2/ch21.htm>

^④ Marx & Engels Collected Works Volume 19, Beijing: Renmin Press, 1963, pp236-246.

<http://www.marxists.org/archive/marx/works/1880/soc-utop/ch03.htm>

^⑤ Marx & Engels Collected Works Volume 4, Beijing: Renmin Press, 1958, p154.

<http://www.marxists.org/archive/marx/works/1847/poverty-philosophy/ch02.htm>

inevitability had been demonstrated by Marx, will inevitably explode in reality, just as Hegel had indicated that “what is reasonable is real”, but also declares that the drastic changes in former Soviet Union and Eastern Europe in early 1990s were not the end of history, but dying embers of capitalism.

As you know, the historical development of human beings does not go forward in a straight line, and inevitably experiences some reversals. The first republic of French capitalist existed only 12 years, while the first proletarian country of Russia lived for 74 years. In comparing bourgeois revolution with proletarian revolution, Marx had pointed out,

Bourgeois revolutions, like those of the eighteenth century, storm more swiftly from success to success, their dramatic effects outdo each other, men and things seem set in sparkling diamonds, ecstasy is the order of the day – but they are short-lived, soon they have reached their zenith, and a long Katzenjammer [cat’s winge] takes hold of society before it learns to assimilate the results of its storm-and-stress period soberly. On the other hand, proletarian revolutions, like those of the nineteenth century, constantly criticize themselves, constantly interrupt themselves in their own course, return to the apparently accomplished, in order to begin anew; they deride with cruel thoroughness the half-measures, weaknesses, and paltriness of their first attempts, seem to throw down their opponents only so the latter may draw new strength from the earth and rise before them again more gigantic than ever, recoil constantly from the indefinite colossalness of their own goals – until a situation is created which makes all turning back impossible.^①

And at that time, life itself will force working class to go forward once again.

Bourgeois revolution is nothing but transforming from one exploiting form into another one, while proletarian revolution would initiate a non-exploitation social form that has never existed in the past thousands of years, hence only in constantly criticizing themselves can they find out a brand new way. The collapse of former Soviet Union is not purely a retrogression of history but proletarian revolution’s “return to the apparently accomplished”, so that after eliminating “the half-measures of their first attempts”, they can achieve the grand goal of communism.

In fact, the foundations of some socialist countries as the former Soviet Union and the Republic of China *etc.* forced the bourgeoisie in western developed countries to make some concessions to the working class. Additionally, the trade interactions between socialism camp and capitalism camp lightened the degree of overproduction in capitalist countries, and postponed the occurrences of serious economic crises in capitalist countries. Secondly, after 1980s, large quantities of Chinese inexpensive consumer goods entered into Europe and the U.S., and that lowered the price level of these countries, and in turn lowered workers’ wages and promoted the rate of profit of capitalists. Finally, the collapse of the Soviet Union and eastern European socialist countries provided extra plundering objects for western developed countries, and made the bourgeoisie of western developed countries to withdraw some concessions that they once made to the working class, which, similarly promoted the average rate of profit of capitalists. While it was just these factors that made capitalist countries to obtain the possibility of momentary recover in the end of last century and at the beginning of this century. Meanwhile, this American economic crisis indicates that the enjoyment of “peace dividend” by western developed countries has reached an end.

Additionally, on the one hand, as the economic globalization, multinational enterprises of developed countries have bigger and bigger monopoly scale, and there are less and less spaces

^① Marx & Engels Collected Works Volume 8, Beijing: Renmin Press, 1961, p125.
<http://www.marxists.org/archive/marx/works/1852/18th-brumaire/ch03.htm>

for old market to further squeeze and for the new market to be seized. A large amount of capitals are unable to be thrown into real economy but huddled in speculative financial market. Financial crises and economic crises will be more and more frequently; at the same time, the capitalist state interventions either do not help, or just make the scale of crisis to be more enormous. On the other hand, Marx had indicated once that, " Without the great alternative phases of dullness, prosperity, over-excitement, crisis and distress, which modern industry traverses in periodically recurring cycles, with the up and down of wages resulting from them, as with the constant warfare between masters and men closely corresponding with those variations in wages and profits, the working-classes of Great Britain, and of all Europe, would be a heart-broken, a weak-minded, a worn-out, unresisting mass, whose self-emancipation would prove as impossible as that of the slaves of Ancient Greece and Rome." ^① Therefore, accompanied by economic crises, the working class must increasingly strengthen their resistance.

Don't assume that the bourgeoisie could avoid the collapse of capitalism with atomic bomb in hands, on the contrary, the bourgeoisie has to spend much wealth in military industry, and it just indicates the fragility of the bourgeoisie. Since the social productivity has been not able to promote the bourgeois relationship of ownership system to develop further any longer, on the contrary, this relationship can not accommodate the increase of productivity; since the bourgeois relationship of ownership system has impeded the development of productivity, and when productivity began to broke through this obstacle, the whole bourgeois society fell into chaos; since the new and higher relations of production, viz. socialist relations of production, has broken out of the earth in the capitalism world, and provided both positive and negative experiences with personal practices; and since people of the world has had scientific Marxism as guidance, so, the overall collapse of capitalism is not only inevitable, but also not so far.

^① Marx & Engels Collected Works Volume 9, Beijing: Renmin Press, 1961, p191.
<http://www.marxists.org/archive/marx/works/1853/07/14.htm>

Chapter 12 Community of Free Individual

Why should the reconstruction of individual ownership system be based on public ownership?

The mainstream economics advocates private ownership, but they intentionally do not definitely distinguish two kinds of different private ownership, viz. scattered private property based on the labour of its owner and capitalist private property.

The private property of the laborer in his means of production is the foundation of petty industry. ...This mode of production presupposes parceling of the soil and scattering of the other means of production. As it excludes the concentration of these means of production, so also it excludes cooperation, division of labor within each separate process of production, the control over, and the productive application of the forces of Nature by society, and the free development of the social productive powers. It is compatible only with a system of production, and a society, moving within narrow and more or less primitive bounds.... At a certain stage of development, it brings forth the material agencies for its own dissolution. From that moment, ... self-earned private property, that is based,...is supplanted by capitalistic private property, which rests on exploitation of the nominally free labor of others, i.e., on wage labor. ^①

...As soon as the capitalist mode of production stands on its own feet,...the further expropriation of private proprietors, takes a new form. That which is now to be expropriated is no longer the laborer working for himself, but the capitalist exploiting many laborers. ...This expropriation is accomplished by the action of the immanent laws of capitalistic production itself, by the centralization of capital. ^②

Financial fraudulence and financial crisis are significant ways to enhance this kind of capital centralization.

With centralization of the means of production and socialization of labor at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. ^③

Totally,

...the capitalist mode of appropriation, the result of the capitalist mode of production, produces capitalist private property. This is the first negation of individual private property, as founded on the labor of the proprietor. But capitalist production begets, with the inexorability of a law of Nature, its own negation. It is the negation of negation. This does not re-establish private property for the producer ...but gives him individual property based on public ownership. ^④

Then why should individual property be based on public ownership? That is because the acquisition of the capitalist produced huge means of production. And the means of production, e.g. a steel furnace, can not be operated independently by an individual person, and a single worker could not say that one product is made by himself. Scattered private property, arising from individual labor, could not accomplish the possession of means of production, moreover, capitalist private property has been denied; hence cooperation of free laborer and the possession in common of the land and of the means of production are the only form to be taken.

^① Das Kapital Volume 1. Beijing: Renmin Press, 2004, pp872-873.

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p873.

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, pp873-874.

^④ Das Kapital Volume 1. Beijing: Renmin Press, 2004, p874.

<http://www.marxists.org/archive/marx/works/1867-c1/ch32.htm>

Then, in the condition of public ownership, how does “individual property” manifest? Someone considers that it means the individual property of articles of consumption. But it is imprecise. After all, in any kind of ownership, the food each person put into mouth could not be shared by others, thus it is owned by each individual. Actually, if merely from the perspective of articles of consumption, the individual property we said above means that individual directly possesses articles of consumption rather than indirectly possesses by means of commodity exchange. However, the more profound implication of individual property is inseparable with liberty of laborers.

In all expropriations up to now, a mass of individuals remained subservient to a single instrument of production; in the appropriation by the proletarians, a mass of instruments of production must be made subject to each individual and property to all. ^①

What does this mean? It means that, in handicraft industry up to now, a shoemaker usually was a shoemaker for life, even his several generations were shoemakers, and what they used were shoe-making tools. In capitalist system, a steel worker will always be steel worker and work in the same position all the time if he was not forced to look for another job because of unemployment. While in new expropriation,

all branches of production are operated by society as a whole – that is, for the common account, according to a common plan, and with the participation of all members of society. It will, in other words, abolish competition and replace it with association. ^②

And what is particularly important,

nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production and thus makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticize after dinner, just as I have a mind, without ever becoming hunter, fisherman, herdsman or critic. ^③

Certainly, at present there are quite a few rich people could be free to do this today and do that tomorrow, such as flying aircraft or climbing snow mountain and so forth. While in capitalist private property, only very small minority can do so. And if they want to do so, the precondition that others could not be free to do something is necessary. And at the same time, it also costs enormous waste. Because when the rich become a critic, his private aircraft and equipments for climbing snow mountain are in idle and could not be used by others. If others want to fly aircraft or climb snow mountain they should prepare another suit of equipments. While in public ownership, other people can use the means of production that one does not use for the moment, and at same time one can use something that other people do not use for the moment.

The individual property that Marx maintained to reproduce refers to the appropriation of a totality of productive forces by individuals, and this appropriation can only be effected through a union. ^④ Because the individuals appropriate the existing totality of productive forces, because property must be made subject to all, thus the individuals can break away from subordination to certain single instrument of production generating from a particular and

^① Marx & Engels Collected Works Volume 3, Beijing: Renmin Press, 1960, p76.

<http://www.marxists.org/archive/marx/works/1845/german-ideology/ch01c.htm>

^② Marx & Engels Collected Works Volume 4, Beijing: Renmin Press, 1958, p365.

<http://www.marxists.org/archive/marx/works/1847/11/prin-com.htm>

^③ Marx & Engels Collected Works Volume 3, Beijing: Renmin Press, 1960, p37.

<http://www.marxists.org/archive/marx/works/1845/german-ideology/ch01a.htm#a1>

^④ Marx & Engels Collected Works Volume 3, Beijing: Renmin Press, 1960, p77.

<http://www.marxists.org/archive/marx/works/1845/german-ideology/ch01c.htm>

accidental condition, and labor transforms into self-activity, thus individuals can develop into complete individuals and get a full development. Under such liberty, the democracy is not only necessary but also genuine.

Obviously,

only in community with others has each individual the means of cultivating his gifts in all directions; only in the community, therefore, is personal freedom possible. In the previous private property, personal freedom has existed only for the individuals who developed within the relationships of the ruling class, and only insofar as they were individuals of this class.^①

Therefore, those people, who put public property aside and advocate liberty as universal value, just want to be, or on this account, want to declare themselves to be the ruler or vassal.

It shows that, one largest shortage of public-owned economy in the former Soviet Union and previous China is the insufficient in laborers' job rotation. Certainly it related to the fact that the former Soviet Union and new China had weak economic foundations and lacked vast professionals. Hence although many workers, peasants and their juniors received education and cultivation, each person still had relatively fixed position, thus the grading system came into being. Although the management of each branch of production was preformed according to general plane, yet all members of society did not have a high participation of formulation and management of planes, and planned economy fell into rigid. Moreover, the feature of grading system must be personal bondage and bureaucracy. Reforms attempted to break away from these disadvantageous situations, e .g. contract system reform which loosened plans, caused

management of industry by individuals, which necessarily implies private property. And since competition is in reality merely the manner and form in which the control of industry by private property owners expresses itself, it follows that private property cannot be separated from competition and the individual management of industry.^②

Hence, the current reform orientation should be how to advance with the times and complete public property, instead of drawing back to outdated times of private property, as mainstream economists urged. From Marx's perspective,

the transformation of scattered private property, arising from individual labor, into capitalist private property is, naturally, a process, incomparably more protracted, violent, and difficult, than the transformation of capitalistic private property, already practically resting on socialized production, into socialized property. In the former case, we had the expropriation of the mass of the people by a few usurpers; in the latter, we have the expropriation of a few usurpers by the mass of the people.^③

Why should state-owned enterprises be socialized?

The domestic people in China in the past usually regarded state-owned enterprises as public-owned enterprises, yet western capitalist countries have state-owned enterprises, too. What we should indicate first is: state ownership is not the highest form of public ownership. The highest form of public ownership is ownership by the whole people in communist society. Yet in socialist society, because of the existence of nation, the highest form of public ownership

^① Marx & Engels Collected Works Volume 3, Beijing: Renmin Press, 1960, p84.

<http://www.marxists.org/archive/marx/works/1845/german-ideology/ch01d.htm>

^② Marx & Engels Collected Works Volume 4, Beijing: Renmin Press, 1958, p365.

<http://www.marxists.org/archive/marx/works/1847/11/prin-com.htm>

^③ Das Kapital Volume 1. Beijing: Renmin Press, 2004, pp874-875.

<http://www.marxists.org/archive/marx/works/1867-c1/ch32.htm>

can not be anything but state ownership, though it was once called ownership by the whole people. Hence, although state ownership is not necessarily public ownership, yet the major form for realizing public ownership can not be anything but state ownership.

In fact, how to judge a state ownership is whether public ownership or not? The key lies in whether the workers are in condition of wage labor or not. If workers are masters of enterprises, then the state ownership is public ownership; if workers are wage laborers, then the state ownership is non-public ownership.

Since the economic crises have demonstrated the incapacity of the bourgeoisie for managing any longer modern productive forces, then, there's nothing to be surprised that the official representative of capitalist society — the state — will ultimately have to undertake the direction of production. This necessity for conversion into State property is felt first in the great institutions for intercourse and communication, such as the railways *etc.*^① Mrs. Thatcher, the former prime minister of the United Kingdom who was famous for privatization, once privatized state-owned railways. Yet after years of operation, she had to nationalize the railways again because of constant accidents.

Actually, Marx had already revealed the problems of private railways by means of a case in *Capital*.

A tremendous railway accident has hurried hundreds of passengers into another world. The negligence of a guard, an engine-driver and a signalman is the cause of the misfortune. They declare with one voice before the jury that ten or twelve years before, their labor only lasted eight hours a-day. During the last five or six years it had been screwed up to 14, 18, and 20 hours, and under a specially severe pressure of holiday-makers, at times of excursion trains, it often lasted for 40 or 50 hours without a break. They were ordinary men, not Cyclops. At a certain point their labor-power failed. Torpor seized them. Their brain ceased to think, their eyes to see. The thoroughly "respectable" British jurymen answered by a verdict that sent them to the next assizes on a charge of manslaughter, and, in a gentle "rider" to their verdict, expressed the pious hope that the capitalistic magnates of the railways would, in future, be more extravagant in the purchase of a sufficient quantity of labor-power, and more "abstemious," more "self-denying," more "thrifty," in the draining of paid labor-power.^②

But the state ownership of capitalism or state capitalism

does not do away with the capitalistic nature of the productive forces. In the joint-stock companies this is obvious. And the modern state, again, is only the organization that bourgeois society takes on in order to support the general external conditions of the capitalist mode of production against the encroachments as well of the workers as of individual capitalists. The modern state, no matter what its form, is essentially a capitalist machine, the state of the capitalists, the ideal personification of the total national capital. The more it proceeds to the taking over of productive forces, the more does it actually become the national capitalist, the more citizens does it exploit. The workers remain wage-workers — proletarians. The capitalist relation is not done away with. It is rather brought to a head. But, brought to a head, it topples over. State ownership of the productive forces is not the solution of the conflict, but concealed within it are the technical conditions that form the elements of that solution. This solution can only consist in the practical recognition of the social nature of the modern forces of production, and therefore in the harmonizing of the modes of production, appropriation, and exchange with the socialized character of the means of production And this

^① Marx & Engels Collected Works Volume 19, Beijing: Renmin Press, 1963, p239.

<http://www.marxists.org/archive/marx/works/1880/soc-utop/ch03.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p293.

<http://www.marxists.org/archive/marx/works/1867-c1/ch10.htm#S3>

can only come about by society openly and directly taking possession of the productive forces which have outgrown all control except that of society as a whole. ^①

Engels once criticized the state-ownership of Bismarck government as “*spurious Socialism*”.^② And because of this, someone opposes the state-owned enterprises in China and maintains to make state-owned enterprises privatized. But in this way, he goes backwards to undisguised capitalism, while what Engels required was naturally genuine socialist and socialized state-owned enterprises. After opposing spurious Socialism, Engels indicated,

active social forces work exactly like natural forces: blindly, forcibly, destructively, so long as we do not understand, and reckon with, them. But, when once we understand them, when once we grasp their action, their direction, their effects, it depends only upon ourselves to subject them more and more to our own will, and, by means of them, to reach our own ends. And this holds quite especially of the mighty productive forces of today. As long as we obstinately refuse to understand the nature and the character of these social means of action — and this understanding goes against the grain of the capitalist mode of production, and its defenders — so long these forces are at work in spite of us, in opposition to us, so long they master us, as we have shown above in detail. But when once their nature is understood, they can, in the hand working together, be transformed from master demons into willing servants. The difference is as that between the destructive force of electricity in the lightning in the storm, and electricity under command in the telegraph and the voltaic arc; the difference between a conflagration, and fire working in the service of man. With this recognition, at last, of the real nature of the productive forces of today, the social anarchy of production gives place to a social regulation of production upon a definite plan, according to the needs of the community and of each individual.^③

It should be noted that the Chinese state-owned enterprises in the past and current are not genuine public ownership but owned by government. Although nominally workers even peasants possess proprietary rights to the state-owned property of enterprises, the workers’ status of masters is just ideological and does not be implemented, and workers are still in an employed position. What has changed is that the direct and crude oppression to workers was cancelled, and the treatment of workers was somewhat improved, yet wages were still quite low. More workers approaching to government, compared with workers approaching to capitalists in the past, get the agential position, even directly enter into government. After reforming and opening, these features of traditional state-owned enterprises obviously manifest and forced layoffs and buyouts are fully manifested the *de facto* employed position of workers. Yet governments at all levels can sell state-owned enterprises at will without permission of People's Congress at the corresponding level, and it also indicates that the state-owned position of these enterprises is even not as good as those in some western countries, because the governments in those countries have to be approved by parliaments if they want to do so.

It is precisely because traditional state-owned enterprises are not real sense of public ownership enterprises, and that makes their process of reproduction to hardly accomplish the task of denying capitalist private ownership, on the contrary, it makes us to see the deny of capitalist private ownership to traditional state-owned enterprises in the process of reform and opening. Then, how can traditional state-owned enterprises translate into real sense of public

^① Marx & Engels Collected Works Volume 20, Beijing: Renmin Press, 1971, pp303-304.

<http://www.marxists.org/archive/marx/works/1877/anti-duhring/ch24.htm>

^② Marx & Engels Collected Works Volume 19, Beijing: Renmin Press, 1963, p239.

<http://www.marxists.org/archive/marx/works/1880/soc-utop/ch03.htm>

^③ Marx & Engels Collected Works Volume 19, Beijing: Renmin Press, 1963, p241.

<http://www.marxists.org/archive/marx/works/1880/soc-utop/ch03.htm>

ownership enterprises? In my opinion, the key is to implement separation of government and enterprise, and explicate and implement the co-ownership of state-owned enterprise laborers to means of production.

Firstly, co-ownership can not be separated and transferred. Hence, the power of randomly handling state-owned company assets by government departments must be abolished. From the perspective of macroeconomic regulation, the relevant departments may propose recommendations about state-owned asset recombination and sale to People's Congress at the corresponding level, but before carrying out the implementing plans of such recommendations, it must be approved by the general meeting of related state-owned enterprise laborers, and then be discussed and approved by People's Congress at the corresponding level. Secondly, the profit of co-ownership can not be distributed, and could only be used in the accumulation of enterprise or establishing new state-ownership enterprises. The nation has same right and obligation to public ownership enterprises as well as non-public ownership enterprises. Thirdly, the enterprise laborers with co-ownership have right to elect and recall members in board of directors and board of supervisors in one person, one vote system. The board of directors has the right to appointing and dismissing company managers. Fourthly, the board of directors and board of supervisors are responsible for the laborer general meeting. Fifthly, without the resolution of laborer general meeting, individual labor could not be dismissed. Sixthly, laborer who is dismissed by breaking laws loses co-ownership automatically.

The most essential one among these points is to guarantee laborers' power of supervision and appointment and removal to the executives. When Marx talked about workers congress, he indicated that,

"That, in case grounds of complaint at difference arise between the operatives and manager, the operatives shall have the power of dismissing the manager and electing another by the majority of not less than three-fourths of their number." ^①

When mainstream economists regard information asymmetry as a fundamental problem for enterprise operating and management, actually they noticed the profit conflicts between capitalist and his agent. However, they do not have good countermeasures to remove the trouble of capitalist, because such trouble could not be resolved by defining private property and implementing incentive mechanism. The genuine solution could only come from supervision, *esp.* laborers' supervision. Yet such supervision mechanism could not establish under the condition of capitalist private ownership. Because capitalists are not only against the managers they employ but also against workers. Thus, in the unjustifiable conflicts between capitalists and managers, workers would not help capitalists. Yet in real state-owned enterprises with public ownership, workers naturally have motivation to supervise the executives. So long as their supervising authority based on the power of appointment and removal is guaranteed, the supervision to management would be feasibly strengthened, and incapable manager would be replaced, thus state-owned enterprises would be operated better.

On the contrary, the past reform of state-owned enterprises emphasized delegation of power. But it resulted in the delegation of power to management, while hardly any power was delegated to workers—the master of socialist state-owned enterprises. *e.g.* a factory director buys inferior raw materials with high prices, workers are quite clear about it as soon as they use them; a factory director rents out downtown shop front in ultralow price to relatives and friends

^① Marx & Engels Collected Works Volume 10, Beijing: Renmin Press, 1962, p138.
<http://marxengels.public-archive.net/>

for operating, workers with discerning eyes know about it; but workers do not have authority to reject the use of inferior raw materials and impeach factory director, they can do nothing but only to see the loss of state-owned property and to endure pains of layoff and low income caused by the loss of state-owned enterprises.

What is the real meaning of distribution according to need?

Most people who heard about Marxism have all heard that one principle of communism is distribution according to need. I have ever asked some college teachers about their comprehension of distribution according to need; did it mean people can get whatever they want? The answer was yes. Yet this answer turned communism into a fantastical utopia. Because, for instance, it is impossible for each one to have a luxury yacht, and Marx and Engels who had criticized utopian socialism could never give such an answer.

Actually, when the founder of Marxism talked about this principle, he indicated that, *one of the most vital principles of communism, a principle which distinguishes it from all reactionary socialism, is its empirical view, based on a knowledge of man's nature, that differences of brain and of intellectual ability do not imply any differences whatsoever in the nature of the stomach and of physical needs; in other words, a different form of activity, of labor, does not justify inequality, confers no privileges in respect of possession and enjoyment.*^①

Therefore, the distribution according to need mainly meets stomach and physical needs, namely meets the needs of people's general living. At present, there are some things not be distributed according to differences on activities and labor, such as some allowances and consumption coupons that every one can enjoy. Actually, these things can be regarded as distribution according to need. Thus, this distribution according to need is not fantastical and impracticable, but can be completely accomplished under the circumstances that productivity develops to certain extent. Engels once said that,

in communist society it will be easy to be informed about both production and consumption. Since we know how much, on the average, a person needs, it is easy to calculate how much is needed by a given number of individuals, and since production is no longer in the hands of private producers but in those of the community and its administrative bodies, it is a trifling matter to regulate production according to needs.^②

In fact, what Engels had said could be accomplished only when the distribution according to need is limited to meet the general living needs of people.

Distribution according to needs presupposes a great increase in productive power and a high degree of its development.

Without it want is merely made general, and with destitution the struggle for necessities and all the old filthy business would necessarily be reproduced.^③

And this is the primary cause that poverty is not socialism nor could transit to communism. In late of 1970s and before reforming and opening, someone who advocated that "preferring socialist weeds to capitalist seedlings" did not understand Marxism at all, yet they dishonored the reputation of Marxism under the cloak of Marxism. While the extreme opposite to that was,

^① Marx & Engels Collected Works Volume 3, Beijing: Renmin Press, 1960, pp637-638.

<http://www.marxists.org/archive/marx/works/1845/german-ideology/ch04e.htm>

^② Marx & Engels Collected Works Volume 2, Beijing: Renmin Press, 1957, p605.

<http://www.marxists.org/archive/marx/works/1845/02/15.htm>

^③ Marx & Engels Collected Works Volume 3, Beijing: Renmin Press, 1960, p39.

<http://www.marxists.org/archive/marx/works/1845/german-ideology/ch01a.htm#a1>

after reforming and opening, and under relative poor circumstances, to encourage going into business too early, and loosening the struggle for necessities, thus all the old filthy business such as pornography, gambling and drug abuse etc. would necessarily be reproduced.

At the same time, this development of productive forces is an absolutely necessary practical premise also because only with this universal development of productive forces are a universal intercourse between men established.^① This direct dependence of the operations, and therefore of the laborers, on each other,

compels each one of them to spend on his work no more than the necessary time, and thus a continuity, uniformity, regularity, order, and even intensity of labor, of quite a different kind, is begotten than is to be found in an independent handicraft or even in simple co-operation. The rule, that the labor-time expended on a commodity should not exceed that which is socially necessary for its production, appears, in the production of commodities generally, to be established by the mere effect of competition; since, to express ourselves superficially, each single producer is obliged to sell his commodity at its market-price. In Manufacture, on the contrary, the turning out of a given quantum of product in a given time is a technical law of the process of production itself.^②

If a lazy man appears on assembly line, then either others follow him and become lazy, too, or he must not be lazy and has to do his job according to the rhythm of others. Hence, the main reason of so-called “mess cultivated lazybones” was not the problem of mess, but because the productivity level was not high enough to make production cooperating.

If the translation of individual labor time into socially necessary labor time in market economy is ascertained by the condition of commodity exchange or sale, then depending on the technical rules of production process itself, planned economy would make every worker’s individual labor time to be socially necessary labor time from the beginning. The exchange of workers’ position under the case of individual ownership is beneficial to determine the socially necessary labor time of every single process according to different labor of different workers, and thus makes the adjustment of production by society which is based on this to be possible.

On the other hand, since distribution according to the needs is just in accordance with people’s general living needs, thus the productivity level that can implement this distribution principle would be extremely high. In *Amendments to the Programme of the North of England Socialist Federation*, Engels pointed out, now, labor productivity has been raised up to such a point that none expansion of market can absorb those excessive products. As a result, the abundance of means of subsistence and means of welfare itself becomes the cause of industrial and commercial stagnation, unemployment, and thus poverty of millions of laborers. So such kind of system can be wiped out.^③

The principle of distribution according to needs which does not mean one can have whatever he wants implies two meanings: first, objecting to unlimited consumption and thus requiring to sustainably utilize various kinds of limited resources; second, objecting to unlimited producing. Only with unlimited production could unlimited consumption be satisfied; while in this way, people will spend all of or most of their time and energy on production, and thus will not have enough time on other non-productive activities, and consequently the full and free development of every individual will be hindered.

^① ditto.

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, p400.

<http://www.marxists.org/archive/marx/works/1867-c1/ch14.htm#S3>

^③ Marx & Engels Collected Works Volume 21, Beijing: Renmin Press, 1965, p570.

Marx indicated,

just as the savage must wrestle with Nature to satisfy his wants, to maintain and reproduce life, so must civilized man, and he must do so in all social formations and under all possible modes of production. With his development this realm of physical necessity expands as a result of his wants; but, at the same time, the forces of production which satisfy these wants also increase. Freedom in this field can only consist in socialized man, the associated producers, rationally regulating their interchange with Nature, bringing it under their common control, instead of being ruled by it as by the blind forces of Nature; and achieving this with the least expenditure of energy and under conditions most favorable to, and worthy of, their human nature. But it nonetheless still remains a realm of necessity. Beyond it begins that development of human energy which is an end in itself, the true realm of freedom, which, however, can blossom forth only with this realm of necessity as its basis. The shortening of the working-day is its basic prerequisite.^①

In fact, if it is not the value in exchange of product, but the value in use of product, that predominates in certain social formation, that is, production is not for earning money, but for satisfying direct needs, then there will be some restrictions on surplus labor, large or small; and the demand of extending the working-day will be unnecessary.

The shortening of the working-day finds at last a limit in the generalization of labor. Because

the intensity and productiveness of labor being given, the time which society is bound to devote to material production is shorter, and as a consequence, the time at its disposal for the free development, intellectual and social, of the individual is greater, in proportion as the work is more and more evenly divided among all the able-bodied members of society, and as a particular class is more and more deprived of the power to shift the natural burden of labor from its own shoulders to those of another layer of society. In capitalist society spare time is acquired for one class by converting the whole life-time of the masses into labor time.^②

It also indicates that the supplementary principle of distribution according to needs, also the principle of equal distribution that socialism can accomplish, is not equal distribution of income, but **equal distribution of labor itself**.

Finally, in addition, the distribution according to the needs itself means adjustment to production, too.

Some operations withdraw labor-power and means of production for a long time without supplying any product as a useful effect in the interim, while other branches of production not only withdraw labor-power and means of production continually, or several times a year, but also supply means of subsistence and of production. Thus distribution according to needs certainly requires that on the basis of socialized production, the scale must be ascertained on which the former can be carried on without injuring the latter.^③

Additionally, as we mentioned above, on the condition of market economy, *if the output of certain commodity exceeds the needs of current society, part of the social labor time will be wasted.*

Naturally, distribution according to needs could not tolerate this kind of waste, and thus it must require that where production is under the actual,

predetermining control of society that the latter establishes a relation between the volume of social

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, pp928-929.

<http://www.marxists.org/archive/marx/works/1894-c3/ch48.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, pp605-606.

<http://www.marxists.org/archive/marx/works/1867-c1/ch17.htm>

^③ Das Kapital Volume 2. Beijing: Renmin Press, 2004, pp396-397.

<http://www.marxists.org/archive/marx/works/1885-c2/ch18.htm>

labor-time applied in producing definite articles, and the volume of the social want to be satisfied by these articles.^①

Why can backward countries take the lead in entering into new society?

Many people are very surprised that socialist revolutions achieved first victory in relatively backward Russia instead of relatively developed England and France *etc.*, and it seems opposite to the historical process Marx and Engels had described, of entering into socialism from developed capitalism. Actually, as early as in the middle of the 19th century, Marx and Engels had planned a proletarian revolution in German, which was relatively backward at that time, and illustrated strategy for revolution in *Address of the Central Committee to the Communist League*. And as a matter of fact the subsequent Russian Revolution and Chinese Revolution proceeded intentionally or unintentionally according to this strategy.

In brief, the key reason for proletarian revolution victories in relatively backward countries as Russia and China is that working class and its political party with guidance of Marxism had appeared before bourgeois revolutions in these countries could be accomplished. Hence, when the bourgeoisie had to start bourgeois revolution and then had to arm the proletariat to fight for them, the proletariat obtained armed power and political power contending with the bourgeoisie while assisting the bourgeoisie to complete bourgeois revolution. At this time, provided external environment is advantageous and political party of working-class has appropriate tactics; it is absolutely possible to achieve, even firstly achieve proletarian revolution victory in backward countries.^②

In fact, Marx had definitely opposed to

obliged to metamorphose my historical sketch of the genesis of capitalism in Western Europe into an historico-philosophic theory of the marche generale [general path] imposed by fate upon every people, whatever the historic circumstances in which it finds itself,

and definitely indicated that,

if Russia continues to pursue the path she has followed since 1861, she will lose the finest chance ever offered by history to a nation, in order to undergo all the fatal vicissitudes of the capitalist regime.^③

Then, why could Russia and other countries did not have to choose the capitalism path which seems imposed by fate?

It is precisely thanks to its contemporaneity with capitalist production that it may appropriate the latter's positive acquisitions without experiencing all its frightful misfortunes. Russia does not live in isolation from the modern world; neither is it the prey of a foreign invader like the East Indies.

Marx explained,

If the Russian admirers of the capitalist system denied the theoretical possibility of such a development, I would ask them this question: In order to utilize machines, steam engines, railways, etc., was Russia forced, like the West, to pass through a long incubation period in the engineering industry? Let them explain to me, too, how they managed to introduce in their own country, in the twinkling of an eye, the entire mechanism of

^① Das Kapital Volume 3. Beijing: Renmin Press, 2004, p208.

<http://www.marxists.org/archive/marx/works/1894-c3/ch10.htm>

^② Yu Bin, Gu Sheng hong, The victory of Chinese revolution is the victory of Marxism, Cheng Enfu, Jiang Qianlin, *Marxism and 60 years of new China*, Beijing: China Social Science Press, 2010. pp75-83.

^③ Marx & Engels Collected Works Volume 19, Beijing: Renmin Press, 1963, pp129-130.

<http://www.marxists.org/archive/marx/works/1877/11/russia.htm>

exchange (banks, credit institutions, etc.), which it took the West centuries to devise? ^①

As we mentioned above, the Great Depression in western capitalist countries in the late 1920s and the early 1930s brought good opportunities for the former Soviet Union to greatly absorb the positive achievement of capitalism. After the foundation of new China, although encountered blockades from capitalist countries, yet with the unselfish assistance of the former Soviet Union, China absorbed achievements from the former Soviet Union and part of capitalist countries and rapidly laid the industrial foundation of her own. Just with such foundation, China could get great achievements in economic development after the reform and open. Without the productivity accumulation in the first thirty years of new China—besides machinery equipment in industry, the accumulation of material productivity as geological exploration, irrigation and drainage facilities, railway, road, bridge, airport, port *etc.*, various technological advancements, general improvement of laborers' culture quality and production skills, as well as the increase of people's average lifespan are all included—it was impossible for China to develop economy so rapidly if merely relying on a series of policies of adjusting production relations.

Marx had clearly indicated in *Capital* that, epochs in the history of society are no more separated from each other by hard and fast lines of demarcation, than are geological epochs. ^② After the reform and open, as “groping the way across the river”, China moved steadily on the road of socialist market economy. Someone considers that it is contradictory with Marx's theory. It should be said that, in the practice of socialist market economy, some of the practices do not accord with the fundamental tenets of Marxism as well as produce many problems such as environmental pollution and unbalanced development in economy. However, the thought that after the success of proletarian revolution the transition from capitalist market economy to socialist market economy could be realized just overnight is also contrary to Marxism materialist dialectics.

Actually, when Marx and Engels talked about what measures should be taken after the proletariat becomes the ruling class; they proposed 10 methods that in most advanced countries would be pretty generally applicable in *Communist Manifesto*: ^③

1. Abolition of property in land and application of all rents of land to public purposes.
2. A heavy progressive or graduated income tax.
3. Abolition of all rights of inheritance.
4. Confiscation of the property of all emigrants and rebels.
5. Centralization of credit in the hands of the state, by means of a national bank with State capital and an exclusive monopoly.
6. Centralization of the means of communication and transport in the hands of the State.
7. Extension of factories and instruments of production owned by the State; the bringing into cultivation of waste-lands, and the improvement of the soil generally in accordance with a common plan.
8. Equal liability of all to work. Establishment of industrial armies, especially for agriculture.
9. Combination of agriculture with manufacturing industries; gradual abolition of all the distinction between town and country by a more equable distribution of the populace over the country.

^① Marx & Engels Collected Works Volume 19, Beijing: Renmin Press, 1963, p431.

<http://www.marxists.org/archive/marx/works/1881/03/zasulich1.htm>

^② Das Kapital Volume 1. Beijing: Renmin Press, 2004, pp427-428.

<http://www.marxists.org/archive/marx/works/1867-c1/ch14.htm#S5>

^③ Marx & Engels Collected Works Volume4, Beijing: Renmin Press, 1958, p490.

<http://www.marxists.org/archive/marx/works/1848/communist-manifesto/ch02.htm>

10. Free education for all children in public schools. Abolition of children's factory labor in its present form. Combination of education with industrial production, etc.

Obviously, among these methods, there is neither demand of planned economy (only emphasizing to have a common plan in the bringing into cultivation of waste-lands and the improvement of the soil) nor demand of abolishing private property all at once. Actually it means to gradually develop and expand the component of public ownership economy under the circumstances of keeping market. With market being kept, even the distribution according to work, which is regarded as the distribution principle of socialism, is also appropriate for this kind of economic condition, for the "according to work" here is not according to individual labor time but according to socially necessary labor time (thus let alone mess), and the latter could be manifested through commodity exchange.

Although over 20 years later, Marx and Engels pointed out that no special stress is laid on the revolutionary measures in a situation of keeping market^①; the practical application of the principles will depend, as the Manifesto itself states, everywhere and at all times, on the historical conditions for the time being existing^②; yet it still has fundamental implications for current China to carry on socialist market economy reform. For the purpose of this vigorous reform in China is not reform merely for the sake of reform, but the self-improvement of socialist system. And at the same time, the aim that we locate ourselves in the position of primary stage of socialism is to advance toward the middle or advanced stage of socialism in a better way, while certainly not to swing to capitalism. And obviously those measures above can help to realize such tenet and purpose.

For example, the phenomenon as we mentioned above that a considerable portion of ground rents are possessed by real estate developer and "Real Mission" instead of utilized as public spending exactly should be adjusted. Another example, the "extension of factories and instruments of production owned by the State" we mentioned here means developing and expanding state-owned enterprises—not only maintaining and appreciating value in the form of price, but also getting some increase both in physical terms of means of production and in terms of personnel who use these means of production, so as to bring more economic aggregate and laborers into the system of state-owned economy. One more example, combining agriculture with industry so as to promote the differences between town and country to be perished gradually is also the inevitable way for China to solve "three Rural Issues". As for concentrating credit in the hands of nation is a matter of course. This financial crisis in the U.S. even promoted the concentration of American credit.

In the opinion of Marx,

defects are inevitable in the first phase of communist society as it is when it has just emerged after prolonged birth pangs from capitalist society. Right can never be higher than the economic structure of society and its cultural development conditioned thereby. ^③

Therefore, we can tolerate some social evils appeared in reform and open, but we must not, as some pundits advocated, be privatized and give up the best opportunity history provides to the Chinese nation, and suffer all extremely miserable calamities produced by capitalist system.

^① Marx & Engels Collected Works Volume 18, Beijing: Renmin Press, 1964, p104.

<http://marxengels.public-archive.net/>

^② ditto.

^③ Marx & Engels Collected Works Volume 19, Beijing: Renmin Press, 1963, p22.

<http://www.marxists.org/archive/marx/works/1875/gotha/ch01.htm>