Political Economy

Capitalism Part

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Capitalism Part

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Preface

Chairman Mao has repeatedly called on us to learn some political economy. Political economy is one of three components of Marxism. It is the major theoretical foundation for the dictatorship of the proletariat. It is a powerful ideological weapon for the proletariat to transform objective and subjective world. Currently, under the leadership of the Central Committee of the Communist Party of China headed by Chairman Mao, the people of the entire country are taking class struggle as the key link, adhering to the basic line of the Party, and carrying out the struggle of Counterattack the Right-Deviationist Reversal-of-Verdicts Trend. They are fighting to deepen the socialist revolution, consolidating the dictatorship of the proletariat, and build our country into a modern powerful socialist state. Studying political economy is of great importance for successfully accomplishing this great task.

Political economy is the science of the laws governing the development of relations of production.

Marxism holds that the development of material means is the foundation of human existence and social development, while productive activity is the most fundamental form of human practice. In productive activity, people transform nature while simultaneously establishing social connections with one another. "**They produce only by working together in a specified manner and reciprocally exchanging their activities.**"[1] production is the production

[1] Karl Marx, "The Nature and Growth of Capital," in *Wage Labour and Capital.*

of society at anytime. Productive forces and relations of production, are the two inseparable aspects of social production.

Productive forces are humanity's capacity to produce material means. It represents the degree to which humanity has conquered and transformed nature. Productive forces comprise three elements: labor power, one's labor capacity; means of labor, all the material conditions people use to transform nature, mainly instruments of labor, and land, factory buildings, rivers, roads, etc; objects of labor, everything that are being processed through labor, one type is what's originally in nature, ores to be mined for example, the other type is what's processed by people, namely raw materials, steels for making machines for example. Labor power is the subjective, active factor in production; means of labor and objects of labor are objective material conditions of production, collectively known as the means of production. Only the combination of labor power and means of production produces material wealth, and forms real productive forces. In production, although the means of production is indispensable, and instruments of labor play a huge role in increasing labor productivity, the decisive factor is human, not things. Marx pointed out, "**the greatest productive power is the revolutionary class itself.**"[1] Lenin said, "**The primary productive forces of human society as a whole, is the workers, the working people.**"[2]

The relations of production are the interrelations of people formed in the process of production, also known as economic relations. Relations of production change as productive forces develops. The unity of productive forces and relations of production constitutes the mode

[1] Karl Marx, "Strikes and Combinations of Workers, Chapter Two: The Metaphysics of Political Economy" in *The Poverty of Philosophy* (Progress Publishers, 1955).

[2] Vladimir Ilyich Lenin, "First All-Russia Congress on Adult Education," in *Lenin's Collected Works* (Progress Publishers, Moscow, 1972).

of production. Productive forces is the material content of social production, while relations of production are the social form of material production. All production takes place under certain relations of production. The nature of relations of production directly determines the nature of mode of production and the nature of society.

Productive forces reflect the relations between humans and nature, and represents the technical aspect of production; relations of production reflect the relations among humans, and represents the social aspect of production. These two aspects of social reproduction differ in the specific nature of their contradiction, and thus become research objects of different sciences. Chairman Mao said, "**The sciences are differentiated precisely on the basis of the particular contradictions inherent in their respective objects of study.**" Political economy is a social science. It can study only the social aspect of production, namely, social relations of production. The classical writers stated the object of political economy very clearly. Engels pointed out: "**Economics is not concerned with things but with relations between persons, and in the final analysis between classes.**"[1] Lenin said: "**It is not with 'production' that political economy deals, but with the social relations of men in production, with the social system of production.**"[2]

What content do relations of production, as the object of study of political economy, include? generally speaking, the process of social reproduction comprises four links: production, exchange, distribution, and consumption. All relations among people that arise within these links belong to relations of production. The production referred to here as one link of the reproduction

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[1] Frederick Engels, review of *A Contribution to the Critique of Political economy*, by Karl Marx, (Progress Publishers, Moscow).

[2] Vladimir Ilyich Lenin, "Chapter I. The Theoretical Mistakes of the Narodnik Economists," in *The Development of Capitalism in Russia, Lenin's Collected Works*, Vol. 3 (Moscow: Progress Publishers, 1977).

process means the direct production process. The relations of production within it include ownership of the means of production, as well as people's positions in production and their interrelations. As for relations of consumption, they are directly determined and constrained by relations of distribution. Therefore, the main content of relations of production can ultimately be summarized in the following three aspects: 1. Ownership of the means of production; 2. Interrelations among people in production and exchange; 3. Relations of distribution concerning products.

Ownership of the means of production is the foundation of relations of production. Production is always carried out by people using the means of production, and the first question is who possesses and controls those means of production. Means of production are the objective material conditions necessary for production. Whoever possesses them occupies a dominant position in production. Ownership of the means of production determines the other aspects of relations of production. Ultimately, the nature and characteristics of any relations of production are determined by the nature of ownership. For example, the root of capitalism of exploitation lies in capitalist private ownership of the means of production; the fundamental difference between the socialist economic system and the capitalist economic system lies in the transformation of ownership—from private ownership to public ownership. At a certain stage of socialist society, two kinds of public ownership, ownership by the whole people and collective ownership, still exist, along with remnants of private ownership. Moreover, both the ownership by the whole people and the collective ownership involve the question of leadership. Therefore, the issue of ownership has not been completely resolved. Socialist public ownership must still be consolidated, expanded, and developed. Collective ownership must be gradually improved and

transformed into the ownership by the whole people, and the socialist ownership by the whole people must gradually develop and ultimately be transformed into the communist ownership by the whole people. Political economy studies ownership not only by examining the fundamental differences between ownership in different societies and the regularity of their changes and transformations, but also by explaining the distinctions among the various kinds of ownership within the same society and the objectively necessary process of their development and change.

The ownership of the means of production determines people's interrelations in production and exchange. In capitalist society, capitalists monopolize the means of production, while workers own nothing and are compelled to sell their labor power. Between them, there can only be relations of exploitation and being exploited, oppression and being oppressed. In class society, people's interrelations are, ultimately, relations between classes. In socialist society, public ownership replaces private ownership and eliminates exploitation, relations between people also undergo fundamental changes. However, classes still exist in socialist society. Even within the working people, it is not the case that, once the form of ownership changes, comradely relations of mutual assistance and cooperation will immediately arise spontaneously. In addition to being determined by ownership, people's interrelations are also influenced by other economic conditions and by the superstructure, including politics and ideology. Therefore, after the transformation of ownership, people's interrelations must still be continuously adjusted and improved. In socialist society, there is much to be done regarding the second aspect of production relations. Apart from the relations between the working people and the new and old exploiting classes, there are also relations between the two major laboring classes of workers and peasants, relations between manual and intellectual laborers, relations between leaders and the

masses, relations between the center and localities, relations between enterprises, relations within enterprises, and so on. At the same time, socialist states must also implement a commodity system. Workers and peasants, enterprises, and people's communes and production teams must still establish economic ties through commodity-money relations and exchange labor products. All these are important subjects that political economy needs to study.

people's interrelations in production and exchange counteract on ownership. For example, toward the end of primitive society, the expansion of commodity exchange relations once promoted the disintegration of public ownership and the emergence of private ownership. In socialist society, when comradely relations of mutual assistance and cooperation are truly established within and between enterprises, socialist public ownership is consolidated. Conversely, if the line is incorrect, if bourgeois right in production relations is not appropriately restricted, and if no revolution is pursued in the realm of the superstructure, socialist relations between people cannot truly be established and developed. They will inevitably degenerate into capitalist relations of competition and class antagonistic relations, while public ownership will become nominal and degenerate into capitalist ownership. An important task of political economy is to study the class character of people's interrelations in socialist society, analyze the influence of old remnants in the economic and ideological spheres on people's interrelations, and clarify the ways and methods for continuously adjusting and improving socialist interrelations.

The relations of distribution of products are, in the final analysis, also determined by the ownership of the means of production. Marx said: "**The structure of distribution is entirely determined by the structure of production.**"[1] Whoever owns the means of production also

[1] Karl Marx, "Introduction to a Contribution to the Critique of Political Economy," in *A Contribution to the Critique of Political Economy* (Progress Publishers, Moscow).

owns the products. When the exploiting class owns the means of production, the distribution of products will inevitably benefit the exploiting class. For example, in capitalist society, the bourgeoisie, which monopolizes the means of production, does not work but appropriates all the surplus product of society, while the proletariat works hard all year round but lives in poverty. Once the working masses jointly own the means of production, the distribution of products will inevitably benefit all working people, eliminate exploitation, and implement the principle that "he who does not work, neither shall he eat." Of course, the distribution system of products is determined not only by ownership but is also influenced by factors such as the level of development of the productive forces and the superstructure. Engels once said: "**The method of distribution essentially depends on how much there is to distribute.**"[1] Socialist society also has public ownership, so why can it not practice to each according to their needs and instead can only practice to each according to their contribution? One important reason is that the level of the productive forces is still not high enough and products have not reached a state of great abundance. At the same time, as long as commodity exchange exists, the distribution of products must also be carried out to a considerable extent through the commodity-money form.

The relations of distribution of products are not passive either, they likewise counteract on ownership and the interrelations among people. A distribution system suited to a given form of ownership promotes the consolidation of that ownership. Changes in the distribution system or distribution forms that occur independently under the influence of other factors must also affect ownership and the interrelations among people. For example, in the late feudal society, as commodity exchange expanded, the form of feudal ground-rent shifted from rent in kind to

[1] Friedrich Engels, "Letter to Conrad Schmidt, August 5, 1890," in *Marx-Engels Collected Works*, Vol. 49.

money rent, which once played a tremendous role in disintegrating feudal relations of production. In a socialist society, if the political line is incorrect and material incentives are promoted, expanding bourgeois rights in to each according to their contribution, some people will once again appropriate the labor products of others without compensation, thereby causing the relations of production of socialist public ownership to degenerate and change into capitalist exploitative relationships. Political economy must not treat distribution issues lightly. Especially under socialist conditions, studying relations of distribution is extremely important for correctly implementing socialist principles of distribution, opposing material incentives, wide disparities, and absolute egalitarianism, and thereby promoting the consolidation of public ownership and the development of the productive forces.

In conclusion, the three aspects of the relations of production are closely interconnected and mutually influence one another. Ownership is the foundation, as it determines people's interrelations and relations of distribution, while people's interrelations and relations of distribution possess relative independence and, in turn, counteract on ownership. Marx stated: "**A distinct mode of production thus determines the specific mode of consumption, distribution, exchange and the specific relations of these different phases to one another.**"[1] In studying the relations of production of any society, political economy must first examine ownership and analyze its determining role within the entire system of relations of production; at the same time, it should also conduct an in-depth study of the other aspects of the relations of production, clarifying their counteraction and influence on ownership. Only by studying all aspects of the relations of production, from the perspective of dialectical unity, can we

[1] Karl Marx, "Introduction to a Contribution to the Critique of Political Economy," in *A Contribution to the Critique of Political Economy.*

profoundly reveal the nature, characteristics, and full richness of the relations of production in a given society.

The task of science is to reveal necessity. As a social science, political economy studies the relations of production with the aim of revealing the laws governing their movement, namely, economic laws. Economic laws are the intrinsic, essential connections within objective economic processes. They are objectively necessary processes that do not depend on people's will. They depend on objective economic conditions: whatever the relations of production, such are the economic laws that come into effect. The relations of production develop and change, and their nature differs at each stage of social development. Therefore, unlike natural law, most economic laws are not immutable, and only operate within a certain society. Although a small number of economic laws operate in all societies or in several societies, the forms of their operation also differ because the economic conditions of each society are different. Political economy studies the economic laws operating at each stage of social development and is therefore "**essentially a historical science.**"[1] Many economic laws coexist in every society. Among them, one plays a dominant role, and determines all the major aspects and primary processes of that society's economic development. It is called the fundamental economic law. Economic laws exist objectively, but people are not powerless in the face of these laws. Once people understand objective economic laws, they can use them to promote human well-being and fully exercise their subjective initiative.

Studying the relations of production and the laws governing their development is of fundamental importance in social science. The relations of production are the most basic

[1] Frederick Engels, "I. Subject Matter and Method, Part II: Political Economy," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science,* (Progress Publishers, 1947).

relations determining all other social relations. "**The mode of production of material life conditions the general process of social, political and intellectual life.**"[1] Before the emergence of Marxism, idealism held a dominant position in sociology, which held a view that complex social phenomena had no objective laws to follow and were governed entirely by chance. The proletarian political economy founded by Marx explained convincingly for the first time that the development of society is a natural-historical process, and that the replacement of capitalist society by socialist society is an objective law independent of human will. "**By what means did Marx arrive at this basic idea? He did so by singling out the economic sphere from the various spheres of social life, by singling out production relations from all social relations as being basic, primary, determining all other relations.**"[2] Only by revealing the contradictions, nature, and laws governing the movement of social production relations can we understand all other social phenomena, including political and ideological phenomena, and discern the objective necessity underlying the emergence, development, and demise of society as a whole. In this sense, political economy is the foundation for understanding various complex social phenomena and a key to understanding the laws of human social development.

Can political economy study the relations of production in isolation, independently of the productive forces and the superstructure? No. The productive forces and the relations of production, as well as the economic base and superstructure, constitute the fundamental contradictions of human society. The development and transformation of the relations of production cannot be separated from the movement of these contradictions. Therefore, it is

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[1] Karl Marx, "Preface," in *A Contribution to the Critique of Political Economy.*

[2] Vladimir Ilyich Lenin, "What the 'Friends of the people' Are and How They Fight the Social-Democrats," in *Lenin's Collected Works*, Vol. 1 (Progress Publishers, Moscow).

necessary, on the one hand, to relate the study of the relations of production to the productive forces and, on the other hand, to the superstructure, and to examine them within the movement of the fundamental contradictions of society. Only then can the laws governing the development of the relations of production be scientifically clarified.

The productive forces and the relations of production are a unity of opposites. Generally speaking, the productive forces are the primary aspect of the contradiction. They determine the relations of production and require the relations of production to conform to them. The relations of production, in turn, counteract on the productive forces. When suited to the condition of productive forces, they promote the development of the productive forces, and when unsuited to the condition, they hinder that development. The productive forces are relatively active. Once they develop to a certain level, the relations of production that originally suited them cease to do so and become shackles on the development of the productive forces. To liberate the productive forces, outdated relations of production must sooner or later be transformed and replaced by new relations of production. The revolution in the relations of production is indeed brought about by changes in the productive forces and results from the intensification of the contradiction between the productive forces and the relations of production; but the tremendous development of the productive forces takes place only after the transformation of the relations of production. "**When it is impossible for the productive forces to develop without a change in the relations of production, then the change in the relations of production plays the primary and decisive role,**"[1] thereby becoming the primary aspect of the contradiction. The movement of the contradiction between the productive forces and the relations of production, together with the

[1] Mao Zedong, "On Contradiction," in *Selected Works of Mao Zedong*, Vol. I(foreign Languages Press, Beijing, 1965).

law that the relations of production must suit the condition of the productive forces, governs the development and transformation of the various modes of social production.

Therefore, the study of political economy on relations of production must never be separated from the decisive role of productive forces in relations of production. Otherwise, it would be impossible to understand the causes of changes in relations of production, determine whether they have become outdated, or explain the laws governing their development. It would be impossible to reform relations of production promptly and appropriately in accordance with the requirements of the development of the productive forces, thereby falling into either rightist or "leftist" errors. On the other hand, it cannot one-sidedly exaggerate the role of the productive forces, believing that relations of production will spontaneously change along with the development of the productive forces and denying the revolutionary transformation of relations of production. This "theory of the productive force determinism" is the shabby weapon used by old and new revisionists to oppose proletarian revolution and the dictatorship of the proletariat. In studying relations of production, denying the decisive role of the productive forces in relations of production inevitably leads to subjective idealism; denying the counteraction of relations of production on the productive forces and their decisive role under certain conditions inevitably leads to mechanical materialism.

The economic base and superstructure are also a unity of opposites. The sum total of all aspects of the relations of production that occupy a dominant position in a society constitutes that society's economic base; the superstructure, meanwhile, consists of the political and legal institutions and ideology built upon the economic base. Generally speaking, in the contradiction between the economic base and the superstructure, the economic base is the primary aspect: the

nature of the economic base determines the nature of the superstructure, and changes in the economic base determine changes in the superstructure. The superstructure, in turn, counteracts on the economic base, actively promoting the establishment, consolidation, and development of its own foundation. Every superstructure is established to meet the needs of the class and social group that occupies the dominant position in the economic base. It is the political and ideological expression of the interests of that class or social group. Naturally, it in turn safeguards its own economic base and the economic interests of the classes or social groups it represents. advanced relations of production rely on their own superstructure to help them grow; decaying relations of production rely on their own superstructure to stop their demise. Thus, the contradictions and struggles between the new and the old relations of production inevitably manifest themselves as contradictions and struggles between the new and the old superstructures. In class society, class contradictions and class struggle unfold both in the economic base and the superstructure, and simultaneously along the economic, political, and ideological fronts, permeating and acting upon one another. "**When the superstructure (politics, culture, etc.) obstructs the development of the economic base, political and cultural changes become primary and decisive,**"[1] the superstructure then becomes the primary aspect of the contradiction. Without the assistance of state political power, no new relations of production can develop and become consolidated, and socialist relations of production cannot even come into being. Meanwhile, without an ideological line and political line that correctly reflect the objective economic laws and the laws of class struggle, the advanced class cannot seize political power; even if it does seize political power, it cannot consolidate it. In this sense, the line determines everything. The movement of

[1] Mao Zedong, "On Contradiction," in *Selected Works of Mao Zedong*, Vol. I.

contradictions between the economic base and the superstructure, and the mutual influence of the economic revolution, political revolution, and ideological revolutions, drive the continual transformation and development of social formations.

Therefore, the study of political economy on relations of production must never be separated from the the superstructure's counteraction on the economic base and its determining role under certain conditions. Otherwise, it would be impossible to understand the conditions for changes in the relations of production or to explain the laws governing their movement, and may even lead to denying the commanding role of politics over the economy and result in the "theory of productive force determinism." It would then be impossible to continually transform the superstructure in order to promote changes in the relations of production, thereby leading to either rightist or "leftist" errors. On the other hand, when emphasizing the superstructure's counteraction, one must not deny that, in the final analysis, the economic base still plays the determining role. Otherwise, it may lead to the point of mistakenly believing that changes in the superstructure are not constrained by objective economic conditions, that the determination of the ideological and political line is not governed by objective economic laws, and that the development of history is entirely determined by a handful of genius figures. This "great man view of history"[1] is not only something the bourgeoisie frequently propagates, it is also often used by revisionists to oppose proletarian revolution and the dictatorship of the proletariat. In studying the relations of production, denying the superstructure's counteraction on the economic base and its determining role under certain conditions inevitably leads to mechanical

[1] Note from translator: This criticism is clearly directed towards the erroneous view of Lin Biao and his associates, who extensively propagated the erroneous view that Karl Marx, Friedrich Engels, Vladimir Lenin, and Mao Zedong were great men because they were "geniuses," and their skills and experience were innate. In particular, Lin Biao's associates also celebrated Lin Biao's son, Lin Liguo, as a "super genius."

materialism; denying that the economic base, in the final analysis, determines the superstructure inevitably leads to subjective idealism.

Using the viewpoints of dialectical materialism and historical materialism, in the dialectical relations between productive forces and relations of production, economic base and superstructure, and within the interaction between the three aspects of relations of production, analyzing the internal contradictions of the relations of production and revealing the laws governing their movement is the basic task and method of studying political economy.

Political economy is a science with a strong class character and party spirit.

Political economy takes the relations of production as its object of study and therefore necessarily has a strong class character. Relations among people in production are relations of material interests, and in a class society, they manifest themselves as opposition or differences in material interests among the various classes. Not only do classes occupying different positions within particular relations of production have different interests, but classes representing different relations of production also have differences or conflicts of interest. Therefore, studying the contradictions and laws governing changes in the relations of production necessarily involves the vital interests of the various classes. Different classes, coming from their own interests, will also have entirely different views and attitudes toward social and economic phenomena. In sharply criticizing bourgeois vulgar economics, Marx pointed out: "**The peculiar nature of the materials [political economy] deals with, summons as foes into the field of battle the most violent, mean and malignant passions of the human breast, the Furies of private interest.**"[1] In essence, studying the relations of production means studying class relations. Socialist society

[1] Karl Marx, "Preface to the First German Edition," in *Capital*, Vol. I(Progress Publishers, Moscow).

is a class society under the dictatorship of the proletariat, and class contradictions and class struggle still exist. Therefore, the study of socialist relations of production must likewise be guided by the viewpoint of class struggle. In order to overturn the dictatorship of the proletariat, old and new revisionists use the "theory of the extinction of class struggle" and the "theory of productive force determinism" to numb the revolutionary consciousness of the masses. They do everything possible to alter the object of socialist political economy, replacing the study of relations of production and class relations with the study of the productive forces, concealing the contradictions between people and between classes with the contradiction between people and things, and attempting to castrate the class character of political economy, turning it into a study of industrial technology, technics, the organization of the productive forces, and so on. Such revisionist fallacies not only have reactionary political aims but also negate political economy as a science in its own right. Therefore, in studying political economy, we must never discuss economics alone while ignoring politics or separating ourselves from class struggle and the struggle over the political line. When building a powerful socialist state, we must be especially vigilant against engaging only in sectoral economics while neglecting political economy. "**Class struggle is the key link and everything else hinges on it.**" If the study of political economy does not take class struggle as its key link, does not engage in class analysis, and becomes detached from revolutionary practice, it will inevitably turn toward revisionism in both theory and practice. We must remain constantly alert to this dangerous tendency when studying political economy.

In class society, there is no political economy that is above class. Representatives of the various classes, acting in the interests of their own classes, have created economic theories that

served their respective classes and used them as tools in class struggle. Political economy, as an independent science, emerged with the development of capitalism. The systems of political economy that have appeared throughout history fall into three categories: bourgeois political economy, petty-bourgeois political economy, and proletarian political economy. Revisionist political economy is nothing more than a variant of bourgeois political economy. In terms of their ideological essence, these types of political economy basically belong to either of two camps: the bourgeoisie and the proletariat.

The political economy of the bourgeoisie and the petty bourgeoisie is not truly scientific political economy. Bourgeois political economy represents the interests of the bourgeoisie. The early bourgeois political economy is called “classical political economy.” Because capitalist society was then in a period of ascent, the bourgeoisie was still a progressive class; consequently, classical political economy could still conduct an objective analysis of capitalist relations of production to a limited extent and contained some scientific elements. However, due to the class limitations of the bourgeoisie, it could not truly reveal the essence and laws of capitalism. With the development of capitalism and its turn toward decline, as well as the sharpening of the contradictions between the proletariat and the bourgeoisie, bourgeois economics has degenerated into vulgar political economy, which it devotes itself entirely to defending the bourgeoisie, embellishing capitalism, concealing class contradictions, and discarding the scientific elements of the classical school, thereby becoming anti-scientific and reactionary. Petty-bourgeois political economy represents the interests of the petty bourgeoisie and is reformist in nature. Although it has exposed and criticized certain aspects of capitalist society, it idealizes petty private ownership and advocates regression; in essence, it too is anti-scientific and reactionary.

Revisionist political economy, a variant of bourgeois economics, is a product of the era of imperialism. What it peddles is mostly the merchandise of bourgeois economics, serving the monopoly bourgeoisie and social imperialism, and is even more thoroughly anti-scientific and reactionary. Its difference is that it wears the cloak of Marxism and, while waving the red flag, opposes the red flag; it therefore possesses even greater deceptiveness and danger.

Marxist political economy is the political economy of the proletariat. It possesses a distinct proletarian party spirit and class character. It is the theoretical expression of the fundamental interests of the proletariat. The class character of Marxist political economy determines that it is the only scientific political economy. The proletariat has the broadest vision and is utterly selfless. Its class interests align with the fundamental interests of all working people and with the objective course of social and economic development. No private interests or prejudices obstruct it from understanding and making use of objective economic laws. Therefore, proletarian political economy can most scientifically reflect the essential connections of the objective economic process and reveal the objective laws of economic development. The class character of Marxist political economy also determines that it is the truly revolutionary political economy. The proletariat suffers the deepest exploitation and oppression and is the most thorough in its revolutionary character. Only by using revolutionary means to completely destroy the old world and liberate all humanity can it ultimately liberate itself. The proletariat creates its own economic theory in the course of revolutionary practice precisely so that this theory may serve the liberation struggle of its class. Moreover, because it scientifically reflects objective economic laws, it can become a powerful ideological weapon for guiding revolutionary practice and transforming the objective world. The unity of its scientific and revolutionary character, and

the unity of theory and practice, are the fundamental features of Marxist political economy and the concentrated expression of its proletarian party spirit.

Marxist political economy was established and developed through practice and struggle. By the mid-nineteenth century, capitalism had been established. Marx and Engels summed up the practical experience of the workers' movement, undertook immense scientific work, conducted an in-depth study of capitalist relations of production, demonstrated the historical necessity of the demise of capitalism and the establishment of the dictatorship of the proletariat through violent revolution, and foresaw several basic features of socialism and communism. In the course of their struggle against bourgeois and petty-bourgeois economic doctrines and various opportunist theories, they completed the revolution in political economy and founded proletarian political economy, transforming socialism from utopia into science. In the late nineteenth and early twentieth centuries, capitalism developed into the stage of imperialism. Lenin conducted an in-depth analysis of the economic features, profound contradictions, and historical position of imperialism, reached the new conclusion that the socialist revolution would first achieve victory in one or several countries, guided the Russian proletariat in carrying out the October Revolution, established the first state of the dictatorship of the proletariat, and opened a new era in human history. Lenin also analyzed class contradictions and class struggle during the socialist period and expounded several major issues concerning the consolidation of the dictatorship of the proletariat and the prevention of the restoration of capitalism. In his struggle against Second International revisionism and domestic "leftist" and rightist opportunism, he defended and developed Marxist political economy. After Lenin's death, Stalin adhered to Lenin's theory of imperialism, engaged in tenacious struggle against enemies at home and abroad, defended the

dictatorship of the proletariat, and conducted extensive research into socialist economic problems, making a useful contribution to Marxist political economy. Since the 1920s, comrade Mao Zedong, in the course of the prolonged struggle of leading the Chinese revolution, has studied the economic and political characteristics of the semi-feudal, semi-colonial Society, analyzed new changes in the imperialist countries and in the international situation as a whole, enriched and developed Lenin's theory of imperialism, put forward the general line of the international communist movement, and guided the revolutionary working people to advance from victory to victory in the struggle against imperialism, revisionism, and reactionaries. Comrade Mao Zedong has also summed up the positive and negative historical experiences of the dictatorship of the proletariat, deeply analyzed the fundamental contradictions of socialist society, the internal contradictions of socialist relations of production, and the classes, class contradictions, and class struggle within socialist society, clarified the objective laws governing socialist economic development, put forward the theory of continued the revolution under the dictatorship of the proletariat, formulated the basic line of the Party for the entire historical stage of socialism and the general line for socialist construction, and guided the people of our country in struggling to consolidate the dictatorship of the proletariat, prevent the restoration of capitalism, build socialism, and ultimately transition to communism. In the struggle against modern revisionism and various forms of opportunism, comrade Mao Zedong has enriched and developed Marxist-Leninist political economy, and made an immeasurable contribution, especially to socialist political economy. The history of Marxist political economy shows that it has developed along with the revolutionary practice of the proletariat. From Marx, to Lenin, to comrade Mao Zedong, their economic doctrines form an unbroken line of succession, becoming

increasingly profound and enriched, and are intimately connected with the deepening development of the world revolution of the proletariat. Therefore, when studying political economy, we must combine reading the works of Marx and Lenin with studying the works of Chairman Mao, deepen our understanding of Chairman Mao's economic thought and the Party's line, principles, and policies, better relate them to the actual class struggle and the struggle over the political line, and fully bring into play the militant role of proletarian political economy.

Studying political economy is of great significance.

Marxist political economy developed in response to the needs of proletarian revolution and is the theoretical weapon of the proletariat in its revolutionary struggle. For the broad masses of the revolutionary working people in our country who are currently fighting to strengthen the dictatorship of the proletariat, political economy is also a subject that must be studied.

Studying political economy can help us deepen our understanding of the historical necessity of the dictatorship of the proletariat. The theory of the dictatorship of the proletariat is the core of Marxism. In founding the proletarian political economy, conducting in-depth study of capitalist relations of production and their laws of movement, exposing the secrets of capitalist exploitation, revealing the fundamental opposition between the proletariat and the bourgeoisie, and explaining the increasingly acute contradictions of capitalism and class contradictions, Marx thereby proved that it is an objective law independent of human will that the proletariat must use violent revolution to destroy the bourgeois state apparatus, replace the dictatorship of the bourgeoisie with the dictatorship of the proletariat, and replace capitalism with socialism. This great political conclusion of Marxist economic theory has inspired the proletariat throughout the world to rise consciously against the bourgeoisie and fight endlessly for the realization of the

dictatorship of the proletariat. The working class and working people of our country have already seized political power and become the masters of the state. Is it still necessary to study political economy and understand the objective economic laws of capitalism and the historical necessity of realizing the dictatorship of the proletariat? It remains necessary. Only by arming ourselves with the theory of political economy can we avoid being shaken by certain twists and turns in historical development and temporary difficulties in the course of struggle, firmly believe that the dictatorship of the proletariat will inevitably be realized throughout the world, that socialism and communism will triumph throughout the world, and support the world revolution with greater determination. We must also, through study, draw a clear theoretical line between capitalism and the socialism, and between the dictatorship of the bourgeoisie and the dictatorship of the proletariat, and fully understand the superiority of the socialism and the dictatorship of the proletariat, thereby love the socialism even more, adhere to the socialist orientation, and consciously strive to defend and strengthen the dictatorship of the proletariat.

Studying political economy helps us further clarify, at the theoretical level, the question of the dictatorship of the bourgeoisie and uphold continued revolution under the dictatorship of the proletariat. Political economy's study of socialist relations of production shows that bourgeois right still exists in the socialist economy, that the soil for the emergence of new bourgeois elements remains, and demonstrates the economic conditions for the consolidation, development, and gradual withering away of the dictatorship of the proletariat. Marx and Lenin both pointed out that socialist society has just emerged from capitalist society and therefore inevitably bears the traces of the old society in its economic, moral, and spiritual aspects. In his directives on theoretical issues, Chairman Mao said: "**In a word, China is a socialist country.**

Before liberation she was much the same as capitalism. Even now she practices an eight-grade wage system, distribution to each according to his work and exchange by means of money, which are scarcely different from those in the old society. What is different is that the system of ownership has changed." "**Our country at present practices a commodity system, and the wage system is unequal too, there being the eight-grade wage system, etc. These can only be restricted under the dictatorship of the proletariat.**"[1] These statements, through dialectical materialism, profoundly clarify the differences and connections between the socialist economy and the capitalist economy and reveal the internal contradictions of socialist relations of production. They enable us to understand that, in terms of the basic nature of ownership and relations of production, the socialist economy and the capitalist economy are fundamentally different; but in terms of the bourgeois right still retained in socialist economic relations, they are not very different from each other. Even after public ownership of the means of production has been established, an intense struggle still exists in the economic sphere between growing communism and declining capitalism. The emergence of new bourgeois elements and the existence of class struggle in a socialist state have not only political and ideological causes but also profound economic roots. The commodity system, monetary exchange, to each according to their contribution, the wage system, and so forth are all basic theoretical issues of political economy; the soil from which capitalism emerges in the socialist economy refers mainly to these things. To understand why and how they produce capitalism, so that they may be restricted, it is necessary to study political economy. In studying these issues, we must also relate them to the interaction and movement of contradiction between relations of

[1] "Highest Directive," *Hongqi*, no. 3 (1975): 3-4.

production and productive forces, and between the economic base and superstructure in socialist society. We must both recognize the necessity of restricting bourgeois right and recognize the necessity of its existence; we must neither fail to restrict it and allow it to expand, thereby committing rightist error, nor restrict it excessively and hasten to eliminate it, thereby committing the "leftist" error. From the height of strengthening the dictatorship of the proletariat and preventing the restoration of capitalism, we must take political economy as our weapon, study the internal contradictions and laws governing the movement of socialist relations of production, carry continued revolution under the dictatorship of the proletariat through to the end from both the economic base and superstructure, and gradually create the conditions under which the bourgeoisie can neither exist nor reproduce.

Studying political economy enables people to exercise their subjective initiative more fully, accelerate socialist construction, and strengthen the material basis of the dictatorship of the proletariat. The dictatorship of the proletariat and the establishment of the socialist economic system have provided broad possibilities for the rapid development of the productive forces; however, turning these possibilities into reality requires correctly understanding and making use of objective economic laws, as well as correct guidance from the general line. The basic line for the Party throughout the entire historical stage of socialism, the general line of "**go all out, aim high, and achieve greater, faster, better and more economical results to build socialism**," and a series of policies such as "**grasping revolution, promoting production**" formulated by Chairman Mao sum up the experience and lessons of socialist revolution and construction at home and abroad, reveal the objective laws governing the development of the socialist economy, and guide the people of our country to advance continuously and victoriously along the broad

road of socialism. The Party's various economic policies are likewise formulated on the basis of the theory of political economy and through scientific analysis of objective economic conditions. They are powerful instruments for mobilizing the socialist enthusiasm of the broad masses and promoting the rapid development of the national economy. Powerful socialist productive forces are the material basis of the dictatorship of the proletariat and the material condition for developing socialism and gradually transitioning to communism in the future. We are now facing a new period of achieving an even greater leap forward in the national economy. The Central Committee of the Party has already issued a call to modernize industry, agriculture, science and technology, and national defense in our country within this century, so that our national economy will rank among the world's leading economies. This is a major matter concerning the consolidation of the dictatorship of the proletariat and the prevention of imperialist aggression, and it is also of great significance for building socialism in our country and ultimately realizing communism. Therefore, in order to implement more consciously the Party's line, policies, and principles concerning the socialist revolution and socialist construction, rapidly develop the national economy, and accelerate the pace of socialist construction in our country, we must also study political economy.

Studying political economy can improve our ability to distinguish true Marxism from pseudo-Marxism, deepen our criticism of revisionism, and exercise all-round dictatorship over the bourgeoisie in the ideological sphere. "**The theoretical victory of Marxism compelled its enemies to disguise themselves as Marxists.**"[1] Revisionism is a bourgeois ideology draped in the cloak of Marxism, while revisionists are bourgeois agents infiltrated into the revolutionary

[1] Vladimir Ilyich Lenin, "The Historical Destiny of the Doctrine of Karl Marx," in *Lenin's Collected Works*, Vol. 18, (Progress Publisher, Moscow, 1975).

ranks. All revisionist elements at home and abroad, whether the Soviet revisionist traitor clique, figures such as Liu Shaoqi and Lin Biao, or that unrepentant capitalist-roader within the Party, always resort to every possible means to oppose the dictatorship of the proletariat by castrating the revolutionary soul of Marxism, spreading bourgeois ideas, and manufacturing counterrevolutionary public opinion. They vigorously promote the "theory of the extinction of class struggle" and the "theory of productive force determinism," advocate such bourgeois trash as the "four freedoms,"[1] the "three freedoms and one responsibility," "putting profit in command," and "material incentives," and vainly attempt to replace Marxism with revisionism and the proletarian revolutionary line with a counterrevolutionary revisionist line. Chairman Mao pointed out: "**It is an important task for us to unfold criticism of revisionism on the ideological front now.**"[2] Without criticizing revisionism, Chairman Mao's revolutionary line cannot be implemented, and the dictatorship of the proletariat cannot be consolidated. This is an intense struggle between two classes and two lines on the ideological and theoretical front. One important purpose of our study of political economy is to raise our theoretical level and ability of discernment, strengthen the revolutionary mass criticism of revisionism, thoroughly eliminate the influence of bourgeois ideas, and enable the proletariat to occupy all ideological and cultural positions.

Studying political economy can help us establish a proletarian worldview and make ourselves staunch fighters who consciously uphold the continuation of the revolution under the

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[1] Note from translator: the so-called "Four Freedoms" refer to the freedom to hire labor, the freedom to buy and sell land, the freedom to engage in lending and borrowing, and the freedom to engage in trade—in other words, the freedom to develop capitalism in the countryside.

[2] Mao Zedong, "Speech At Party National Conference on Propaganda Work," in *Selected Works of Mao Zedong,* Vol. V.

dictatorship of the proletariat. Chairman Mao taught us: "**The struggle of the proletariat and the revolutionary people to change the world comprises the fulfillment of the following tasks: to change the objective world and, at the same time, their own subjective world.**"[1] We live in a class society, where the erosion of our minds by various old ideas and old culture is unavoidable; if we are not careful, we can easily become captives of the bourgeoisie. The various struggles over the political line within the Party have, in the final analysis, been struggles between two worldviews. The worldview is the ideological foundation of the political line, whatever kind of worldview one has, one will implement that kind of line. In order to fundamentally raise our consciousness of the political line, we must also study political economy, master the Marxist standpoint, viewpoint, and method, recognize the objective laws of social development, and use the proletarian worldview to defeat the bourgeois worldview. We must consciously combat self-interest and criticize and repudiate revisionism, correct all kinds of erroneous understandings, and criticize the bourgeois right ideology. Only then can we distinguish right from wrong in the complex class struggle and struggle over the political line, uphold the correct direction, and fight to the very end for the great cause of opposing and preventing revisionism, defending the dictatorship of the proletariat, and realizing communism.

In short, in order to clarify the question of the dictatorship over the bourgeoisie and uphold continued revolution under the dictatorship of the proletariat, it is impossible to do without studying political economy. In the nationwide mass movement to study the theory of the dictatorship of the proletariat, political economy is being liberated from the classroom and textbooks and is increasingly becoming a sharp weapon in the hands of the broad masses of

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[1] Mao Zedong, "On Practice," in *Selected Works of Mao Zedong*, Vol. I.

workers, peasants, and soldiers. Workers, peasants, and soldiers are the main force of the revolution and should become the masters of political economy. Marxist political economy is the political economy of the proletariat, it is a tool for the emancipation of the proletariat and the working people, every sentence was written for us working people. We workers, peasants, and soldiers must not only study it, but can also master it. There will certainly be difficulties in studying it, but so long as we establish a style of study that integrates theory with practice, carry forward the revolutionary spirit, and work hard at our studies, the difficulties can certainly be overcome. Marx pointed out: "**There is no royal road to science, and only those who do not dread the fatiguing climb of its steep paths have a chance of gaining its luminous summits.**"[1] Chairman Mao also said: "**Nothing is hard in this world if You dare to scale the heights.**" We workers, peasants, and soldiers, revolutionary cadres, and the revolutionary masses must closely relate our studies to the realities of the struggle between the two classes, along the two roads, and over the two lines. We must strive to master political economy, and fight to uphold the dictatorship of the proletariat both theoretically and practically in order to implement Chairman Mao's revolutionary line!

[1] Karl Marx, "Preface to the French Edition," in *Capital*, Vol I.

Modes of Production Before Capitalism

Since the emergence of human society, five economic systems have appeared: primitive society, slave society, feudal society, capitalist society, and socialist society. This section will briefly explain the basic characteristics of primitive society, slave society, and feudal society, as well as the objective laws governing their emergence, development, and demise.

Chapter One: Primitive Communal System

Section One: Emergence of Primitive Society

Primitive society was the first social formation in human history. Its emergence began with the emergence of humanity. Therefore, studying the emergence of primitive society is also studying the emergence of humanity.

Human beings evolved gradually from a highly developed anthropoid ape in the tropical and subtropical forests of the Earth approximately one million years ago. What caused this anthropoid ape to evolve into modern human beings? Labor. When explaining the role of labor in the transition from ape to human, Engels stated: Labor "**is the prime basic condition for all human existence, and this to such an extent that, in a sense, we have to say that labor**

created man himself."[1] First, labor created the human hand. Anthropoid apes did not always walk upright on their feet or use their hands for various activities. Labor enabled anthropoid apes to transition from crawling on all fours to walking upright and brought about a division of labor between the forelimbs and hindlimbs: the forelimbs, used for picking wild fruit, catching birds and animals, and building nests and shelters, became hands; the hindlimbs, used for walking and supporting the upright body, became feet. Thus Engels said: "**The hand is not only the organ of labor, it is also the product of labor.**"[2] After apes became capable of walking upright, they raised their heads and gained a broader field of vision. This not only liberated the forelimbs but also caused the impressions conveyed to the brain through the five senses, sight, hearing, smell, taste, and touch, to deepen continuously, which promoted the development of the brain and consciousness and played an extremely important role in the entire process of human formation. In this sense, walking upright "**was the decisive step in the transition from ape to man.**"[3]

Second, labor also promoted the emergence of language. Labor strengthened the connections and cooperation among beings in the process of becoming human, creating a need to communicate ideas with one another. Walking upright, in turn, brought about changes in apes' vocal organs, such as the larynx and vocal cords, enabling them gradually to produce clear syllables. When particular syllables became associated with particular thoughts, language emerged. Thus, language formed "**from and in the process of labor**"[4] Finally, the development of labor and language also promoted the rapid development of the ape's entire organism and

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[1] Frederick Engels, "The Part played by Labour in the Transition from Ape to Man," in *Dialectics of Nature* (Progress Publishers, Moscow, 1934).

[2] Ibid.

[3] Ibid.

[4] Ibid.

brain. Engels said: "**First labor, after it and then with it speech – these were the two most essential stimuli under the influence of which the brain of the ape gradually changed into that of man.**"[1] In short, it was labor that ultimately transformed anthropoid apes into human beings. However, it should be pointed out that the labor referred to here was still labor in a primitive, embryonic state. Labor in the true sense must not only create and use tools but also constitute a conscious activity of social production. Only true human beings possess this capacity.

Before the emergence of Marxism, the absurd and pernicious doctrine of "Genesis" had long dominated people's consciousness. Later, British bourgeois scientists Darwin, Huxley, and others, who held spontaneous materialist ideas, offered some materialist explanations of the origin of humanity from different perspectives. However, because of their class limitations, they still "**unable to form any clear idea of the origin of man, because under this ideological influence they do not recognize the part that has been played therein by labor.**"[2] Marxism's theory that labor created humanity scientifically clarified the origin of humanity and declared the complete bankruptcy of all kinds of idealist reactionary fallacies, such as "God created human beings."

The fossil materials of archaic humans unearthed in countries around the world provide reliable evidence of the transformation from apes into humans. In China, ancient ape fossils dating back approximately two million years were discovered in Guangxi. The fossils of "Lantian Man" discovered in the Lantian area of Shaanxi Province and those of "Yuanmou Man"

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[1] Ibid.

[2] Ibid.

discovered in the Yuanmou area of Yunnan Province date from approximately 500,000 to 600,000 years ago. The world-famous fossils of "Peking Man" excavated at Zhoukoudian in Beijing date back approximately 400,000 to 500,000 years. The discovery of large numbers of ancient human fossils is sufficient to prove that our great motherland is one of the birthplaces of humanity.[1] "**From ancient times our forefathers have labored, lived and multiplied on this vast territory.**"[2]

Human society arose simultaneously with humanity. Engels said: "**A new element which came into play with the appearance of fully-fledged man, namely, society.**"[3] Humans are social animals; they can survive and develop only within society. The earliest form of human social organization consisted of numerous primitive hordes, large and small. The "Peking Man" mentioned above was one of the ancient primitive hordes. With the continuous development of the productive forces, these earliest primitive hordes gradually formed clan societies bound together by blood ties. Once human society emerged, it became essentially distinct from the animal kingdom and, according to its own particular laws, began its own history of development. The first social formation in the history of human society was the primitive communal system.

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[1] Note from translator: The latest scientific theory believes that "Lantian man," "Yuanmou man" and "Peking man" are all subspecies of *Homo erectus,* and has little or no evolutionary lineage with the modern humans, *Homo sapiens*, who evolved from and migrated out of Africa. The statement by this book is the result of the limitations of scientific development at the time. However, the Chinese government today still officially upholds this view for the purpose of nationalism propaganda.

[2] Mao Zedong, "The Chinese Revolution and the Chinese Communist Party," in *Selected Works of Mao Zedong*, Vol. II(foreign Languages Press, 1965).

[3] Frederick Engels, "The Part played by Labour in the Transition from Ape to Man."

Section Two: Relations of production in Primitive Society

The productive forces in primitive society were extremely underdeveloped, and labor tools were very rudimentary. In the early period of primitive society, people mainly relied on hunting, fishing, and gathering wild plants to sustain themselves. They used crude stone tools that were unpolished or only slightly polished, known as Paleolithic tools; in archaeology, this period is called the Paleolithic Age. In the middle period of primitive society, people primarily engaged in primitive livestock husbandry and primitive agriculture. Their means of production had also improved compared with earlier times, consisting mainly of processed and polished stone tools known as Neolithic tools. They also invented bows and arrows, javelins, and harpoons, and began firing pottery. This is what archaeology calls the Neolithic Age. In the late period of primitive society, agriculture became the main production sector, independent handicraft industries such as pottery-making, textile production, and metallurgy emerged, and people began to use metal tools. At first, they used copper products; later, they used bronze products made from a copper-tin alloy. After bronze implements came the discovery of an even more superior metal—iron. Iron tools such as iron axes, iron plows, and iron swords appeared, and humanity entered the Iron Age. According to currently available archaeological excavation materials, China differed from Western Europe: iron implements were not used until approximately the Spring and Autumn period, when slave society was beginning to disintegrate.

Throughout primitive society, stone tools remained the primary instruments of labor. After bronzes and iron appeared, although metal tools began to be used in production, they did not occupy the primary position. At that time, people used crude instruments of labor and

engaged in collective labor on the basis of simple cooperation. In ancient China, there was a legend about Shennong.[1] At that time, people "sharpened hoes for plowing and rubbed shells to make weeding tools,"[2] and "burned forests for farming, and drained ponds for fishing."[3] They used sharpened wooden sticks to dig the ground, sharpened shells to hoe weeds, burned forests to hunt wild animals, and drained ponds to catch fish and shrimp. Before liberation in China, traces of these primitive mode of production could still be seen in certain ethnic minority areas. For example, the Evenki people in the northeastern frontier still lived a primitive life of fishing and hunting until before liberation; the Li people living on Hainan Island still used primitive farming methods. Every year, around February and March, people first cut down trees and, after they had dried out, set fire to them. Once the burning was complete, they cleared away the remaining branches and waited for rain before sowing. The men used wooden sticks to make holes, and the women followed to plant the seeds. When the crops matured, they harvested them with small knives. Because the means of production in primitive society were excessively crude, production experience and labor skills were extremely limited, and the level of the productive forces was very low, the products of labor, apart from meeting people's minimum needs for survival, had almost no surplus.

The state of the productive forces in primitive society determined the relations of production suited to it. Communal public ownership of the means of production was the foundation of the relations of production in primitive society. Because the productive forces were

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[1] Note from translator: Shennong was a mythological Chinese ruler known as the Yan Emperor and a deity in Chinese folk religion. Shennong was credited with teaching ancient Chinese practice of agriculture and use of herbal medicine.

[2] Note from translator: From "Fan Lun Xun," in *Huainanzi*. English translation is from Chinese Text Project.

[3] Note from translator: From "Classic of Fundamentals: Instruction," in *Huainanzi*. English translation from Chinese Text Project.

underdeveloped, people could survive only by joining together to struggle against nature; otherwise, they would freeze or starve to death or be eaten by wild beasts. Public ownership of the means of production in primitive society was the inevitable result of people's collective labor under conditions of extremely backward productive forces. At that time, instruments of labor, houses, livestock, forests, rivers, land, and so forth were all the communal property of the commune. Individuals possessed only some daily necessities, along with a small number of means of production carried on their persons or weapons for self-defense. This small amount of personal property was fundamentally different from the private property that emerged later.

On the basis of the public ownership of the means of production, equal and mutually supportive relations among people in the production process were formed. Everyone engaged in whatever labor they were capable of, cooperating with and helping one another; class exploitation and oppression were entirely nonexistent. Chairman Mao pointed out: "**In a classless society every person, as a member of society, joins in common effort with the other members, enters into definite relations of production with them and engages in production to meet man's material needs.**"[1]

The public ownership of the means of production and people's equal, mutually supportive relations also determined that labor products were collectively owned by the commune members and consumed jointly, with a distribution system beneficial to all commune members. However, the specific form of product distribution depended to a considerable extent on the quantity of products available for distribution. The productive forces in primitive society were very underdeveloped, and even maintaining a minimum standard of living was difficult. Therefore,

[1] Mao Zedong, "On Practice," in *Selected Works of Mao Zedong*, Vol. I.

labor products had to be distributed equally within the collective to barely sustain the common existence of the commune members. Without equal distribution, some people would starve to death, weakening the collective strength and hindering the consolidation and development of the commune collective. It can thus be seen that the equal distribution system implemented by primitive communes was suited to the nature of the ownership of the means of production and the level of development of the productive forces at that time. The primitive commune tombs excavated in China also reflect the equal distribution of labor products. Many primitive commune tombs in the middle and lower reaches of the Yellow River contained either no grave goods or very few, with no marked disparity among them. Near Sanmenxia, Henan, 145 ancient primitive commune graves were discovered, only one contained a small pottery cup, while the rest contained no grave goods. This indicates that labor products were extremely limited at that time and that humanity lived a primitive communist life of communal labor and equal distribution, with no inequality in the possession of property.

Section Three: Clan System of Primitive Society

The clan was the basic organizational form of primitive society. It was a social organization bound together by blood ties and gradually formed on the basis of the marriage system of group marriage. Engels said: "**The gens[1] is an institution common to all barbarians until their entry into civilization and even afterwards**"; it was "**the fundamental features of**

[1] Note from translator: Clan and gens are translated as the same word in Chinese. Since gens is more associated with ancient Rome, I will use clan other than direct quotes from Engels.

social constitution in primitive times – before the introduction of the state."[1] From the perspective of economic relations, the clan was a basic economic unit. People engaged in collective labor within the clan, with a natural division of labor between men and women, and between the old and the young: men hunted, fished, and practiced primitive livestock husbandry; women gathered wild plants, practiced primitive agriculture, and made food and clothing; the elderly transmitted skills and made weapons and tools; while children assisted the women and the elderly in their work. At the same time, the clan was also the basic unit of life: consumer goods produced through collective labor were distributed equally within the clan and consumed communally. Primitive people thus produced and lived collectively as members of clans.

From the perspective of political relations, the clan organization was an important component of the superstructure of primitive society. Within the clan there was a clan council, which was the supreme authority. Major issues were discussed and decided by all clan members at the clan council. The clan had public officials such as a clan chief, a military leader, and priests, who were democratically elected by all clan members on the basis that they were hardworking, courageous, capable of leadership, and supported by the entire membership. They enjoyed no privileges, did not detach from labor, and stood on an equal footing with ordinary clan members. If they proved incompetent, they could be replaced at any time. An ancient Chinese legend says that Shennong "personally plowed the fields, while his wife personally spun thread," reflecting the fact that clan chiefs in primitive society still retained the status of ordinary laborers. The clan organization and clan chiefs represented the whole society and served all clan members. When handling public affairs, they relied entirely on their own prestige, social

[1] Frederick Engels, "III. The Iroquois Gens," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

customs, and the force of public opinion, without needing any coercive measures. The sayings attributed to that time: “In the era of Shennong … punishments and government were unnecessary, yet order prevailed; armor and weapons did not arise, yet he ruled as king,” and “Shennong issued no commands, yet the people followed.” These show that the kind of violent ruling apparatus found in class society did not exis. The clan organization also had an ideology corresponding to itself, primitive religion and primitive art also began to emerge as well.

With the development of the productive forces and changes in the marriage system, clan organization underwent two stages in its own development: the matrilineal clan and the patrilineal clan. The defining features of the matrilineal clan were that lineage and kinship were reckoned according to the mother’s bloodline and that women held a higher status than men within the clan. This was because at that time, the gathering and primitive agriculture undertaken by women provided a relatively reliable source of livelihood, whereas the results of men’s hunting and fishing were unstable. Moreover, the domestic work performed by women had a social character: in practice, they managed the daily life of the entire clan. At the same time, the marriage system involved group marriage between clans. Because “the people knew their mothers but not their fathers,” blood relationships could be determined only through the maternal line, and clans were divided according to matrilineal descent. In Chinese history, matrilineal clan society emerged approximately forty to fifty thousand years ago. Burial materials from the Yangshao culture in the Yellow River basin, such as the separate burial of men and women in groups and multiple burials centered on women, confirm that exogamy among matrilineal clans was still practiced at that time and that women occupied an important position within the clan.

With the development of the productive forces and the evolution of the marriage system, men's role in production and status within the family grew increasingly stronger, and the matrilineal clan gradually transitioned into the patrilineal clan. After livestock husbandry and plow agriculture developed, the primary herding and agricultural labor shifted to men, while women were relegated to a secondary position and engaged only in some auxiliary work. At the same time, as the population increased and restrictions on intermarriage between blood relatives became increasingly complex and stringent, group marriage gradually changed into pair marriage. The scope of the family narrowed, and women's domestic labor lost its social character of serving the community and became ancillary labor within the family. Thus, the matrilineal clan was gradually replaced by the patrilineal clan. The defining feature of the patrilineal clan was that lineage and kinship were reckoned according to the father's bloodline, and men held the dominant position within the clan. Approximately five thousand years ago, our country transitioned from the matrilineal clan to the patrilineal clan. By this time, single burial and the joint burial of adult men and women as married couples had already become prevalent. At Qinweijia, Linxia there are more than ten joint burial tombs of adult men and women of clans: the men were on the right, lying straight on their backs with their faces upward, while the women were on the left, their lower limbs bent and their bodies turned toward the men. This burial practice demonstrates men's dominant position and women's subordination to and dependence on men. Primitive society practiced the matrilineal clan system for most of its duration. The transition to the patrilineal clan occurred in the late primitive society and marked the beginning of its disintegration.

At the height of its development, the clan commune consisted of several matrilineal extended families. If several clans related by blood ties united, they formed a larger clan, or phratry. Several neighboring phratries then united to form a tribe. The tribe was the highest organizational form of primitive society. It was only toward the end of primitive society, with the emergence of the clan aristocracy and the intensification of conflicts among tribes, that some closely related tribes formed intertribal alliances to meet internal and external needs.

The above analysis shows that primitive society was a social system without private ownership, exploitation, classes, or the state. When describing the characteristics of the clan system, Engels said: "**No soldiers, no gendarmes or police, no aristocrats, kings, regents, prefects, or judges, no prisons, no lawsuits – and everything takes its orderly course.** … **the land belongs to the tribe**, … **All are equal and free – the women included.**"[1] Before society became divided into classes, this was the general outline of human society. Of course, this society should not be idealized. Primitive society was the lower stage of human social development, and both its conditions of production and its living conditions were extremely backward and harsh.

All peoples of the world have passed through a classless clan-society stage. "**Developing along the same lines as many other nations of the world, the Chinese people (here we refer mainly to the Hans) went through many thousands of years of life in classless primitive communes.**"[2] According to archaeological discoveries, from "Peking Man" to "Shandingdong man," and subsequently from the period of the "Yangshao culture" to that of the "Longshan

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[1] Ibid.

[2] Mao Zedong, "The Chinese Revolution and the Chinese Communist Party," in *Selected Works of Mao Zedong*, Vol. II.

culture," the Chinese people passed through such historical stages as the primitive horde, the matrilineal clan commune, and the patrilineal clan commune, living throughout in a primitive-society mode of life without classes, exploitation, or a state. On the eve of liberation, some ethnic minorities in our country, such as the Evenki people, the Oroqen, the Kucong, the Dulong, and the Li, were still, to varying degrees, at the primitive-society stage of development.

Section Four: Decline of the Primitive Communal System and Formation of the Slave System

The relations of production of the primitive communal system were, for a long period, mainly during its early and middle stages, compatible with the level of development of the productive forces and thus promoted the development of the social productive forces. The discovery of fire, the invention of bows and arrows, the manufacture of pottery, the emergence of livestock husbandry and agriculture, and the advent of metallurgy, among others, were several important indicators of the development of the productive forces in primitive society. However, since these relations of production presupposed an extremely low level of productive forces, the room for their development provided by them was naturally very limited. By the late primitive society, as the productive forces advanced, social conditions changed significantly. The premises on which the relations of production of primitive society had depended gradually disappeared, and the relations of production began to come into sharp contradiction with the productive forces.

First, the use of metal tools and livestock in production increased labor productivity. Work that previously required many people working collectively could now be performed by a

few people or even by a single person. Under the conditions created by the new tools, individual labor facilitated the improvement of production skills and increased labor productivity, representing a higher level of the productive forces. Individual labor gradually replaced collective labor. Consequently, the public ownership of the means of production in the clan commune began to conflict with individual labor.

Second, under the past conditions of collective labor, the small quantity of products was the result of joint labor, and the differences in labor skills among people were also small; therefore, equal distribution of products was necessary. Now the quantity of products had increased, and most were the products of a few people or a single person. Considerable differences emerged among people both in labor skills and in labor products, so continuing equal distribution was bound to meet opposition from clan members. The equal distribution system of the clan commune likewise came into conflict with the strengthening role of individual labor and the ever-widening differences in labor.

Third, with the development of the productive forces, social division of labor and exchange emerged, and the sphere of people's economic activity expanded. However, primitive society took the clan as its basic economic unit, and public ownership of the means of production confined the clan within its own narrow sphere and allowed little economic contact with the outside world, thereby obstructing the development of production and exchange into broader fields. The self-sufficient small-scale communal economy of the clan commune also gradually came into sharper conflict with the increasingly expanding production and exchange. In short, as a result of the development of the productive forces, the relations of production based on public

ownership in primitive society no longer met the requirements of the development of the productive forces, thus were inevitably to be replaced by new relations of production.

The relations of production that replaced those of primitive society were slave mode relations of production based on private ownership of the means of production. Regarding the transition from public ownership to private ownership and from primitive society to slave society, this process is relatively clear in Europe because abundant historical materials are available. Marx and Engels both discussed it, especially in Engels's work *The Origin of the Family, Private Property and the State*, which provided a detailed and profound analysis from the perspective of historical materialism.

The process by which private ownership of the means of production replaced public ownership in the primitive commune was gradually completed with the development of the productive forces and the emergence of the social division of labor. During the middle and late stages of primitive society, nomadic tribes separated from other tribes, bringing about the first great social division of labor, of which livestock husbandry and agriculture became independent of each other. The emergence of livestock husbandry made the herds a "**new means of producing these necessities.**"[1] Originally the clan's public property, the herds, as production developed and individual animal-taming skills improved, could, once it reached a considerable size, provide a certain surplus beyond people's consumption and gradually became the private property of the heads of individual patriarchal families. At that time, livestock had many uses and could also be exchanged for other things. They were regarded as the most valuable possessions and thus became the first objects of private appropriation.

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[1] Frederick Engels, "IX. Barbarism and Civilization," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

As domesticated animals became private property, the instruments of labor and weapons used by people also became private property. Arable land was the last to become private property. At first, arable land belonged to the clan and was used by individual families, with periodic redistribution among the families. The patriarchal individual family, combined with publicly owned arable land, gradually evolved into the rural commune. The rural commune was the first to break through the blood-based kinship relations of the clan and consisted of several families settled within a given territory. It was a transitional form of social organization: on the one hand, the land belonged to the commune, was distributed to individual families for cultivation, and included communal forests, pastures, rivers, and so forth; on the other hand, private ownership by families already existed, with houses, livestock, garden plots, instruments of labor, and labor products privately owned by each family. As the system of periodically redistributing land became increasingly detrimental to the maintenance and improvement of arable land and to the mobilization of individual families' enthusiasm, the intervals between redistributions grew longer and longer, until the land finally came to be permanently possessed by individual families. Private ownership of land was thus established.

In the historical process through which the primitive communal economy disintegrated and the private economy emerged, the development of commodity-money relations played an important facilitating role. First, after the first great social division of labor, production yielded a surplus, and regular exchanges arose between clans. Initially, exchanges were conducted by clan chiefs on behalf of all clan members. Later, with the emergence of the beginnings of private ownership, clan chiefs and other public officials began to use their authority to appropriate the

surplus products obtained through exchange. In this way, commodity exchange accelerated the disintegration of public ownership and the development of private ownership.

Second, during the disintegration of the primitive commune, communal ownership of arable land persisted the longest. The transformation of land from public to private ownership cannot be separated from the development of commodity-money relations. The free buying and selling of land was an important factor in the eventual establishment of private ownership of land. Engels pointed out: "**Full, free ownership of the land meant not only power, uncurtailed and unlimited, to possess the land; it meant also the power to alienate it.**"[1] The free buying and selling of land consolidated and strengthened the private economy.

Third, with the development of commodity exchange, money emerged. Money is the representative of social wealth. Once gold and silver money appeared, "**arises also the greed for gold.**"[2] As the public ownership of the clan commune increasingly disintegrated, money not only stimulated wealthy families' desire to accumulate private wealth but also provided more convenient means for such accumulation, thereby greatly accelerating the development of the private economy. The foregoing fully demonstrates that "**the gentile constitution is absolutely irreconcilable with money economy.**"[3] With the development of commodity-money relations, "**thereby the commodity form and money penetrate the internal husbandry of the**

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[1] Ibid.

[2] Karl Marx, "Chapter Three: Money, Or the Circulation of Commodities*,"* in *Capital,* Vol. I, ed. Frederick Engels (Moscow: Progress Publishers, 1974).

[3] Frederick Engels, "V. The Rise of the Athenian State," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

communities directly associated for production; they break one tie of communion after another, and dissolve the community into a mass of private producers."[1]

Alongside the development of production and the continuous growth of the private economy, the marriage system also underwent important changes, shifting from the relatively unstable pair marriage to monogamy. The patriarchal extended families that originally belonged to the clan gradually disintegrated into individual patriarchal nuclear families, which became independent economic units. Engels pointed out: "**The transition to full private property is gradually accomplished, parallel with the transition of the pairing marriage into monogamy.**"[2] The emergence of individual nuclear families based on monogamy marked the complete disintegration of public ownership in primitive society and the final establishment of private ownership of the means of production. Individual families and private ownership did not exist from the very beginning of human society; rather, they were products of socioeconomic development reaching a certain stage.

Private ownership of the means of production inevitably led to polarization between rich and poor. When this polarization developed to a certain extent, an exploitative relationship emerged. The first form of exploitation in human history was the slave system. The emergence of the slave system required two economic prerequisites: first, the productive forces had to develop to a certain level, so that the products created by laborers, in addition to meeting their own minimum subsistence needs, included some surplus; second, the polarization between rich and poor had to develop to a certain degree, so that a small number of people accumulated

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[1] Frederick Engels, "IV. Distribution, Part III: Socialism," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science,* (Progress Publishers, 1947).

[2] Frederick Engels, "IX. Barbarism and Civilization," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

considerable wealth, providing the necessary means of production and means of subsistence for using and exploiting slaves. Engels said: "**In order to be able to make use of a slave, one must possess two kinds of things: first, the instruments and material for his slave's labor; and secondly, the means of bare subsistence for him. Therefore, before slave system becomes possible, a certain level of production must already have been reached and a certain inequality of distribution must already have appeared.**"[1] These conditions for the emergence of the slave system gradually took shape with the development of the productive forces and private ownership. After the first great social division of labor appeared, the beginnings of slave system emerged with the initial development of private property. The earliest slave system had a patriarchal character and is commonly called patriarchal slave system. Within the family, the patriarch controlled his wife, children, and a certain number of slaves, and possessed the power of life and death over the slaves. These unfree slaves came mainly from war captives. When the productive forces were at a very low level and surplus product was not yet possible, prisoners of war were all killed. After labor productivity increased and production yielded a surplus, using slaves began to become advantageous, only then were prisoners of war preserved and turned into slaves. The earliest users of slaves were merely a small number of wealthy families, such as clan chiefs and other public officials. As their private wealth increased and the scope of their operations expanded, they felt a shortage of manpower and needed auxiliary labor power. Meanwhile, they possessed more means of production and means of subsistence and thus had the conditions necessary to use slaves. They therefore abused their official authority to turn prisoners of war into their own household slaves.

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[1] Frederick Engels, "II. Theory of Force, Part II: Political Economy," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

Generally speaking, under patriarchal slave system, relatively few slaves were used. The patriarch himself and other family members still participated in labor, while slave labor occupied an auxiliary position in the household economy. At this stage, the use of slaves remained an isolated phenomenon, and production based on slave labor had not yet become society's primary mode of production. "**For slave-labor to become the dominant mode of production in the whole of a society, an even far higher increase in production, trade and accumulation of wealth was essential.**"[1] These conditions gradually took shape toward the end of primitive society, with the use of metal tools and the second great social division of labor, through which handicrafts separated from agriculture. The second great social division of labor promoted the development of private ownership and polarization between rich and poor, thereby advancing slave system to a new stage. At this point, slaves had become not only the household's primary labor force but were also widely employed in all sectors of social production. Engels stated: "**Handicraft separated from agriculture. The continuous increase of production and simultaneously of the productivity of labor heightened the value of human labor-power. Slavery, which during the preceding period was still in its beginnings and sporadic, now becomes an essential constituent part of the social system; slaves no longer merely help with production – they are driven by dozens to work in the fields and the workshops.**"[2] During this period, slave labor was clearly already widely used in society, but it had not yet become the foundation of society. The dominant position of slave labor throughout social

[1] Ibid.

[2] Frederick Engels, "IX. Barbarism and Civilization," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

production was finally established only after the emergence of commerce, that is, after the third great social division of labor.

The emergence of commerce indicates that commodity production and commodity exchange had already reached a considerable degree of development and that metal money had appeared. The development of commodity and money relations greatly accelerated the transition from patriarchal slave system to the slave-owning system.

First, commodity exchange, through the operation of its inherent laws, inevitably led to polarization between rich and poor, and after merchants appeared, they exploited small producers by buying cheaply and selling dearly, further intensified this polarization.

Second, the emergence of money was followed by usury and land mortgages. Poor families borrowed grain and money from wealthy families and had to pay very high interest. Once they could no longer repay their debts, not only was the land used as collateral confiscated, but they and their family members could even be reduced to slaves, while wealthy families became slave owners who possessed land and slaves.

Third, the development of the commodity and money economy intensified slave owners' desire to exploit. To satisfy their luxurious needs, they vigorously expanded the use of slaves in order to produce more surplus products to exchange for luxury goods and money. At the same time, after money appeared, the buying and selling of slaves gradually became widespread. Driven by poverty, large numbers of free people were forced to sell themselves into slavery, thereby providing a regular source of slaves. This promoted the consolidation and development of slave system and accelerated the transition from patriarchal slave system to the slave-owning system. Engels pointed out: "**With trade expansion, money and usury, private property in**

land and mortgages, the concentration and centralization of wealth in the hands of a small class rapidly advanced, accompanied by an increasing impoverishment of the masses and an increasing mass of impoverishment. …Simultaneous with this division of the citizens into classes according to wealth there was an enormous increase, … , in the number of slaves, whose forced labor was the foundation on which the superstructure of the entire society was reared."

Changes in the economic base inevitably bring about changes in the superstructure. The clan organization, as a major component of the superstructure of primitive society, disintegrated as relations of production changed. Engels said: "**The necessary condition for its existence was that the members of a gens or at least of a tribe were settled together in the same territory and were its sole inhabitants.**" "**The gentile constitution had grown out of a society which knew no internal contradictions, and it was only adapted to such a society.**"[1] Now, the situation had undergone a fundamental change. The territory that originally belonged to a single clan was now inhabited by people from different clans and tribes, who share neither common blood ties nor common interests. Members of the same clan had also split into hostile classes, and conflicts over economic interests had already arisen among them. Therefore, the clan organization, bound together by blood ties and common interests, could no longer adapt to the new economic conditions. The clan system had become obsolete: "**It had been shattered by the division of labor and its result, the cleavage of society into classes. It was replaced by the state.**"[2]

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[1] Ibid.

[2] Ibid.

The earliest state emerged from the transformation of the clan organization. The emergence and development of the slave system, together with the slave owners' ever-growing greed for wealth and slaves, made war the primary means of plundering wealth and capturing slaves. Thus, by the end of primitive society, wars among tribes waged for the purpose of plunder had become extremely frequent. Wars of external aggression strengthened the power of the clan military chiefs, while the prolonged and recurrent nature of warfare caused this power to become concentrated in the hands of a few. At the same time, the conflicts of interest arising within the clan as a result of class differentiation prompted the slave owners who served as clan chiefs, in order to safeguard their own interests, to replace the democratic elections for clan leaders with a heredity, thereby fundamentally changing the nature of the clan organization. The clan chief changed from a representative of the interests of the working people into a ruler of the masses, and the clan organization likewise changed from an institution serving all members of society into an instrument for ruling and oppressing the working people. In explaining the process by which the clan transformed into the state, Engels pointed out: "**The wars of plunder increase the power of the supreme military leader and the subordinate commanders; the customary election of their successors from the same families is gradually transformed, especially after the introduction of father-right, into a right of hereditary succession, first tolerated, then claimed, finally usurped; the foundation of the hereditary monarchy and the hereditary aristocracy is laid. Thus the organs of the gentile constitution gradually tear themselves loose from their roots in the people, in gens, phratry, tribe, and the whole gentile constitution changes into its opposite: from an organization of tribes for the free ordering of their own affairs it becomes an organization for the plundering and oppression of their**

neighbors; and correspondingly its organs change from instruments of the will of the people into independent organs for the domination and oppression of the people."[1] This organ for ruling and oppressing the working people is the state. After the slave state emerged, the slave owner class possessed not only its own economic base but also a superstructure serving that economic base. The slave system was thus fully established.

Regarding the origins of private ownership and classes in our country, the details are not yet clear because of the remoteness of the period and the scarcity of historical materials. However, the general process can be discerned from the unearthed materials and archaeological research, and it is basically consistent with the general law revealed by Marx and Engels.

As early as five or six thousand years ago, corresponding to the period of the Yangshao culture identified through archaeological excavations, our country had already entered the Neolithic Age and reached the flourishing stage of the matrilineal clan commune. Excavations at sites associated with the Yangshao culture show that people at that time mainly used ground stone tools, practiced primitive agriculture, began raising domestic animals such as pigs and dogs, and had already developed pottery technology to a considerable extent. Burial groups were generally arranged in an orderly manner according to clan organization, and grave goods were very few, indicating that society was still a matrilineal clan society characterized by communal ownership of property and shared labor and life among clan members. However, in the Dawenkou culture, which roughly corresponded to the later period of the Yangshao culture, and particularly during the Longshan culture period, approximately four or five thousand years ago, significant changes occurred in socioeconomic conditions. At that time, finely made ground

[1] Ibid.

stone tools and shell implements were already in use, and new types of tools, such as wooden plows, stone sickles, and bone spades, appeared, indicating that primitive agriculture had reached a relatively high level. Livestock husbandry also developed: cattle and horses began to be raised widely, while the number of pigs increased greatly. Handicrafts had separated from agriculture, and red copper implements and metallurgy began to appear. All of this promoted the development of the forces of social production and showed that labor products had become surplus, providing the material basis for the emergence of private ownership and classes.

Judging from excavated burial materials, the Dawenkou culture and Longshan culture periods had already entered the stage of the patrilineal clan commune, beginning the process by which the commune system moved toward disintegration and private ownership gradually emerged. Marx and Engels pointed out: "**Real private property began with the ancients, as with modern nations, with movable property.**"[1] As in Europe, the earliest items to become private property in ancient China were livestock, which constituted movable property. At that time, the prevailing measure of wealth was the skull or mandible of a pig. During their lifetimes, people treated herds as private property; after death, they were placed in tombs as burial goods, with the number of pig skulls or mandibles representing the number of pigs. Of the 133 tombs at Dawenkou, approximately one-third contained pig skulls, with as many as 14 pieces in the richest tomb; in tombs of the Qijia culture, which was somewhat later than the Longshan culture, the quantity of pig bones increased further. For example, some ancient tombs at Dahezhuang contained 36 pig mandibles as burial goods, while one tomb at Qinweijia contained as many as 68 pig mandibles. This clearly indicates that the deceased had possessed large numbers of

[1] Karl Marx, "Part I: Feuerbach. Opposition of the Materialist and Idealist Outlook," in *The German Ideology* (Progress Publishers, 1968).

domestic animals during their lifetime. When pigs first became private property, they may already have been used in exchange and may even have acquired the function of money. As livestock became private property, instruments of labor and household implements also became private property. In a large tomb at Xixiahou belonging to the Dawenkou culture, the total number of pottery vessels of various sizes placed in the tomb was 119, along with a number of instruments of labor. This indicates that the scope of private property continued to expand and that the wealth accumulated by the deceased during their lifetime had reached a considerable amount. As for private ownership of land, as Engels pointed out, its formation occurred last. Unlike Europe, in the process of the disintegration of primitive society in China, land did not become individually privately owned; instead, it was transformed into the collective possession of the slave-owner class and took the form of ownership by the slave state. It was not until the Spring and Autumn period, when the slave system began to disintegrate, that individual private ownership of land gradually developed.

The emergence of private ownership inevitably brought about disparities in wealth. Among the 133 tombs at Dawenkou, the tomb with the most grave goods contained more than 160 items, whereas the tombs with the fewest contained only one or two items or even none at all, demonstrating that considerable differences had already emerged among households in the possession of property. Once this polarization between rich and poor reached a certain degree, classes and exploitation emerged. Mass burial pits were discovered at both Jiangou, which belonged to the Longshan culture, and the site of the Keshengzhuang Phase IIculture. In some pits, human skeletons were piled on top of one another, or had been separated into heads and bodies, or lay in postures suggestive of struggle; in others, the human bones were extremely

scattered and had been buried together with dogs. These circumstances indicate that the deceased had held a low social status during their lifetimes and were very likely slaves who had been massacred and casually thrown into the pits, constituting important evidence that class antagonism had already emerged. In addition, a joint burial tomb of three adults, one man and two women, was discovered among the primitive tombs at Huangniangniangtai, a site belonging to the Qijia culture. The man lay on his back in the middle, while a woman lay on either side, each curled on her side facing him; all three had been placed in the tomb at the same time. It is highly likely that the wives had been sacrificed and buried with the man after his death. This joint burial tomb of one man and two women indicates that individual families and gender inequality had already emerged, and is also important evidence for the emergence of household slave system and classes.

Based on the foregoing, it can be tentatively concluded that the disintegration of primitive society and the emergence of private ownership and classes in China occurred roughly around the period of the Longshan culture. According to dating of artifacts excavated from Longshan culture sites, this was approximately 2200 BCE. With the emergence of class exploitation and slave system, wars aimed at plundering slaves became increasingly frequent. According to ancient Chinese legends, several famous tribes and tribal alliances successively emerged in the Yellow River basin, including the tribes of the Yellow Emperor and the Yan Emperor in the upper and middle reaches of the Yellow River; the tribes of Shaohao, Taihao, and Chiyou in the lower reaches; and the tribes of Zhuanxu, Emperor Ku, and Jiuli. Through prolonged warfare and continual regrouping, these tribes ultimately formed a powerful tribal alliance successively led by Yao, Shun, and Yu. Yao, Shun, and Yu were all leaders of tribal alliances during the late

period of patrilineal clan society, and they also continually waged wars against external groups. Warfare increasingly strengthened the power of tribal military leaders and turned members of defeated clans and tribes into slaves. In this way, the tribal military organization gradually transformed into a state apparatus that imposed class oppression both externally and internally, while the elections for clan and tribal chiefs was replaced by the heredity. It is said that Yu was the first to undermine the democratic traditions of clan society: at a meeting of the tribal alliance that he had convened, he tyrannically killed Fangfeng, a clan chief who had arrived late. After Yu died, the throne should have passed to Boyi, but Yu's son Qi allied with the aristocrats of the Xia Tribe and killed Boyi to seize the throne. By force, he established hereditary succession to the throne and founded China's first slave dynasty—the Xia dynasty. China thus entered slave society.

Chapter Two: Slave System

Section One: Relations of Production in Slave Society

Slave society was the first system of exploitation in human history. Every country in the world passed through the stage of social development of slave system. Some ancient Eastern states in Asia and Africa were the earliest to transition from clan communes to slave societies. From the 30th to the 20th century BCE, Egypt and Babylon successively established slave states; China entered slave society beginning with the Xia dynasty in the 21st century BCE. In Europe, the slave systems of ancient Greece and Rome took shape successively from the 8th to the 6th century BCE.

The basis of the relations of production in a slave society is that slave owners possess the land and other means of production, and completely own the slaves who perform productive labor. Lenin said: "**The division into slaveowners and slaves was the first important class division. The former group not only owned all the means of production—the land and the implements, however poor and primitive they may have been in those times—but also owned people.**"[1] The exploiter's complete personal ownership of the exploited is a fundamental distinction between the slave system and other systems of exploitation.

In ancient Europe, in Greece and Rome, the private ownership of the means of production and slaves by slave owners was the primary form of ownership. With the disintegration of

[1] Vladimir Ilyich Lenin, "The State: A Lecture Delivered at the Sverdlov University," in *Lenin's Collected Works*, Vol. 29 (Progress Publishers, Moscow, 1972).

primitive society, "**the land already divided up and privately owned.**"[1] On this basis, the slave-owning class, which had developed from the clan aristocracy and wealthy families, used slave labor on a large scale in its estates, handicraft workshops, and households. Slaves came mainly from war captives and people from other regions who had been kidnapped and sold, as well as local free commoners from the countryside and cities who had gone bankrupt. The unrestricted buying and selling of land and slaves was widespread. Some merchants specialized in the slave-trading business, and many cities had slave markets. Slave prices were extremely low, making slaves an important source of cheap labor. In Athens, one of the most powerful Greek city-states, "**at the time of their greatest prosperity, the entire free-citizen population of Athens, women and children included, numbered about ninety thousand; besides them there were three hundred and sixty-five thousand slaves of both sexes and forty-five thousand protected persons – aliens and freedmen. There were therefore at least eighteen slaves and more than two protected persons to every adult male citizen. The reason for the large number of slaves was that many of them worked together in manufactories, in large rooms, under overseers.**"[2] In Rome, "**the new class of the great land and money owners, who, gradually swallowing up all the land of the peasants ruined by military service, employed slave labor to cultivate the enormous estates thus formed.**"[3]

China's slave system was characterized by state ownership of land and racial enslavement. Amid class differentiation within clans and frequent wars between clans, the clan-

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[1] Frederick Engels, "V. The Rise of the Athenian State," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

[2] Ibid.

[3] Frederick Engels, "VI. The Gens and the State in Rome," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

aristocracy of conquering clans were transformed into the slave-owning class and established slave states. They not only exploited the poor commoners among their own clan members, as well as prisoners of war and convicts reduced to slaves, but also turned all the members of the large and small conquered clans wholesale into their racial slaves. Thus, the Xia dynasty was ruled by the SIclan aristocracy, the Shang dynasty by the ZIclan aristocracy, and the Western Zhou by the JIclan aristocracy. Under slave system, the means of production were under state ownership. In the words of the traditional saying, "Under the wide heaven, All is the king's land. Within the sea-boundaries of the land, All are the king's servants."[1] All land and slaves nominally belonged to the king, but in reality were possessed by the entire slave-owning class. The king was the supreme representative of the slave-owning aristocracy. They distributed land and slaves as fiefs to their relatives and meritorious officials, as property they could occupy hereditarily. The Shang dynasty and the Western Zhou implemented the well-field system, dividing feudal fiefs into square plots, each measuring one hundred mu (approximately 31.2 modern mu, or 2.08 ha), called a well-field, to be cultivated by one man—that is, one adult male slave. "Nine men make a well," forming a square, one lI(0.5 km) on each side. Because this served as a unit for measuring land area, it was called the well-field. Through the well-field system, the state could determine the remuneration grades and tribute quotas of slave owners at various levels, while slave owners could use it to supervise and inspect the diligence and quality of slave labor. The well-field was also called the public field and belonged to the royal house. Ordinary slave owners could generally use it but could not freely buy or sell it; however, these fiefs could be inherited from generation to generation and thus in practice became the hereditary

[1] Note from translator: From the *Classic of Poetry*, poem 205.

fiefs of slave owners. The slave-owning class and its state subjected the masses of slaves to brutal exploitation through the well-field system.

In slave society, slaves were completely owned by slave owners, had no social status or personal freedom, and were not even regarded as human beings. In ancient Greece and Rome, slaves became the private property of slave owners and were regarded as "talking tools." Slave owners had absolute personal domination over slaves and could beat, abuse, punish, transfer, or sell them at will. The slaughter of slaves was widespread. Lenin said: "**The slave-owners had regarded the slaves as their property; the law had confirmed this view and regarded the slave as a chattel completely owned by the slave-owner.**"[1] Slaves who resisted their masters or were captured after fleeing were put to death. In ancient Chinese slave society, the use of slaves for human sacrifice to appease gods or as funeral rites was also widespread. When worshipping spirits and gods, aristocratic slave owners slaughtered large numbers of slaves together with oxen, sheep, pigs, and other livestock as "sacrifices." According to Shang dynasty oracle bone inscriptions, more than 2,600 slaves were slaughtered on one occasion. When slave owners died, having slaves buried with them was regarded as perfectly natural. The chapter "Simplicity in Funerals" in *Mozi* states: "**Regarding those who were to die to accompany their lord, for the emperor or a feudal lord there should be from several hundred to several tens, and for a minister or secretary there should be from several tens to several.**"[2] In the Shang dynasty tombs excavated at Houjiazhuang in Anyang, Henan, each large tomb with four burial passages contained approximately 360 slaves buried as sacrifices; the total number of victims in the eight

[1] Vladimir Ilyich Lenin, "The State: A Lecture Delivered at the Sverdlov University," in *Lenin's Collected Works*, Vol. 29

[2] Note from translator: English translation is from Chinese Text Project.

large tombs exceeded 2,800. In one Shang dynasty tomb excavated at Wuguan Village, Anyang, 79 slaves buried as sacrifices were discovered. In the 17 mass-sacrifice pits nearby, a total of 152 decapitated human skeletons were found. These horrifying facts fully demonstrate the inhuman status of slaves and the ferocity and brutality of the slave-owning class.

Slave labor was characterized by the most overt form of coercion. Marx pointed out: "**This supervision work necessarily arises in all modes of production based on the antithesis between the laborer, as the direct producer, and the owner of the means of production. The greater this antagonism, the greater the role played by supervision. Hence it reaches its peak in the slave system.**"[1] Owing to their miserable condition, slaves had no interest in labor and deeply hated the slave owners. To express their resistance, they often slowdowned their work, damaged tools, and even fled en masse. Slave owners therefore were forced to provide slaves with crude, durable tools and to enforce and supervise their labor by every possible means. While working, slaves were closely monitored by slave owners and overseers; at the slightest sign of negligence, they were beaten and punished. Slave owners even put leg shackles on slaves and branded their bodies to prevent them from escaping or to make them easier to capture if they did escape. Regarding slave labor in China during the Shang and Zhou periods, the "Shihuo Zhi Shang" in *Han Shu* states: "**In spring, the people were required to be entirely in the fields; in winter, they returned completely to the towns. … In spring and autumn, the people of each li were required to gather. At dawn, the li xu sat in the right xu school, while the lin zhang sat in the left xu school; all had to be present before they could return home, and this was repeated at dusk as well. … In winter, after the people had returned to town,**

[1] Karl Marx, "Chapter 23. Interest and profit of Enterprise," in *Capital*, Vol. III (International Publishers, NY).

women from the same alley gathered together and worked at spinning by night; thus, a woman's monthly labor amounted to forty-five days."[1] This account shows that during spring cultivation, the slaves were driven collectively to the fields to work from early morning until dark, under the close supervision of village administrators, neighborhood heads, and others; during the winter season, they were again driven back to the small settlements to live under centralized supervision, while even the women had to weave hemp cloth for the slave owners day and night without respite, performing forty-five days' work in a single month. The masses of slaves labored endlessly in this way, until the slave owners had drained every drop of blood and sweat from them.

Since the slave-owner class possessed the means of production and the slaves, it also possessed and controlled all the products produced by the slaves. Slave owners used most of the products to satisfy their own excessively licentious and extravagant lifestyles, while giving a small portion to the slaves to sustain their lives, so that they could continue to extract the slaves' labor. Under extremely brutal exploitation, slave owners not only appropriated all the surplus product produced by the slaves, but also seized a large part of the necessary product required to maintain the slaves' normal lives. During their lifetimes, slave owners squandered the wealth they had plundered and forced slaves to produce all kinds of exquisite vessels and construct large numbers of magnificent buildings for their enjoyment, residence, and amusement; after death, they were even buried in enormous tombs together with large quantities of luxurious burial objects. In sharp contrast to the slave-owner class, the broad masses of slaves lived miserable lives worse than those of cattle and horses, struggling on the brink of death throughout their

[1] Note from translator: English translation is from Chinese Text Project.

lives. This irrational distribution system of slave society fully demonstrates that slave owners and slaves were two fundamentally antagonistic classes, and that the contradiction between them was irreconcilable.

Although the slave system was an extremely barbaric system of exploitation, from the viewpoint of historical materialism it nevertheless promoted the development of the productive forces and played a progressive role at that time. First, compared with primitive society, slave society reduced the destruction of labor power, the basic social productive forces. In primitive society, war captives were generally killed or eaten, whereas in slave society prisoners of war were preserved as slaves; "**this was an advance even for the slaves.**"[1]

Second, instruments of labor and production technology underwent further improvement and development in slave society. Metal tools came into widespread use. Slave societies in Western Europe had already begun using iron tools, while during the Shang and Zhou periods in China, bronze tools were used mainly. These greatly increased labor productivity compared with the stone tools of primitive society. Production technology in agriculture and handicrafts developed significantly, the variety of products continually increased, and the division of labor became more refined. During China's Shang and Zhou periods, bronze handicrafts were already highly developed. For example, the Houmuwu ding unearthed at Wuguan Village, Anyang, was 137 cm high, 77 cm wide, and weighed 875 kg. It had exquisite patterns all around, reflecting the advanced technological level of the bronze industry at that time.

Third, under the slave system, the large-scale collective labor of slaves also promoted the development of the productive forces. Slave owners or slave states organized large numbers of

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[1] Frederick Engels, "IV. Theory of Force (Conclusion), Part II: Political Economy," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

slaves to carry out collective production based on simple cooperation and began to adopt cooperation involving a division of labor. The scale of collective labor was often far greater than that of the clan commune. In mining and metallurgy, the number of slaves employed reached several thousand or even tens of thousands; in construction projects, it reached more than one hundred thousand or even several hundred thousand.

Fourth, slave society also promoted the flourishing of culture, science, and art. The bronze implements of ancient China, the pyramids of Egypt, the temples of Greece, and the palaces of Rome are all representatives of the splendid culture of slave society. When explaining the historical role of slave society, Engels wrote: "**It was slavery that first made possible the division of labor between agriculture and industry on a larger scale, and thereby also Hellenism, the flowering of the ancient world. Without slavery, no Greek state, no Greek art and science, without slavery, no Roman Empire. But without the basis laid by Hellenism and the Roman Empire, also no modern Europe. … Without the slavery of antiquity no modern socialism.**"[1]

The slave system was originally a historical stage of development through which all countries of the world had passed, yet Radek and Chen Duxiu, the Trotskyist leaders of the Soviet Union and China, openly denied the basic fact that China had experienced slave society. The counterrevolutionary revisionist Chen Boda likewise echoed them, absurdly claiming that "China skipped the stage of the slave mode of production," and so on. Such lies fabricated by them distorted history, denied the general law of social development, and constituted a complete betrayal of Marxism.

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[1] Ibid.

Section Two: Antagonism Between Town and Country, Mental and Manual Labor

On the basis of the formation and development of the slave system, the division and opposition between cities and rural areas, and between intellectual labor and manual labor, emerged.

Engels pointed out that one of the features of the era of civilization "**the establishment of a permanent opposition between town and country as basis of the whole social division of labor.**"[1] The economic exploitation, political oppression, and cultural enslavement of the rural areas by the cities formed the basis of the urban–rural opposition in slave society.

First, the city itself was a product of the development of private ownership and slave system. The earliest cities in antiquity were military strongholds established by aristocrats serving as military leaders for wars of plunder aimed at acquiring slaves and wealth. The emergence of cities marked the further establishment of the system of exploitation. Engels said: "**Not without reason the bristling battlements stand menacingly about the new fortified towns; in the moat at their foot yawns the grave of the gentile constitution, and already they rear their towers into civilization.**"[2]

Second, apart from some artisans, the people living in the cities were mainly slave owners, large merchants, and usurers, all of whom belonged to the exploiting class. State organs were also located in the cities, and officials were representatives of the exploiting class. In

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[1] Frederick Engels, "IX. Barbarism and Civilization," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

[2] Ibid.

contrast, the vast numbers of slaves and impoverished peasants lived in rural areas outside the cities.

Third, the city became the economic, political, and cultural center of the slave-owning class and the base for ruling and enslaving the rural working people. Handicrafts and commerce were concentrated in the cities. As the economy developed, slave owners, large merchants, and usurers continually intensified their economic exploitation of the vast numbers of slaves and free commoners in the rural areas. The material wealth created by the working people flowed continuously into the cities, where the exploiters squandered it at will. State organs imposed various taxes on the rural working people, conscripted them, and requisitioned their labor, thereby exercising political rule over the rural areas. For their enjoyment, the exploiting class also built luxurious palaces, temples, and theaters in the cities and established various cultural and artistic facilities; meanwhile, the slaves and working people in the vast rural areas lived in poverty, backwardness, and ignorance. The cities and rural areas became two separate worlds.

The oldest towns in our country were also established with the formation of the slave system. According to tradition, city walls and moats had already been built as early as the Xia dynasty. After Pan Geng moved the capital to Yin, the Shang dynasty established a royal palace and capital city in the area of what is now Xiaotun Village, Anyang, Henan. By the Western Zhou, larger cities such as Haojing and Luoyi had emerged, and the feudal lords had also established capital cities within their own fiefs. During the Shang and Zhou dynasties, cities were called “states” or “capitals,” while the countryside was called the “wilds” or the “borderlands.” The slave-owning aristocracy of the ruling clans, together with the artisans and merchants who directly served the slave-owning class, lived in the “states,” where grand royal palaces and other

buildings stood, and the cities were surrounded by defensive facilities such as city walls and moats. The numerous tribal slaves and impoverished commoners, who were called “commoners” or “rural commoners,” were concentrated in small settlements within the “borderlands” and “wilds,” where they were governed by village administrators and neighborhood heads appointed by the aristocracy and had no personal freedom. The slave-owning class in the “states” and “capitals” lived in luxury and extravagance, while the slaves in the “borderlands” and “wilds” were inadequately clothed and lacked sufficient food. The opposition between the “states” and the “wilds,” and between the “capitals” and the “borderlands,” was in essence the class opposition between the slave-owning aristocracy and the masses of slaves and impoverished commoners.

Slave society also saw the emergence of the division of labor between manual labor and intellectual labor. This division presupposed a certain degree of development of the productive forces. The level of the productive forces in primitive society was very low, and there was not enough surplus product to support some people in engaging exclusively in intellectual labor, therefore, the division of labor between manual labor and intellectual labor could not exist. Toward the end of primitive society, although a small number of people, such as clan chiefs and priests, gradually had to devote more time to intellectual labor, they had not yet become intellectual laborers completely detached from manual labor. With the advent of slave society, on the one hand, the improvement of the productive forces provided the material basis for the division between manual and intellectual labor; on the other hand, with the development of production and the emergence of the state, activities such as managing society, supervising production, and developing culture and art increasingly expanded, objectively creating a need for

some people to engage exclusively in intellectual labor. The division of labor between manual labor and intellectual labor emerged under these circumstances.

In slave society, the division of manual labor and intellectual labor was likewise based on class division. Those engaged in intellectual labor were primarily the slave owner class and its intellectuals, and the purpose of their intellectual labor was entirely to serve the interests of the exploiting class. They managed the state and supervised production in order to strengthen their rule over and extraction from the slaves; they studied science and developed culture in order to promote the prosperity of the slave economy and strengthen the mental enslavement of the slaves. The vast majority of slaves and working people were excluded from intellectual labor and could undertake only the drudgery of manual labor throughout their lives. In ancient slave society in China, cultural knowledge was likewise completely monopolized by the slave-owning aristocracy. “Learning was in the hands of the government.” “Learning” became the privilege of the aristocratic political power and aristocratic class, controlled by officials, while slaves and impoverished commoners had no share in it. In order to maintain their rule, the slave-owning aristocracy imposed on the working masses the reactionary policy of keeping the people ignorant: “**The people may be made to follow a path of action, but they may not be made to understand it.**”[1] The aristocratic lords gained without working and lived off the blood and sweat of slaves; yet they, in turn, held manual labor in extreme contempt, looked down on working people, considered themselves superior, and lorded it over the people, abusing their power. This inevitably aroused an intense hatred among manual laborers toward intellectual laborers. Mencius fervently propagated the notion that “**those who labor with their minds govern**

[1] Note from translator: From “Tai Bo,” in *The Analects*. English translation is from Chinese Text Project.

others; those who labor with their strength are governed by others; those who are governed by others support them; those who govern others are supported by them,"[1] thereby attempting to preserve forever the condition under the slave system in which the rulers did not work while the workers were ruled. The opposition between mental and manual labor in slave society profoundly reflected the irreconcilable class antagonism between the slave-owning class and the slave class.

Although the division between manual and intellectual labor under slave system was based on class antagonism, it nevertheless played a positive historical role in the development of production and social progress. The brilliant culture of antiquity emerged precisely on the basis of this division of labor, which laid the foundation for the subsequent development of science, culture, and art. Engels said: "**Human labor was still so little productive that it provided but a small surplus over and above the necessary means of subsistence, any increase of the productive forces, extension of trade, development of the state and of law, or foundation of art and science, was possible only by means of a greater division of labor. And the necessary basis for this was the great division of labor between the masses discharging simple manual labor and the few privileged persons directing labor, conducting trade and public affairs, and, at a later stage, occupying themselves with art and science. The simplest and most natural form of this division of labor was in fact slavery.**"[2] However, it must be pointed out that although most people engaged in intellectual labor in slave society belonged to the exploiting class, the great achievements of science and culture were, in the final analysis, created

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[1] Note from translator: From "Teng Wen Gong I," in *The Works of Mencius*. English translation from Wikisource.

[2] Frederick Engels, "IV. Theory of Force (Conclusion), Part II: Political Economy," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

by slaves and working people. For without the surplus product provided by slaves and other working people, some members of the exploiting class could not have engaged in intellectual labor. Moreover, the scientific and cultural achievements of antiquity all arose from the distillation of the rich experience of working people; without the practices of working people in the struggle for production and the class struggle, the flourishing of ancient science and culture would have been impossible. Among those engaged in scientific research and artistic activities, besides members of the exploiting class, there were also some working people. In particular, toward the end of slave society, the slave-owning class had completely separated itself from manual labor and even partially shifted the work of advancing science, culture, and art and of managing production to slaves. Thus, the splendid culture of antiquity was, in the final analysis, created by slaves and was the crystallization of the wisdom of working people.

Section Three: Classes and State in Slave Society

In slave society, there were three classes: slave owners, slaves, and free commoners. The slave-owner class included large landowners, large-scale handicraft masters, large merchants, usurers, and the state officials and intellectuals who served them. Although small in number, they controlled the means of production, dominated the social economy, controlled the state apparatus, and held a position of economic and political supremacy. During the Shang and Zhou dynasties in China, the king was the largest slave owner. Below him were the feudal lords, high ministers, lesser ministers, and other small and medium-sized slave owners. Together with the

large merchants and usurers, they oppressed and exploited the vast numbers of slaves and other working people, and constituted the ruling class of slave society.

Opposed to the slave-owning class was the slave class. They possessed no means of production whatsoever; they themselves belonged to the slave owners, and economically and politically occupied a position of exploitation and subjugation. The Shang dynasty called slaves "masses" and "livestock people," while the Western Zhou called them "commoners" and "common people." These slaves were treated as livestock, lived worse than cattle and horses, and constituted the ruled class of slave society.

Besides the two basic classes of slave owners and slaves, slave society also contained a large number of free commoners, including small peasants and small-scale artisans. They controlled some means of production and enjoyed certain political rights and personal freedom, distinguishing them from slaves; yet they were likewise oppressed by slave owners and exploited by merchants and usurers, and they had to pay taxes to the state and perform military service. They therefore also occupied an exploited and oppressed position. This commoner class was called "lesser people" in China's Shang dynasty and constituted the primary mass of the "people of the capital" in the Western Zhou. Most were ordinary members of the ruling clans. They could obtain small plots of land from the state for cultivation or engage in small-scale handicrafts, thereby supporting themselves through their own labor. Burdened by debt, tributes and taxes, and military campaigns, the commoners lived in hardship. If they committed a crime or incurred debt, they became slaves. Their interests were likewise opposed to those of the aristocratic slave owners.

"**The division into slaveowners and slaves was the first important class division.**"[1] With the emergence of classes, the state also came into being. In order to suppress slave resistance and safeguard their economic interests, the slave-owning class necessarily had to establish a state apparatus and strengthen its rule politically. The state is the product of irreconcilable class contradictions and an instrument through which one class oppresses another. In essence, a slave state is the state of the slave-owning class. Engels said: "**As the state arose from the need to keep class antagonisms in check, but also arose in the thick of the fight between the classes, it is normally the state of the most powerful, economically ruling class, which by its means becomes also the politically ruling class, and so acquires new means of holding down and exploiting the oppressed class.**"[2] Ancient Greece and Rome established democratic republics, but this could not alter the essence of the slave state: there, only slave owners could enjoy democracy, while slaves were excluded.

China's slave state emerged during the Xia dynasty. By the Shang dynasty and the Western Zhou, the state apparatus had been further strengthened: a complex set of bureaucratic institutions had been established, with a large army and harsh criminal law. All officials, high and low, were drawn from the slave-owning aristocracy, who exercised dictatorship over slaves and impoverished commoners. The army was large and tightly organized, equipped with bronze weapons such as dagger-axes, spears, and swords, and made use of war chariots. Domestically, it suppressed armed uprisings by slaves; externally, it waged wars of plunder. Penal codes were numerous and cruel. The Zhou dynasty, for example, established the harsh five punishments: mo

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[1] Vladimir Ilyich Lenin, "The State: A Lecture Delivered at the Sverdlov University," in *Lenin's Collected Works*, Vol. 29.

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(inscribing characters on the face), yI(cutting off the nose), yue (cutting off the feet), gong (destroying the reproductive organs), and dapI(beheading). The code of the five punishments contained three thousand provisions. All these criminal laws were used against slaves and commoners, while the aristocracy was not bound by the law. As the saying went, "**corporal punishment does not go up to senior officers, and [ritual] does not go down to commoners.**"[1] Against slaves, only violence was used, without any appeal to "ritual."

China's slave state bore the characteristics of the patriarchal clan system. To preserve the internal order of the ruling class and consolidate the political power of the slave owners, the slave-owning aristocracy drew on the patriarchal clan relations based on blood ties that had survived from the clan communes and established a patriarchal clan system serving the slave-owning class. Under this system, the entire slave-owning aristocracy belonged to a single clan, whose head, as the leader of the ruling clan aristocracy, became king and styled himself the "Son of Heaven," representing the entire slave-owning aristocracy in holding supreme state power. The king enfeoffed related aristocrats of the same clan in various regions, granting them specified amounts of land and slaves and establishing large and small "regional states," that is, "feudal states." The feudal lords then enfeoffed subordinate aristocrats, such as ministers and lesser ministers from the same clan, throughout the regional states, establishing feudal fiefs and forming a network for ruling the masses of slaves. The Son of Heaven and the enfeoffed feudal lords, and the feudal lords and the enfeoffed ministers, lesser ministers, and others, stood in relationships of great lineage and lesser lineage, and of superiors and subordinates. The lesser lineage had to obey the leadership of the great lineage, pay regular tribute, and undertake various

[1] Note from translator: From the *Book of Rites.* English translation is from Wiktionary.

obligations. Thus, a rigid political hierarchy was formed within the ruling class, ensuring the royal house's successive control over slave owners at every level below the feudal lords. The throne and the positions of rulers of the feudal states were generally inherited by the eldest sons of the primary wives. This heredity enabled the established clan-hierarchical relations to be maintained from generation to generation. This patriarchal clan system, centered on the feudal enfeoffment system, hierarchical system, and heredity, was combined with the state organization, consolidating and strengthening the dictatorship of the slave-owning class. To maintain the slave owners' patriarchal clan system, there was also a corresponding set of rules of conduct and institutional codes that slave owners at every level were required to follow, known as "ritual." The slave-society ritual system likewise served to consolidate the rule of the slave-owning class. The clan law system of China's slave society certainly played a role in strengthening the dictatorship of the slave owners, but it also produced a situation in which regional states stood in profusion, each governing its own affairs.

The primary class contradiction in slave society was the contradiction between slaves and slave owners. Wherever there is oppression, there is resistance; wherever there are classes, there is class struggle. The slave owners' brutal economic exploitation and vicious political rule forced the slaves to rise up in resistance. In both ancient Europe and the East, slave revolts erupted one after another without interruption. The struggle of slaves against slave owners was the primary content of class struggle in slave society; together with the commoner class's struggle against slave owners, it constituted the fundamental force driving the development of slave society.

Section Four: Decline of the Slave System and Formation of the Feudal System

Although the relations of production of slave system promoted the development of production for a certain period and within certain limits, the scope they opened for raising the productive forces was ultimately quite narrow. Owing to the movement of its own contradictions, the slave system was inevitably bound to embark on the path of decline. Engels said: "**It soon became the dominant form of production among all peoples who were developing beyond the old community, but in the end was also one of the chief causes of their decay.**"[1] By the end of slave society, the contradiction between the relations of production of slave system and the productive forces had gradually intensified and increasingly become shackles on the development of the productive forces. This was manifested mainly in the following ways:

First, the slave owners' extremely brutal economic exploitation and political oppression of slaves caused the premature deaths of large numbers of slaves, seriously damaging the most basic productive forces in slave society.

Second, the slaves who remained alive had no interest whatsoever in labor, and resisted the exploitation and oppression of the slave owners through work slowdowns, the destruction of instruments of labor, and other methods. To prevent slaves from destroying tools, slave owners manufactured heavy, cumbersome tools for them to use. Marx said: "**The principle, universally applied in this method of production, only to employ the rudest and heaviest implements and such as are difficult to damage owing to their sheer clumsiness.**"[2]

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[1] Frederick Engels, "IV. Theory of Force (Conclusion), Part II: Political Economy," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

[2] Karl Marx, "Chapter Seven: The Labour-Process and the Process of Producing Surplus-Value," in *Capital*, Vol. I.

Third, the class of free commoners in slave society bore all military service and tax obligations. As a result of the plunder by the exploiting class and the destruction caused by constant warfare, most of them fell into poverty and bankruptcy, and some even became slaves, causing the sources of troops and revenue of slave states to dry up.

Fourth, prisoners of war were the main source of slaves. Since the sources of troops in slave states had dried up, the avenue of acquiring slaves through wartime plunder was consequently blocked. Large numbers of slaves could not be replenished normally, fundamentally undermining the foundation of the slave system.

Fifth, under the slave system, slave owners held labor in extreme contempt, while slaves in turn intensely hated labor. This social consciousness reacted back upon the economic base and inevitably accelerated the collapse of the slave system. Engels pointed out profoundly: "**The slavery of classical times had outlived itself. Whether employed on the land in large-scale agriculture or in manufacture in the towns, it no longer yielded any satisfactory return – the market for its products was no longer there. … This was the blind alley from which the Roman world had no way out: slavery was economically impossible, the labor of freemen was morally ostracized. The one could be the basic form of social production no longer; the other, not yet. Nothing could help here except a complete revolution.**"[1]

The intensification of the contradiction between relations of production and the productive forces inevitably greatly exacerbated social class contradictions and class struggle. By the end of slave society, as the exploitation by the slave-owning class became more brutal, the slaves' resistance struggle rose to an unprecedented level, and the flames of slave revolts burned

[1] Frederick Engels, "VIII. The Formation of the State among Germans," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

ever more fiercely. The Spartacus uprising, which broke out in Rome in 73 BC, was the largest slave revolutionary war in history; the rebel army numbered approximately 120,000, and the struggle lasted for three years. During China's Spring and Autumn period, the famous slave-uprising leader Liuxia Zhi led a force of 9,000 in heroic combat, "**marched at their will through the kingdom, assailing and oppressing the different princes.**"[1] The magnificent slave uprisings dealt a heavy blow to the reactionary rule of the slave-owning class and played a decisive role in destroying the slave system.

When the relations of production of slave system seriously hindered the development of the productive forces, and driven by slave resistance and slave uprisings, the embryo of feudal relations of production emerged within slave society. From their initial emergence to their final establishment, feudal systems, whether in China or abroad, underwent a lengthy process of revolutionary transformation.

The transition from the slave system of ancient Rome to feudalism began in the fifth century CE and was basically completed by the eleventh century. On the one hand, it took the form of slaves being transformed into tenant farmers; on the other, it took the form of free commoners being transformed into dependent peasants. At that time in Rome, the bankruptcy of the peasants, the weakening of the state's military power, and the large-scale uprisings and escapes of slaves caused the general decline of agriculture, handicrafts, and commerce, while the slave owners' large-estate economy had become unprofitable. Under the blows of slave uprisings, some slave owners were forced to change their methods of exploitation. They divided their large estates into many small plots of land and rented them to freed slaves. These freed

[1] Note from translator: From "The Robber Zhi," in *Zhuangzi*. English translation is from Chinese Text Project.

slaves, who cultivated land rented from the slave owners, were called tenant farmers. Engels pointed out: "**Small production had again become the only profitable form. One country estate after another was cut up into small lots, … For the most part … given out to coloni, who paid for them a definite yearly amount, were tied to the soil and could be sold together with their lot. True, they were not slaves, but neither were they free… They were the forerunners of the medieval serfs.**"[1] The tenant-farming system was the germ of feudal relations of production. At the same time, large numbers of free peasants, subjected to wartime incursions, tax exploitation, and the ruthless oppression of usurers, fell into bankruptcy. To escape this fate, they had no choice but to seek protection from powerful people: "**Their patron made it a condition that they should transfer to him the rights of ownership in their pieces of land, in return for which he guaranteed them the use of the land for their lifetime.**"[2] These free peasants protected by the powerful elites of the time were dependent peasants. The emergence of dependent peasants was another sign of the rise of feudal relations of production.

Just as the Roman Empire was evolving toward the feudal system along this path, the Germanic peoples conquered the Roman Empire, accelerating the feudalization of Rome and Western Europe as a whole.

First, after conquering Rome, the Germanic peoples, who were at the end of primitive society, "**they could neither absorb the mass of Romans into the gentile bodies nor govern them through these bodies. … had to be placed a substitute for the Roman state.**"[3] This

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[1] Frederick Engels, "VIII. The Formation of the State among Germans," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

[2] Ibid.

[3] Ibid.

substitute was the feudal state established by the conquering clan on the basis of its existing military organization, with the clan military leader becoming the king. The king granted the occupied land to their trusted followers and subordinates as feudal fiefs or estates; the great lords then enfeoffed the land to lesser and medium-sized lords, thereby forming a new feudal aristocracy and the lord economy of feudalism.

Second, following the Germanic conquest of Rome, large numbers of members of the Germanic tribes migrated into Roman territory, received plots of land to cultivate, and became free commoners. Like the original Roman free commoners, they were plundered by feudal lords and the feudal state, were reduced to extreme poverty by incessant wars, and were also compelled to seek the protection of aristocrats or the church, surrendering their land ownership as the price; they then "**had to transfer their rights of property in land to their protecting lord and received the land back from him in tenancies… Once in this position of dependence, they gradually lost their personal freedom also; after a few generations most of them were already serfs.**" In this way, the Germanic peoples established the feudal system upon the ruins of Roman slave system.

It must be pointed out that although the invasion by the Germanic peoples accelerated the process of feudalization in Rome and among the peoples of Western Europe, the feudal systems of Rome and Europe were by no means the result of the Germanic peoples' violent conquest. If the Roman Empire had not developed the social and economic conditions necessary for establishing a feudal system, the Germanic peoples could not have "manufactured" a feudal society after their invasion. At the same time, it can be affirmed that even without the conquest of Rome by foreign peoples, owing to the action of objective economic laws, the Roman Empire

would sooner or later inevitably have developed along the path of feudalization into a feudal state.

China's feudal system developed earlier than those of the Western European countries. The transition between the Spring and Autumn and Warring States period in 475 BCE marked the beginning of Chinese feudal society. The Spring and Autumn period was a historical period of transition from the slave system to the feudal system. At that time, iron tools and ox-drawn plowing had already been adopted in some feudal states, greatly increasing labor productivity. The slave-owning aristocracy intensified its exploitation of the slaves' surplus labor. Resistance among the slaves continued to grow. They slowed down their work: "**If proper timing is not communicated to them, then the people remain unaware; If tasks are not clearly explained, then the people will not act**,"[1] and had no enthusiasm to produce. Under the impact of large-scale slave escapes and slave uprisings, the labor force declined and the land fell into wasteland, resulting in "public fields were left untended"[2] and "fields lie hidden among weeds, work is completed but not harvested."[3] The slave owners' economy fell into decline, and the well-field system was in the process of collapse.

With the dissolution of the well-field system, feudal relations of production emerged and developed. The land ownership system changed first: alongside the public fields—that is, the state-owned land of the slave system—private fields appeared. As early as the end of the Western Zhou, scattered private fields already existed. During the Spring and Autumn period,

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[1] Note from translator: From "Cheng Ma," in *Guanzi*. English translation is from Chinese Text Project.

[2] Note from translator: From "Shihuo Zhi Shang," in *Han Shu*. English translation is from Chinese Text Project.

[3] Note from translator: From "Danzi ZhIchen Bi Wang" (单子知陈必亡). English translation is from Chinese Text Project.

improvements in the instruments of production led the middle and lower aristocrats and wealthy free commoners to reclaim large areas of wasteland, and private fields continued to increase. Unlike public fields, private fields had no fixed specifications and could be freely bought and sold; initially, they were also exempt from taxation and were "private" property not recognized by the state. Because feudal lords, lesser ministers, and other aristocrats possessed large amounts of private fields, they grew increasingly wealthy and powerful, and went further by competing with the Son of Heaven for public fields, striving to turn them into their own privately owned land. The development of private ownership of land forced the various states to confront reality and successively change their taxation systems. In 594 BC, the state of Lu implemented the land-tax system, taxing all land by the land area, regardless of whether it consisted of public or private fields. Many states successively adopted similar measures. Private ownership of land thereby received legal recognition in practice.

As private land developed, methods of exploitation also changed, and the tenant farming system began to be implemented. Large-scale slave-based operations had long since ceased to be profitable. The new aristocracy who possessed large amounts of private fields, both for their own economic interests and to win popular support in their opposition to the ruling house, successively adopted new methods of operation: they divided the land into small plots and leased them to former slaves and impoverished commoners, who performed corvée labor for a certain period or paid a specified quantity of products as rent in kind. The "when goods are fairly distributed, the people know they have received their rightful share"[1] mentioned in "Cheng Ma" in *Guanzi* was one form of rent in kind. This major transformation in the mode of operation first

[1] Note from translator: English translation is from Chinese Text Project.

occurred in the state of Lu. In 562 BCE, the three aristocratic families of the Taifu Ji Sun, Meng Sun, and Shu Sun divided up the land of the ruling house, among which Ji Sun implemented a taxation system and achieved success. Twenty-five years later, the three aristocrats divided up the ruling house's land for a second time and all adopted feudal methods of exploitation.

New classes emerged along with new relations of production. Landholders who possessed large amounts of private fields and implemented a tenant farming system constituted the emerging landlord class. Most slaves and impoverished commoners, meanwhile, were transformed into dependent peasants. Although these peasants were still exploited, their status had improved: unlike slaves, they could not be bought, sold, or killed arbitrarily; they rented and cultivated the landlords' land, managed their own individual holdings, and had some enthusiasm to produce. The new feudal relations of production formed by landlords and peasants were, at that time, suited to the requirements of the development of the productive forces. The emerging landlord class represented this progressive mode of production. However, the declining slave-owning aristocracy would not automatically disappear from the historical stage. Using the state apparatus in its hands, it attacked and suppressed the emerging landlord class, striving to avert the demise of the slave system. Thus, fierce contradictions and conflicts unfolded between the relatively progressive feudal system and the decaying slave system, and between the emerging landlord class and the reactionary slave-owning aristocracy. The landlord class drew on the strength of slave uprisings and popular resistance and fought vigorously to seize political power from the slave-owning aristocracy. This struggle began in the middle of the Spring and Autumn period and lasted for more than two hundred years. It was not until the early Warring States period that the landlord class successively established its own political rule in the feudal states of

Qi, Han, Zhao, Wei, Chu, and Qin and, through a series of "reforms," carried out sweeping reforms of the social system, gradually completing the revolutionary transformation from the slave system to the feudal system.

The transition from the slave system to the feudal system was a great social revolution. The sharp and intense class struggle was inevitably reflected in the sphere of political thought, giving rise to opposition and conflict among various schools of political thought. The struggle was most pronounced between the Legalist School, which represented the emerging landlord class, and the Confucian School, which represented the declining slave-owning class. Confucius and Mencius were the primary representatives of the Confucian School. Standing on the side of the slave-owning aristocracy, they put forward the reactionary program of "subdue one's self and return to propriety,"[1] propagated "rule by virtue" and "benevolent government," and advocated the "doctrine of the golden mean,"[2] attempting to preserve and restore the already declining slave system. The primary representatives of the Legalist School, including Shang Yang, Xun Kuang, and Han Fei, stood on the side of the emerging landlord class and engaged in sharp opposition to the Confucian School represented by Confucius and Mencius. They proposed that "**there is no single way to govern a well-ordered world; what benefits the state need not follow ancient laws**,"[3] opposed the Confucian advocacy of "subdue one's self and return to propriety" and its backward-looking restorationist orientation, and advocated "rule of law," "severe punishments," and "punishment without distinction of rank." They opposed the Confucian notions of so-called "rule by virtue" and "benevolent government," as well as the privileges of the slave-owning

[1] Note from translator: English translation is from Wiktionary.

[2] Note from translator: English translation is from Wiktionary.

[3] Note from translator: From "Biographies of Shang Jun," in *Shiji.* English translation is from Chinese Text Project.

aristocracy embodied in the principle that “punishment does not reach the lesser ministers.” They advocated “abolish the well-field system and open up crosswise fields” and “divide the land among farmers for cultivation,” opposing the well-field system defended by Confucianism. They advocated “no reward without merit,” opposing the Confucian system of “hereditary offices and stipends.” They advocated centralization of power and implementation of the prefecture and county system, opposing the feudal enfeoffment system defended by Confucianism, among other measures. Throughout the Spring and Autumn and Warring States period, the struggle between the Legalist School and the Confucian School was, in essence, the struggle between two classes and two lines: the emerging landlord class and the declining slave-owning aristocracy. Because the Legalist line represented the demands of the revolutionary class and the progressive mode of production and accorded with the direction of social development, it defeated the Confucian line after several centuries of sharp and tortuous struggle, thereby giving tremendous impetus to the establishment and consolidation of the feudal system in China.

Chapter Three: Feudal System

Section One Relations of production in feudal Society

The relations of production in feudal society were based on feudal ownership of the means of production. Stalin said: "**The basis of the relations of production under the feudal system is that the feudal lord owns the means of production and does not fully own the worker in production – the serf.**"[1]

Agriculture was the primary economic sector of feudal society. Land was the basic means of production in feudal society. Whoever owned the land held a dominant position in the socioeconomic order. In feudal society, the feudal landlord class, composed of a small number of people, including the emperor, the feudal aristocracy, the clergy, and ordinary landlords, owned the vast majority of the land; the serfs or peasants, who constituted the overwhelming majority of the population, owned very little land or none at all. According to historical records, during the reign of Emperor Yingzong of the Song dynasty, more than five-sixths of the land in the country was monopolized by the landlord class. To preserve their ruling position, the emperors of the Yuan dynasty granted large quantities of land to relatives, favored ministers, and temples. For example, the minister Bayan was granted as much as 20,000 qing (110,000 to 120,000 ha) of land, while the Da Chengtian Husheng Temple received a total of 325,000 qing (1,787,500 to 2,145,000 ha) in land grants on two occasions. During the Ming dynasty, the imperial estates near Beijing alone occupied 209,000 qing (1,149,500 to 1,379,400 ha) of land. According to

[1] Joseph Stalin, "Dialectical and Historical Materialism." Note from translator: In the original work, the quote was wrongly attributed to "Problems of Leninism."

official documents from the Qing dynasty, in the Jianghuai region, the landlord class, which constituted 9% of the population, owned 96.5% of the land, while the poor peasants and farm laborers, who made up more than 87% of the population, were essentially landless. The landlord class's ownership of land, the basic means of production, was the economic precondition for its cruel exploitation of the vast peasant population.

Having lost the basic means of production, peasants, in order to live, had no choice but to become dependent on the feudal landlords and suffer their exploitation. In Europe, the lord economy was the primary form of feudal exploitation. Feudal lords established feudal manors on the lands granted to them. Manor land was usually divided into two parts: one part consisted of land directly managed by the lord, and the other consisted of peasant allotments given to serfs for use. Demesne land included the best arable land on the manor. Serfs cultivated it with their own farming tools, and the entire harvest belonged to the feudal lord. In China, apart from a small number of feudal aristocrats, there were large numbers of small and medium-sized feudal landlords; consequently, landlord economy became the primary form of the feudal economy. Most of them leased their land out in separate parcels to peasants for cultivation. As tenant farmers, the peasants paid the landlords a certain quantity of produce each year without compensation. Whether lord economy or landlord economy, both embodied the exploitative and ruling relationship of landowners over dependent peasants. Although feudal peasants remained in an exploited position, they cultivated small plots of land, possessed their own labor tools, and established a small private economy, which gave them a certain degree of enthusiasm for production. This was the way in which feudal economy was more advanced than slave economy, and it was also one of the primary characteristics distinguishing feudal peasants from slaves.

The feudal lord's exercise of "extra-economic coercion" over peasants is another important characteristic of the feudal system. Extra-economic coercion refers to the landlord's personal coercion of peasants, which is based on the peasants' personal dependence on the landlord. Because peasants had established a small private economy, they would not work for the landlord without the landlord's exercise of extra-economic coercion.

"**The form and degree of this coercion may be the most varied, ranging from the peasant's serf status to his lack of rights in the social estates.**"[1] In Europe, serfs could not leave their peasant allotments at will and in practice became appendages of the land. They were personally subordinate to feudal lords and could be mortgaged, transferred, or sold together with the land. Although China's feudal peasants could not be arbitrarily sold or transferred by landlords, they were likewise "**under the bondage of feudalism they had no freedom of person. The landlord had the right to beat, abuse or even kill them at will, and they had no political rights whatsoever**," and "**in effect the peasants were still serfs.**"[2] Peasants in feudal society were neither like slaves in slave society, who had no personal freedom whatsoever, nor like wage laborers in capitalist society, who were free but possessed nothing; rather, they were personally dependent on landlords while maintaining their own individual economies.

Peasants bound to the landlords' land used the family as the production unit. In addition to producing agricultural products, they also produced most of the handicrafts they needed themselves. The ancient Chinese practice that "men farm and women weave"[3] reflected this self-

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[1] Vladimir Ilyich Lenin, "Chapter III. The Landowners' Transition from Corvée to capitalist Economy, The Development of Capitalism in Russia," in *Lenin's Collected Works*, Vol 3 (Progress Publishers, Moscow, 1964).

[2] Mao Zedong, "The Chinese Revolution and the Chinese Communist Party," in *Selected Works of Mao Zedong*, Vol. II.

[3] Note from translator: English translation is from Wiktionary.

sufficient natural economy of feudal society. The products extracted by landlords from the peasants were also mainly consumed by the landlords themselves and were generally not used for exchange. Lenin pointed out: "**The feudal estate had to constitute a self-sufficing, self-contained entity, in very slight contact with the outside world.**"[1] In feudal society, commodity production and exchange had developed to a certain extent, but they did not occupy a primary position in the overall social economy; the self-sufficient natural economy was the prominent characteristic of this mode of production.

The feudal landlord class exploited peasants by obtaining feudal ground-rent. Feudal rent was the manifestation of the feudal landlord class's land ownership in the sphere of distribution. With the development of the feudal economy, feudal ground-rent assumed three basic forms: labor rent, rent in kind, and money rent.

Labor rent is rent paid by peasants to the landlord in the form of labor. This form of rent was very prevalent in the early feudal society of Western Europe. Typically, serfs were required to work three to four days per week on the lord's land, with the products belonging to the lord; during the remaining time, they worked on their peasant allotments, and the products belonged to the serfs themselves. Labor rent is the natural form in which the landlord directly appropriates the peasants' surplus labor. Marx said: "**If we consider ground-rent in its simplest form, that of labor rent… ground-rent, which in this case is not only directly unpaid surplus-labor, but also appears as such.**"[2] Under this form of rent, the labor performed by peasants for themselves and that performed for the landlord were completely separated in time and space,

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[1] Vladimir Ilyich Lenin, "Chapter III. The Landowners' Transition from Corvée to capitalist Economy, The Development of Capitalism in Russia," in *Lenin's Collected Works*, Vol 3.

[2] Karl Marx, "Chapter 47. Genesis of capitalist Ground-Rent," in *Capital*, Vol. III.

making the landlord's exploitation of the peasants immediately apparent. Peasants worked diligently on their own allotments, with relatively high enthusiasm and labor productivity; but when working on the manor of the feudal lord, they slowed down and showed no enthusiasm, so the lord adopted coercive measures to supervise them. Lenin therefore said: "**The feudal organization of social labor rested on the discipline of the bludgeon.**"[1] Labor rent presupposes an insufficiently developed level of the productive forces. The peasants' work slowdown also hindered the landlord from appropriating more surplus labor; consequently, as the productive forces developed, labor rent gradually changed into rent in kind.

Rent in kind is rent paid by peasants to landlords in products. Landlords leased land to peasants and compelled them to pay a certain quantity of grain, poultry, and other agricultural by-products every year. At this point, "it is the power of various relations, rather than direct coercion, that drives the direct producers; it is legal regulation, rather than the whip, and they have already taken responsibility for carrying out this surplus labor themselves"③. The emergence of rent in kind intensified landlords' exploitation of peasants. Landlords often raised the rent and appropriated the gains peasants obtained by improving production technology and increasing labor productivity. When peasants suffered natural disasters or other calamities, landlords continued to collect rent as usual, often driving peasants to ruin and the destruction of their families. Marx pointed out: "**The [rent in kind] may assume dimensions which seriously imperil reproduction of the conditions of labor, the means of production themselves,**

[1] Vladimir Ilyich Lenin, "A Great Beginning," in *Lenin's Collected Works*, Vol. 29 (Progress Publishers, 1972).

rendering the expansion of production more or less impossible and reducing the direct producers to the physical minimum of means of subsistence."[1]

Labor rent and rent in kind were both forms of rent based on a natural economy. By the end of feudal society, with the development of the commodity economy, rent in kind was gradually replaced by money rent. Money rent was rent paid by peasants to landlords in money. At this point, peasants still produced the means of subsistence they needed, but had to take part of their products to market and sell them in order to obtain money with which to pay rent to landlords. This gave their individual economy, in part, a commodity-economic character and broke through the limits of the natural economy. At the same time, landlords used the money rent extracted through exploitation to purchase luxury goods on the market, thereby also establishing extensive connections between the feudal landlord economy and commodity exchange. Thus, "**The character of the entire mode of production is thus more or less changed. It loses its independence, its detachment from social connection.**"[2] Peasants were drawn into exchange and the market; under the operation of the laws of the commodity economy, they began to undergo polarization: a small number became rich, while the majority became impoverished and went bankrupt. At the same time, the greed for money intensified the landlord class's extraction from the peasants, while once peasants entered into relations with commodities and money, they inevitably suffered multiple forms of exploitation by merchants and usurers. All this greatly accelerated the polarization of the peasants and the process of bankruptcy among the majority of peasants.

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[1] Karl Marx, "Chapter 47. Genesis of capitalist Ground-Rent," in *Capital*, Vol. III.

[2] Ibid.

Money rent promoted the development of the productive forces to a certain extent and weakened the peasants' personal dependence on the landlord. At this time, peasants not only controlled all of their own labor time but also used the land effectively, thereby helping to bring out the peasants' enthusiasm and improve production technology. With the implementation of money rent, "**the traditional and customary legal relationship between landlord and subjects who possess and cultivate a part of the land, is necessarily turned into a pure money relationship fixed contractually in accordance with the rules of positive law. The possessor engaged in cultivation thus becomes virtually a mere tenant.**"[1] The polarization of the peasants and the weakening of their personal dependence on the landlords led in the countryside to the disintegration of the feudal mode of production and the emergence of capitalist tenancy relations. Thus Marx said that money rent was "**the final form, and simultaneously the form of dissolution of the type of ground-rent.**"[2]

The succession of labor rent, rent in kind, and money rent corresponded to the historical process of development of the rural feudal economy. Although they differed in form, in essence they all consisted of landlords' uncompensated appropriation of the peasants' labor product and embodied the exploitative relationship of feudalism. In Chinese feudal society, all three forms of rent existed, but the dominant form was rent in kind. This situation is inseparable from the long-term dominance of the natural economy. In Western European countries, money rent had already begun to spread gradually with the development of the commodity economy as early as the fourteenth and fifteenth centuries. Because commodity-money relations in China remained

[1] Ibid.

[2] Ibid.

underdeveloped for a long time, peasants, whether cultivating land owned privately by landlords or land belonging to the feudal state, mainly paid rent in kind, supplemented by labor rent. The prolonged existence of rent in kind and the underdevelopment of money rent, in turn, reinforced the feudal natural economy, hindered the expansion of commodity and money relations, and to a certain extent delayed the dissolution of Chinese feudal society.

Under the feudal system, the landlord class exploited the peasants with extreme cruelty. The rent in kind imposed by Chinese feudal landlords was very high, generally reaching more than 50% of the yield. In addition, the peasants had to pay various tributes and taxes to the emperor and the feudal state, perform corvée labor and military service, and endure exploitation by local officials and usurers. Chairman Mao pointed out: "**The peasants tilled the land of the landlords, the aristocracy and the royal family with their own farm implements and had to turn over to them for their private enjoyment 40, 50, 60, 70, or even 80 per cent or more of the crop. In effect the peasants were still serfs.**"[1]

The landlord class sucked the blood and sweat of the peasants like vampires, leading a dissolute, shameless parasitic existence. In the tomb of Liu Sheng and his wife, Prince Jing of Zhongshan of the Western Han dynasty, excavated at Mancheng, Hebei,[2] the funerary objects made of gold, silver, and jade numbered more than 2,800, including two extremely rare jade burial suits sewn with gold thread. The highest feudal rulers, the emperors, were even more extravagantly luxurious and debauched, indulging in wine and pleasure and scheming by every possible means to secure personal enjoyment, regardless of whether the working people lived or

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[1] Mao Zedong, "The Chinese Revolution and the Chinese Communist Party," in *Selected Works of Mao Zedong*, Vol. II.

[2] Note from translator: Not related to the text, but this is my hometown. This tomb was accidentally discovered when the engineers of the People's Liberation Army were digging a tunnel in the mountain in 1968.

died. In order to tour mountains and rivers, Emperor Yang of the Sui dynasty had two million people build Dongjing, more than a hundred thousand dig canals, and tens of thousands of dragon boats and other vessels constructed in Jiangnan. He then led 100,000 to 200,000 people on an excursion to Jiangdu. The large and small boats stretched more than 200 lI(100 km) from front to back, while the able-bodied men hauling them numbered more than 80,000. It was truly the height of luxury and debauchery. Under the tyranny of feudal emperors and the cruel exploitation of the landlord class, the lives of the broad masses of peasants were extremely poor and miserable; whenever disasters or wars struck, their plight became especially tragic. "Crimson gates reek with meat and ale, while on the streets are bones of the frozen dead."[1]—this is a true portrayal of the stark disparity in wealth between the landlord class and the peasants in feudal society!

Section Two: Urban Economy of Feudal Society and Urban-Rural Antagonism

Marx and Engels pointed out: "**The chief form of property during the feudal epoch consisted on the one hand of landed property with serf labor chained to it, and on the other of the labor of the individual with small capital commanding the labor of journeymen.**"[2] The former mainly refers to the feudal rural economy, whereas the latter mainly refers to the feudal urban economy.

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[1] Note from translator: From *Going from the Capital to Fengxian County, Singing My Feelings* (five hundred words) by Du Fu. English translation is from Wiktionary.

[2] Karl Marx, "Part I: Feuerbach. Opposition of the Materialist and Idealist Outlook," in *The German Ideology.*

Feudal cities gradually formed on the basis of handicrafts and commerce. Feudal cities appeared relatively late in Western Europe because, when slave system collapsed, most cities were severely damaged or destroyed. It was not until around the tenth century AD that feudal cities gradually developed with the establishment of the feudal system. China's feudal cities emerged relatively early. As early as the Warring States period, from the fifth to the third century BC, many large cities had already appeared, such as Luoyang, Handan, Linzi, and others. During the Han, Sui, and Tang dynasties, the scale of cities became even greater. The Tang dynasty had dozens of famous cities, including Chang'an, Kaifeng, Yangzhou, Guangzhou, and Chengdu. Chang'an,[1] in particular, the great metropolitan capital, was more than eighteen lI(9 km) long from east to west and more than fifteen lI(7.5 km) wide from north to south. Its urban planning was orderly and well structured. In addition to the magnificent imperial palace, it had two famous large markets, the East Market and the West Market. Handicrafts and commerce were extremely prosperous, the population numbered approximately one million, and there were also large numbers of foreign merchants and international students. Chang'an was not only the country's political and economic center but also one of the important centers of international trade and cultural exchange at the time.

Handicrafts constituted the primary part of the feudal city economy. Because of differences in ownership, handicrafts in feudal cities were further divided into state-run handicraft industry and private handicraft industry.

State-run handicraft industry was a handicraft economy directly operated by the feudal state. The means of production of handicraft workshops belonged to the feudal government,

[1] Note from translator: Chang'an is now known as Xi'an.

while the workshop owners were in reality the feudal emperor and the officials they appointed. Some artisans came from peasants convicted of crimes, but most were handicraft artisans forcibly recruited from the countryside under such pretexts as performing service. This state-run handicraft industry embodied the feudal exploitative relationship of the feudal imperial aristocracy toward the vast body of artisans. The products made by China's feudal state-run handicraft industry fell into two categories. One category served the needs of the emperor and government offices, including various exquisite luxury goods, military armaments, and items made for constructing palaces and tombs and producing burial objects for the emperor. These products were not intended for sale or profit. The other category was closely connected with the people's daily lives and was more strongly characterized as commodities, consisting mainly of salt, iron, and gold, silver, and copper mines. Before Emperor Wu of Han, the salt, iron, and coin-minting industries were all privately operated and were in fact monopolized by a small number of powerful local magnates and aristocrats. They seized natural resources, minted coins recklessly, amassed enormous fortunes through the salt and iron trade, and even, relying on their powerful economic strength, occupied territory and proclaimed themselves kings, confronting the feudal government. Emperor Wu of Han appointed Sang Hongyang, a famous financial administrator and representative of the Legalist school, to bring the salt, iron, and coin-minting industries under state operation. This established the precedent for the feudal state to directly operate civilian handicraft industries nationwide.

The historical role of China's state-run handicraft industry had two aspects. In the early period of feudal society, the state-run handicraft industry played a certain positive role. Under the direct management of the feudal government, state-run handicraft workshops were relatively

large in scale, had abundant human and material resources, and concentrated a considerable number of skilled craftsmen, which benefited the improvement of handicraft techniques and the development of handicraft production. After ironmaking became state-run, large quantities of relatively advanced iron implements were produced, promoting the growth of agricultural production. Because the state monopolized the coin minting industry, abolished various privately minted coins, and unified the currency, it created favorable conditions for the development of the commodity economy. More importantly, after salt and iron were placed under state control, this weakened the forces seeking the restoration of local separatist rule, consolidated the centralization of power of the emerging landlord class's state, and at the same time expanded government revenue, supported the struggle against foreign invasion, and safeguarded the unity of the feudal state. However, with the development of feudal society, particularly in its later period, the negative effects of the state-run handicraft industry became increasingly prominent. Because feudal exploitation in this type of handicraft industry was extremely harsh, it severely constrained the producers' enthusiasm. Its monopolistic position in certain industries also impeded the development of the private handicraft industry. The large-scale manufacture of products for the exclusive use of the imperial household not only caused enormous waste of natural resources and labor power, but also consolidated and strengthened the feudal natural economy and restricted the expansion of commodity-money relations. This seriously impeded both socioeconomic development and the emergence of capitalist relations.

In feudal cities, private handicraft industry was widespread. Private handicraft industry was a handicraft economy operated by small private owners. Workshop owners privately owned the means of production and also took part in the labor themselves. A private handicraft

workshop consisted of one master craftsman and several journeymen and apprentices, forming a feudal hierarchical relationship. This hierarchical system had a dual character: on the one hand, the master craftsman was the workshop owner and mildly exploited the journeymen and apprentices, theirs was a relation of exploitation and being exploited. On the other hand, the master craftsman possessed a craft, while the journeymen and apprentices came to the workshop to learn the craft so that they could eventually become master craftsmen, consequently, theirs was also a master-apprentice relationship. Such private handicraft workshops were generally small in scale. Their products were not intended for personal use but for exchange, and thus belonged to a small-scale commodity economy.

The handicraft workshops of various trades in feudal cities formed separate "guilds." Guilds were feudal organizations established by artisans to protect their own interests and prevent competition. Marx and Engels pointed out: "**The necessity for association against the organised robber-aristocracy, the need for communal covered markets … the growing competition of the escaped serfs swarming into the rising towns, the feudal structure of the whole country: these combined to bring about the guilds.**"[1] Each guild had its own regulations, which clearly stipulated the quantity, quality, and price of products, the size of workshops, working hours, and so forth. Artisans in the same trade had to join the same guild, strictly observe its regulations, and were punished for violations. Feudal guilds were strongly conservative and exclusionary. Their existence presupposed that the commodity economy had developed to a certain extent, but not sufficiently. The earliest guild organizations in Western Europe appeared in Italy around the tenth century AD. Guilds began to emerge in large numbers

[1] Karl Marx, "Part I: Feuerbach. Opposition of the Materialist and Idealist Outlook," in *The German Ideology.*

from the second half of the twelfth century to the early fourteenth century. By the mid-fourteenth century, Paris already had 350 guilds, comprising 55,000 artisans. China had guild organizations as early as the Tang dynasty, which began in the seventh century AD. In major cities such as Chang'an, there were thousands of handicraft workshops. During the Song, Ming, and Qing dynasties that followed the Tang, guild organizations continued to develop.

Commerce also occupied an important position in the economy of feudal cities. Feudal merchants, especially large merchants, exploited the people, amassed great wealth, and constituted part of the exploiting class. In some Chinese dynasties, merchants were called "inferior people" and were forbidden to hold office, leaving them without political status. In practice, however, wealthy merchants, because of their substantial financial resources, often colluded with government offices and wielded considerable influence in society. Some dynasties even allowed merchants to purchase official posts with money, while some officials also engaged in commerce, resulting in the convergence of officialdom and business. Merchants in feudal society mainly became rich by exploiting peasants and artisans. They either dealt in agricultural and handicraft products, engaging in intermediary exploitation, or dealt in domestic and foreign luxury goods for the enjoyment of aristocrats and landlords, transferring part of the wealth they had extorted into their own pockets. In feudal cities, merchants also had their own guilds, whose nature and functions were basically the same as those of artisans' guilds. In Tang dynasty China, merchants' guild organizations were called "hang"; each guild had its own guild head and guild regulations, and the eastern market of Chang'an alone had 220 guilds.

As the commodity economy and commerce developed, usury also flourished in feudal cities. Marx called commercial capital and usurious capital "twin brothers." Large merchants

used the huge sums of money capital they had accumulated for usury; the great wealth obtained from usury, in turn, promoted the development of commerce. Peasants and artisans were the primary targets of usurious exploitation. Usurious exploitation was extremely cruel, with exorbitant interest rates that often drove small producers to ruin. As a folk song put it: “Borrow one coin, repay three; interest upon interest doubles year by year; borrow for one year, repay for ten; even after generations, it can never be paid off.” Feudal landlords sometimes also borrowed money from usurers, but they shifted the burden onto peasants and artisans, so it was ultimately the working people who were exploited. Landlords, merchants, and usurers often joined together to plunder the impoverished people cruelly, becoming the three knives over the heads of working people.

The antagonism between cities and rural areas had already emerged in slave society. By the feudal period, this opposition had developed further and acquired new characteristics. The economic exploitation of rural areas by cities was the economic base of the opposition between cities and rural areas in feudal society. Throughout Chinese history, emperors, aristocrats, large landlords, large merchants, and usurers all gathered in cities, and feudal bureaucratic governments were also located in cities. In addition to landlords collecting rent and feudal states forcibly levying taxes, merchants and usurers also pounced on the rural working people like fierce wolves and tigers. Feudal bureaucratic institutions used violence to suppress the resistance of peasants. Therefore, cities not only economically exploited rural areas but also politically ruled them.

The antagonism between town and country in feudal society of Western Europe was characterized by cities economically exploiting the countryside, while the countryside politically

ruled the cities. Most European feudal cities were established on the lands of feudal lords and were subordinate to them; feudal lords generally lived in feudal manors far from the cities and, relying on various privileges, politically ruled the cities. Meanwhile, merchants and usurers living in the cities subjected the working people in the countryside to brutal economic exploitation. Thus Marx said: "**If the country-side exploits the town politically in the Middle Ages, wherever feudalism has not been broken down by exceptional urban development — as in Italy, the town, on the other hand, exploits the land economically everywhere and without exception, through its monopoly prices, its system of taxation, its guild organization, its direct commercial fraudulence and its usury.**"[1] It was not until the end of feudal society, with the development of capitalism and the rise of the bourgeoisie, that urban residents acquired the right to self-government through redemption payments or military means and gradually freed themselves from the political control of rural feudal lords.

Section Three: Classes and State in Feudal Society

The class composition of feudal society was relatively complex. The exploiting class included the emperor, aristocrats, lords, landlords, clergy, large merchants, and usurers; the exploited class included serfs, dependent peasants, independent peasants, artisans, and slaves; at the end of feudal society, two new classes, the property owners and the proletarians, also emerged. Lenin said: "**Feudal society represented a division of classes under which the vast majority—the peasant serfs—were completely subjected to an insignificant minority—the**

[1] Karl Marx, "Chapter 47. Genesis of Capitalist Ground-Rent," in *Capital*, Vol. III.

owners of the land."[1] Landlords and peasants were the two basic classes of feudal society, and the contradiction between the landlord class and the peasant class was the primary contradiction of feudal society.

A feudal state is a tool used by the landlord class to suppress peasants and other laborers, and generally takes the form of an absolute monarchy. European feudal absolute monarchies were based on the feudal enfeoffment system. The king was the greatest feudal lord, granting land and serfs to dukes, counts, and other aristocrats, who in turn granted fiefs further down the hierarchy, ultimately reaching the lower feudal lords known as knights. Thus emerged a hierarchical ladder of the feudal landlord class consisting of kings, dukes, counts, viscounts, barons, and knights. Lower feudal lords were called vassals in relation to higher feudal lords; they occupied a protected and dependent position. The feudal fiefs they received were called benefices, and they were required to fulfill obligations such as paying taxes and performing military service. Although the king was nominally the supreme ruler of the feudal state, they had no real power. It was the feudal lords, great and small, who directly ruled their territories. Each lord dominated their own area and had their own courts, prisons, and army, forming independent kingdoms of various sizes. Transportation between the different territories was obstructed, checkpoints were everywhere, and money and weights and measures were not standardized. European feudal states thus remained in a state of feudal separatism. For example, in early sixteenth-century Germany, besides the seven electors, there were more than a dozen major feudal lords, over two hundred minor feudal lords, and more than a thousand independent Imperial Knights; there were as many as thirteen checkpoints between Mainz and Cologne, and

[1] Vladimir Ilyich Lenin, "The State: A Lecture Delivered at the Sverdlov University," in *Lenin's Collected Works*, Vol. 29.

the country had more than a thousand monetary systems. On the eve of German unification in 1871, the whole of Germany was still divided into thirty-four states and four free cities.

China's feudal state differed from those of Europe. As early as 221 BCE, Qin Shi Huang unified China, abolished the feudal enfeoffment system, implemented the prefecture and county system, established the Three Lords and Nine Ministers central administrative institutions, unified the written language, money, weights, and measures, and created a unified, multiethnic, centralized feudal state. The establishment of a centralized autocratic system was conducive to the unity of the state, economic development, and cultural prosperity. During the long feudal society that lasted for more than two thousand years, neither foreign ethnic invasions nor local separatism succeeded in completely destroying or dividing China, in which the implementation of centralized rule must therefore be regarded as an important reason.

In terms of its class essence, the feudal state was the state of the feudal landlord class. To exercise political rule over the peasants, the feudal state established a vast bureaucratic system, with coercive institutions such as the army, courts, and prisons, and continually strengthened them as social class contradictions became increasingly acute. The feudal dynasties throughout Chinese history all had large central armies and local armies. The feudal dynasties also enacted various laws to deal with the working people, imposing extremely cruel punishments. For example, the Qin dynasty had more than twenty types of punishments; among the death penalties alone were dismemberment by chariot, waist severing, beheading and displaying the head, boiling to death, and hanging, among others. Often, when one committed a crime, all of their family were executed. Wealthy people who broke the law could redeem themselves with money,

whereas working people who violated the penal code had no way to escape. Countless innocent common people died horribly under the cruel punishments of the feudal state.

In addition to subjecting the working people to economic exploitation and political oppression, the feudal landlord class also resorted to every possible means to enslave them ideologically. In Europe, theology was the dominant ideology of feudal society, and Catholicism became an important pillar of the feudal state. The power of the church penetrated every social sphere, including the economy, politics, and culture; those who violated religious doctrine could even be sentenced to death by the ecclesiastical court. In China, the feudal landlord class relied not only on religion but also, in particular, on the teachings of Confucius and Mencius to poison the minds of the working people. The teachings of Confucius and Mencius were originally the ideology of the declining slave-owning class. After the feudal system was established, the danger of the restoration of slave system had been eliminated, and the contradiction between landlords and peasants had become the primary contradiction. In order to preserve their feudal rule, the landlord class appropriated the reactionary and conservative teachings of Confucius and Mencius and turned them into a spiritual weapon for numbing the working people. After Dong Zhongshu of the Western Han dynasty proposed “abolish the hundred schools and esteem Confucianism alone” in the middle of the Western Han period, Confucian thought, represented by Confucius and Mencius, became the orthodox ideology of feudal society. The feudal rulers developed the teachings of Confucius and Mencius into a systematic feudal ideology, including the “Three Fundamental Bonds and Five Constant Virtues.” They prescribed that “the bond between the emperor and minister, the bond between father and son, the bond between husband and wife” meaning that the ruler, father, and husband were the absolute rulers of their subjects, sons, and

wives, respectively. They also put forward the "Five Constant Virtues," benevolence, righteousness, propriety, wisdom, and trustworthiness, as five eternal and immutable moral principles for upholding the Three Fundamental Bonds. This feudal ideology of the "Three Fundamental Bonds and Five Constant Virtues," combined with clan law system and religious superstition, became spiritual shackles for ruling the working people. The "Three Fundamental Bonds," together with the will of Heaven that determined them, constituted four powers for maintaining the entire feudal system. Chairman Mao pointed out: "**These four authorities--political, clan, religious and masculine--are the embodiment of the whole feudal-patriarchal system and ideology, and are the four thick ropes binding the Chinese people, particularly the peasants.**"[1]

The exploitation and oppression of the peasants by the feudal landlord class gave rise to sharp contradictions between landlords and peasants. The peasants' struggle against the landlord class ran throughout the entire feudal society, and peasant uprisings and peasant wars were the highest form of this struggle. In Europe, for example, a peasant uprising led by Wat Tyler broke out in Britain in the fourteenth century, demanding the abolition of serfdom and feudal lords' privileges. In 1524, a great peasant uprising led by Thomas Müntzer broke out in Germany. It temporarily overthrew the rule of the local aristocracy and established a revolutionary political power—Eternal Council. The number and scale of peasant uprisings in Chinese feudal society were rare in the world. Chairman Mao pointed out: "**The ruthless economic exploitation and political oppression of the Chinese peasants forced them into numerous uprisings against**

[1] Mao Zedong, "Report on an Investigation of the Peasant Movement In Hunan," in *Selected Works of Mao Zedong*, Vol. I.

landlord rule."[1] From the uprising of Chen Sheng and Wu Guang in the Qin dynasty to the Taiping Heavenly Kingdom in the Qing dynasty, there were altogether several hundred large and small uprisings. All were resistance movements of the peasants and revolutionary wars of the peasants.

However, both in China and abroad, the hundreds and thousands of peasant uprisings, large and small, ultimately failed due to the suppression of the landlord class and were exploited by the ruling class as tools for changing dynasties. The fundamental reason for the failure of the peasant uprisings was that the peasants were small producers: they could not represent a new mode of production, had no clear political objectives, and lacked strong organizational discipline. Since there were as yet no new productive forces or new relations of production, no new class forces, and no advanced political party, these peasant uprisings lacked strong and correct leadership and therefore could not avoid repeatedly ending in failure. Nevertheless, the role of peasant wars in feudal society was still enormous. Chairman Mao pointed out: "**The class struggles of the peasants, the peasant uprisings and peasant wars constituted the real motive force of historical development in Chinese feudal society. For each of the major peasant uprisings and wars dealt a blow to the feudal regime of the time, and hence more or less furthered the growth of the social productive forces.**"[2]

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[1] Mao Zedong, "The Chinese Revolution and the Chinese Communist Party," in *Selected Works of Mao Zedong*, Vol. II.

[2] Ibid.

Section Four: Decline of Feudal System and Formation of Capitalist System

The vast majority of the world's peoples experienced the long historical stage of feudal society. In feudal society, although the productive forces developed relatively slowly, they nevertheless made great progress compared with those under slave society. Iron tools were not only widely used but also continuously improved. Many new agricultural implements with higher efficiency appeared. Together with improvements in cultivation techniques and the development of water conservancy construction, these advances led to substantial growth in agricultural production. Handicrafts also developed rapidly: the division of labor among sectors became increasingly specialized, the variety of products grew steadily, and handicraft technology reached a very high level. Chinese porcelain, silk fabrics, embroidery, lacquerware, and other products, for example, were already famous throughout the world at that time. On the basis of the development of production, the commodity economy expanded. Particularly in the later period of feudal society, the emergence of money rent greatly promoted the improvement of the productive forces. In China, gunpowder, typographic printing, and compass were also invented. These three great inventions had a highly significant influence on the development of the world economy and culture.

Lenin once pointed out that extremely backward and stagnant technology is both a precondition and a consequence of the feudal economic system.[1] In the early stages of feudal society, feudal relations of production were basically compatible with the relatively low level of

[1] Vladimir Ilyich Lenin, "Chapter III. The Landowners' Transition from Corvée to capitalist Economy, The Development of Capitalism in Russia," in *Lenin's Collected Works*, Vol 3.

the productive forces. However, as the forces of social production grew, especially with the rapid development of the commodity and money economy in the later period of feudal society, feudal relations of production began to conflict with the productive forces and increasingly became an obstacle to their development. The contradiction between relations of production and the productive forces led to the disintegration of the rural feudal natural economy and urban guild organizations, resulting in the emergence of capitalist relations in both the cities and the countryside. This entire process comprised two aspects: embryonic form of capitalism[1] and primitive accumulation.

The earliest embryonic form of capitalism appeared in some cities along the Mediterranean coast in the late fourteenth and early fifteenth centuries. They either grew out of the differentiation of the small-scale commodity economy or resulted from the transformation of commercial capital and usurious capital.

Small-scale handicraft production under the constraints of feudal guilds was a simple commodity economy based on private ownership and the producers' own labor, with exchange as its purpose. Under the blind influence of the market and the law of value, small producers inevitably differentiated as a result of competition. At first, feudal guilds still exercised some restraint over competition among artisans, but as the commodity-money economy developed, the guilds' restrictions were gradually breached, and artisans began to undergo sharp polarization. A

[1] Note from translator: "Embryonic form of capitalism" has been a popular topic of research among Chinese historians, both before and after the restoration of capitalism. However, it has been used to serve two different purposes. Before the restoration of capitalism, research on "embryonic form of capitalism" in Ming and Qing dynasty deployed Marxist dialectical materialism methods, and served the purpose of clarifying orientalist and racists myths on Chinese history and promoting national independence. After the restoration of capitalism, such research has been used to promote nationalism and justify bureaucratic capitalism of China today.

As a matter of fact, Marx and Engels never directly wrote on this topic, and Marx only used the phrase of "embryonic form of bourgeois production" in *Capital* Vol. I. Mao Zedong first used this term in "The Chinese Revolution and the Chinese Communist Party," but the official English translation is "seeds of capitalism."

small number of workshops with better conditions increasingly disregarded guild regulations, independently expanded their scale of production, acquired additional production equipment, increased the number of workers, and extended labor time; they thus gradually grew wealthy and accumulated considerable monetary wealth. Most workshop owners, however, gradually declined amid competition until they went bankrupt. Workshop owners who had lost their means of production, together with their journeymen and apprentices, were forced to seek work in the workshops of wealthy owners and became wage laborers; the wealthy workshop owners, in turn, were transformed into capitalists. The master-apprentice relationship in artisanal workshops thus gradually changed into wage relations, becoming the earliest form of capitalism.

Commercial capital and usurious capital had already emerged in slave society and underwent further development in feudal society. By the late feudal period, the contradiction between the relations of production and the productive forces had gradually intensified; feudal relations and the guild system began to disintegrate, commodity labor power had emerged, and the conditions for merchants and usurers to transform into industrial capitalists were becoming increasingly mature. Marx said: "**The money capital formed by means of usury and commerce was prevented from turning into industrial capital, in the country by the feudal constitution, in the towns by the guild organization. These fetters vanished with the dissolution of feudal society, with the expropriation and partial eviction of the country population.**"[1] Merchants originally served as intermediaries between production and consumption. They frequently traded with small producers, buying at low prices and selling at high prices, thereby making a profit. As merchants' financial resources grew and their operations

[1] Karl Marx, "Chapter Thirty-One: Genesis of the Industrial Capitalist," in *Capital*, Vol. I.

expanded, some large merchants became putting-out merchants. They not only purchased all the products of small producers but also supplied them with raw materials and equipment, thereby severing the small producers' ties with the market for their products and the raw-materials market, and gradually controlling the commodity producers. Merchants and usurers also took advantage of producers' difficulties to lend them the funds, raw materials, and instruments of labor they needed. The producers became debtors of merchants and usurers; once they were unable to repay their debts, they had no choice but to hand over their workshops as compensation. Thus, workshop owners lost their status as independent producers. They received raw materials from merchants and processed them according to the varieties, quantities, specifications, and delivery dates stipulated by the merchants, receiving a certain amount of wages as remuneration. In this way, workshop owners, journeymen, and apprentices became the wage labor of merchants or usurers, while the merchants or usurers became the owners of workshops under capitalism.

The earliest productive form of capitalism was simple cooperation, which later developed into manufacture. Both were productive forms of the period of embryonic capitalism. The typical productive form of capitalism is machine industry; only machine industry ultimately established the capitalist mode of production as the dominant mode.

The development of the commodity-money economy and the embryonic form of capitalism in cities led to the gradual emergence and development of capitalist relations in the feudal countryside as well. As peasants increasingly freed themselves from personal dependence on landlords and polarization occurred among small producers, a rich-peasant economy characterized by the exploitation of wage labor began to appear, followed by the emergence of

the typical rural bourgeoisie—the tenant farmer. Tenant farmers rented large tracts of land from landlords to establish farms and employed agricultural workers to conduct capitalist operations. In Britain, agricultural capitalists[1] first emerged in the second half of the fourteenth century and appeared in large numbers in the sixteenth century.

The emergence of capitalism was a relatively slow economic process. "**The snail's pace of this method corresponded in no wise with the commercial requirements of the new world market that the great discoveries of the end of the 15th century created.**"[2] The discovery of America and of the sea route to India at the end of the fifteenth century, together with the rapid expansion of the world market, required commodity production to develop on a larger scale and at a faster pace—a task that could be accomplished only through large-scale capitalist production. The emerging bourgeoisie and the aristocracy transformed into the bourgeoisie therefore began using violent means to create the conditions for capitalism's rapid development and to carry out the primitive accumulation of capital: on the one hand, producing large numbers of wage laborers and, on the other, accumulating vast monetary wealth. In Western Europe, primitive accumulation began in the last thirty years of the fifteenth century, reached its peak during the sixteenth century, and continued until it finally ended in the early nineteenth century.

What is known as primitive accumulation is the historical process by which producers are separated from the means of production and money capital is rapidly concentrated in the hands of a few. This process is characterized as "primitive" because it occurred before the

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[1] Note from translator: Karl Marx used the word "tenant farmer" to describe agricultural capitalists who do not own the land they cultivate. In order to distinguish between "tenant peasant" and "tenant farmer," in which the former describes the tenant peasants during feudalism, Chinese translation generally use the word "agricultural capitalist" instead of "tenant farmer." My translation will use the direct Chinese translation, rather than Marx's original term.

[2] Karl Marx, "Chapter Thirty-One: Genesis of the Industrial Capitalist," in *Capital*, Vol. I.

establishment of capitalism: it was "**not the result of the capitalistic mode of production, but its starting point.**"[1]

The forcible expropriation of the peasants' land was the basis of the process of primitive accumulation. This process was most clearly exemplified in Britain. The so-called enclosure of "[sheep] eat up, and swallow down the very men themselves" was the basic form of expropriating the peasants. At that time, with the expansion of the commodity economy and the world market, the woolen industry developed considerably, and wool prices rose rapidly. Raising sheep became more profitable than cultivating crops, so the capitalists and the new aristocracy enclosed and appropriated large areas of common land and peasants' private plots, converting them into sheep pastures while driving large numbers of peasants from their own land and turning them into dispossessed vagrants. After the bourgeois revolution, they further used the state apparatus to accelerate the expropriation of the peasants through various laws and decrees. For example, in the Highland Clearances carried out by the Duchess of Sutherland in the nineteenth century, approximately 15,000 people of 3,000 local families were driven out within the six years from 1814 to 1820; all the villages were destroyed and burned, and those who refused to leave were even burned alive. As a result of the enclosure, large numbers of peasants were forced to leave their native land, became homeless, and were reduced to beggars and vagabonds. Therefore, as early as the fifteenth century, the state promulgated a series of bloody laws to cruelly punish vagrants who were fit for work but unwilling to work in factories, even imposing the death penalty. The large numbers of wage laborers required by the emerging bourgeoisie were thus created through violent means, out of bloodshed. The historical

[1] Karl Marx, "Chapter Twenty-Six: The Secret of Primitive Accumulation," in *Capital*, Vol. I.

transformation of small producers into wage laborers was by no means the pastoral, idyllic process glorified by the bourgeoisie, but rather one "**written in the annals of mankind in letters of blood and fire.**"[1]

The accumulation of the emerging bourgeoisie's money wealth was likewise achieved through violent plunder. The Age of Discovery and the formation of the world market stimulated the bourgeoisie's urge to accumulate money wealth and also opened up new avenues for wealth accumulation. The emerging bourgeoisie of Spain, Portugal, the Netherlands, Britain, and France conquered overseas colonies by force, massacred indigenous populations, looted gold and silver treasures, trafficked in large numbers of Black people, waged commercial wars, and so on, plundering vast amounts of wealth and greatly accelerating the accumulation of money capital. In the course of more than three hundred years, Western colonizers stole 2.5 million kilograms of gold and 100 million kilograms of silver from Central and South America alone. In the ten years from 1783 to 1793, Britain transported more than 330,000 Black people from Liverpool alone; the slave trade caused Africa to lose more than 100 million people. Marx pointed out: "**The discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the aboriginal population, the beginning of the conquest and looting of the East Indies, the turning of Africa into a warren for the commercial hunting of black-skins, signalized the rosy dawn of the era of capitalist production.**"[2] While carrying out frenzied plunder abroad, the emerging bourgeoisie also intensified its exploitation of the working people at home through government bond, taxation, and protective tariff, accumulating enormous

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[1] Karl Marx, "Chapter Twenty-Six: The Secret of Primitive Accumulation," in *Capital*, Vol. I.

[2] Karl Marx, "Chapter Thirty-One: Genesis of the Industrial Capitalist," in *Capital*, Vol. I.

money capital. All this greatly promoted the development of capitalism and shortened the historical process by which the feudal mode of production was transformed into the capitalist mode of production. The facts of primitive accumulation of capital completely exposed the absurdity of the bourgeoisie's myth of so-called "self-made man." They show that the history of the bourgeoisie's rise is a history of criminal plunder. "**Capital comes dripping from head to foot, from every pore, with blood and dirt.**"[1]

The emergence and development of capitalism required the thorough destruction of the feudal system and inevitably met with opposition from the feudal landlords and aristocracy. Without overthrowing the political power of the feudal landlord class and establishing bourgeois rule, the capitalist economy could not develop on a large scale, nor could the capitalist mode of production ultimately be established. Changes in the relations of production required a thorough transformation of the superstructure. The bourgeois revolution emerged. Under circumstances in which the contradiction between the landlord class and the peasants had become extremely acute and feudal rule had already been seriously shaken by peasant wars, the emerging bourgeoisie used the strength of the broad masses of peasants and other urban and rural workers to wage a struggle for power through violent means. In the middle of the seventeenth century and the latter half of the eighteenth century, Britain, France, and other countries carried out bourgeois revolutions one after another. After a prolonged struggle between restoration and anti-restoration, they established bourgeois political rule and, with the assistance of bourgeois political power, brought about the Industrial Revolution. Machine industry replaced hand production methods,

[1] Ibid.

promoting an unprecedented development of the social productive forces and capitalist relations and ultimately establishing the capitalist mode of production. Humanity entered the capitalist era.

At the end of Chinese feudal society, embryonic form of capitalism also emerged in China. As early as the Wanli period of the Ming dynasty in the 1570s, capitalist manufacture based on "machine owners providing the capital and machine workers providing the labor" had already appeared, while entrepreneurial landlords began to emerge in the countryside, and commerce and markets continued to expand. During the transition from the Ming to the Qing, the embryonic capitalist relations were developing slowly. However, after the Opium War of 1840, the invasion of the imperialist powers interrupted the normal course of the development of Chinese capitalism. As Chairman Mao pointed out: "**As China's feudal society had developed a commodity economy, and so carried within itself the seeds of capitalism, China would of herself have developed slowly into a capitalist society even without the impact of foreign capitalism.**"[1] The intrusion of foreign capital had a dual effect on the transformation of the Chinese economy: on the one hand, it promoted the dissolution of the feudal system characterized by the natural economy, creating favorable conditions for the development of capitalism; on the other hand, because it colluded with feudal forces and the bureaucratic comprador bourgeoisie to plunder the Chinese people, it also obstructed the development of national capitalism in China. As a result, although China had a certain amount of capitalist economy, its strength was weak: feudal forces still held a dominant position in the countryside, while foreign capital controlled the economic lifelines of the national economy. China under

[1] Mao Zedong, "The Chinese Revolution and the Chinese Communist Party," in *Selected Works of Mao Zedong*, Vol. II.

feudalism became a semi-feudal, semi-colonial society. Although old China was not far removed from capitalism, it never developed into an independent capitalist state.

Capitalist Mode of Production

(Pre-Monopoly Stage)

Part One: Production Process of Capital

Chapter One: Commodities and Money

Section One: To Analyze Capitalist Economic System, We Must Begin with the Commodity

Marx's study of the capitalist economic system began with an analysis of commodities. Chairman Mao pointed out: "**Marx took part in the practice of the revolutionary movement and also created revolutionary theory. Beginning with the commodity, the simplest element of capitalism, he made a thorough study of the economic structure of capitalist society.**"[1] To clarify this point, we must first understand what a commodity is and under what conditions commodities arise.

[1] Mao Zedong, "Rectify the Party's Style of Work," in *Selected Works of Mao Zedong*, Vol. III.

Commodities and Conditions of Their Emergence

A commodity is a labor product produced for exchange and is the product of certain historical conditions. For a long period in primitive society, there were no commodities. It was not until the middle and late stages of primitive society that regular commodity exchange emerged, followed later by commodity production. Moreover, commodity production will not exist forever. In the future communist society, economic connections among different sectors will no longer need to be realized through commodity exchange, and commodity production will consequently disappear as well. Therefore, commodity production is not an eternal economic relation but a historical category.

Commodity production emerged at the end of primitive society on the basis of the separation of handicrafts from agriculture. Engels pointed out: "**With the splitting up of production into the two great main branches, agriculture and handicrafts, arises production directly for exchange, commodity production.**"[1] The emergence of commodity production required two basic conditions. One was the social division of labor. It was the social division of labor that created the need for exchange. However, the social division of labor alone could not determine that the economic ties among the various sectors of society would necessarily take the form of commodity exchange. The emergence of commodity production also required another condition: private ownership. Under private ownership, labor products were privately owned, and others could not simply take them away. In order to obtain other people's products to satisfy their own needs, private owners had no choice but to treat their respective

[1] Frederick Engels, "IX. Barbarism and Civilization," in *Origins of the Family, Private Property, and the State*, *Marx Engels Selected Works*, Vol. 3.

products as commodities, compare their values, and exchange them according to the principle of equivalent transfer, with neither party suffering a disadvantage. Clearly, the social division of labor merely determined that producers needed to exchange products with one another; as for why this exchange had to take the form of commodity exchange, the root cause still lay in private ownership.

The original form of commodity production was simple commodity production, also called small commodity production. It refers to commodity production carried out by small producers using their own means of production and their own labor, embodying the economic relations between individual peasants and small-scale artisans. Capitalist commodity production developed on the basis of simple commodity production.

Commodity Contains the Germs of all Contradictions of Capitalism[1]

Although capitalist commodity production and simple commodity production are both based on private ownership of the means of production, they differ fundamentally. Simple commodity production is based on individual labor: producers themselves own the means of production and the labor products, and there is no exploitation. Capitalist commodity production, by contrast, is based on wage labor: capitalists own the means of production and the labor products, and an exploitative relationship lies hidden behind the buying and selling of commodities.

[1] Vladimir Ilyich Lenin, "On the Question of Dialectics," in *Lenin's Collected Works*, Vol. 38 (Progress Publishers, Moscow, 1976).

In all societies before capitalism, the self-sufficient natural economy was predominant, while simple commodity production occupied a subordinate position. The capitalist period, by contrast, was the highest stage in the development of the commodity economy, and commodity production became the universal form of social production. Here, everything became a commodity, and everything was governed by the principle of buying and selling; everywhere there were cold, ruthless cash transactions. Not only were labor products commodified, but workers' labor power, and even people's reputation, status, and so on, also became objects of buying and selling. At the very beginning of *Capital*, Marx wrote: "**The wealth of those societies in which the capitalist mode of production prevails, presents itself as 'an immense accumulation of commodities,' its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity.**"[1]

Within the commodity, the cell of the capitalist economy, lie the germs of all contradictions of capitalism. Lenin said: "**In his *Capital*, Marx first analyses the simplest, most ordinary and fundamental, most common and everyday relation of bourgeois (commodity) society, a relation encountered billions of times, viz., the exchange of commodities. In this very simple phenomenon (in this 'cell' of bourgeois society) analysis reveals all the contradictions (or the germs of all contradictions) of modern society.**"[2] The fundamental contradiction of simple commodity production is the contradiction between private labor and social labor. Under certain historical conditions, this contradiction inevitably leads to the emergence of capitalist relations. In capitalist society, the fundamental contradiction of

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[1] Karl Marx, "Chapter One: Commodities," in *Capital*, Vol. I.

[2] Vladimir Ilyich Lenin, "On the Question of Dialectics," in *Lenin's Collected Works*, Vol. 38 (Progress Publishers, Moscow, 1976).

commodity production develops into the fundamental contradiction of capitalism. The development and intensification of the fundamental contradiction of capitalism, in turn, drive the development and transformation of capitalism and ultimately lead to its demise. Thus, commodity production is not only the starting point of capitalism but also contains the germs of all contradictions of capitalism. Therefore, in order to reveal the laws governing the emergence, development, and demise of capitalism, we must first grasp the internal contradictions of the capitalist economy, which requires beginning with an analysis of the commodity. This method of analyzing contradictions through materialist dialectics is the only correct method for studying the laws governing the development of any phenomenon.

Section Two: Contradiction within the Commodity

Commodity's Use Value and Value

Everything in the world is full of contradictions; everything is divided into two. Commodities are no exception: they are the unity of opposites of use value and value.

A commodity is first of all a product of labor, with a specific use that can satisfy a certain human need. Some commodities can satisfy people's needs for living, such as grain and clothing; others can satisfy their production needs, such as steel and machinery. The usefulness of a commodity in satisfying a certain human need is its use value. Marx said: "**The utility of a thing makes it a use value.**"[1]

[1] Karl Marx, "Chapter One: Commodities," in *Capital*, Vol. I.

A commodity often has multiple properties and uses, and thus possesses multiple use values. The various use values of commodities are gradually recognized and discovered by people in the course of long-term struggles in production. For example, in the past, crude oil was known only as a fuel; with the development of science and technology, it is now possible to extract dozens of chemical products, including synthetic fibers, rubber, and plastics, from crude oil, and these products are widely used in economic life.

Use value is a natural attribute of commodities and an attribute shared by all labor products, it constitutes the material content of all social wealth. However, "**in the form of society we are about to consider, they are, in addition, the material depositories of exchange value.**"[1] In other words, the use value of a commodity acquires an additional significance: it becomes the material basis on which commodity producers exchange products. No one wants something that is completely useless; naturally, it has no right to participate in exchange. Only products possessing use value can be exchanged for other products; and it is precisely because the use values of different products differ that the necessity of exchange arises. What is exchange value? "**Exchange value, at first sight, presents itself as a quantitative relation, as the proportion in which values in use of one sort are exchanged for those of another sort.**"[2] For example, 10 jin (5 kg) of wheat may be exchanged for one ax or three chI(1 m) of cloth, and one ax or three chi of cloth, and so on, is the exchange value of 10 jin of wheat.

On the market, the proportions in which various commodities are exchanged constantly vary according to time and place, so in terms of appearances, the exchange value of commodities

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[1] Ibid.

[2] Ibid.

seems to be determined by randomness. In fact, this is not so: behind this randomness there must certainly be something inevitable, and randomness is merely one manifestation of necessity.

Why can 10 jin of wheat be exchanged separately for 1 axe or 3 chi of cloth, and so on? Why can two different use values be compared and become equal in certain quantitative proportions? Clearly, this is because some common element exists in these two different commodities. "**This common 'something' cannot be either a geometrical, a chemical, or any other natural property of commodities.**"[1] Natural attributes are related only to the use value of commodities, while the use values of different commodities are precisely different. If we set aside the natural attributes or use values of the various commodities, the only common attribute remaining is this: they are all products of human labor, and a certain quantity of human labor was expended in producing them. This is common not only to wheat, axes, and cloth, but also to all commodities. This abstract human labor embodied in commodities is commodity value. Marx said: "**When looked at as crystals of this social substance, common to them all, they are – Values.**"[2] The reason 10 jin of wheat can be exchanged for 1 axe or 3 chi of cloth, and so on, is that equal quantities of human labor were expended in producing these commodities, and because they have equal values. Since all commodities are common as values, they can be compared with one another and exchanged according to certain proportions. It can be seen that value is the basis of exchange value, while exchange value is merely the form in which value is expressed.

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[1] Ibid.

[2] Ibid.

A commodity is the unity of use value and value. An object may have use value but no value, such as air, virgin land, wild trees, and so on. These are not products of labor and are therefore not commodities. An object may be useful and also be a product of human labor, yet still not be a commodity. For example, a labor product used to satisfy one's own needs, although it has use value, it is not a commodity. To produce commodities, one must produce not only use values but also use values for others and for society. Yet merely producing a use value for society does not amount to producing a commodity. For example, the grain rent produced by peasants for the landlord in feudal society is a use value for society, but it is not a commodity. Thus, to become a commodity, a product must also be transferred into the hands of others through exchange. Finally, if a product is useless, the labor contained in it will not be recognized by society and therefore will not form value; consequently, the product does not constitute a commodity.

Use value and value are the dual attributes of commodities; they are both mutually conditional and mutually contradictory. Use value and value coexist within a unified whole, and without either aspect, a commodity cannot be constituted. However, for the same commodity owner, use value and value are mutually exclusive and cannot both be obtained: to obtain the value of a commodity, one must relinquish its use value; to obtain its use value, one cannot obtain its value. The purpose of commodity producers is to obtain commodity value. To this end, they must transfer the use value of the commodity to others, which requires exchange. Through exchange, sellers obtain the commodity's value, while buyers obtain its use value; only then is the contradiction between the use value and value of the commodity resolved. However, in a commodity economy under private ownership, production is in a state of anarchy, and exchange

often cannot proceed smoothly. In such circumstances, the use value of the commodity cannot be transferred to others, nor can its value be realized, and the antagonistic nature of the internal contradiction of the commodity manifests sharply.

Although a commodity possesses the dual attributes of use value and value, its essential attribute is value rather than use value. Use value is a commodity's natural attribute and an attribute shared by commodities and all other products; value, by contrast, is a commodity's social attribute and therefore an attribute unique to commodities. Only value distinguishes commodities from labor products in general. Clarifying what value is is the key to understanding Marx's theory of commodities and money.

Concrete Labor and Abstract Labor

How are the use value and value of a commodity formed? The duality of the commodity is determined by the duality of the labor that produces it. A commodity is the unity of use value and value, whereas the labor that produces a commodity is the unity of concrete labor and abstract labor.

There are many types of commodities on the market. To produce a particular commodity, a particular kind of labor is required. For example, producing cotton cloth requires the labor of textile workers, making tables, chairs, and wooden articles requires the labor of carpenters, producing steel requires the labor of steelworkers; and so on. The various kinds of production labor mentioned above are all performed in specific forms, with different production purposes, operating methods, objects of labor, instruments of labor, and production results, and are thus

distinguished from one another. Labor performed for a specific purpose and in a specific concrete form is called concrete labor. Through various kinds of concrete labor, producers change the material forms of nature and produce different use values to satisfy people's various needs.

Commodities produced by various forms of concrete labor, although vastly different, can nevertheless be compared with one another and exchanged according to certain proportions. This indicates that something common exists behind the various forms of concrete labor. What is this common element? Setting aside the specific forms and useful properties of productive labor, the labor of a weaver, a carpenter, a steelworker, and so on is all merely an expenditure of human physical and mental energy. This general human labor, considered apart from its specific form and useful properties, is abstract labor. Only abstract labor creates value and constitutes the substance of commodity value. In exchange, various commodities can be compared with and exchanged for one another not because they share anything in common in their natural forms—such as volume, weight, or length—or because they have any use value in common, but simply because they are all products of human labor and contain a certain quantity of abstract labor, or general human labor.

Concrete labor and abstract labor are two aspects or dual characteristics of the labor that produces commodities, not two kinds of labor or two separate acts of labor. Concrete labor is considered from the standpoint of the particularity of labor and differs in quality; abstract labor is considered from the standpoint of the commonality of labor and is general human labor, it therefore has no qualitative differences, only quantitative differences. The former tells us what kind of labor it is and how it is carried out; the latter tells us how much labor there is and how

long the labor time is. Marx pointed out: "**On the one hand all labor is, speaking physiologically, an expenditure of human labor power, and in its character of identical abstract human labor, it creates and forms the value of commodities. On the other hand, all labor is the expenditure of human labor power in a special form and with a definite aim, and in this, its character of concrete useful labor, it produces use values.**"[1] The duality of the labor that produces commodities was first discovered by Marx. It is a pivotal concept for understanding the theory of political economy and is of great significance.

Private Labor and Social Labor

Under the conditions of commodity production under private ownership, the duality of the labor that produces commodities is ultimately determined by the contradiction between private labor and social labor. The contradiction between private labor and social labor is the fundamental contradiction of the commodity economy under private ownership.

Because of the social division of labor, the labor of commodity producers is interconnected and mutually dependent, it is all part of total social labor and has the character of social labor. At the same time, the private ownership of the means of production and labor products causes the labor of commodity producers to appear directly as private labor. This gives rise to the contradiction between private labor and social labor. The social character of commodity producers' labor cannot manifest itself directly in the production process. Only when products reach those in society who need them does the social character of private labor become

[1] Karl Marx, "Chapter One: Commodities," in *Capital*, Vol. I.

apparent. But how can products reach those in society who need them? Since they are private products, it is of course impossible simply to let others take them without compensation. The only way is to exchange them through equivalent compensation. And only by reducing the concrete labor contained in various products to abstract labor, with abstract labor—that is, value—as their common basis, can the relative magnitudes of different products be compared and exchanged according to the principle of equivalence. Through this exchange, private producers establish real economic connections, and their private labor is thereby actually transformed into social labor and recognized by society. This shows that abstract labor, as the substance of commodity value, is essentially the social labor of commodity producers; and the social character of commodity producers' labor can become manifest only through the form of abstract labor, that is, value. The reduction of concrete labor to abstract labor is not a subjective abstraction or mere process of reasoning by people, but an objective process taking place from moment to moment in commodity production and exchange; it is the inevitable product of the contradiction between private labor and social labor. It is therefore evident that abstract labor, as the substance of value, is a historical category embodying the relations of production among commodity producers.

Since the labor of commodity producers has a social character, labor products must necessarily enter into exchange. Only when commodities are sold at their value can the labor expended by producers be considered compensated, enabling them to obtain the products they need to maintain their livelihood and continue production. However, under a commodity economy under private ownership, production is the affair of separate private individuals and proceeds blindly. No one can know what society actually needs or how much it needs beforehand. Therefore, if a commodity producer's products do not meet social needs and cannot

be sold, their labor will not be compensated. Not only will production and livelihood be affected, but, in the worst case, there is also a risk of bankruptcy. This reveals the antagonistic character of the contradiction between private labor and social labor.

The contradiction between private labor and social labor is the fundamental contradiction of the commodity economy under private ownership. It continually expands with the development of the commodity economy and, upon reaching capitalist society, further develops into the fundamental contradiction of capitalism—the contradiction between the socialization of production and private capitalist appropriation—and becomes the general source of all contradictions in capitalism.

Magnitude of Commodity Value

The fundamental contradiction of private ownership commodity production manifests itself not only qualitatively, as whether private labor can in fact be transformed into social labor, but also quantitatively, as the extent to which private labor is ultimately recognized by society. The latter aspect is reflected in the determination of the magnitude of commodity value.

The magnitude of value of a commodity is determined by the amount of labor it contains, and the amount of labor is measured by labor time (hours, days, and so on); therefore, the magnitude of value is determined by the labor time required to produce the commodity. Is the magnitude of value of a commodity, then, determined by the labor time actually expended by each individual producer? If so, the same commodity would have many different magnitudes of value, because producers' conditions of production are not identical, and the labor time spent

producing the commodity also differs. Moreover, the lazier and less skilled a person is, and the poorer their conditions of production, the more labor time they expend in production, and the greater the magnitude of value of the commodities they produce ought to be. Obviously, this is not what happens in reality. "**The labor, however, that forms the substance of value, is homogeneous human labor, expenditure of one uniform labor power.**"[1] What determines the magnitude of commodity value is not individual labor time but socially necessary labor time. Therefore, only private labor that conforms to socially necessary labor time can be fully recognized by society.

Socially necessary labor time 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.**"[2] Here, normal social production conditions refers to the level of technical equipment already attained by the majority of production units in a production sector at that time. Take weaving as an example: if the vast majority of cloth is produced using shuttle looms, while only a very small proportion is produced using advanced air-jet looms, then the former constitutes the normal social production conditions. Under normal social production conditions, people's levels of labor skill and intensity differ, so the labor time expended to produce the same quantity of products also varies. Only the average level of labor skill and intensity can determine the magnitude of value. Why must the magnitude of commodity value be determined by socially necessary labor time? Because the substance of value is abstract human labor. This qualitative identity requires that the labor expenditure determining the magnitude of commodity value also

[1] Ibid.

[2] Ibid.

possess quantitative identity. Identical commodities must have the same value, so value can only be calculated according to socially necessary labor time. At the same time, under the conditions of private ownership commodity production, competition also determines that the magnitude of commodity value must be determined by socially necessary labor time.

The socially necessary labor time for producing a commodity is not fixed; it changes with variations in labor productivity in each production sector. Labor productivity is usually measured by the quantity of products produced per unit of time. Many factors affect labor productivity, including mainly the average skill level of workers, the development and application of science and technology, the social integration of the production process, the quantity and effectiveness of the means of production, and various natural conditions. In the processing industry, natural conditions have relatively little effect on labor productivity, whereas in agriculture and the extractive industry, they have a relatively greater effect on labor productivity.

The higher labor productivity is, the more commodities are produced per unit of time, the less labor time each commodity contains, and the lower its magnitude of value. Conversely, the lower labor productivity is, the fewer commodities are produced per unit of time, the more labor each commodity contains, and the higher its magnitude of value. "**The value of a commodity, therefore, varies directly as the quantity, and inversely as the productiveness, of the labor incorporated in it.**"[1]

The labor that produces commodities may be simple labor or complex labor[2]; the magnitudes of value they create in the same amount of time are different. Simple labor is what

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[1] Ibid.

[2] Note from translator: "komplizierte Arbeit" is translated as both "skilled labor," "compound labor," or "complex labor" in different English sources. I will use "complex labor" in all translations, other than direct quotes from Marx and Engels.

"**the labor power which, on an average, apart from any special development, exists in the organism of every ordinary individual. Simple average labor, it is true, varies in character in different countries and at different times, but in a particular society it is given.**"[1] Such labor can generally be performed by ordinary people without undergoing special training. Complex labor is labor that has undergone specialized training; it functions as multiplied simple labor. A small amount of complex labor can be equivalent to a large amount of simple labor, and one hour of complex labor creates more value than one hour of simple labor. In commodity production and exchange, the determination of the magnitude of value must take simple labor as its unit of measurement; complex labor must be reduced to multiplied simple labor. Engels pointed out: "**The product of one hour of compound labor is a commodity of a higher value —perhaps double or treble — in comparison with the product of one hour of simple labor.**"[2] The proportion by which complex labor is converted into simple labor is not calculated by people, but is "**are established by a social process that goes on behind the backs of the producers.**"[3]

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[1] Karl Marx, "Chapter One: Commodities," in *Capital*, Vol. I.

[2] Frederick Engels, "VI. Simple and Compound Labour, Part II: Political Economy," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

[3] Ibid.

Section Three: Development of the Form of Value and Essence of Money

Value is the social attribute of a commodity and reflects certain relations of production, therefore, an isolated commodity cannot express its own value. The value of a commodity can be manifested only in the exchange relation between two commodities. In other words, the value of one commodity must be expressed through another commodity, treating the latter as its own form of value.

Now, the value of all commodities is expressed in money. This is the result of the long-term development of the form of value. Bourgeois economics has offered various absurd explanations of money. Only Marx truly established a scientific theory of money. From the simple form of value to the money form of value, a long process of development took place; only by studying this entire process can we understand the origin and essence of money. Marx pointed out: "**Here, however, a task is set us, the performance of which has never yet even been attempted by bourgeois economy, the task of tracing the genesis of this money form, of developing the expression of value implied in the value relation of commodities, from its simplest, almost imperceptible outline, to the dazzling money-form. By doing this we shall, at the same time, solve the riddle presented by money.**"[1]

[1] Karl Marx, "Chapter One: Commodities," in *Capital*, Vol. I.

Simple Form of Value

The form of value developed alongside the development of commodity exchange. The earliest commodity exchange took place between tribes in primitive society. At that time, production was not yet intended for exchange; only small amounts of surplus products were transformed into commodities as a result of occasional exchange relations. In exchange, the value of one commodity was accidentially and simply expressed in another commodity. This form of value is called the simple or accidental form of value. For example:

1 dan (50 kg) of grain = 1 sheep

(1 dan of grain is worth 1 sheep)

In this simple equation in which grain and sheep are exchanged, the former commodity (grain) takes the active role in expressing its own value; its value is expressed relatively through sheep, and so it is called the relative value, or is said to be in the relative value form. The latter commodity (sheep), by contrast, is used to express the value of grain and takes the passive role; it becomes the equivalent of the former commodity, or is said to be in the equivalent form. The relative value form and the equivalent form are two mutually dependent elements in the expression of value: without either one, value cannot be expressed. At the same time, they are mutually exclusive poles. In the same expression of value, the same commodity cannot appear at both poles. For example, 1 dan of grain = 1 dan of grain is a meaningless formula and cannot constitute an expression of value. Whether a commodity is in the relative value form or in the equivalent form depends entirely on its position in the expression of value.

In this form of value, the value of grain is expressed through sheep; in other words, by exchanging with sheep, grain gives its value a relative expression. How great is the magnitude of the value of 1 dan of grain? We now know: it is as great as that of 1 sheep. What does the sheep use to express the value of grain? Its value? No. For 1 sheep is simply 1 sheep, a concrete use value; as for its value—that is, how much labor time it internally contains—this remains invisible. Thus, sheep uses its use value to express the value of grain; the use value of sheep becomes the material for expressing the value of grain, and the natural form of sheep becomes the form of value of grain.

The equivalent form of a commodity "**is directly exchangeable with other commodities.**"[1] Sheep occupies the equivalent form because grain actively demands exchange with it, recognizing that sheep and its own value are of equal magnitude. In this relation, sheep itself becomes the embodiment of value and acquires the qualification to be directly exchanged for another commodity, grain. This nature of the equivalent form determines its three characteristics.

The first characteristic of the equivalent form is that use value becomes the form of expression of value. Because sheep, when occupying the equivalent form, can express the value of grain only through its own natural form, the use value of sheep consequently becomes the form of expression of the value of grain. Not only does the use value of sheep provide the inner value of grain with an external expression; through 1 sheep as a definite quantity of use value, it also expresses the magnitude of the value of 1 dan of grain.

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[1] Ibid.

The second characteristic of the equivalent form is that concrete labor becomes the form of expression of abstract labor. Sheep, as a use value, is originally produced by the concrete labor of raising sheep; but when sheep occupies the equivalent form, its use value becomes the form of expression of value, and the concrete labor that produces sheep accordingly becomes the form of expression of abstract labor. It is precisely because the labor of raising sheep exists here as general human labor, that is, abstract labor, that it proves that the labor producing grain is likewise abstract labor.

The third characteristic of the equivalent form is that private labor appears as direct social labor. Although the labor of raising sheep is private labor, when sheep becomes an equivalent and can be directly exchanged for another commodity, this private labor becomes labor in a direct social form, thereby proving in turn that the labor producing grain likewise possesses a social character.

Viewed as a whole, in the simple form of value, the commodity in the relative value form has, in its natural form, only the significance of use value, whereas the commodity in the equivalent form has, in its natural form, only the significance of the form of value. The opposition between use value and value contained within the commodity is thus expressed as an external opposition between two commodities. Although the simple form of value is the most primitive form of value, it already contains all secrets of the form of value. Within this exchange relation, the commodity of sheep performs the particular social function of the equivalent, becoming the germ of the money form.

The simple form of value is very inadequate. Here, the commodity grain enters into an exchange relationship only with another commodity, sheep, and therefore fails to show that grain

and all other commodities are identical in quality and can be equated in quantity; in other words, it does not yet fully express the characteristic that value is a crystallization of undifferentiated human labor.

Expanded Form of Value

With the development of social productive forces, commodity exchange increasingly becomes a regular occurrence. A commodity is no longer exchanged merely by chance for another commodity; instead, it is regularly exchanged for various other commodities. At this point, the simple form of value develops into the expanded form of value. For example:

= 2 coats

= 4 axes

1 dan of grain = 3 animal skins

= 1 sheep

= and so on

The expanded form of value shows that the value of a commodity can regularly be expressed through a series of other commodities. One dan of grain can be equated not only with one sheep, but also respectively with two coats, four axes, three animal skins, and various other commodities different from itself. At this point, "**this value shows itself in its true light as a congelation of undifferentiated human labor**"[1]; the exchange ratios between grain and the

[1] Ibid.

various other commodities also demonstrate that, being based on the magnitude of value they contain, these ratios are no longer determined arbitrarily.

Although the expanded form of value represents an advance over the simple form of value, it still has shortcomings. Under this form of value, each commodity has a series of expressions of value and has an endless number of commodities as its particular equivalents; the expressions of value of the various commodities are also different from one another. This shows that all commodities still lack a common and unified expression of value, and that no generally recognized equivalent has yet emerged to serve as the medium of commodity exchange, they remain at the stage of direct barter. As commodity exchange expands, direct barter gives rise to an increasing number of contradictions and difficulties. For example, in the market, the owner of grain needs sheep, but the owner of sheep does not need grain and instead needs an axe; the owner of the axe, meanwhile, needs not sheep but yet another commodity, and so on. Consequently, transactions often cannot be concluded. The growing difficulties of commodity exchange show that the contradiction between use value and value has deepened further. At the stage of the simple form of value, exchange could also encounter difficulties, but exchange then occurred only occasionally: if a product could not be exchanged, its owner could simply use it, so the impact on production and life was not significant. Things are different now. Since commodity exchange has become a regular occurrence, whether it can proceed smoothly will, to a certain extent, affect the production and lives of commodity owners. This determines the transition from the expanded form of value to the general form of value.

General Form of Value

Over the long course of commodity exchange, people gradually found a way to resolve these difficulties. Since one commodity could regularly be exchanged for many other commodities, why could not all the other commodities, in turn, be regularly exchanged for one commodity, using that one commodity to express their values? Thus, one commodity gradually separated out from among the many commodities, and all other commodities were willing to exchange with it, using it as the medium of exchange. This marked the development from the expanded form of value to the general form of value. For example:

2 coats =

4 axes =

3 animal skins = 1 load of grain

1 sheep =

and so on =

Under the general form of value, the value expression of each commodity is simple, because each is expressed by a single commodity. The value expressions of the various commodities are likewise common, because they are all expressed by the same commodity. This is precisely because "**this form of value is elementary and the same for all, therefore general.**"[1] The commodity used by all commodities to express their value thus became the universal equivalent. At this point, commodity producers first exchange their own commodities for the commodity serving as the universal equivalent, and then use it to obtain what they need.

[1] Ibid.

Exchange thus changed from barter to commodity exchange mediated by the universal equivalent.

The transition from the expanded form of value to the general form of value constitutes a qualitative change. Under the general form of value, because the universal equivalent becomes the form of value of all other commodities, all commodities truly acquire an independent expression of value; they truly enter into relations with one another as values and can be compared quantitatively. At the same time, because the universal equivalent can be exchanged directly for all other commodities, the labor that produces the commodity serving as the universal equivalent is directly expressed as homogeneous human labor and social labor. Once any commodity is exchanged for the universal equivalent, the labor that produces that commodity likewise acquires the character of homogeneous human labor and social labor, making it easy to use the universal equivalent to obtain the commodities one needs.

The emergence of the universal equivalent was the result of the development of the social division of labor and exchange, and was also the inevitable product of the development of the contradictions between use value and value and between private labor and social labor. It overcame the difficulties of barter and promoted the development of commodity production and commodity exchange. However, it could not fundamentally resolve the inherent contradiction within the commodity; it merely transformed the opposition between use value and value within the commodity into an external opposition.

Money Form

The commodity serving as the universal equivalent was initially not fixed as any particular commodity but varied according to time and place. Historically, many commodities served as universal equivalents, such as livestock, grain, shells, textiles, and so on. The absence of a fixed and uniform universal equivalent hindered commodity exchange among different regions. With the emergence of independent handicrafts, the appearance of commodity production, and the further expansion of commodity exchange, fixing a particular commodity as the universal equivalent became an objective requirement of economic development. When the precious metal gold (or silver) came to serve as the fixed universal equivalent, the general form of value developed into the money form. For example:

2 coats =

4 axes =

3 animal skins = 2 pieces of gold

1 sheep =

1 load of grain

and so on =

The money form of value and the general form of value have no fundamental difference; what differs is that, in the money form of value, the universal equivalent has become firmly embodied by a single commodity (gold). Marx said: "**So soon as it monopolizes this position in the expression of value for the world of commodities, it becomes the money commodity, and then, and not till then, does … the general form of value become changed into the money**

form."[1] Gold and silver initially entered exchange as ordinary commodities as well. Why did the universal equivalent later become naturally and gradually fixed in precious metals (gold and silver)? This was not because precious metals possessed any particularly mysterious properties; it was simply because their natural attributes were best suited to serving as money material: they have a uniform texture, are easy to divide, have small volume and high value, are not easily damaged, are easy to carry, and so on. Therefore Marx said: "**Gold and silver are not by nature money, but money consists by its nature of gold and silver.**"[2]

After money appeared, the entire world of commodities split into two opposing poles: money on one side and all other commodities on the other. The opposition between use value and value within the commodity manifested itself as the external opposition between commodities and money. In exchange, all commodities exist for money merely as use values and cannot be exchanged directly with one another; only money, as a commodity, exists as value and can be exchanged directly for all other commodities. All other commodities face the question of whether their value can be realized; only the money commodity faces no such question: it itself represents value and can be exchanged for whatever one wishes. Other commodities are considered to have realized their value only after being exchanged for money. Money became the embodiment of value, separated itself from all commodities, and became a special commodity.

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[1] Ibid.

[2] Karl Marx, "4. THE PRECIOUS METALS, Chapter 2: Money or Simple Circulation," in *A Contribution to the Critique of Political Economy*, (Progress Publishers, Moscow).

Essence of Money

From the process of development of the form of value, it can be seen that money is nothing more than a special commodity that permanently serves as the universal equivalent. It is the inevitable result of the development of commodity production and commodity exchange, the inevitable product of the development of the contradictions inherent in the commodity economy, and an embodiment of certain social production relations. Lenin pointed out: "**The exchange of commodities expresses the connection between individual producers through the market. Money signifies that the connection is becoming closer and closer, inseparably uniting the entire economic life of the individual producers into one whole.**"[1] Bourgeois economists fundamentally fail to understand the essence of money, describing it as a mere symbol and attributing the emergence of money to a special convention concluded by people. This is absurd. Gold can become money first and foremost because it is a commodity, the embodiment of human labor, and itself possesses value. During the long process in which gold, as a general commodity, participated in exchange, its properties suited to performing the functions of money gradually came to be recognized, and it was consequently gradually established in the position of the universal equivalent.

The emergence of money resolved the difficulties of direct barter and promoted the development of production and exchange, but it did not and could not resolve the fundamental contradiction of the commodity economy; instead, it expanded and deepened that contradiction. Because the internal opposition within the commodity was transformed into an external

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[1] Vladimir Ilyich Lenin, "The Three Sources and Three Component Parts of Marxism," in *Lenin's Collected Works*, Vol. 19, (Progress Publishers, Moscow, 1977).

opposition between commodities and money, exchange activity was divided into two independent acts: buying and selling. The separation of buying and selling caused the movement of commodities and the movement of money to become disconnected. Once commodities could not be sold and thus could not be converted into money, or when people possessed money but did not use it to purchase goods, serious consequences would result for the social economy or for individual producers. This meant that spontaneous social relations strengthened their domination over people, making it even more difficult for commodity producers to control their own destinies. Moreover, money is the representative of social wealth. Whether producers' labor receives social recognition depends crucially on whether they can convert their commodities into money, consequently, money became the object pursued by the masses. The domination of people by spontaneous social relations was further manifested as the domination of people by money. As production developed and commodity producers became differentiated, money became increasingly concentrated in the hands of a small minority and was used as a tool of exploitation. Under capitalism, money was transformed into capital and became a means by which capitalists exploited wage laborers.

Section Four: Functions of Money

Money has five functions: measure of value, medium of circulation, hoarding,[1] means of payment,[2] and universal money. Measure of value and Medium of circulation are money's basic

[1] Note from translator: The English translation of *Capital*, Vol. I translated "Schatz" as "hoarding," and this is also the translation I follow. However, "Schatz" does not have as strong a negative connotation as "hoarding," and is mostly translated as "treasure."

[2] Note from translator: Bourgeois economics usually refers means of payments as "standard of deferred payment."

functions. In this sense, money is the unity of measure of value and medium of circulation. The essence of money is reflected in its functions. An analysis of money's functions will enable us to gain a deeper understanding of the essence of money and its role in the commodity economy.

Measure of Value

Measure of value is the first function of money. Money becomes the material for expressing the value of all commodities and the measure for gauging the magnitude of the value of all commodities. Marx pointed out: "**The first chief function of money is to supply commodities with the material for the expression of their values, or to represent their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus serves as a universal measure of value. And only by virtue of this function does gold, the equivalent commodity par excellence, become money.**"[1] After money emerges, the value of all kinds of commodities must be expressed and measured in money. The monetary expression of commodity value is the price of the commodity. For example, if the value of one coat is expressed in money as three pieces of gold, these three pieces of gold constitute the price of one coat.

Money can perform the function of a measure of value entirely in the realm of ideas, and actual money need not appear. To indicate that the price of one coat is 3 pieces of gold, it is unnecessary to place 3 pieces of gold beside the coat; it is sufficient merely to state the price aloud or mark it on paper. However, "**although the money that performs the functions of a**

[1] Karl Marx, "Chapter Three: Money, Or the Circulation of Commodities," in *Capital*, Vol. I.

measure of value is only ideal money, price depends entirely upon the actual substance that is money."[1] The price of a commodity is by no means arbitrarily determined; it must be based on actual money and actual commodity exchange. Because, in commodity exchange, the value of one coat is exactly equal to the value of 3 pieces of gold, the price of one coat is 3 pieces of gold. If the money material were silver rather than gold, the coat would have a different price.

As a measure of value, money expresses the quantities of value of various commodities. Therefore, money itself must also have a quantitative specification in order to perform the function of a measure of value more conveniently. It is thus necessary to designate a certain weight of gold or silver as a monetary unit and give it a name: in Britain, for example, it is called the pound sterling; in France, the franc; and in the United States, the dollar. Since the Qing dynasty began using silver dollars, China's unit of currency has been called the yuan, with each silver yuan containing 0.648 liang (32.4 g) of silver. This monetary unit is then divided into smaller parts according to a certain system of denomination; for example, 1 pound sterling is divided into 20 shillings, and 1 shilling into 12 pence[2]; 1 United States dollar is divided into 100 cents, and so on. Such a unit of currency containing a specified weight of metal, together with its subdivisions, is called the standard of prices.

The standard of prices is not an independent function of money but merely a technical provision adopted to enable money to perform its function as a measure of value more effectively. Initially, the names of monetary units generally coincided with the names of metal weights; for example, one pound sterling was one full pound of silver. Later, owing to the

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[1] Ibid.

[2] Note from translator: The original text says 1 pound is divided into 10 shillings, and 1 shelling is 10 pence, which is not the case.

importation of foreign currencies, the replacement of more valuable metals by less valuable ones, and the debasement of currencies by rulers in various countries, the names of currencies became detached from the names of metal weights. For example, because gold replaced silver as the money material of the pound sterling and the value ratio of gold to silver was 1:15, one pound sterling contained only 1/15 pounds of gold and thus became completely detached from the name of the weight of gold.

The price form of the commodity itself contains profound contradictions. First, price and value may diverge quantitatively. Since price is the monetary expression of commodity value and is determined by the exchange ratio between commodities and money, price may also be inconsistent with value. When commodity value remains unchanged, changes in the value of money or in the relationship between supply and demand may cause the commodity's price to change. Second, price and value may also diverge qualitatively: price may even fail to be the monetary expression of value. For example, in capitalist society, old-growth forests, virgin land, and the like were not originally commodities and had no value, yet they can become objects of buying and selling and have a price.

Medium of Circulation

The second function of money is the medium of circulation. Before money appeared, commodity exchange took the form of barter. After money emerged, money became the intermediary in all commodity exchange. Commodity owners sell their commodities in exchange for money and then use the money to purchase the commodities they need. The totality of

mutually interwoven commodity exchanges mediated by money is called commodity circulation. This mediating role of money in commodity circulation is the function of money as the medium of circulation.

The movement form of commodity circulation is: commodity—money—commodity. This includes the two processes of selling (commodity—money) and buying (money—commodity). Commodity circulation is the unity of opposites of these two processes. Marx pointed out: "**The exchange becomes an accomplished fact by two metamorphoses of opposite yet supplementary character — the conversion of the commodity into money, and the re-conversion of the money into a commodity. The two phases of this metamorphosis are both of them distinct transactions of the weaver — selling, or the exchange of the commodity for money; buying, or the exchange of the money for a commodity; and, the unity of the two acts, selling in order to buy.**"[1]

Commodity exchange mediated by money further developed the contradictions of the commodity economy. In barter, selling and buying are unified in time and space: both parties to the exchange are simultaneously sellers and buyers, and selling and buying constitute the same process. Under the conditions of commodity circulation, however, selling and buying split into two independent stages and become separated in both time and space. After selling their commodities, commodity owners may temporarily retain the money without buying anything, or they may go elsewhere to make purchases. If some people only sell and do not buy, the commodities of others cannot be sold, showing that commodity circulation already contains the possibility of crisis. However, under conditions of simple commodity circulation, this possibility

[1] Ibid.

of crisis cannot yet become a reality; only in capitalist society does the outbreak of crisis become inevitable.

Money circulation and commodity circulation are closely connected. As commodities are continuously exchanged, money likewise constantly passes from one person's hands to another's, remaining in perpetual movement. Commodity circulation is the foundation of money circulation and determines it, while money circulation, in turn, realizes and promotes commodity circulation. However, commodity circulation differs from money circulation: after being exchanged, a commodity completes its process of changing form and exits the circulation sphere, whereas money serving as the medium of circulation continues to circulate within it. To meet the needs of commodity circulation, a certain quantity of money must exist in society. The law of money circulation is the law that determines the market demand for money.

In a given period, the amount of money required in circulation is determined by three factors: first, the total quantity of commodities awaiting sale on the market; second, the level of commodity prices; and third, the velocity of money circulation (the average number of turnovers of the same coin within a given period). The product of the first two factors is the total price of commodities. The greater the total price of commodities, the greater the amount of money required in circulation. At the same time, because money circulates continuously, the same coin can serve as a medium of commodity exchange many times; consequently, the faster the velocity of money circulation, the less money is required in circulation. The total price of commodities divided by the average number of turnovers of the same monetary unit is the amount of money required in circulation. Marx pointed out: "**The sum of the prices to be realised in the day is £8, the number of moves of the two pieces of money is four, and the quantity of money**

circulating is £2. Hence, for a given interval of time during the process of circulation, we have the following relation: the quantity of money functioning as the circulating medium is equal to the sum of the prices of the commodities divided by the number of moves made by coins of the same denomination. This law holds generally."[1]

Money in circulation initially took the direct form of gold or silver bars. In every transaction, their fineness had to be checked and their weight measured, which was highly inconvenient. Therefore, with the development of commodity exchange, they were gradually replaced by coined money. Coined money consists of metal ingots with a specific name, shape, weight, fineness, and the state's mark. In China, the Zhou dynasty had already begun casting money from copper. The earliest copper coins were spade money (modeled on the shape of a shovel) and knife money (modeled on the shape of a knife). During the Warring States period, copper coins were already widespread, and gold coins also appeared. After Qin Shi Huang unified the six states, money was divided into two grades: the upper currency was gold, with the unit being the yi, while the lower currency was round copper cash with a square hole, measured in half-liang units. From the Song dynasty onward, silver gradually replaced gold. It was not until the Qing dynasty that silver dollars began to be minted.

Coined money is continually worn down in circulation, causing its nominal content to become separated from its actual content and turning it into underweight coined money. Yet during the circulation process, underweight coined money can still serve as a medium of circulation, because people are concerned only with whether the money in their hands can purchase the corresponding commodities, rather than with the actual value of the money. Of

[1] Ibid.

course, wear also has certain limits, so all countries stipulate legally permissible degrees of wear. The separation of the nominal content of coined money from its actual content contains the possibility that coined money may be minted from cheaper metals or even replaced by symbols printed on paper. Coined money thus gradually evolved into money tokens and eventually developed into the issuance by the state of paper money with no intrinsic value, replacing metal money in circulation. Paper money is a money token issued by the state and made compulsory tender; it represents metal money and serves as a medium of circulation in its place. Our country was the earliest in the world to adopt paper money. Flying cash, similar to negotiable instrument, first appeared during the Tang dynasty; paper money began to be printed and issued during the Northern Song period and was called "Jiaozi"; after the Song dynasty, formal paper money became widespread.

Paper money performs the function of the medium of circulation as a representative of metallic money. Therefore, regardless of how much paper money is issued, it can represent only the quantity of metallic money required in commodity circulation. Marx said: "**The issue of paper money must not exceed in amount the gold (or silver as the case may be) which would actually circulate if not replaced by symbols.**"[1] In other words, only when the amount of paper money issued is limited to the quantity of metallic money required for circulation does it have purchasing power equal to that of metallic money. If the issue of paper money exceeds the quantity of metallic money required for circulation, each unit of paper money will depreciate, causing prices to rise. For example, during a certain period, the quantity of metallic money required for commodity circulation is 100 million yuan, but the state issues 1 billion yuan in

[1] Ibid.

paper money. These 1 billion yuan in paper money can still represent only 100 million yuan in metallic money; consequently, 1 yuan in paper money can represent only 1/10 yuan in metallic money. Disregarding other factors, prices will therefore rise tenfold: a commodity that originally cost 1 yuan will now have to be sold for 10 yuan.

The depreciation of paper money and the rise in prices caused by the excessive issuance of paper money are called inflation. Inflation is a customary means by which the exploiting class plunders the working people. Before liberation, the Kuomintang reactionary government persisted in waging a counterrevolutionary civil war. In order to make up its fiscal deficit, it recklessly issued paper money, causing rampant inflation. Prices soared, and the purchasing power of paper money plummeted. By the eve of liberation, it had almost become a pile of wastepaper. During the twelve years from 1937 to 1949, the issuance of currency increased by more than 140 billion times, while prices rose by more than 85 trillion times over the same period. Someone once made the following calculation: the purchasing power of 100 yuan in Chinese National Currency was equivalent to two yellow cattle in 1937, one yellow cattle in 1938, one pig in 1939, one bag of flour in 1941, one chicken in 1943, two eggs in 1945, one-sixth of a bar of Guben soap in 1946, one coal briquette in 1947, and in 1948, it could buy nothing at all. The wild rise in prices plunged the broad masses of working people into misery and suffering, while the bureaucratic bourgeoisie made a great fortune from it.

Today, inflation is also a widespread phenomenon in all imperialist countries, and it has become increasingly serious in recent years. Comparing 1974 with 1973 alone, prices rose by 5.9% in West Germany, 12.2% in the United States, 15.2% in France, 19.1% in Britain, 21.9% in Japan, and 25.3% in Italy. In the United States, goods that could be purchased for $1 in January

1948 required $2.18 by the end of 1974, meaning that the purchasing power of money had fallen by 54.1%. The increasingly severe inflation deepened the economic crisis and financial and monetary crisis of capitalism, fully reflecting the decay and decline of the imperialism.

Hoarding

The third function of money is as a hoard. After selling commodities, commodity owners may choose not to make an immediate purchase but instead hoard the money: "**The money becomes petrified into a hoard, and the seller becomes a hoarder of money.**"[1] At this point, money functions as a hoard.

This function of money arose on the basis of the considerable development of commodity circulation. At this point, money had become the general representative of value and social wealth, and the desire to accumulate and preserve wealth gave rise to the demand for hoarded money. At the same time, after the commodity economy had developed, every commodity producer needed to accumulate a certain amount of money to meet various urgent needs in production or daily life. Thus, hoarding money became an objective necessity. From the qualitative aspect, money is the unlimited representative of social wealth and can be exchanged for any commodity at any time; from the quantitative aspect, however, a given amount of money is always a limited means of purchase and can be exchanged only for certain kinds and quantities of commodities. This contradiction between qualitative infinitude and quantitative limitation

[1] Ibid.

makes the impulse to store money endless: private commodity producers always hope that the more money they accumulate, the better.

Money serving as a hoard differs from money serving as a measure of value and a medium of circulation. It can neither be money existing only as an idea nor a money token; it must be real, full-value money. Only metallic money can serve as a hoard; generally speaking, paper money cannot serve as a hoard.

Under the conditions of metallic currency circulation, it is necessary to maintain a certain amount of hoarded money. Since commodity circulation is constantly changing in terms of quantity, prices, and speed, the quantity of money in circulation must also increase or decrease to accommodate these changes. Hoarded money is like a reservoir that can spontaneously regulate the quantity of money in circulation. If the quantity of money required for circulation decreases, some coined money will be melted down into metal bars, withdrawn from circulation, and transferred into hoarded money; if the quantity of money required for circulation increases, some metal bullion will again be minted into coined money, entering circulation to serve as a medium of circulation. To accommodate this flexibility in the quantity of money in circulation, the total quantity of gold and silver possessed by a state (including gold and silver articles) must be greater than the quantity of gold and silver performing the function of coinage. As a result of this regulatory function, under conditions of metallic currency circulation, excess money in circulation can automatically be converted into hoarded money; excessive money circulation therefore does not occur, and inflation does not arise. Paper money, however, cannot serve as a hoard. Therefore, regardless of its quantity, paper money can only remain in the circulation sphere, and excessive issuance will inevitably lead to inflation.

Today, although capitalist countries all use paper money in circulation, they still need to retain a certain quantity of gold as a reserve for issuing paper money. This gold is also a form of hoarded money. The gold produced worldwide is used partly to meet the needs of industrial production and people's daily lives, partly hoarded by private individuals, and partly held by the governments of various countries as reserve money.

Means of Payment

The fourth function of money is to serve as a means of payment. The production cycles of commodities vary in length, and commodity sales markets differ in distance. Before selling their commodities, some commodity producers often have to purchase means of production. Since they have no money on hand, they have no choice but to make credit purchases. In this case, the seller becomes the creditor, the buyer becomes the debtor, and a credit relation is established between them. When the debt falls due, the money used to repay it serves not as a medium of circulation but as a means of payment. Money thus acquires the function of serving as a means of payment.

The function of money as a means of payment also emerged and developed on the basis of the full development of the commodity economy. At first, it occurred only in the buying and selling of commodities, but later gradually extended beyond the sphere of commodity circulation. For example, rent and taxes were originally paid in kind, but later came to be paid in money.

The function of money as a means of payment promotes the development of commodity production, while also intensifying the contradictions of the commodity economy. Under the conditions of credit transactions, creditor–debtor relations link commodity producers together in a complex web. For example, A may be B's creditor, B may be C's creditor, and C may in turn be D's creditor, and so on. Once someone is unable to sell their commodities and lacks the money to repay their debts, a series of chain reactions will be triggered, disrupting a succession of credit relations and causing many commodity producers to be unable to continue production. Clearly, money's performance of the function of a means of payment further strengthens the possibility of crises.=

After the function of money as a means of payment emerged, the previously discussed formula for the quantity of money in circulation should be supplemented and revised. Subtract the total amount of deferred payments from the total commodity price, add the total amount of matured payments, then subtract the total amount of offsetting payments, dividing the result by the number of times the same money changes hands gives the amount of money actually needed in circulation. The formula is:

$$\text{Amount of Money in Circulation in a Given Amount of Time} = \frac{\text{Total Value of Commodities} - \text{Total Value of Deferred Payment} + \text{Total Value of Debts Due} - \text{Total Amount of Offsetting Payments}}{\text{Velocity of Circulation of A Currency}}$$

Universal Money

The fifth function of money is to serve as universal money, transferring between countries. On the world market, money must free itself from the specific forms of the domestic

standard of prices, coined money, token money, and symbols of value, and return to its original form as precious metals. Only gold and silver can be used as universal money.

The functions of universal money can be summarized as follows: first, as a general means of payment, it settles balance-of-payments differences; second, as a general means of purchase, it purchases foreign commodities; third, as the absolute embodiment of general wealth, it is transferred from one country to another. Its most important function is to serve as a means of payment for balancing balance-of-payments differences. Today, all capitalist countries must maintain a certain quantity of gold reserves as the ultimate means of payment for settling international payments.

The functions of money reflect the essence of money, demonstrating that money is a universal equivalent. The five functions of money developed progressively and are interconnected. The measure of value and medium of circulation are the most important functions of money. It was through the development of these two basic functions that the desire and necessity for hoarded money arose. The function of means of payment emerged on the basis of money serving as a medium of circulation and a hoard. When commodity circulation expanded to a global scale, money also assumed the role of universal money. The development of the functions of money reflects the fact that people's specific social relations have reached a certain stage of development, while the contradictions contained within these relations have also manifested themselves through the sharp antagonism between commodities and money.

Section Five: The law of Value is the Economic Law of Commodity production

The law of value is the economic law of commodity production. Wherever commodity production exists, the law of value necessarily operates. Commodity production emerged as early as the beginning of slave society; thus, **"the law of value has prevailed during a period of from five to seven thousand years.**"[1]

Law of Value and Forms of Price

The law of value is the law governing the determination and realization of value. Marx pointed out: "**In the midst of all the accidental and ever fluctuating exchange relations between the products, the labor time socially necessary for their production forcibly asserts itself like an over-riding law of Nature. The law of gravity thus asserts itself when a house falls about our ears. The determination of the magnitude of value by labor time is therefore a secret, hidden under the apparent fluctuations in the relative values of commodities.**"[2] The law of value entails two requirements: the socially necessary labor time required to produce a commodity determines its magnitude of value; and the exchange of commodities is based on their magnitudes of value and proceeds according to the principle of exchange of equal values. The law of value governs both commodity production and commodity circulation, and is therefore the basic law of commodity economy.

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[1] Frederick Engels, "Law of Value and rate of profit," in *Capital,* Volume III, by Karl Marx.

[2] Karl Marx, "Chapter One: Commodities," in *Capital*, Volume. I.

After money appeared, the value of commodities is expressed as a certain price. In accordance with the requirements of exchange of equal values, the price should be exactly consistent with value. In practice, however, this is not the case. For commodity prices to fully correspond to their value, social production must be carried out proportionally. But in a society based on private ownership commodity production, social production is in a state of anarchy: producers cannot know in advance how much society will need of a particular product, nor how much of that product will be supplied. Production is therefore highly blind, resulting either in supply exceeding demand or in demand exceeding supply. Because of changes in market supply and competition, commodity prices also continually rise and fall, frequently diverging from commodity value. However, this discrepancy between price and value does not violate the law of value. Marx pointed out: "**The assumption that the commodities of the various spheres of production are sold at their value merely implies, of course, that their value is the centre of gravity around which their prices fluctuate, and their continual rises and drops tend to equalize.**"[1] In other words, although commodity prices frequently diverge from value, their fluctuations, like the swing of a pendulum, they always revolve around a center of gravity, which is value. Over a longer period, the portions by which prices exceed value can offset the portions by which prices fall below value; once the highs and lows are leveled out, price and value are again consistent.

Bourgeois economics seizes upon the phenomenon that commodity prices and value are often inconsistent, and attempts to deny the existence of the law of value and to deny Marx's labor theory of value. This is entirely futile. If phenomena and essence are directly identical,

[1] Karl Marx, "Chapter 10. Equalisation of the General rate of profit Through competition. Market-Prices and Market-Values. Surplus-Profit," in *Capital*, Vol. III.

science would become superfluous. Just as other sciences elucidate the essence of things, one of the tasks of political economy is precisely to explain, through the phenomenon of prices diverging from value, how the law of value operates. The phenomenon whereby prices diverge from value and spontaneously fluctuate around value not only does not negate the existence of the law of value; on the contrary, under a commodity economy under private ownership, it is the only possible form in which the law of value can manifest itself. As Marx put it: "**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. This is no defect, but, on the contrary, admirably adapts the price-form to a mode of production whose inherent laws impose themselves only as the mean of apparently lawless irregularities that compensate one another.**"[1]

Function of Law of Value

Under conditions of private ownership commodity production, the law of value plays an important role. The more developed the commodity economy is, the more prominent the function of the law of value becomes.

First, the law of value is the spontaneous regulator of commodity production. Social production based on the social division of labor requires a certain proportional relationship to be maintained among the various sectors. However, under a commodity economy under private ownership, production is the private affair of each producer, and the allocation of the means of

[1] Karl Marx, "Chapter Three: Money, Or the Circulation of Commodities," in *Capital*, Vol. I.

production and labor power among the various sectors cannot be subject to unified planning or arrangements; it proceeds entirely blindly. Then, in a society based on blind production, how can the objectively required proportions be achieved? How can social production continue normally in a regular cycle? This is achieved through competition, through the spontaneous fluctuations of market prices, and through the spontaneous operation of the law of value. Competition seeks to bring supply and demand into conformity with each other, but it does not make them fully conform: supply is always either excessive or insufficient. When demand exceeds supply, prices rise, thereby stimulating a gradual increase in supply while demand decreases; when supply exceeds demand, prices fall, thereby stimulating a continuous increase in demand while supply decreases.

During the capitalist period, price levels serves as an indicator. It is precisely through fluctuations in market price that the capitalists learn which products are being overproduced and which are being underproduced, thereby deciding which sector to invest capital in. Marx said: "**We see how capital continually emigrates out of the province of one industry and immigrates into that of another. The high price produces an excessive immigration, and the low price an excessive emigration.**"[1] The regulation of production by the law of value means that, through fluctuations in market price, certain proportions are broadly achieved among the various sectors amid the blind fluctuations of social production. Does this mean, then, that capitalist society can smoothly develop in an orderly manner? No. The regulatory function of the law of value is entirely spontaneous, it cannot eliminate the state of anarchy of social production inherent in capitalist private ownership. The mismatch between supply and demand is constant

[1] Karl Marx, "By what is the price of a commodity determined?," in *Wage Labour and Capital.*

and inevitable, with the result that, at certain intervals, only the destructive force of an economic crisis can temporarily and forcibly restore the severely imbalanced proportional relationships to the level required by normal conditions. Some bourgeois economists, intoxicated by the function of the law of value, have tried their utmost to glorify capitalism and proclaim that "this invisible hand" can arrange everything appropriately. But the facts are ruthless: the economic crises that continually erupt have thoroughly exposed the fallacy of their claims. Economic crises cause the number of unemployed people to increase sharply, further impoverish the proletariat, and lead inevitably to a social revolution through the rapidly developing polarization and class antagonism. Thus Engels said that the law of value "**a law which produces revolution.**"[1]

Second, the law of value also spontaneously stimulates the development of the productive forces. Commodity production takes place amid competition. In order to strengthen their position in competition, commodity producers must sell their commodities more cheaply; and in order to sell more cheaply, they must first produce more cheaply by reducing the individual labor expended on their products below the socially necessary labor expended. If they continue to sell according to social value, they can obtain additional profits; even if they sell at a price slightly below social value, they can still make a profit and gain an advantageous position in competition. Clearly, the objective law that socially necessary labor time determines the magnitude of value is a driving force that impels commodity producers or capitalists to improve technology and continuously increase labor productivity. Once one person does so, the coercive force of competition will compel others to follow suit. When everyone adopts advanced production technology, this will inevitably promote the development of the productive forces throughout

[1] Frederick Engels, "Outlines of a Critique of Political Economy," in *Deutsch-Französische Jahrbücher.* Note from translator: The original work misattributed this quote to *Grundrisse.*

society. Marx said: "**This is the law that continually throws capitalist production out of its old ruts and compels capital to strain ever more the productive forces of labor for the very reason that it has already strained them – the law that grants it no respite, and constantly shouts in its ear: March! march!**"[1] However, it should also be recognized that under conditions of private ownership, the development of production is blind and inevitably causes enormous waste of social labor. Competition also drives capitalists possessing advanced technology to guard technological secrets by every possible means in order to maintain their advantageous position, thereby seriously obstructing the dissemination of new technology. This reflects the side of the law of value that undermines and obstructs the development of the productive forces, and also exposes the historical limitations of the commodity economy under private ownership.

Finally, the law of value also promotes polarization among private commodity producers. Selling commodities according to the magnitude of value determined by socially necessary labor time is a requirement of the law of value. However, because the producers of the same commodity differ in their production conditions and technological levels, the actual labor time expended in production also differs. Commodity producers with good production conditions and high technological levels expend less individual labor on each commodity but still sell them at the higher social value, thereby obtaining greater income, thus able to gain an advantageous position in competition, and more easily accumulate wealth. In contrast, commodity producers with poor production conditions and low technological levels expend more individual labor on the same commodity but must still sell it at its social value; consequently, they often make no

[1] Karl Marx, "Effect of Capitalist Competition on the Capitalist Class the Middle Class and the Working Class," in *Wage Labour and Capital.*

profit and may even incur losses. The law of value thus creates polarization among simple commodity producers and, under certain conditions, gives rise to capitalist relations. A minority becomes wealthy, expands the scale of its operations, begins exploitation of wage laborers, and becomes capitalists; the majority grows increasingly impoverished and goes bankrupt, leaving them no choice but to sell their labor power and become wage laborers. Lenin said: "**Small-scale production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a mass scale.**"[1] Under capitalist conditions, the law of value further promotes competition among capitalists and the bankruptcy of small and medium-sized capitalists, intensifies polarization in society, and deepens class antagonism in capitalist society.

Section Six: Commodity Fetishism

The Value of a Commodity is an Expression of Definite Relations of production

Value is a social attribute of commodities, representing certain relations of production. Only by understanding value as an economic category from this perspective can we grasp the essence of the issue. However, the relations of production represented by value are not immediately apparent; they are concealed by the shell of thing and disguise as things. On the surface, value appears not to be a relation of production between people, but a relation between things. Value is originally a social attribute of products of labor, yet it appears as a material

[1] Vladimir Ilyich Lenin, "An Essential Condition of the Bolsheviks' Success, 'Left-Wing' Communism: an Infantile Disorder," in *Lenin's Collected Works*, Vol. 31 (Progress Publishers, 1964).

attribute inherent in those products. The economic status and living conditions of commodity producers are also closely tied to whether commodity value can be realized, as though it were not people who controlled things, but things that controlled people's destinies. Marx pointed out: "**A commodity is therefore a mysterious thing, simply because in it the social character of men's labor appears to them as an objective character stamped upon the product of that labor; because the relation of the producers to the sum total of their own labor is presented to them as a social relation, existing not between themselves, but between the products of their labor. This is the reason why the products of labor become commodities, social things whose qualities are at the same time perceptible and imperceptible by the senses.**"[1] Commodities and value thus become mysterious things, a blind force capable of dominating people's destinies. Commodity producers consequently come to worship blindly the mysterious nature of commodity value, just as they would superstitiously worship ghosts and deities. Marx called this phenomenon commodity fetishism.

Why does the relationship between people embodied in value appear as a relationship between things? Marx said: "**This Fetishism of commodities has its origin … in the peculiar social character of the labor that produces them."[2]** Under conditions of private ownership commodity production, the labor of commodity producers, although possess a social character, directly appears as private labor. Commodity producers come into social contact only through commodity exchange, and the social character of private labor is revealed only indirectly. Thus, what is originally a production relationship between people appears as an exchange relationship

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[1] Karl Marx, "Chapter One: Commodities," in *Capital*, Vol. I.

[2] Ibid.

between things. The emergence of money not only failed to reveal the essence of value; on the contrary, it concealed the social relations among commodity producers even more deeply. Bourgeois economics seized upon this superficial phenomenon, vigorously propagated fetishist ideology, and attempted to conceal the exploitative relationship of capitalism and uphold capitalism.

Historically, wherever commodity production was absent, commodity fetishism did not arise either. For example, in the primitive commune, all clan members worked and consumed together, and everyone's labor directly manifested itself as part of the total social labor; consequently, people's relations of production did not assume the concealed form of relations between things. In feudal society, too, the relationship between the lord and the serf was quite apparent: the surplus product that the serf provided to the lord did not take the form of commodities but directly reflected as the lord's exploitation of the serf. "**Every serf knows that what he expends in the service of his lord, is a definite quantity of his own personal labor power. The tithe to be rendered to the priest is more matter of fact than his blessing. … The social relations between individuals in the performance of their labor, appear at all events as their own mutual personal relations, and are not disguised under the shape of social relations between the products of labor.**"[1] The situation in capitalist society is entirely different. As commodity economy develops to its highest stage, all labor products are transformed into commodities; the law of value broadly governs the production sphere and the circulation sphere; the spontaneous forces of the market achieve the highest degree of domination over people; and the capitalist's exploitative relationship with workers is completely

[1] Ibid.

concealed by the material guise of commodity exchange. Here, commodity fetishism also reached its peak. Although science can expose the secret of commodity fetishism, it cannot eliminate the illusion shrouding the social character of labor. Only in the future communist society will the traces of commodity fetishism be completely eliminated. Engels pointed out: "**From the moment when society enters into possession of the means of production and uses them in direct association for production, the labor of each individual, however varied its specifically useful character may be, becomes at the start and directly social labor. … Hence, on the assumptions we made above, society will not assign values to products. It will not express the simple fact that the hundred square yards of cloth have required for their production, say, a thousand hours of labor in the oblique and meaningless way, stating that they have the value of a thousand hours of labor.**"[1] In other words, once the means of production become publicly owned by society as a whole, commodity production will disappear, labor will no longer manifest itself as value, and the quantity of labor will no longer manifest itself as the magnitude of commodity value. Once commodity-money relations disappear, commodity fetishism will lose its objective basis and ultimately vanish completely.

Critique of Bourgeois Theory of Value

Both bourgeois classical economics and vulgar economics have discussed commodity value. The theory of value of classical economics contained a certain scientific component. The

[1] Frederick Engels, "IV. Distribution, Part III: Socialism," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

theory of value of vulgar economics, serving the purpose of defending capitalism, is limited to describing superficial economic phenomena and contains not the slightest scientific element.

The representative figures of classical economics were Adam Smith and David Ricardo of Britain. In expounding his theory of value, Adam Smith clearly distinguished between the use value and exchange value of a commodity, holding that commodity value is not determined by use value but by labor. He pointed out: "Labour, therefore, is the real measure of the exchangeable value of all commodities."[1] This was one of his contributions. However, he was inconsistent and vacillating on the question of labor determining value. At times, he said that the value of a commodity was determined by "the labor and expense fitting it for use."[2] Although this formulation was very incomplete, it is generally correct. At other times, he erroneously held that the value of a commodity "is equal to the quantity of labor which it enables him to purchase or command,"[3] thereby falling into the erroneous circular reasoning that commodity value is determined by the commodity's exchange value. In analyzing the composition of commodity price, he also said that "wages, profit, and rent, are the three original sources of all revenue as well as of all exchangeable value,"[4] which was even more contrary to the theory that labor creates value, because it no longer held that labor determines value, but that wages, profit, and rent determine commodity value. We know that the source of value is the labor that produces commodities; wages, profit, and rent are merely the results of the further distribution of the

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[1] Adam Smith, "Chapter V Of the Real and Nominal Price of Commodities, or their Price in Labour, and their Price in Money," in *An Inquiry Into the Nature and Causes of the Wealth of Nations* (The Electric Book Company Ltd, 1998), 50.

[2] Adam Smith, "Chapter XI. Of the Rent of Land," 227.

[3] Adam Smith, "Chapter V Of the Real and Nominal Price of Commodities, or their Price in Labour, and their Price in Money," 50.

[4] Adam Smith, "Chapter VI.Of the Component Parts of the Price of Commodities," 79.

commodity value created by labor. The erroneous aspects of Smith's value theory were later exploited and developed by vulgar economics.

In the labor theory of value, Ricardo advanced beyond Smith. He overcame Smith's erroneous claim that the value of a commodity is determined by the quantity of labor that the commodity can purchase, and clearly stated: "depends on the relative quantity of labor which is necessary for its production."[1] He also corrected Smith's erroneous theory that the value of a commodity is determined by the three forms of income—wages, profit, and rent—pointing out that however the value created by labor is divided, this does not affect the magnitude of value; the division of value into wages, profit, and rent does not affect the principle that labor determines value. He also recognized that the value of a commodity is determined not only by the living labor consumed in production, but also by the materialized labor consumed. However, Ricardo did not understand the duality of labor and was therefore at a loss when he needed to explain how the creation of new value and the transfer of value from preexisting value take place simultaneously. Owing to their class limitations, Smith and Ricardo regarded the capitalist mode of production as eternal and consequently focused only on analyzing the magnitude of value, completely neglecting the study of the essence of value and the form of value, and fundamentally failing to understand the social and historical character of value. In short, although the labor theory of value of classical economics contained a certain amount of science, overall it was incomplete and contained serious errors.

Unlike classical economics, the various schools of bourgeois vulgar economics all oppose the labor theory of value. They rack their brains to sever the connection between labor and value,

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[1] David Ricardo, Chapter I On Value," in *On the Principles of Political Economy and Taxation* (The Electric Book Company Ltd, 2001), 11.

fabricating all sorts of anti-scientific "theories" of value to defend capitalism. Among the more popular are the "subjective theory of value," the "cost-of-production theory of value," and the "supply-and-demand theory of value."

"Subjective theory of value" was once the most widely circulated theory of value in bourgeois vulgar economics. It holds that the value of a commodity depends entirely on people's subjective evaluation of the commodity's utility. The greater the "marginal" utility, the higher the value; and the magnitude of "marginal" utility in turn depends on the degree of people's need for that commodity. This is utterly absurd. The magnitude of commodity value is determined by the amount of socially necessary labor required to produce the commodity. This is an objectively existing internal connection and does not depend on the subjective evaluations of those who need it. The attempt to explain the magnitude of value through "subjective utility" is entirely a manifestation of subjective idealism in the field of economics. In the face of objective facts, this fallacy can be exposed at a single stroke. For example, although a person may need a pencil more than a car, no one can deny that the value of a car far exceeds that of a pencil.

The "cost-of-production theory of value" holds that commodity value is determined by the capital value consumed in producing the commodity (including the value of means of production consumed and the wages of wage laborers). The error of this view is also quite obvious. For to explain commodity value by the value of the means of production and the value of labor power is to explain value by value, this remains circular reasoning and does not clarify the issue in the slightest. The purpose of explaining value by production costs is also to conceal exploitation. If production costs can determine value, that means that the capitalist's capital and

the worker's labor both "create value"; then what exploitation could there be? Thus, the reactionary nature of this view is utterly blatant.

"Supply-and-demand theory of value." holds that commodities have no intrinsic value, and their value is determined by the conditions of supply and demand in the market. The more demand exceeds supply, the greater the commodity value, and vice versa. This view likewise cannot solve the problem. Changes in market supply and demand can only cause commodity prices to change, they do not cause commodity value to change. The error of the proponents of supply-and-demand theory is that they take price for value, take changes in price for changes in value, and confuse appearance with essence. It cannot answer the fundamental question: when supply and demand are in equilibrium, what determines the commodity value? Supply-and-demand theory attempts to make people focus solely on the circulation process. For as soon as the production process is addressed, the secret of capitalist exploitation will be exposed. People also commonly say, "scarce things are valuable," but this statement is imprecise. In a society based on private ownership, the scarcity of an item may cause its price to rise, but it has no necessary connection with the magnitude of its value, and the level of value cannot be explained by the quantity of an item. Moreover, in the long run, the scarcity and abundance of goods in the market are themselves governed by the law of value.

Chapter Two: Capital and Surplus Value

"**The doctrine of surplus-value is the corner-stone of Marx's economic theory.**"[1] Through his analysis of the production, realization, and distribution of surplus value, Marx profoundly exposed the exploitative nature of capitalist relations of production, elucidated the economic roots of the class struggle between the bourgeoisie and the proletariat, and pointed out the historical necessity of the proletarian revolution, thereby providing us with a key to understanding capitalist society and the laws governing its development. Engels stated: The materialist conception of history and the theory of surplus value are Marx's two great discoveries. "**With these discoveries socialism became a science."**[2]

This chapter primarily explains the production process of surplus value and exposes the secret of capitalist exploitation.

Section One: The Transformation of Money into Capital

Capitalist private ownership of means of production is the foundation of capitalist relations of production. In capitalist society, capitalists use the means of production they own as capital to extract the surplus value created by workers. Because workers have been deprived of the means of production, they have no choice but to work in the capitalists' factories, where they suffer capitalist exploitation. Therefore, in order to understand the production of surplus value

[1] Vladimir Ilyich Lenin, "The Three Sources and Three Component Parts of Marxism," in *Lenin's Collected Works*, Vol. 19.

[2] Frederick Engels, "General, Introduction," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

and the essence of capitalist relations of production, it is first necessary to understand what capital is.

Circulation Formula of Capital

Money is the final product of commodity circulation and, at the same time, the initial form in which capital appears. When a capitalist establishes a factory, they must first have a certain amount of money as capital to purchase the means of production and hire workers. Therefore, capital initially always appears as a certain amount of money.

However, it cannot be assumed that all money is capital. For example, under conditions of simple commodity production, money is merely a medium of commodity exchange. Small-scale commodity producers use money to exchange labor products with one another, rather than treating it as a means of exploitation or using it as capital. It can thus be seen that money as such differs from money as capital. This distinction is first manifested in the different forms of circulation they take.

Money as money has the following circulation formula: commodity—money—commodity (C—M—C): commodity producers first sell their own commodities to obtain money and then use that money to purchase other people's commodities. Money as capital has the following circulation formula: money—commodity—money (M—C—M): capitalists first use money to purchase commodities, then sell them, and finally receive money in return.

These two different forms of circulation do not merely reverse the order of buying and selling; they reflect different economic content and are fundamentally distinct.

The circulation formula C—M—C indicates that commodity producers sell commodities in order to purchase another commodity they need; that is, they sell in order to buy. For example, when a peasant exchanges their grain for money, it is in order to purchase farm tools or daily consumer goods. The purpose of the exchange is use value, to meet the needs of production or daily life. The content represented by the circulation formula M—C—M, however, is different: the capitalist uses money to purchase commodities in order to sell them and thereby obtain money again; that is, they buy in order to sell. The purpose of the exchange is not use value but value.

The capitalist initially pays money and ultimately receives money again; these two sums are completely identical in quality. The question is whether their quantity has changed. If a capitalist pays 100 yuan when purchasing commodities and recovers only 100 yuan after selling them, this is entirely meaningless; no capitalist would engage in such a foolish undertaking. The purpose of the capitalist's business is certainly not to exchange money for the same amount of money, but to obtain more money. For example, to purchase commodities with 100 yuan and receive 110 yuan after selling them. Therefore, the formula of capital circulation should actually be: M—C—M'. M' = M + Δ M; this Δ M is an increment brought by the originally advanced money M. Marx said: "**This increment or excess over the original value Icall 'surplus-value.'**"[1] Only when money can generate surplus value does it become capital.

Viewed from the circulation formula M—C—M', it is not selling in order to buy, but buying in order to sell; not for use value, but for value and the increment of value. In this process, value becomes the subject of movement, and it can preserve and expand itself only

[1] Karl Marx, "Chapter Four: The General Formula for Capital," in *Capital*, Vol. I.

through continual movement. Thus, capital is always in movement. As Marx put it: "**Value therefore now becomes value in process, money in process, and, as such, capital.**"[1]

The formula M—C—M' seems to be the form of movement peculiar to commercial capital, but in fact it also applies to industrial capital and interest-bearing capital. The movement of industrial capital likewise begins with the purchase of commodities with money and ends with obtaining more money through the sale of commodities, while the production process outside the circulation sphere does not alter the capital's overall form of movement. Although the movement of interest-bearing capital directly appears as M—M', this merely simplifies the intermediate stages. Thus Marx said: "**M—C—M' is therefore in reality the general formula of capital as it appears prima facie within the sphere of circulation.**"[2]

Contradictions in the Formula of Capital Circulation

In formal terms, the formula of capital circulation and the law of value are contradictory. According to the requirements of the law of value, commodity exchange takes place according to the principle of equal values and cannot produce an increase in value; yet capital in movement does indeed generate surplus value. This is the contradiction. How can this contradiction be resolved? How, exactly, is surplus value produced?

The bourgeoisie and their pet scholars stubbornly claim that surplus value arises from circulation. Some say that "voluntary exchange is mutually beneficial." This confuses use value and value. From the perspective of use value, when different commodities are exchanged, both

[1] Ibid.

[2] Ibid.

parties do indeed satisfy their respective needs and benefit; but from the perspective of value, it is an exchange of equal values, so there can be no question of either both parties or either party gaining any benefit from the exchange, and it certainly cannot explain the source of surplus value.

Some bourgeois scholars believe that surplus value arises from unequal exchange and is the result of buying cheap and selling dear. This view is completely untenable. In the commodity market, every commodity owner is both a seller and a buyer. Suppose a commodity owner sells a commodity worth 100 yuan at a 10% markup, earning 10 yuan; when they subsequently purchases commodities, another commodity owner will likewise sell commodities to him at a 10% markup, taking that 10 yuan back from him. The gain and loss cancel each other out, so it is clear that selling dear cannot bring him surplus value. By the same reasoning, buying cheap cannot increase value either. "**The creation of surplus-value, and therefore the conversion of money into capital, can consequently be explained neither on the assumption that commodities are sold above their value, nor that they are bought below their value.**"[1]

Another claim holds that surplus value arises because some people are skilled at conducting business and can regularly buy cheap and sell dear. Even if it is conceded that some people can regularly buy cheap and sell dear, this still cannot explain the ultimate source of surplus value. For example, commodity owner A, being extremely cunning, exchanges wine worth 40 yuan with commodity owner B for wheat worth 50 yuan, thereby increasing the amount of money by 10 yuan. But what A gains is precisely what B loses; considered as a whole, this exchange has not increased the total value of society in the slightest. Both before and after the

[1] Ibid.

exchange, the total value of the commodities is 90 yuan; the only difference is that the distribution of this value between A and B has changed. This argument can explain why individual capitalists are able to make money, but it cannot explain where the surplus value obtained by the bourgeoisie as a whole ultimately comes from, because "**the capitalist class, as a whole, in any country, cannot over-reach themselves.**"[1]

Marx therefore said: "**Turn and twist then as we may, the fact remains unaltered. If equivalents are exchanged, no surplus-value results, and if non-equivalents are exchanged, still no surplus-value. Circulation, or the exchange of commodities, begets no value.**"[2] Bourgeois scholars fabricate all kinds of fallacies merely to conceal capitalist exploitation.

Surplus value cannot arise from circulation, then can it arise apart from circulation? No, it cannot. Under conditions of private ownership, commodity owners can establish relations with one another only in the circulation sphere; outside circulation, they relate only to their own commodities. This relationship merely shows that commodity value is created by their labor. But commodity owners can create value only through their own labor; they cannot create surplus value at the same time as they create value. "**It is therefore impossible that outside the sphere of circulation, a producer of commodities can, without coming into contact with other commodity-owners, expand value, and consequently convert money or commodities into capital.**"[3]

Then how exactly does surplus value arise, and how exactly is money transformed into capital? Marx pointed out: "**The conversion of money into capital has to be explained on the**

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[1] Ibid.

[2] Ibid.

[3] Ibid.

basis of the laws that regulate the exchange of commodities, in such a way that the starting-point is the exchange of equivalents. Our friend, Moneybags, who as yet is only an embryo capitalist, must buy his commodities at their value, must sell them at their value, and yet at the end of the process must withdraw more value from circulation than he threw into it at starting. His development into a full-grown capitalist must take place, both within the sphere of circulation and without it. These are the conditions of the problem."[1]

Buying and Selling of Labor Power

As money functioning as capital, the expansion of its value cannot occur in money itself, because money, serving as a means of purchase and a means of payment, can only realize the prices of the commodities it purchases or pays for and cannot change the magnitude of value of money itself. Nor can the expansion of value occur in the second exchange process of the movement of capital, namely, the sale stage of commodities. This process can only change the form of value, transforming it from the commodity form into the money form, and cannot bring about a change in the magnitude of value. Therefore, the expansion of value can occur only in the first exchange process of the movement of capital, namely, the purchase stage of commodities; however it cannot occur in the value of the commodity, because, according to the principle of exchange of equal values, commodities are paid for according to their value; the expansion of value can occur only in the use or consumption of the commodity. In other words, to obtain surplus value, the money owner must find a special commodity on the market that,

[1] Ibid.

when used, can produce a value greater than its own value. This special commodity is labor power.

What is it labor power? Marx said: "**By labor-power or capacity for labor is to be understood the aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use-value of any description.**"[1]

For labor power to become a commodity, two conditions must be met. First, the worker must be a legally free person. They must be the owner of their own labor power in order to sell it as a commodity, and they must sell it continuously for a specified period of time rather than sell it all at once; otherwise, they are not a seller of labor power but becomes a slave. Second, the worker must have lost all means of production and means of subsistence. Only when they has no labor products to sell are they compelled to sell the labor power remaining in their body. Marx pointed out: "**For the conversion of his money into capital, therefore, the owner of money must meet in the market with the free laborer, free in the double sense, that as a free man he can dispose of his labor-power as his own commodity, and that on the other hand he has no other commodity for sale, is short of everything necessary for the realization of his labor-power.**"[2]

The two conditions for labor power to become a commodity have not existed since time immemorial; rather, they arose in the process in which the feudal system gradually disintegrated and small producers increasingly went bankrupt. Labor power becoming a commodity is a phenomenon peculiar to capitalism, marking the transition of simple commodity production to a

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[1] Karl Marx, "Chapter Six: The Buying and Selling of Labour-Power," in *Capital*, Vol. I.

[2] Ibid.

new stage of capitalist commodity production. Capitalism is precisely a system of exploitation established on the basis of wage labor.

The commodity labor power, like other commodities, has use value and value. The value of labor power is likewise determined by the socially necessary labor time required to produce this special commodity. Labor power exists in the human body. To maintain and restore labor power, people need food, clothing, housing, and so on—in other words, a certain quantity of means of subsistence. The labor time necessary to produce labor power is, in fact, the socially necessary labor time required to produce these means of subsistence; the value of labor power is, in fact, the value of the means of subsistence necessary to maintain the worker's existence. At the same time, wage laborers grow old and die. To continue purchasing this special commodity on the market, a continuous supply of new labor power must therefore be added. Accordingly, the value of labor power must also include the value of the means of subsistence necessary for workers to support their spouses and children. In addition to ordinary labor power, capitalist production also requires some complex labor power that has undergone specialized training and possesses a certain level of technical skill. The value of this complex labor power must therefore also include the costs of the worker's education and training. In short, "**the value of laboring power is determined by the value of the necessaries required to produce, develop, maintain, and perpetuate the laboring power.**"[1]

Under capitalism, the range and quantity of the means of subsistence necessary to maintain workers and their families vary from state to state and from period to period. This depends on a country's natural characteristics, historical conditions, culture, and especially the

[1] Karl Marx, "VII. Labour Power," in *Value, Price and profit* (New York: International Co., Inc, 1969).

workers' way of life, among other factors. Therefore, "**in contradistinction therefore to the case of other commodities, there enters into the determination of the value of labor-power a historical and moral element."**[1] However, in a given historical period in a particular state, the means of subsistence necessary for reproducing labor power have an average level. The minimum limit of the value of labor power is determined by the value of the means of subsistence indispensable for life. Once the price of labor power falls below this limit, labor power can be maintained only in a state of deterioration.

The greatest characteristic of the commodity labor power lies in its use value. When an ordinary commodity is consumed or used, as its use value gradually disappears, the commodity's value either gradually disappears or is gradually transferred to other commodities. The commodity of labor power is different: when it is used, it produces new value, and this new value is greater than the value of labor power itself. The use or consumption of labor power is labor, and labor creates value. Therefore, Marx said: "**What really influenced him was the specific use-value which this commodity possesses of being a source not only of value, but of more value than it has itself.**"[2] Precisely because of this characteristic, after purchasing labor power, the money owner, in the process of consuming it, can not only recover the value paid for this commodity but also obtain an expanded value—surplus value—thereby transforming money into capital. It can thus be seen that labor power becoming a commodity is the prerequisite for the transformation of money into capital.

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[1] Ibid.

[2] Karl Marx, "Chapter Seven: The Labour-Process and the Process of Producing Surplus-Value," in *Capital*, Vol. I.

The buying and selling of labor power takes place in the circulation sphere. Bourgeois economics often portrays this sphere as a "free" and "equal" "earthly paradise." There, the money owner has money to spare, while the owner of labor power has labor power to spare, one is willing to buy and the other to sell. Both parties engage in the exchange of equal values as equal commodity owners, and everyone has the right to dispose of what they own. Is this not a "free" and "equal" "earthly paradise"? Yet as soon as they leave this sphere, the characters in the show change completely. "**He, who before was the money-owner, now strides in front as capitalist; the possessor of labor-power follows as his laborer. The one with an air of importance, smirking, intent on business; the other, timid and holding back, like one who is bringing his own hide to market and has nothing to expect but — a hiding.**"[1]

This is precisely what happens. In the production sphere, the capitalist compels the worker to labor, not only compensating the capitalist for the value of labor power advanced by him, but also producing surplus value for him. Whenever possible, the capitalist will strip two hides from a single worker. Once the alluring veil carefully fashioned by bourgeois scholars is lifted, the reality of capitalism is precisely this blood-soaked earthly hell.

[1] Karl Marx, "Chapter Six: The Buying and Selling of Labour-Power," in *Capital*, Vol. I.

Section Two: Production Process of Surplus Value

Characteristics of the Capitalist Labor Process

After purchasing the means of production and labor power on the market, the capitalist leaves the circulation sphere and returns to their factory. In the production sphere, the capitalist compels the workers to labor, initiating the capitalist labor process.

If the specific social formation is set aside, the labor process always refers to the process whereby people, through purposeful activity and by using the means of labor, process the objects of labor and create use value. This most general nature of the labor process is shared by all social formations.

But under capitalism, the labor process, as the process through which the capitalist consumes workers' labor power, has two characteristics: First, the workers' labor belongs to the capitalist. Workers do not labor for themselves; rather, under the capitalist's supervision, they labor for the capitalist. Second, labor products belong to the capitalist, and the direct producer cannot possess them. These two characteristics determine that labor under capitalism inevitably becomes a heavy burden for workers.

In the labor process, the capitalist compels workers to produce a certain use value, but the production of use value is not the capitalist's purpose; his purpose is to produce value—to make money. The reason they produces a certain use value is that use value is the material bearer of value. Therefore, for the capitalist, "**his aim is to produce not only a use-value, but a commodity also; not only use-value, but value; not only value, but at the same time surplus-**

value."[1] Since the commodities produced by the capitalist possess a dual character, being a unity of use value and value, the capitalist production process must likewise possess a dual character: it is both a labor process that produces use value and a process of forming and expanding value; it is a unity of the labor process and the process of expanding value.

Capitalist Process of Expansion of Value

The capitalist production process is a process of value formation and expanding value. As long as this process is analyzed in depth, "**we shall at last force the secret of profit making.**"[2] Let us now take the production of wool yarn at the East Asia Woolen Mill in Tianjin before liberation as an example and examine specifically how surplus value is produced.

In 1936, the East Asia Woolen Mill consumed approximately two pounds of wool sliver, worth 3.2 yuan, to produce every two pounds of "Diyang Brand" wool yarn; it consumed machinery and equipment and other instruments of labor (calculated according to depreciation) worth 0.4 yuan; and it used two hours of one worker's labor. The worker's two hours of labor created new value worth 0.4 yuan, exactly equivalent to the daily value of labor power—that is, the worker's daily wages. Calculated on the basis of paying the worker one day's wages, the capitalist advanced a total capital value of 4 yuan for every two pounds of wool yarn produced.

In the production process, the wool spinner produced two pounds of wool yarn through two hours of labor. The natural form of the wool sliver changed, and machinery and equipment and other means of labor wore out, but their value did not disappear; rather, it was transferred to

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[1] Karl Marx, "Chapter Seven: The Labour-Process and the Process of Producing Surplus-Value," in *Capital*, Vol. I.

[2] Karl Marx, "Chapter Six: The Buying and Selling of Labour-Power," in *Capital*, Vol. I.

the new product, wool yarn. However, the value of these means of production could be transferred only through the concrete labor of the wool spinner in the process of producing wool yarn. Clearly, the worker's concrete labor not only produced new use value but also realized the transfer of the old value of the means of production.

If the specific form of the wool spinner's labor is set aside, it likewise consists in the expenditure of mental and physical energy—that is, the expenditure of a certain quantity of abstract labor. This abstract labor, in turn, is the source of new value. Therefore, from the perspective of value formation, the worker's labor both preserved the original value of the means of production and created new value.

The wool spinner expended two hours of labor, produced two pounds of wool yarn, transferred 3.6 yuan of the value of the means of production while simultaneously created 0.4 yuan of new value. Thus, the value of two pounds of wool yarn should be:

Wool Sliver Consumed	3.2 yuan
Wear and Tear of Instruments of Labor	0.4 yuan
Value Created in 2 Hours of Labor	0.4 yuan
In Total	4.0 yuan

If the outcome of the production process were indeed such, the capitalist of this factory could only recover the capital originally advanced and would obtain no surplus value at all. The capitalist initially pays 4 yuan for the means of production and labor power, and ultimately recovers only 4 yuan from the two pounds of wool yarn. Such production is naturally inconsistent with the purpose of capitalist production, and the capitalist would not operate in this way.

By purchasing one day's labor power of a wool spinner for 0.4 yuan, the capitalist acquired the right to use that labor power for the entire day. Although the worker could create the means of subsistence for one day's labor power with only two hours of labor, the capitalist would never have the worker labor for only two hours a day. He must compel the worker to work the entire day in order to create a value greater than the value of labor power. Marx said: "**The value of labor-power, and the value which that labor-power creates in the labor-process, are two entirely different magnitudes; and this difference of the two values was what the capitalist had in view, when he was purchasing the labor-power.**"[1]

This is exactly what happened. At that time, the working day of the workers at the East Asia Woolen Mill was not two hours but twelve hours. The wool sliver and other means of production consumed during twelve hours of labor were six times those consumed during the two hours mentioned above, and the capital value spent by the capitalist on purchasing these means of production also increased sixfold: the wool sliver increased from 3.2 yuan to 19.2 yuan, and the depreciation of the machinery and equipment increased from 0.4 yuan to 2.4 yuan. However, the daily value of labor power—that is, the worker's daily wage—remained 0.4 yuan. Thus, in order to maintain the production of one labor power for the entire day, the capitalist expended a total capital of 22 yuan. In the production process, after twelve hours of labor, the worker produced 12 pounds of wool yarn. The value of the means of production consumed, 21.6 yuan, was transferred in full to the wool yarn, while the new value created by the wool spinner's twelve hours of labor increased fivefold compared with the value created in two hours of labor, from 0.4 yuan to 2.4 yuan. Thus, the value of 12 pounds of wool yarn should be:

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[1] Karl Marx, "Chapter Seven: The Labour-Process and the Process of Producing Surplus-Value," in *Capital*, Vol. I.

Wool Sliver Consumed	19.2 yuan
Wear and Tear of Instruments of Labor	2.4 yuan
Value Created in 12 Hours of Labor	2.4 yuan
In Total	24.0 yuan

The capital advanced for producing 12 pounds of wool yarn was 22 yuan, whereas the value of the 12 pounds of wool yarn was 24 yuan, yielding the capitalist a profit of 2 yuan. This 2 yuan was the excess of the value created by one worker's twelve hours of labor, 2.4 yuan, over the value of labor power, 0.4 yuan; in other words, it was surplus value. It can therefore be seen that surplus value is nothing other than value created by wage laborers and appropriated by capitalists without compensation, namely, value in excess of the value of labor power.

The secret of how capitalists extract surplus value has finally been exposed. There is no violation of the law of value here: whether purchasing the means of production and labor power or selling products, capitalists carry out these transactions according to the principle of exchange of equal values. Yet the money they ultimately recover is still greater than the money they originally advanced, and they thus obtain surplus value. It can be seen that the transformation of money into capital takes place both within the circulation sphere and outside it. It takes place within the circulation sphere because, using circulation as the intermediary, it is necessary to purchase labor power, this special commodity, on the market before surplus value can be extracted; it takes place outside the circulation sphere because the purchase of labor power merely prepares the conditions for the production of surplus value, while surplus value is created in the production sphere.

In the production process, as long as the capitalist extends the workers' labor time beyond the time necessary to compensate for the value of labor power, the value newly created by the workers will exceed the value of labor power itself, and the value formation process will thereby become a process of expansion of value. Marx said: "**If we now compare the two processes of producing value and of creating surplus-value, we see that the latter is nothing but the continuation of the former beyond a definite point. If on the one hand the process be not carried beyond the point, where the value paid by the capitalist for the labor-power is replaced by an exact equivalent, it is simply a process of producing value; if, on the other hand, it be continued beyond that point, it becomes a process of creating surplus-value.**"[1]

The bourgeoisie and their pet scholars, in order to conceal the essence of capitalist exploitation, fabricate all kinds of absurd theories and distort the true source of surplus value.

Vulgar bourgeois economists babble that capitalists always "restrain their own enjoyment," refraining from using capital for personal consumption and instead investing it in production, willingly enduring present sacrifice for the sake of future returns; they call this behavior "abstinence," and claim that profit is the reward for abstinence. This is a completely self-contradictory and shameless lie. Is not the pursuit of greater profit—this "future return"—itself a form of greed? In reality, in capitalist society, capitalists rely on the exploitation of workers to live in extravagant luxury, debauchery, and shamelessness, where is there any room to speak of "abstinence"? Moreover, "abstinence" itself cannot cause any increase in value. Without workers' labor, even if a capitalist neither ate nor drank for their entire life, it would still be impossible for them to obtain the slightest surplus value.

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[1] Ibid.

The bourgeoisie and their pet scholars also brazenly shout: “Can workers manufacture products with their bare hands?” Do the capitalist’s “provision of means of production to society” and “provision of means of subsistence to workers” not constitute “services” that deserve compensation? This claim is even less worthy of refutation. Social wealth is created by the working masses in the first place; only because it has been appropriated by the bourgeoisie does it become a means of exploiting workers. Thus, the only issue here is the extent of exploitation, in no way this constitutes a “service.” Even granting, for the sake of argument, that capitalists provide a “service,” when the products produced by workers equal the value of the means of production and means of subsistence provided by the capitalist, have they not already furnished him with corresponding compensation? But the capitalist is not satisfied with such compensation; they forces the workers to produce more. It is perfectly clear that the purpose of the capitalist’s provision of means of production and means of subsistence is to extract surplus value from the workers. This is not service at all, but extraction. If one insists on calling it service, it is not service to society, but merely service to the capitalist himself. Without workers’ labor and without the exploitation of workers, no matter how much “service” the capitalist provides, they can receive no compensation whatsoever.

Some bourgeois economists even claim that capitalists’ income is “remuneration for running the business,” or the “wages of labor” for capitalists who manage enterprises and supervise production. This is an even more deceitful falsehood. In capitalist society, most capitalists in fact do not directly engage in production management; instead, they entrust such work to their managers and foremen. Even when capitalists personally supervise and direct production, that still cannot be called “labor.” The purpose of capitalists’ supervision and

management of production is to force workers to increase labor intensity and improve labor productivity in order to extract more surplus value. This is exploitation in the strictest sense—how can it be confused with labor? Although capitalists have to rack their brains and expend effort to "manage" production, thieves also have to use their brains and expend effort to steal. Could that too be called labor and deserve remuneration? Therefore, the income of capitalists is true income from exploitation, and absolutely not "wages of labor."

In short, surplus value is created by the labor of wage laborers; it is the sole source of the capitalist's wealth and prosperity; it is an objective fact that no one can alter. The bourgeoisie and their agents vainly attempt to portray it as the capitalist's "legitimate income," this merely exposes their guilty conscience and shameless sophistry.

Fundamental Economic Law of Capitalism

The direct purpose and determining motive of capitalist production is to extract more sur plus value. The production of surplus value is the essence of capitalist production. "**Production of surplus-value is the absolute law of this mode of production.**"[1]

The law of surplus value governs the development of the productive forces under capitalism. In order to extract as much surplus value as possible, capitalists strive to improve technology, adopt new machinery and equipment, and increase labor productivity, thereby promoting the development of the productive forces. "**The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces**

[1] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

than have all preceding generations together."[1] However, the production of surplus value also creates artificial obstacles to the adoption of new technologies and equipment. Under capitalism, machinery is adopted only when its use can bring capitalists more surplus value; otherwise, capitalists will not adopt machinery and would rather use hand labor. In addition, in order to maintain their advantageous position in competition, capitalists strive to keep production technology secret, which also greatly hinders the development of the social productive forces.

The law of surplus value also governs all major aspects of capitalist relations of production. Capitalist production is aimed at producing surplus value, capitalist exchange is aimed at realizing surplus value, and capitalist distribution is aimed at appropriating and dividing up surplus value. Every link embodies the exploitative relationship between capitalists and workers. The law of surplus value determines the exploitative nature of capitalists: they run enterprises with only one purpose—making money! The putting profit in command and putting money-making first constitute the highest principles of capitalist management. Capitalists are the personification of capital, and their pursuit of surplus value is limitless. Engels vividly described this profit-seeking exploitative nature of capitalists: "**For [the bourgeoise] nothing exists in this world, except for the sake of money, itself not excluded. It knows no bliss save that of rapid gain, no pain save that of losing gold.**"

The production of surplus value also determines the entire course of the development of contradictions in capitalist society. The bourgeoisie's pursuit of surplus value promotes the development of the productive forces, yet the productive forces that have developed increasingly come into conflict with capitalist relations of production. The fundamental contradiction of

[1] Karl Marx and Friedrich Engels, "Chapter I: Bourgeois and Proletarians, Manifesto of the Communist Party," in *Marx/Engels Selected Works*, Vol. 1 (Progress Publishers, Moscow, 1969).

capitalism—the contradiction between the social character of production and the private character of appropriation—has grown increasingly acute, while class contradictions between the proletariat and the bourgeoisie have also intensified. In order to extract more surplus value, capitalists rapidly accumulate capital and expand the scale of production on the one hand, causing capitalist production to expand sharply, while on the other hand continually intensifying their exploitation of the proletariat and the broad masses of working people, making them increasingly impoverished and thereby causing the contradiction between production and consumption to widen. When these contradictions develop to a certain point, they lead to the outbreak of capitalist economic crises. The fact that the forces of social production suffer enormous destruction during crises fully demonstrates that capitalist relations of production have become shackles on the development of the productive forces. The continuing deepening of class contradictions between the proletariat and the bourgeoisie will inevitably bring about proletarian revolution. Socialist public ownership replacing capitalist private ownership has become the inevitable trend in the development of contradictions of capitalism.

In short, the production of surplus value governs all the major aspects of the capitalist mode of production and the entire process of the development of contradictions of capitalism. The law of surplus value is capitalism's fundamental economic law.

Section Three: Capital Embodies Capitalists' Exploitative Relationship With Workers

Essence of Capital

In capitalist society, capital always manifests itself through various objects, such as the factory buildings, machinery, raw materials, commodities, and money owned by capitalists. However, machinery, factory buildings, raw materials, and other means of production are not capital in themselves; they become capital only when they are used to exploit wage laborers. It can thus be seen that capital is not a thing, but rather capitalist relations of production embodied in things—first and foremost, the relation of exploitation and being exploited between the bourgeoisie and the proletariat. Regarding the essence of capital, Marx once pointed out profoundly: "**Capital also is a social relation of production. It is a bourgeois relation of production, a relation of production of bourgeois society.**" "**A Negro is a Negro. Only under certain conditions does he become a slave. A cotton-spinning machine is a machine for spinning cotton. Only under certain conditions does it become capital. Torn away from these conditions, it is as little capital as gold is itself money, or sugar is the price of sugar.**"[1]

Proceeding from a reactionary class standpoint and a metaphysical viewpoint, bourgeois scholars believe that the means of production themselves are capital. They even regard such rudimentary primitive tools as the wooden clubs used by primitive people for hunting as capital. They set aside relations of production, treat capital as a thing, and distort its essence, with the sole purpose of concealing the exploitative relationship of capitalism, concealing capitalist class

[1] Karl Marx, "The Nature and Growth of Capital," in *Wage Labour and Capital*.

antagonism, and safeguarding capitalism. Marx's theory of capital refuted the bourgeois apologists' various fallacies and completely exposed their reactionary nature.

Constant Capital and Variable Capital

In capitalist society, although capital appears in different forms, in general it consists of no more than two parts: the part of capital used to purchase the means of production and the part used to purchase labor power. The means of production are the material elements, while labor power is the human element. Only when the means of production and labor power are combined in the capitalist's factory can the capitalist production process begin. In production, these two different parts of capital play completely different roles in the formation and expansion of value.

The use value of the means of production is consumed in the labor process, while their value is transferred to and preserved in the new product. The various means of production participate in the labor process in different forms, and the methods by which their value is transferred also differ. Raw materials, fuel, auxiliary materials, and the like are all completely consumed in a single labor process; correspondingly, their value is transferred in its entirety to the product at once. Factory buildings, machinery, equipment, and other means of production, however, can be used for many years. Their material forms participate in the labor process repeatedly and are gradually worn down; correspondingly, their value is gradually transferred to the product according to the degree of wear. The value transferred by the means of production to the product is limited to the value they originally possessed when they entered the labor process and cannot be greater than that original value. If they did not already possess value before

entering the labor process, no transfer of value would be possible. Strictly speaking, therefore, the transfer of the value of the means of production is merely the reappearance of their original value in the new product. This value originally existed in the form of the means of production; after production, it exists in the form of the product.

The consumption of labor power is different. The portion of capital value used by the capitalist to purchase labor power has been consumed by workers through their purchase of means of subsistence and cannot be transferred to the product. However, in the labor process, workers create new value and add it to the new product. The same labor both transfers the old value of the means of production and creates new value, this dual function is determined by the duality of the labor that produces commodities. Of the new value created by workers, one part is equivalent to the value of labor power and is used to compensate for wages; the remainder is surplus value, which is appropriated by the capitalist without compensation. Precisely because the value of labor power does not merely reappear but is reproduced in the production process, the magnitude of value can change and become the true source of surplus value.

Marx pointed out: "**That part of capital then, which is represented by the means of production, by the raw material, auxiliary material and the instruments of labor does not, in the process of production, undergo any quantitative alteration of value. I therefore call it the constant part of capital, or, more shortly, constant capital.**" "**On the other hand, that part of capital, represented by labor-power, does, in the process of production, undergo an alteration of value. … This part of capital is continually being transformed from a constant**

into a variable magnitude. I therefore call it the variable part of capital, or, shortly, variable capital."[1]

Dividing capital into constant capital and variable capital according to the different roles played by its different parts in the production of surplus value was one of Marx's major achievements and is of great significance. First, this division further reveals the source of surplus value, showing that surplus value is not generated by the capitalist's capital as a whole, but only brought by the variable capital used to purchase labor power, and created by the labor of wage laborers. Second, this division also provides a reliable basis for accurately calculating the degree of exploitation of workers by capitalists.

Rate of Surplus Value

Surplus value first appears as the portion by which the value of the product exceeds the value of the various constituent elements of the product (means of production and labor power).

Under capitalism, the means of production and labor power take the form of constant capital and variable capital. If "c" represents the value of constant capital, "v" the value of variable capital, and "s" surplus value, then the total capital value advanced by the capitalist to purchase the various constituent elements can be represented by c+v, while the value of the product produced can be represented by c+v + s. Here, surplus value appears as the excess of the product's value over the value of its elements of production, thereby creating the illusion that surplus value is brought about by the entire capital. However, as pointed out earlier, the value of

[1] Karl Marx, "Chapter Eight: Constant Capital and Variable Capital," in *Capital*, Vol. I.

the means of production, or the value of constant capital c, merely reappears in the product; only living labor can create new value. If a production sector used only material means from nature and labor power in production, no constant capital value would be transferred to the product, but workers would still be able to create new value, including surplus value. Conversely, if the new value created by workers were merely sufficient to compensate for the value of labor power itself, no surplus value would be generated. This further demonstrates that surplus value is not brought about by the capitalist's entire capital advanced, but is solely the result of a change in the value of variable capital used to purchase labor power.

Since surplus value is brought about solely by variable capital, when examining the degree of exploitation of workers by the capitalist, surplus value should not be compared with the total capital; instead, the constant capital component must be set aside, and surplus value should be compared only with variable capital. Expressed as a formula, it should be s/v, rather than s/(c+v). Still using the example of the East Asia Woolen Mill, its ratio is 2 (surplus value)/ 0.4 (variable capital)= 500%. This ratio of surplus value to variable capital, expressed as a percentage, is the rate of surplus value. Marx said: "**The rate of surplus-value is therefore an exact expression for the degree of exploitation of labor-power by capital, or of the laborer by the capitalist.**"[1] The rate of surplus value is also the rate of surplus-value.

Since all the new value created by the workers is divided into two parts, v + s, the workers' working day should likewise be divided into two parts: the time used to produce the value of labor power—that is, the value of the means of subsistence necessary to maintain labor power—is called necessary labor time, and the labor expended during this time is called

[1] Karl Marx, "Chapter Nine: The Rate of Surplus-Value," in *Capital*, Vol. I.

necessary labor; the time used to produce surplus value is called surplus labor time, and the labor expended during this time is called surplus labor. Since necessary labor produces the value of labor power, or the value of variable capital, while surplus labor creates surplus value, the ratio of surplus value to variable capital can also be replaced by the ratio of surplus labor to necessary labor. The rate of surplus value s/v can also be written as surplus labor/necessary labor.

Although the above two formulas differ in form, they express the same content. s/v expresses the degree of exploitation in the form of materialized labor, showing the respective shares of the value created by the worker that go to the capitalist and the worker; surplus labor/ necessary labor expresses the degree of exploitation in the form of living labor, showing how much of the working day the worker spends compensating for the value of labor power and how much is used to produce surplus value for the capitalist.

Since humanity entered class society, all systems of exploitation have been based on the exploiting class's uncompensated appropriation of workers' surplus labor. The different methods of extracting surplus labor, in turn, distinguish the various systems of exploitation from one another. Capitalists appropriate the surplus labor of wage laborers without compensation by extracting it in the form of surplus value under the guise of exchange of equal values; this constitutes the distinctive feature of capitalism of exploitation. Marx said: "**In any given economic formation of society, where not the exchange-value but the use-value of the product predominates, surplus-labor will be limited by a given set of wants which may be greater or less, and that here no boundless thirst for surplus-labor arises from the nature of the production itself.**"[1] But the purpose of capitalist production is not use value, but value and

[1] Karl Marx, "Chapter Ten: The Working-Day," in *Capital*, Vol. I.

surplus value. This very nature of capitalist production determines that capitalists' appetite for surplus labor is insatiable. The degree of exploitation under capitalism is far higher than in slave society or feudal society.

In capitalist states, as production develops, capitalists' exploitation of workers continually intensifies, and the rate of surplus value continually rises. For example, the rate of surplus value in the United States manufacturing industry was 146% in 1946 and rose to 237% in 1971; in certain technologically advanced sectors, such as the electronics sector, it even reached 500%. Judging from the 1971 figures, workers spent less than one-third of the entire working day laboring for themselves, while more than the remaining two-thirds was spent creating surplus value for capitalists.

In semi-feudal and semi-colonial old China, capitalist enterprises were generally small in scale, had rudimentary equipment, operated backwardly, and had very low labor productivity. Under these circumstances, for capitalists to compete with imperialist enterprises and extract more surplus value, the only way was to exploit the workers ruthlessly. Consequently, the rate of surplus value in old China was very high, approximately 250% to 300% before the War of Resistance against Japanese Aggression. For example, the rate of surplus value at Shanghai Shenxin No. 3 Mill was 222% in 1925, 235% in 1928, 295% in 1932, and 314% in 1936. The average rate of surplus value at Tianjin East Asia Woolen Mill from 1934 to 1937 reached an astonishing 466%; that is, for every 5.66 yuan of new value created by the workers at East Asia Woolen Mill, the capitalists and their agents took 4.66 yuan, leaving the workers with less than one-fifth.

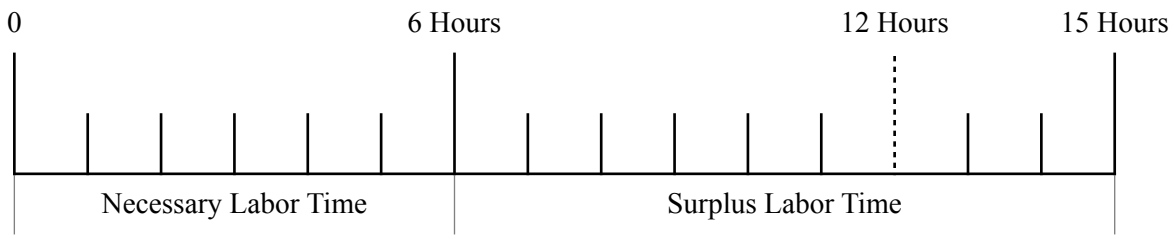
The amount of surplus value extracted by the capitalist depends on two factors: first, the level of the rate of surplus value; second, the total amount of variable capital. If S represents the amount of surplus value, s/v represents the rate of surplus value, and V represents the total amount of variable capital, then the formula for the amount of surplus value is S = sV/v. It is evident that, in order to extract more surplus value, the capitalist is always seeking every means to raise the rate of surplus value while simultaneously expanding the scope of exploitation.

Section Four: Two Basic Methods of Increasing the Degree of Exploitation by Capitalists

Capitalists employ various methods to increase the degree of exploitation, which can be summarized as two basic methods: the production of absolute surplus value and the production of relative surplus value.

Production of Absolute Surplus Value

Under capitalism, the worker's working day consists of two parts: necessary labor time and surplus labor time. Suppose that the worker's working day is 12 hours, of which 6 hours are necessary labor time and 6 hours are surplus labor time; the rate of surplus value is therefore 100%. If the capitalist extends the working day to 15 hours while necessary labor time remains unchanged, surplus labor time increases to 9 hours, and the rate of surplus value consequently rises to 150%. This is illustrated in the diagram below:



$$\text{Rate of Surplus Value: } \frac{\text{9 Hours of Surplus Labor}}{\text{6 Hours of Necessary Labor}} = 150\%$$

It can be seen that, with the necessary labor time remaining unchanged, the longer the working day, the longer the surplus labor time and the higher the rate of surplus value. Marx called the surplus value resulting from this absolute extension of the working day "absolute surplus value."

The length of the working day is not fixed, but can vary only within certain limits. The minimum limit of the working day cannot be precisely determined. If the length of the working day were exactly equal to necessary labor time, the capitalist would obtain no surplus value, and capitalism would lose its foundation for existence. Therefore, the working day can never be shortened to the length of necessary labor time. Can the working day, then, be extended indefinitely? No, it cannot. The maximum limit of the working day is determined by two factors. One is a physiological limit: within a 24-hour day, workers must have time to eat, rest, and sleep, all of which are physiologically necessary. Otherwise, their labor power cannot be restored, and they will no longer be able to work for the capitalist. The other is a social and moral limit: during the day, workers also need a certain amount of time to meet the needs of various forms of mental life and social activity, such as reading newspapers and books, raising children, and participating

in social activities. The scope of these needs depends on the state of a country's economic and cultural development. The two limits described above determine that, however long the working day may be, it must be shorter than 24 hours.[1] Exactly how much shorter, however, has no fixed standard, because both limits have considerable flexibility. In the actual life of capitalism, the lengths of working days vary considerably.

The capitalist, following the principle of commodity exchange, pays the worker the value of one day's labor power and thereby purchases the right to use that labor power for one day. During that day, they will use this right to the greatest possible extent, without regard to the worker's physiological or social needs. The capitalist is the personification of capital; their soul is the soul of capital. "**Capital has one single life impulse, the tendency to create value and surplus-value, to make its constant factor, the means of production, absorb the greatest possible amount of surplus-labor. Capital is dead labor, that, vampire-like, only lives by sucking living labor, and lives the more, the more labor it sucks.**"[2] The bourgeoisie are such a group of vampires: they are always striving to extend the working day as far as possible, seeking to extract more surplus value from the use of labor power.

Likewise, according to the principle of commodity exchange, workers have every right to oppose capitalists' excessive prolongation of the working day. Suppose that a worker engaged in moderate labor can work for an average of 30 years (or 10,950 days), then the value of one day's labor power is 1/10,950 of the total value of that labor power. If excessive labor is performed, the capitalist exhausts the worker's entire labor capacity within 10 years (or 3,650 days), but the

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[1] Note from translator: The horrible 24-hour workday of home care workers in New York City has showed that it is not necessarily true that working day must be shorter than 24 hours.

[2] Karl Marx, "Chapter Ten: The Working-Day," in *Capital*, Vol. I.

wages they pays the worker each day still amount to 1/10,950 of the total value of labor power, rather than 1/3,650. In practice, this amounts to paying only 1/3 of the daily value of labor power —that is, for every three days' use of labor power, the worker is paid only the equivalent of one day. This clearly violates the principle of commodity exchange. Therefore, the working class has the right to demand a normal working day of appropriate length.

It can be seen that the principle of commodity exchange and the rights arising from it cannot determine the length of the working day. In the buying and selling of labor power, the capitalist asserts the buyer's right and seeks to extend the working day as far as possible, wishing to extract two working days from a single day, while the wage laborers uphold the seller's right and oppose the excessive extension of the working day. "**There is here, therefore, an antinomy, right against right, both equally bearing the seal of the law of exchanges.**"[1] A fierce struggle over the length of the working day unfolded between the bourgeoisie and the proletariat. As for the actual length of the working day, it is determined by the balance of class forces. Historically, whenever possible, the capitalist has always desperately extended the working day, regardless of the workers' lives. When Marx exposed, using Britain as an example, the crimes committed by the capitalist in extending the working day, he pointed out: "**It is not the normal maintenance of the labor-power which is to determine the limits of the working-day; it is the greatest possible daily expenditure of labor-power, no matter how diseased, compulsory, and painful it may be, which is to determine the limits of the laborers' period of repose. Capital cares**

[1] Ibid.

nothing for the length of life of labor-power. All that concerns it is simply and solely the maximum of labor-power, that can be rendered fluent in a working-day."[1]

In the early period of the development of capitalism, the bourgeoisie alone lacked sufficient economic power to guarantee its right to extract surplus labor and therefore used state legislation to forcibly lengthen the workers' working day. After the Industrial Revolution, machine industry began to displace small-scale production, and the unemployed population increased dramatically. At that time, the bourgeoisie, relying solely on the "law" of hunger, greatly lengthened the working day. In many production sectors of the capitalist countries of that era, the working day reached 14 hours, 16 hours, or even more than 18 hours; women and children workers were no exception. As Marx put it: "**In its blind unrestrainable passion, its were-wolf hunger for surplus-labor, capital oversteps not only the moral, but even the merely physical maximum bounds of the working-day. It usurps the time for growth, development, and healthy maintenance of the body. It steals the time required for the consumption of fresh air and sunlight. It higgles over a meal-time, incorporating it where possible with the process of production itself, so that food is given to the laborer as to a mere means of production, as coal is supplied to the boiler, grease and oil to the machinery.**"[2]

Wherever there is oppression, there is resistance. In order to safeguard their right to subsistence and protect their labor power from excessive exploitation, the working class has waged a tenacious struggle against the bourgeoisie for a standard working day. This struggle

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[1] Ibid.

[2] Ibid.

began in Britain, then spread throughout the entire capitalist world, and continued for a full century. It was not until after the end of the First World War, under the powerful pressure of the rapidly developing international workers' movement, that some capitalist states were forced to promulgate laws limiting the length of the working day and implement an eight-hour workday system. However, because of obstruction by the bourgeoisie, and especially because of low wage levels, many workers are often forced to work overtime or hold two jobs, and their labor time remains very long. In some colonial and semi-colonial countries, the working day is still more than 12 hours, and in some cases lasts as long as 20 hours. The working class's struggle to shorten the working day is still continuing.

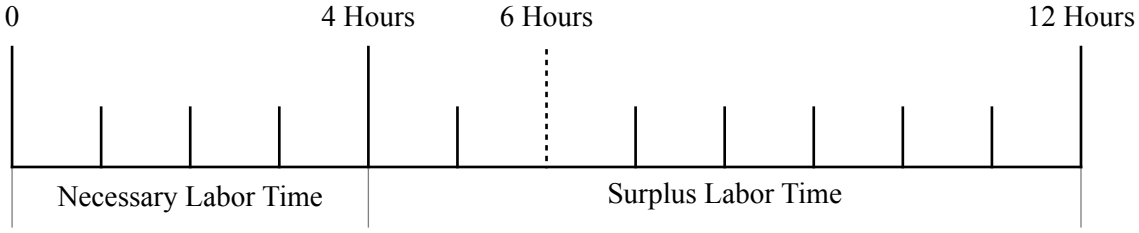
In addition to extending the working day, capitalists also intensify the exploitation of workers by increasing labor intensity. Increasing labor intensity means forcing workers to work more strenuously, expending more labor and producing more products within the same amount of time. This method has the same effect as extending labor time. From the perspective of an individual enterprise, the surplus value generated by increasing labor intensity also belongs to absolute surplus value.

Production of Relative Surplus Value

The extraction of surplus value by lengthening the working day is always limited, because the working day cannot be extended indefinitely; at the same time, the proletariat's struggle for a standard working day also restricts the extension of the working day. Therefore, the bourgeoisie cannot rely solely on extending Labor time to satisfy their greed for surplus value.

They also adopt methods of relatively extending surplus labor time to increase the degree of exploitation and expand the production of surplus value.

For example, the working day is 12 hours long, of which necessary labor time and surplus labor time each account for 6 hours, and the rate of surplus value is 100%; assuming that the length of the working day remains unchanged, if necessary labor time can be reduced to 4 hours, surplus labor time will correspondingly be extended to 8 hours, and the rate of surplus value will consequently rise to 200%. This is represented graphically as follows:



$$\text{Rate of Surplus Value: } \frac{\text{8 Hours of Surplus Labor}}{\text{4 Hours of Necessary Labor}} = 200\%$$

Therefore, when the length of the working day remains unchanged, the shorter the necessary labor time, the longer the surplus labor time and the higher the rate of surplus value. Marx called the surplus value produced by shortening necessary labor time and relatively extending surplus labor time "relative surplus value."

How can necessary labor time be shortened? Since necessary labor time is the labor time necessary to restore labor power—that is, the labor time necessary to produce the value of labor power—in order to shorten necessary labor time, the value of labor power must be reduced. The value of labor power, in turn, is determined by the value of the means of subsistence necessary for workers and their families. The value of labor power can fall only when the value of these

means of subsistence falls. To reduce the value of these means of subsistence, it is necessary to improve technology, renew equipment, and increase labor productivity, thereby reducing the socially necessary labor time required to produce them. Marx said: "**The technical and social conditions of the process, and consequently the very mode of production must be revolutionized, before the productiveness of labor can be increased. By that means alone can the value of labor-power be made to sink, and the portion of the working day necessary for the reproduction of that value, be shortened.**"[1]

The increase in labor productivity in the sectors producing means of subsistence is not isolated, it requires new machinery and equipment and better raw materials. Moreover, the value of these means of production is ultimately transferred to the products, so a reduction in their value will also reduce the value of the means of subsistence. For example, the value of cotton yarn includes the value of cotton and spinning machines, while the value of spinning machines in turn includes the value of steel and coal, and so on. If labor productivity in these production sectors increases, the means of subsistence will naturally become cheaper, thereby reducing the value of labor power and shortening necessary labor time. It can thus be seen that the reduction in the value of the means of subsistence depends not only on increased labor productivity in the sector itself but is also related to the production sectors that supply the means of production.

The means of subsistence necessary for workers and their families consist of commodities produced by many different sectors, and the value of each commodity constitutes a component of the value of labor power. The reduction in the value of labor power and the shortening of necessary labor time are, in fact, the result of reduced labor expenditure in the

[1] Karl Marx, "Chapter Twelve: The Concept of Relative Surplus Value," in *Capital*, Vol. I.

production of commodities by these sectors. From the standpoint of an individual capitalist, when they adopts new technology and increases labor productivity in their enterprise, their immediate consideration is not to reduce the value of labor power. However, when capitalists do so one after another, the result is a general increase in labor productivity throughout the sector or society as a whole, thereby causing commodity values to fall and the value of labor power to decrease. This is the process through which relative surplus value arises.

Suppose that, in a particular production sector, most factories can each produce 12 products in 12 hours per worker; the value of the means of production consumed is 12 yuan, and the new value created is also 12 yuan. Altogether, the value of the 12 products is 24 yuan, giving an average value of 2 yuan per product. Now, if one factory is the first to improve its production technology and doubles labor productivity, each worker can produce 24 products in 12 hours. The value of the means of production contained in these 24 products increases to 24 yuan, but the labor time expended by the worker remains 12 hours—or, in other words, the individual value created by the worker remains 12 yuan. Taken together, the total individual value of the 24 products is 36 yuan. "**The real value of a commodity is, however, not its individual value, but its social value; that is to say, the real value is not measured by the labor-time that the article in each individual case costs the producer, but by the labor-time socially required for its production.**"[1] Therefore, the capitalist can still sell the commodities at their social value of 2 yuan per product, selling the 24 products for 48 yuan in total and thereby obtaining 12 yuan in extra surplus value. This extra surplus value consists of the difference between the individual value of the commodities produced by the enterprise and their social value. Only extra surplus

[1] Karl Marx, "Chapter Twelve: The Concept of Relative Surplus Value," in *Capital*, Vol. I.

value constitutes the direct objective and driving force impelling capitalists to improve technology and increase labor productivity.

Extra surplus value is in fact also produced by shortening necessary labor time and relatively extending surplus labor time. Suppose that the necessary labor time in a typical factory is 6 hours, and that the daily value of labor power is 6 yuan; surplus labor time is likewise 6 hours, the surplus value created each day is also 6 yuan, and the rate of surplus value is therefore 100%. If a factory doubles its labor productivity, each worker produces 24 products in 12 hours, with a value of 48 yuan: 24 yuan represents the value of the means of production, while the remaining 24 yuan embodies the value created by the worker's 12 hours of labor. In other words, in 12 hours of labor, the workers in this factory create value equivalent to that created by workers in other factories in 24 hours, because "**the exceptionally productive labor operates as intensified labor; it creates in equal periods of time greater values than average social labor of the same kind.**"[1] However, the capitalist still pays the workers a daily wage of 6 yuan, which is equivalent only to the value created by 3 hours of labor by the workers in this factory. The workers' necessary labor time is shortened from the original 6 hours to 3 hours, while their surplus labor time correspondingly increases from the original 6 hours to 9 hours; the rate of surplus value likewise rises from 100% to 300%. It is thus clear that the extra surplus value obtained by the capitalist is still created by the surplus labor of the workers in this factory.

The individual capitalist's obtaining extra surplus value is a temporary phenomenon. Once their new technology is generally adopted by the majority of capitalists, as the social value of the commodities declines, the difference between the individual value and social value of their

[1] Ibid.

commodities will also disappear, and they will no longer be able to continue obtaining extra surplus value. If they are to obtain new extra surplus value, they must adopt newer production equipment and technology.

Stimulated by extra surplus value, the capitalists of various enterprises improve their technical equipment and raise labor productivity. Once labor productivity throughout the entire sector and society as a whole has generally increased, the value of many means of subsistence will decline, and consequently the value of labor power will also fall; necessary labor time will accordingly be shortened, while surplus labor time will inevitably be relatively extended. In this way, capitalists will generally obtain relative surplus value. It can thus be seen that the production of relative surplus value is realized through competition among capitalists and is the inevitable result of capitalists' pursuit of extra surplus value.

The foregoing has examined the two main methods by which capitalists increase the degree of exploitation, namely, the production of absolute surplus value and the production of relative surplus value. These two methods occupy different positions at different stages of capitalist development. In the course of its development, capitalist production passed through three stages: simple cooperation, manufacture, and machine industry. The production of absolute surplus value played the primary role during the stages of simple cooperation and manufacture; the production of relative surplus value, by contrast, is associated with the development of technology and only came to play a prominent role when capitalism had developed into the stage of machine industry. However, the two main methods of increasing the degree of exploitation are not completely separate; they are closely interconnected. For example, the widespread adoption of a new technology, on the one hand, raises labor productivity and produces relative surplus

value; on the other hand, it creates the conditions for extending the working day and increasing labor intensity, thereby producing absolute surplus value. In the actual life of capitalism, these two methods are often employed simultaneously by capitalists.

The production of absolute surplus value is the general basis of capitalism of exploitation and also the starting point for the production of relative surplus value. Only by absolutely extending the working day beyond necessary labor time can the capitalist obtain surplus value. Likewise, only when the working day has been divided into necessary labor and surplus labor can the capitalist shorten necessary labor time and extend surplus labor time by increasing labor productivity, thereby producing relative surplus value.

The production of relative surplus value also promotes the production of absolute surplus value. Only when labor productivity increases can necessary labor be confined to part of the working day. The widespread adoption of machinery and the increase in labor productivity enable the capitalist to compel workers more effectively to increase labor intensity, extend labor time, and expand the production of absolute surplus value.

Viewed in isolation, the production of absolute surplus value and the production of relative surplus value appear to have no difference. However, when we examine the actual movement of surplus value production, the difference between these two methods becomes quite clear. Assuming that the purchase and sale of labor power are carried out at its value, the capitalist must choose one of the following two methods in order to increase the degree of exploitation: if labor productivity and labor intensity are fixed, the surplus value rate can be increased only by absolutely extending the working day; if the length of the working day is

fixed, the surplus value rate can be increased only by changing the proportion between necessary labor and surplus labor, through the relative extension of surplus labor time.

Characteristics of Capitalist Exploitation in Old China

In old China, the basic methods by which capitalists increased the degree of exploitation were the same as those in capitalist countries. However, old China was a semi-colonial and semi-feudal society, and capitalist exploitation also had certain distinctive characteristics.

In semi-colonial and semi-feudal old China, Chinese and foreign capitalists, in order to intensify their exploitation of workers, relied not only on economic means but often also on means beyond the economic sphere, imposing extra-economic coercion.

So-called extra-economic coercion refers to capitalists using personal coercion to force workers to perform arduous labor and subjecting them to brutal exploitation. The basis of extra-economic coercion is the workers' personal dependence on capitalists. In the capitalist enterprises of old China, although workers were sellers of labor power, they in fact had no personal freedom. For example, many imperialist enterprises in old China openly imposed violent rule on workers; some factories and mines virtually became concentration camps, with foreign soldiers supervising them at gunpoint. The workers became slaves subjected entirely to forced labor, and many were even tortured to death by inhuman labor.

In the enterprises of old China, corporal punishment was almost universal. Foremen and supervisors could beat and berate workers at will. Some mines and factories even had courts for interrogating workers, confinement rooms for detaining them, torture instruments for beating

them, and so on. The foreign foreman at Shanghai Zengyu Flour Mill even shot and wounded workers in order to force them to work. According to the recollections of veteran workers, the capitalists and foremen at the various factories in the former Tianjin Santiaoshi area frequently beat workers arbitrarily and savagely: they beat them for doing too little work, for making mistakes, for not sweating while working, for damaging tools, for suffering injuries, for falling ill, and for being caught after escaping; if they beat and cursed you and you showed displeasure, they would beat you again, and so on. Lenin said: "**The feudal organization of social labor rested on the discipline of the bludgeon**," while "**the capitalist organization of social labor rested on the discipline of hunger.**"[1] For Chinese workers in a semi-colonial and semi-feudal society, the capitalists enforced discipline through both sticks and hunger.

To intensify the exploitation of workers, many enterprises also adopted forms of exploitation combining capitalism and feudalism, such as the "dispatched labor system," "apprentice labor system," and "indentured labor system," among others.

The "dispatched labor system" was widespread in industries such as mining, construction, and transport, and bore strong feudal characteristics. Under this system, capitalists contracted out work to large and small dispatched work agencies, who then assigned the tasks to workers, inserting layers of intermediary exploitation between capitalists and workers. For coal miners at the Kailuan Coal Mine, the wages paid by the mine administration amounted to 0.2 silver dollars per worker per day. After intermediary deductions by the dispatched work agencies, the workers received only the equivalent of 20 copper coins (at the time, one-tenth of a silver dollar could be exchanged for 200–300 copper coins), while the dispatched work agencies

[1] Vladimir Ilyich Lenin, "A Great Beginning," in *Lenin's Collected Works*, Vol. 29 (Progress Publishers, Moscow, 1972).

appropriated more than half of the workers' wages. The dispatched work agencies not only engaged in intermediary exploitation but also subjected the workers to personal humiliation.

"Apprentice workers" were women and child workers recruited from poor rural and urban families by enterprises under the pretext of teaching them technical skills. Before entering the factory, they had to fill out an "application"; their parents had to provide a "guarantee letter," and both an inn guarantee and a personal guarantee were required, along with the payment of a certain security deposit. After entering the factory, they lost their personal freedom. During the "training" period, the factory provided only poor food and lodging, paid no wages, and strictly prohibited them from going out. After the "training" period ended, they were required to remain in the factory for several years of service—generally three years—and received wages far lower than those of ordinary workers. If they left before completing the term, the capitalists would not only confiscate the security deposit but also recover all food and lodging expenses. At first, apprentice workers were recruited through advertisements placed by factories. Later, as people gradually learned of their tragic experiences, fewer and fewer people came forward, so the capitalists adopted the even more brutal "bonded labor system."

The "indentured labor system" was in fact a form of slavery. "Indentured laborers" were mostly the children of impoverished peasants recruited from the countryside by dispatched work agencies. For an extremely low payment (generally only twenty or thirty yuan before the War of Resistance against Japanese Aggression), the dispatched work agencies concluded indentured labor contracts with the children's parents or guardians. During the stipulated three or five years, the children were entirely controlled by the dispatched work agencies, and their wages likewise went entirely to the agencies, who provided them only with the poorest food and lodging. To

drive them to perform arduous labor, the dispatched work agencies frequently resorted to various barbaric methods, such as verbal abuse and beatings. Indentured laborers had no freedom of movement and were forbidden to have contact with outsiders. Even if they were ill or injured, their parents had no right even to inquire. In the coal-mining and textile industries in old China, this "indentured labor system" was quite widespread. Shanghai alone had several hundred dispatched work agencies, employing 70,000 to 80,000 indentured laborers. They not only created substantial surplus value for the capitalists, but also had to endure all manner of exploitation and humiliation at the hands of the dispatched work agencies.

In the capitalist enterprises of ild China, an apprenticeship system inherited from feudal society also existed. Before liberation, the machine-casting and iron industries in Santiaoshi, Tianjin, were typical examples of this system. To enter any of the factories in Santiaoshi, an apprentice worker first had to sign a "written undertaking" (that is, an indenture contract) and also perform an "apprenticeship ceremony," kowtowing to the shopkeeper (that is, the capitalist) to demonstrate the obedience. After apprentices entered the factories, the capitalists subjected them to severe restrictions and control according to numerous feudal factory regulations they had devised themselves. In name, the apprentice workers were learning a trade; in reality, they were the factories' odd-job laborers and the shopkeepers' household servants. Driven by clubs and whips, they performed strenuous manual labor; the slightest negligence would bring a brutal beating from the capitalist or foreman, and they might even be "beaten to death without consequence." During their "apprenticeship" period, apart from the most meager food and lodging provided by the factory, the apprentices received no wages whatsoever. To maintain constant possession of this cheapest form of labor power, capitalists often dismissed large

numbers of apprentices immediately after their "apprenticeship" period ended, then recruited a new batch of apprentices, thereby achieving their goal of continually exploiting apprentices. The capitalists openly shouted: "If you don't prey on apprentices, whom can you prey on?" Clearly, the apprenticeship system was essentially a bloody system of exploitation—"feeding on the apprentices' flesh and drinking their blood."

Because capitalist exploitation in old China was imbued with strong feudal characteristics, labor time was extraordinarily long, labor intensity exceptionally high, wages remarkably low, and the surplus value rate astonishingly high in old China's capitalist enterprises.

In old China, workers' working days were not subject to any legal regulation whatsoever. According to statistics from the Peiping[1] Municipal Government, working hours in ordinary factories were 12 hours, with even the shortest shifts lasting 10 hours and the longest reaching 14–15 hours; some even lasted as long as 17–18 hours. The vast majority of factories had no designated rest periods: lunch breaks were limited to half an hour, and some factories allowed only a dozen or so minutes. Many factories did not observe Sundays, closing only for the three major traditional festivals (namely, the Dragon Boat Festival, Mid-Autumn Festival, and Spring Festival). According to a 1930 survey by the Ministry of Industry and Commerce of workers in various trades in 29 cities across 9 provinces, the average number of days off per year was as low as three. Before liberation, workers in the factories of Tianjin Santiaoshi worked 357 days a year, for approximately 20 hours a day. Calculated according to an eight-hour workday system, this amounted to 893 working days per year—2.93 times the working time of workers today.

[1] Note from translator: After the Kuomintang's Northern Expedition, Peking was no longer the national capital, and was renamed to Peiping.

In old China, the lengthening of the working day and the intensification of labor proceeded simultaneously. Capitalists often used methods such as raising quotas and reducing the workforce without reducing the workload, thereby continually increasing labor intensity. According to the *1934 China Economic Yearbook*, in 1933 the Shanghai Shenxin Cotton Mill had to employ 440 workers for every 10,000-spindle spinning machine, whereas Japanese-owned cotton mills at the time, equipped with superior machinery, employed only 180 workers per 10,000 spindles. For Chinese-owned cotton mills to compete with Japanese-owned factories, the only option was to intensify the workers' labor, enabling their average yarn output to exceed that of workers in Japanese-owned factories. As a result, the spinning productivity of workers in Chinese-owned factories in 1933–34 increased by 11% compared with 1931–32 and by 8.1% compared with 1932–33. Rong Zongjing, a capitalist of the Shenxin Cotton Mill, said: "This is the only compensation for Chinese-owned factories' backwardness relative to Japanese-owned factories." This report shows that, because capitalist enterprises in old China had outdated production equipment, they had no choice but to rely on intensifying labor to increase labor productivity, compete with foreign capitalists, and extract more surplus value.

Although workers in old China labored under extremely harsh conditions, their wage levels were exceptionally low. Around the time of the May Fourth Movement, the average wage of workers was still less than one-seventh of that received by British workers in the same occupation. Imperialist elements once boasted: "In China, using human labor is more advantageous than using livestock." In 1920, the Kailuan Coal Mine expressly stipulated that the daily feed cost for mules and horses was 0.47 yuan, while the daily wages of miners did not

exceed 0.22 yuan. Under these circumstances, extracting China's cheap labor power became the primary means by which imperialism and Chinese capitalists reduced production costs and increased surplus value.

Taking the mining industry as an example, in the spring of 1932, the coal-mining costs of various countries, converted into Chinese currency per ton, were as follows: 8 yuan in European countries; 6 yuan in the United States; 5 yuan in Japan; 4 yuan in Vietnam and India; whereas in China the cost was only 3.8 yuan. The main reason why China's coal-mining costs were so low was the low wages paid to workers.

Even more cruel was the capitalists' exploitation of female workers and child laborers. According to the *China Labor Yearbook*, in 1933, women and children accounted for more than one quarter of the 200,256 wage earners across 23 provinces and cities nationwide. Even when they performed the same work as adult male workers, their pay differed greatly. According to a 1930 survey by the Ministry of Industry and Commerce, the average monthly wages in Shanghai across all industries were 15.28 yuan for male workers, 12.50 yuan for female workers, and 8.70 yuan for child laborers. In particular, the health of female workers and child laborers was not guaranteed even at the most basic level. The arduous manual labor severely damaged their physical and mental well-being; many child laborers contracted occupational diseases from an early age, and some even lost their young lives in the factories.

In semi-colonial, semi-feudal old China, because workers worked long hours, endured high labor intensity, and received low wages, they created enormous amounts of surplus value for the capitalists; consequently, the rate of surplus value was even higher than in ordinary capitalist countries. For example, during the first decade of the twentieth century, the rate of

surplus value in American industry was 84–97%, whereas during the same period the rate of surplus value in enterprises operated by imperialism in China reached the astonishing level of 300–400%. Workers in capitalist countries suffered severe exploitation, and their lives were already sufficiently miserable; yet the situation of workers in old China was even worse than theirs, so the extent of their painful living conditions can readily be imagined. The great leader Chairman Mao pointed out: "**The Chinese proletariat is more resolute and thoroughgoing in revolutionary struggle than any other class because it is subjected to a threefold oppression (imperialist, bourgeois and feudal) which is marked by a severity and cruelty seldom found in other countries.**"[1]

Section Five: Three Stages of the Development of Relative Surplus Value Production

The development of capitalist production proceeded through three main stages: simple cooperation, manufacture, and machine industry. These three stages also constituted the three basic stages in the development of capitalism's productive forces and the intensification of exploitation.

Simple Cooperation

[1] Mao Zedong, "The Chinese Revolution and the Chinese Communist Party," in *Selected Works of Mao Zedong*, Vol. II.

Simple cooperation under capitalism was a form of labor in which many workers labor cooperatively under the direction of the same capitalist to produce the same kind of commodity. Marx pointed out that simple cooperation "**constitutes, both historically and logically, the starting-point of capitalist production.**"[1] In terms of production methods, the earliest capitalist production did not differ greatly from guild handicraft production; the only difference was that the capitalist employed a somewhat larger number of workers. However, under certain conditions, this quantitative difference could also bring about a qualitative change. Because capitalist production adopted the form of cooperation, it had the following advantages over the individual production of the former guild handicraft production:

First, cooperation could give individual labor the character of socially average labor. Commodity value is determined by socially necessary labor time. Since individuals differ in physical strength and technical skill, the labor time generally required by an individual laborer to produce a particular commodity differs from the socially average labor time. Under the conditions of simple cooperation, many different workers labored together, and the differences in the productive capacities of the various producers offset one another. As a result, workers' labor acquired the character of socially average labor, thereby guaranteed stability to the capitalist's operations, and enabled the rate of surplus value to remain at the general social level.

Secondly, cooperation could also make the utilization of the means of production more efficient and economical. When many workers labored together, they could jointly use factory buildings, equipment, and so on, thereby reducing expenditures on the means of production (especially the means of labor). A room that can accommodate 20 people at work is naturally

[1] Karl Marx, "Chapter Thirteen: Co-operation," in *Capital*, Vol. I.

somewhat larger than one that can accommodate two people, but constructing one large factory building for 20 people is much more economical than constructing 10 small factory buildings for two people each. In cooperative labor, some means of production can also be used collectively or alternately. Economizing on the means of production can lower commodity value, thereby lowering the value of labor power and correspondingly increasing the rate of surplus value.

Third, cooperation could save labor and increase labor productivity. Cooperation is a form of socialized labor. It can create a kind of collective force that far exceeds the sum of the labor capacities of individuals. For example, ten people working together could move a large stone weighing 1,000 jin (500 kg), but if the ten people each tried to move it separately, they absolutely could not. When most people work together, it also increases social contact among them, invigorates the workers, stimulates a competitive spirit, and can raise each person's labor efficiency. In addition, cooperation enables the objects of labor to pass more quickly through the various stages of the labor process. For example, ten bricklayers standing in a row could pass bricks up from below to the upper floors along the scaffolding much faster than each person carrying bricks up and down the scaffolding. Cooperation could also enable labor power to process the objects of labor simultaneously from different directions, which could likewise increase work efficiency, and so on.

It can be seen that cooperation enhanced the social productivity of labor. This new productive forces was originally created by labor cooperation itself, but under capitalism, its fruits were monopolized by the capitalists. This is because the workers' cooperation took place in the capitalists' factories; their labor no longer belonged to them but to the capitalists. The new

productive forces generated by cooperation thus appeared to be a productive forces of capital and accordingly became the property of the capitalists.

Capitalist cooperation was a special social form of cooperation. As early as primitive society, slave society, and feudal society, there were various forms of labor cooperation on different scales. However, those forms of cooperation were either established on the basis of blood ties or on the basis of the personal dependence of laborers on exploiters, whereas capitalist cooperation is established on the basis of wage labor. Different forms of cooperation have different purposes. The purpose of capitalist cooperation was to increase labor productivity and extract more surplus value.

Manufacture

Manufacture was the second stage in the development of capitalist production and also the second stage in the capitalist increase of the degree of exploitation.

The characteristic feature of manufacture was the division of labor, on the basis of which workers cooperate. This cooperation based on the division of labor was the typical form of early capitalist production. From approximately the mid-sixteenth century to the end of the eighteenth century, manufacture occupied a dominant position in capitalist industry.

The emergence of manufacture took place in two ways. One way was as follows: capitalists brought together different kinds of artisans in one workshop and had them jointly produce a single product. For example, the manufacture of carriages was originally the combined result of the labor of many independent artisans, such as carriage makers, saddle makers, tailors,

glassworkers, painters, and others. Capitalists now brought these craftsmen together in one workshop for cooperation, with each person performing one specialized part of the labor involved in manufacturing carriages. The second way was as follows: capitalists brought together artisans of the same type in one workshop, divided the entire labor process into several operations, and had the workers practice division of labor, with each person specializing in one operation. For example, in the manufacture of needles, each needle maker formerly had to complete 20 operations in succession; now 20 workers could work simultaneously, with each performing only one operation.

Because the division of labor was implemented within the workshop, manufacture produced by any method was better able to increase labor productivity than independent small-scale handicrafts or simple cooperation.

After the division of labor was implemented, workers engaged in a particular operation throughout their lives, and their entire bodies gradually became specialized organs adapted to that operation, enabling them to complete it in less time. At the same time, because workers repeatedly performed the same kind of labor, their attention became concentrated and their skills improved, which facilitated the improvement of work methods, increased labor productivity, and made it easier to accumulate experience and pass it on to future generations. Moreover, specializing in a single type of labor eliminated the need to frequently change workplaces and tools, making work more compact and reducing wasted time. All of this helped increase labor productivity, and enabled the capitalist to extract more surplus value.

After the division of labor was implemented, labor tools also became increasingly specialized. Marx once pointed out that approximately 500 types of hammers were produced in

Birmingham, Britain, alone; not only was each type of hammer suitable for only one specific production process, but many types were often used only for different operations within the same process. Specialized labor tools are better suited to the needs of specialized operations, help increase labor productivity, and prepare the conditions for the manufacture of machines.

According to the different nature of the products, manufacture could be divided into two basic forms: some products were assembled from many independent components, such as clocks, watches, carriages, and so on. The manufacture producing such products is called heterogeneous manufacture; other products must pass through a series of connected processes and manipulations before they can be produced, such as needle manufacturing. The manufacture producing such products is called serial manufacture. Both types of manufacture implement cooperation based on the division of labor and possess certain advantages.

In short, the division of labor within manufacture further increased labor productivity. However, as with simple cooperation, the increase in labor productivity brought greater profits to the capitalist, while bringing the working class only poverty and suffering. As a result of the division of labor and the specialization of labor, workers engaged in one particular task year in and year out. This affected the comprehensive development of their bodies, turning them into deformed human beings. The capitalist trained their proficiency in a specific area at the expense of their all-round development, turning workers into automatic machines for a particular type of labor.

Moreover, the division of labor in manufacture severely damaged workers' minds. Engaged throughout their lives in a particular kind of monotonous and arduous manual labor, workers' powers of thought, imagination, and creative ability were suppressed. Thus Marx said:

"**In manufacture, in order to make the collective laborer, and through him capital, rich in social productive power, each laborer must be made poor in individual productive powers.**"[1] The division of labor in manufacture turned workers into deformed laborers capable only of performing partial operations, so that they could no longer independently produce a complete product. If the workers in the past, having lost their means of production, were compelled to sell their labor power to the capitalist, then workers now had lost not only their means of production but also their ability to produce independently; once separated from the capitalist's workshop, they could not survive. Laborers were thereby further transformed into appendages of the capitalist's workshop. Marx said: "**As the chosen people bore in their features the sign manual of Jehovah, so division of labor brands the manufacturing workman as the property of capital.**"[2]

Manufacture created new productive forces. But under capitalism, this was merely a specific method of increasing relative surplus value through the sacrifice of laborers. At the same time, it also provided new conditions for the capitalist's domination of laborers. "**If, therefore, on the one hand, it presents itself historically as a progress and as a necessary phase in the economic development of society, on the other hand, it is a refined and civilized method of exploitation.**"[3]

Machine Industry

[1] Karl Marx, "Chapter Fourteen: Division of Labour and Manufacture," in *Capital*, Vol. I.

[2] Ibid.

[3] Ibid.

Machine industry is the highest stage of development of capitalist production, and also a new stage in the capitalist exploitation and enslavement of wage laborers. The basic feature of this stage is that machines replace hand tools, and machine production replaces hand labor. Capitalists use machines not to lessen the burden on laborers, but to shorten necessary labor time and lengthen surplus labor time. Thus, machines become a means of extracting surplus value.

Every developed machine consists of three essentially distinct parts: the motor mechanism, the transmission mechanism, and the tool or working machine. The motor mechanism is the power source of the entire machine; the transmission mechanism regulates the power generated by the prime mover and transmits it to the working machine, which directly processes the objects of labor to produce a particular product. The working machine is the most important part of the machine as a whole.

Tools formerly used by hand have now become tools of machines. The process by which tools are transferred from human hands to machines means that simple hand tools are replaced by machines. The number of tools a hand laborer can use simultaneously is limited by physiological constraints, whereas a working machine breaks through this limitation and drives many tools at once. For example, the earliest spinning machines could turn 12 to 18 spindles, while a stocking machine could operate several thousand knitting needles. This greatly increased productivity.

The Industrial Revolution began with changes in the working machine. The widespread adoption of working machines required fundamental changes in motor mechanism and transmission mechanism. When a single motor mechanism simultaneously drove many working machines, and transmission mechanism was used in many ways, a vast machine system was

formed. With the development of machine production, the machine manufacturing industry emerged and began using machines to manufacture machines, thereby establishing the technological foundation suited to machine industry. In short, mechanical power replaced human labor, the application of the natural sciences replaced the routine of relying on experience, and the cooperation of machines themselves replaced cooperation among workers; these changes in the labor process promoted a rapid increase in labor productivity.

The use of machinery increases labor productivity, reduces the consumption of embodied labor and living labor per unit of product, and lowers commodity value.

The machine itself does not create value; it merely transfers its own value according to the degree of wear. Since machines have relatively long service lives and are used according to scientific methods, the consumption of various components and auxiliary materials (such as lubricants, coal, etc.) is more economical. Moreover, because machines operate over a broad range, have high power, and produce large quantities of commodities, the value of the machine transferred, on average, to each commodity is, in absolute terms, much less than the value of the hand tools consumed in producing the same product.

The use of machines can greatly reduce the consumption of labor power, that is, reduce expenditure on living labor. For example, in the eighteenth century, to spin the same quantity of cotton into cotton yarn, the labor time required for production with a spinning machine was only 1/180 of the time required with a hand spinning wheel. The quantity of four-color printed cloth printed in one hour by one worker using a calico printing machine was equivalent to that printed in one hour by 200 manual workers. It can be seen that when workers use machines in production, they greatly reduce the new value of each product.

If the purpose of using machinery is to reduce labor consumption, then machinery should be adopted in production as long as the labor expended to produce it is less than the labor it replaces. However, under capitalism, machinery is treated as a means of producing surplus value. Therefore, a capitalist is willing to use machinery only when its value is lower than the value of the labor power it replaces; otherwise, the capitalist would rather employ hand labor than use machinery. This is the limit of capitalist use of machinery. The fact that large amounts of hand labor still exist in the developed capitalist countries today is an important reason for this.

The capitalist use of machinery has also brought a series of serious consequences for the working class.

First, the use of machinery has expanded the scope of capital's exploitation. Machinery has simplified the production process, and much of the work can be performed by women and child workers. "**The labor of women and children was, therefore, the first thing sought for by capitalists who used machinery.**"[1] Machinery has placed all members of workers' families, regardless of age or sex, under the direct control of capital.

As more members of workers' families are driven into the labor market, the value of the adult male worker's labor power is spread across the entire family, which amounts to lowering the value of labor power. Therefore, the capitalist's use of machinery has not only expanded the scope of exploitation but also deepened the degree of exploitation.

Second, the use of machinery has become a powerful means of extending the working day. It creates new conditions for extending the working day and generates new motives for doing so. The value of machinery is gradually transferred to the product in proportion to its wear.

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[1] Karl Marx, "Chapter Fifteen: Machinery and Modern Industry," in *Capital*, Vol. I.

In addition to material wear, machinery also undergoes “moral depreciation.” When the same machinery can be produced more cheaply, or when better machinery emerges to replace it, the value of the original machinery correspondingly declines. Therefore, capitalists always seek to extend the working day as much as possible and increase the utilization rate of machinery in order to recover the capital advanced within a shorter period and avoid losses resulting from moral depreciation.

When an individual capitalist is the first to adopt a new machine, they can obtain extra surplus value; but once the new machine is adopted universally, the extra surplus value disappears. Therefore, capitalists also try to extend the working day as much as possible in order to intensify the use of machinery and seize the opportunity to extract more surplus value. Moreover, the amount of surplus value depends on the level of the rate of surplus value and the number of workers employed. Although the use of machinery raises the rate of surplus value, it relatively reduces the number of workers. Under these circumstances, capitalists are bound to extend the working day desperately, using the increase of absolute surplus value to make up for the “loss” caused by the reduction in the number of workers.

The capitalist use of machinery also has created a large unemployed population, causing the supply of labor power to exceed demand, which in turn created conditions for capitalists to extend the working day. Marx pointed out: “**If machinery be the most powerful means for increasing the productiveness of labor — i.e., for shortening the working-time required in the production of a commodity, it becomes in the hands of capital the most powerful means,**

in those industries first invaded by it, for lengthening the working-day beyond all bounds set by human nature."[1]

Third, the use of machinery has increased workers' labor intensity. Because the extension of the working day by capitalists is always subject to certain limits, they also use machinery to intensify workers' labor, and force them to expend more labor in the same amount of time and create more surplus value. They generally adopt two methods: first, increasing the operating speed of the machinery; and second, increasing the number of machines each worker is required to tend. These two methods are often used simultaneously. The widespread application and continual improvement of machinery have raised workers' labor intensity to an unprecedented level, and enabled capitalists to extract their blood and sweat through machinery. Excessively strenuous labor severely damages workers' physical and mental health; together with the frequent occurrence of industrial accidents, it causes large numbers of workers to become disabled or die prematurely. The workers' situation consequently deteriorates further.

Fourth, the use of machinery further deepens the subordination of wage labor to capital, causing workers increasingly to become appendages of the machine. In the factories of the capitalists, workers have all become assistants to the machines, laboring around them. Formerly, workers used a single tool throughout their lives; now, workers serve a single machine throughout their lives. At this point, it has become virtually impossible for workers to leave the capitalist's factory and engage independently in production. Machinery makes labor substantively subordinate to capital.

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[1] Karl Marx, "Chapter Fifteen: Machinery and Modern Industry," in *Capital*, Vol. I.

In capitalist production, workers have become mere appendages of the machine. In the past, tools were used by workers; now workers follow the movement of machines. Heavy and monotonous labor leaves people mentally exhausted and restricts the development of their bodies, depriving workers of freedom of movement both mentally and physically. Under these conditions, even light labor becomes a painful burden because it is entirely devoid of content. At the same time, science and technology are monopolized by the bourgeoisie and its intellectuals; intellectual labor has become a privilege that enables engineering and technical personnel to control workers, while all scientific and technological achievements are used as means of exploiting workers. All this has greatly deepened the opposition between manual labor and intellectual labor.

This is the essence and consequence of the capitalist use of machinery.

Section Six: Capitalist Wages

Marx's theory of wages is of great significance for the eventual establishment of the theory of surplus value. In capitalist society, capitalist purchases workers' labor power by paying them in the form of wages. Workers work for capitalist, and capitalist pays workers wages, creating the illusion that wages are the "price of labor," as if all of the workers' labor were remunerated. Bourgeois scholars rely precisely on this illusion to vigorously distort the essence of wages, claiming that wages are "the remuneration for labor" and that profit is "the return on capital," thereby concealing capitalist exploitation and denying Marx's theory of surplus value.

Therefore, in order to further expose the exploitative relationship under capitalism, it is necessary to expose the essence of capitalist wages.

Essence of Wages

To understand the essence of wages, it is first necessary to distinguish labor power from labor. Labor power is one's labor capacity, whereas labor is the expenditure or use of labor power. "**When we speak of capacity for labor, we do not speak of labor, any more than when we speak of capacity for digestion, we speak of digestion.**"[1] Labor power and labor are two different concepts. In reality, workers sell their labor power, not their labor; labor power is a commodity, whereas labor is not a commodity. This is because:

First, commodity value is determined by socially necessary labor time. Labor is the substance and measure of value; it cannot itself have value and therefore cannot be a commodity. If one insists that labor is also a commodity and has value, then one could only say that the value of 12 hours of labor is determined by 12 hours of labor. This statement is obviously a tautological repetition and is meaningless.

Second, if labor were a commodity that could be sold on the market, it would have to exist before being sold. But labor can exist only when it is combined with the means of production in the production process. If workers had already engaged in production before reaching the market, they would not be wage laborers but small producers, and what they sold would not be labor power but commodities.

Third, if workers sold their labor, then, according to the principle of exchange of equal values, capitalist would have to pay the entire value created by labor. In that case, capitalist could not obtain surplus value, and capitalism would lose its foundation for existence. In reality,

[1] Karl Marx, "Chapter Six: The Buying and Selling of Labour-Power," in *Capital*, Vol. I.

capitalist constantly obtain surplus value, which can only be explained by violating the principle of exchange of equal values. To deny exchange of equal values, the basic law of commodity economy, is tantamount to denying the general foundation of capitalist commodity production. It is therefore clear that neither of these two paths is viable. In short, when workers and capitalist enter into a transaction, labor has not yet happen, what the worker sells is only their labor power, not labor; and when the worker performs labor in the capitalist's factory, that labor already belongs to the capitalist rather than the worker, so the worker can no longer sell it as a commodity. It can be seen that the wages the capitalist pays the worker are essentially the monetary expression of the value of labor power, that is, the price of labor power, but in appearance they are represented as the "price of labor." Thus, Marx called capitalist wages the transformed form of the value or price of labor power.

Taking the form of wages, the price of labor power completely conceals the exploitative relationship between the capitalist and the workers. As Marx put it: "**The wage form thus extinguishes every trace of the division of the working-day into necessary labor and surplus-labor, into paid and unpaid labor. All labor appears as paid labor.**"[1] This becomes even clearer when the capitalist forms of exploitation are compared with pre-capitalist forms of exploitation. In feudal society, the unpaid labor performed by the serf on the manor of the feudal lord and the paid labor performed on the peasant allotment were clearly separated both in time and space, and the distinction between surplus labor and necessary labor was unmistakable. In slave society, the slave's labor was in fact also divided into necessary labor and surplus labor; but since the slave himself belonged to the slave owner, all of the slave's labor appeared, on the

[1] Karl Marx, "Chapter Nineteen: The Transformation of the Value (and Respective Price) of Labour-Power into Wages," in *Capital*, Vol. I.

surface, to be unpaid. Capitalist society is an entirely different matter. Since wages appear as "the value and price of labor," they create the illusion that workers' labor is not divided into necessary labor and surplus labor, and that all of their labor is remunerated. This shows that capitalist exploitation involves a far greater degree of deception. Marx pointed out: "**Hence, we may understand the decisive importance of the transformation of value and price of labor-power into the form of wages, or into the value and price of labor itself. This phenomenal form, which makes the actual relation invisible, and, indeed, shows the direct opposite of that relation, forms the basis of all the juridical notions of both laborer and capitalist, of all the mystifications of the capitalistic mode of production, of all its illusions as to liberty, of all the apologetic shifts of the vulgar economists.**"[1]

The value and price of labor power are transformed into the form of wages and appear as the "value and price of labor"[2]; this is determined by capitalist relations of production themselves. More specifically, there are several reasons:

First, the exchange relationship between the capitalist and the worker appears, at the level of appearances, to be the same as the buying and selling relationship involving other commodities: the buyer puts up money, while the seller provides a use value. However, the worker's labor power is invisible and intangible; what people can perceive is only the worker's labor. Moreover, the capitalist always pays the worker wages only after the worker has performed labor. Thus, at first glance, it seems that what the capitalist purchases with wages is the worker's labor.

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[1] Ibid.

[2] Ibid.

Second, from the worker's perspective, labor has always been a means of obtaining means of subsistence, and it is therefore very easy for them to regard the wages they receives by selling their labor power as payment for their labor. Moreover, the value of labor power may change with changes in the value of means of subsistence, and the price of labor power may also change with the state of supply and demand for labor power. If the amount of labor provided by the worker remains unchanged, they will likewise find it very easy to regard any change in wages as a change in the value or price of their labor.

Moreover, the actual movement of wages also seems to prove that the capitalist pays not the value of labor power but the value of labor. For example, the longer the worker's labor time, the higher the wages received; the shorter the labor time, the lower the wages. Likewise, different workers engaged in the same kind of labor receive different wages. Thus, wages appear to be remuneration for different quantities of labor or for labor performed with different levels of skill.

In summary, "the value and price of labor" are the surface phenomena of wages, whereas the value and price of labor power constitute the essence of wages, reflecting the relationship of exploitation and being exploited between the capitalist and wage laborers. One of Marx's great achievements was that, by seeing through the surface phenomena of wages, he revealed the substance of capitalist wages and finally lifted the veil that concealed capitalist exploitation.

Basic Forms of Wages

According to the different ways in which capitalists pay wages, capitalist wages can be divided into two basic forms: time wages and piece wages.

Time wages are wages paid according to labor time, such as monthly wages, weekly wages, and daily wages. In essence, they are the monetary expressions of the monthly, weekly, and daily values of workers' labor power, but they directly appear as the price of workers' labor per month, week, and day.

Under the time-wage system, because the lengths of the working day vary, workers provide different amounts of labor, and the same amount of wages may represent very different "prices of labor." Therefore, the total time wages must be distinguished from the "price of labor." "Price of labor" is a term Marx borrowed to denote the price of a worker's labor power per hour. Dividing the average daily value of labor power by the average number of hours in the working day gives the worker's price of labor. Assuming that the average length of the working day is 12 hours and the average daily value of labor power is 6 yuan, the price of labor is 6 yuan/12 = 0.50 yuans.

Because "price of labor" reflects the actual price of labor power relatively accurately, the concept of "price of labor" makes it possible to precisely determine the actual level of workers' wages, the true extent of their exploitation, and how the capitalist uses the form of time wages to intensify the exploitation of workers by extending the working day and increasing labor intensity, among other means.

While time wages remain unchanged, the price of labor may fall. For example, if a worker's daily wages are 6 yuan and the working day is 12 hours, the price of labor is 5 jiao (0.5 yuan). If daily wages remain at 6 yuan but the working day is extended to 13 hours, the price of labor falls to 4 jiao and 6 fen (0.46 yuan); if the working day is extended further to 15 hours, the price of labor falls to 4 jiao (0.4 yuan). Thus, even if daily wages, weekly wages, and so on remain unchanged, as long as the capitalist lengthens the working day, the price of labor will be driven down and the exploitation of workers intensified.

When time wages increase, the price of labor may remain unchanged or even decline. For example, if a worker's daily wages rise from 6 yuan to 6 yuan and 5 jiao (0.5 yuan), while the working day is extended from 12 hours to 13 hours, the price of labor remains at 5 jiao (0.5 yuan). If the working day is extended to 15 hours, the price of labor will fall to slightly more than 4 jiao 2 fen (0.42 yuan). Marx therefore said: "**The rise of the nominal daily or weekly wages may therefore be accompanied by a price of labor that remains stationary or falls.**"[1]

If labor intensity increases, workers expend more labor in the same amount of time, which is equivalent to lengthening the working day. Therefore, when time wages remain unchanged while labor intensity increases, or when wage growth fails to keep pace with the increase in labor intensity, the price of labor also falls. Thus, in the capitalist's factories, "**there are, therefore, methods of lowering the price of labor independent of the reduction of the nominal daily or weekly wages.**"[2]

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[1] Karl Marx, "Chapter Twenty: Time-Wages," in *Capital*, Vol. I.

[2] Ibid

Capitalists also frequently exploit workers by using the hourly-wage system. They stipulate only the average wage per hour, without specifying the length of the working day or the total daily wages; workers are paid for as many hours as they work. In this way, capitalists can, according to business conditions and entirely in their own interests, arbitrarily lengthen or shorten the working day. During an economic boom, they frantically extend labor time, subjecting workers to severe labor hardship, while the increase in wages falls far short of compensating for the excessive consumption of labor power; during an economic depression, they drastically reduce labor time, causing workers' wages to plummet and forcing them into underemployment and extreme poverty. As Marx put it, capitalists "**can annihilate all regularity of employment, and according to his own convenience, caprice, and the interest of the moment, make the most enormous overwork alternate with relative or absolute cessation of work.**" "**In previous chapters we saw the destructive consequences of over-work; here we find the sources of the sufferings that result to the laborer from his insufficient employment.**"[1]

An analysis of time wages leads to two conclusions: first, the lower the price of labor, the longer the working day. This is because workers can obtain a little more in wages and barely sustain themselves only by extending their labor time. Second, the longer the working day, the lower the price of labor becomes. When the working day is extended and one person performs more work, this affects the ratio of supply to demand for labor power, enabling capitalists to exploit intensified competition among workers and drive down the price of labor further. In this way, the working class becomes increasingly trapped in an ever more painful abyss.

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[1] Ibid.

The time-wage system was the form of wages generally adopted in the early stage of capitalism. With the development of capitalism, the piece-wage system became widespread.

Piece wages are wages paid according to the quantity of products or the amount of work performed. Under the piece-wage system, the capitalist averages the worker's daily time wages over the quantity of products produced or the amount of work performed in a day, thereby calculating and setting the piece rate for each product. For example, if the worker's wages under the time-wage system are 3 yuan and 20 products are produced per day, the price per product is 1 jiao 5 fen (0.15 yuan). It can be seen that piece wages are based on time wages and have no essential difference from time wages.

Marx said: "**Piece-wage is the form of wages most in harmony with the capitalist mode of production.**"[1] They have the following characteristic:

Piece wages are more deceptive. Under a piece-wage system, the more products workers produce, the higher their wages, which makes it easy to mistakenly believe that wages are paid according to the labor workers have embodied in the products. It therefore more readily creates the illusion that workers sell not their labor power but their labor, and that they receive the full remuneration for their labor according to the quantity of products they produce. This further conceals the exploitative relationship of capitalism.

Piece wages are a means by which capitalists stimulate workers to increase labor productivity. Under a piece-wage system, the amount of a worker's income is directly linked to their labor product. Thus, even without the capitalist's supervision, workers, in order to earn a little more wages to support themselves, have no choice but to work with maximum intensity,

[1] Karl Marx, "Chapter Twenty-One: Piece-Wages," in *Capital*, Vol. I.

improve their work efficiency, and seek to increase the quantity of products as much as possible. Piece wages thus invisibly assume the role of supervision, compelling workers to create more surplus value for capitalists.

Piece wages are also a means by which capitalists drive down workers' wages. Marx pointed out: "**Piece-work has, therefore, a tendency, while raising individual wages above the average, to lower this average itself.**"[1] Under conditions of piece wages, workers, in order to earn a little more wages, desperately increase their labor intensity and produce more products per unit of time. Once the majority of workers have increased their labor productivity, capitalists lower the piece rate for the products, causing workers' wages to fall again. Moreover, the higher the workers' labor productivity, the more labor power exceeds demand, and the more able capitalists are to drive down workers' wages.

Piece wages are also a means by which capitalists withhold workers' wages. Capitalists not only set quantity standards for products but also specify their quality specifications. When inspecting products, capitalists are always deliberately picky and obstructive, often using substandard quality as an excuse to withhold workers' wages. Marx pointed out: "**Piece wages become, from this point of view, the most fruitful source of reductions of wages and capitalistic cheating.**"[2]

In modern capitalist states, capitalists have also adopted various sweatshop wage systems in order to intensify the exploitation of workers. This type of wage system is characterized by using the so-called "scientific organization of labor" to drive up labor intensity as fiercely as

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[1] Ibid.

[2] Ibid.

possible and extract more blood and sweat from workers. “Taylorism” and “Fordism” are two prominent examples of sweatshop wage systems.

“Taylorism” was invented by the American engineer F. Taylor. Its basic content was to select the strongest and most skilled workers for intensive labor, film their operating methods and study them in detail, eliminate all supposedly unnecessary movements, measure the time required for each operation in seconds or fractions of a second, then establish standard work procedures and labor quotas. Based on these quotas, two different piece-wage rates were set: those who met or exceeded the quota could receive higher wages, while those who failed to meet it received considerably lower wages. Under this system, in order to reach the standard quota, workers had no choice but to perform extremely intense labor from morning until night.

“Fordism” was first adopted by Henry Ford, the automobile magnate of the United States. This system was characterized by accelerating the operating speed of the transmission mechanism and increasing workers’ labor intensity to the maximum. As *New York Times* described it in 1956: “On the last few conveyor belts at the Ford automobile factory, the prime movers being assembled would drop off one every 12 seconds. At such a rapid pace, workers had no choice but to cross their arms and shoulders as they worked in order to complete the strictly prescribed tasks, …”[1]

As a result of implementing the “blood-and-sweat wage system,” workers may receive slightly higher wages, but the increase falls far short of compensating for the excessive depletion of their labor. Extremely intense labor seriously damages workers’ physical and mental health, causing them generally to lose their labor capacity at around the age of forty and to be driven out

[1] Note from translator: Due to *New York Times* locking almost everything behind their paywall, I was unable to find the original passage.

through the factory gates, while the surplus value obtained by the capitalist increases sharply. Lenin therefore said: "**In capitalist society, progress in science and technology means progress in the art of sweating.**"[1]

Downward Trend in Wages

Now, let us examine the wage level and the trend in its changes from the perspective of the amount of wages. Marx pointed out: "**The general tendency of capitalistic production is not to raise, but to sink the average standard of wages.**"[2]

To explain this point, it is first necessary to distinguish between nominal wages and real wages. Nominal wages, that is, money wages, cannot accurately reflect the actual state of workers' income. If money wages remain unchanged while prices rise, or if the increase in money wages is slower than the rise in prices, workers' real income decreases. Real wages refer to the quantity of means of subsistence that can actually be purchased with money wages; only real wages can accurately reflect workers' actual income and living conditions. The level of real wages depends, on the one hand, on the amount of money wages and, on the other hand, on the price level and various other factors. Therefore, when examining wage movements, one must not look only at changes in money wages but should focus primarily on changes in real wages. The so-called tendency toward a decline in the wage level refers mainly to real wages.

Why do workers' real wages tend to decline under capitalism? This is mainly because:

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[1] Vladimir Ilyich Lenin, "A 'Scientific' System of Sweating," in *Lenin's Collected Works*, Vol. 18.

[2] Karl Marx, "XIV. The Struggle Between Capital and Labour and its Results," in *Value, Price and Profit.*

1. With the development of large-scale capitalist machine industry, the displacement of workers by machinery occurs, and more and more workers become unemployed because they cannot find jobs, causing the supply of labor power to exceed demand with increasing severity. Under these circumstances, competition among workers to sell their labor power intensifies, enabling the capitalist to exploit their advantageous position and try their utmost to drive down workers' wages. In order to maintain their livelihoods, workers consequently have no choice but to sell their labor power under the harsh conditions of low wages. This determines that workers' wages are necessarily often lower than the value of labor power and tend to decline.

2. Inflation and the rising cost of living have also caused a decline in workers' real wages. In the capitalist countries today, inflation has become a widespread and persistent phenomenon. Although workers' money wages have increased to some extent, they have increasingly lagged behind rising prices, and the trend toward declining real wages is very evident. For example, according to revised figures from official U.S. sources, between the end of 1972 and May 1974, the average hourly wages of nonagricultural workers in the United States increased by 10.4%, while consumer prices in the United States rose by 14.4% during the same period; workers' real wages fell by 4%, and those of construction workers fell by as much as 6.1%.

3. In capitalist states, workers' tax burden is continually increasing. For example, the average tax paid per person in the United States was $371 in 1950, but had risen to $1,377 by 1971—an increase of nearly threefold. High taxes take away a considerable portion of workers' wages and also cause the real incomes of the broad masses of workers to decline steadily.

Under capitalism, the law of the tendency for workers' real wages to decline intensifies the fundamental antagonism between the proletariat and the bourgeoisie. There is a sharp

struggle between the proletariat and the bourgeoisie over wages. In order to raise the rate of surplus value, the bourgeoisie seeks to drive wages down to the minimum limit; while the working class, in order to safeguard its right to subsistence, must also engage in a struggle to obtain higher wages. Marx pointed out: "**The capitalist constantly tending to reduce wages to their physical minimum, and to extend the working day to its physical maximum, while the working man constantly presses in the opposite direction.**"[1]

The working class's struggle to raise wages is of great significance. It may temporarily delay the decline in wages or bring about a certain degree of improvement in workers' living conditions; moreover, through the struggle, it can promote workers' unity, raise their consciousness, and temper the fighting spirit of the working class. This is essential for gradually guiding the working class toward political struggle.

However, it must also be recognized that, like the struggle of the working class to raise wages, the struggle to shorten the working day is an economic struggle and has considerable limitations. This struggle opposes only the consequences brought about by capitalism and does not touch the roots that produce them. Even if the struggle achieves certain victories, at most it can bring about partial and temporary improvements in the living conditions or working conditions of the working class; it cannot fundamentally change the position of the working class. To achieve complete liberation, the working class must not limit its struggle to this sphere, but should combine the economic struggle with the political struggle, use revolutionary violence to overthrow bourgeois political power, and abolish capitalism of exploitation. As Marx said:

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[1] Karl Marx, "XIV. The Struggle Between Capital and Labour and its Results," in *Value, Price and Profit.*

"**Instead of the conservative motto: 'A fair day's wage for a fair day's work!' they ought to inscribe on their banner the revolutionary watchword: 'Abolition of the wages system!'**"[1]

Marx's theory of surplus value has exposed the essence of capitalist exploitation, elucidated the economic base of the class struggle between the proletariat and the bourgeoisie, and provided the proletariat with a sharp theoretical weapon for completely destroying capitalism of exploitation. It has armed the working class ideologically, enabled it to see clearly the profound roots of its exploitation, oppression, and enslavement, and clarified the major objective and overall direction of its struggle against the bourgeoisie. The working class has recognized that only by seizing political power through armed force, overthrowing capitalism of exploitation, and establishing a socialist and communist society can the proletariat and all humanity achieve complete liberation.

Chairman Mao pointed out incisively: "**In the last analysis, all the truths of Marxism can be summed up in one sentence: 'To rebel is justified.' For thousands of years everyone said, 'Oppression is justified, exploitation is justified, rebellion is not justified.' From the time that Marxism appeared on the scene, this old judgement was turned upside down, and this is a great contribution. This principle was derived by the proletariat from its struggles, but Marx drew the conclusion. In accordance with this principle, there was then resistance, there was struggle, and socialism was realized.**"[2] The renegade, traitor and scab Liu Shaoqi consistently opposed Chairman Mao's revolutionary line. During the socialist period, he frenziedly propagated the reactionary fallacy that "exploitation has merit," absurdly claiming that

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[1] Ibid.

[2] Mao Zedong, "Speech at a Meeting of All Circles in Yan'an to Commemorate Stalin's Sixtieth Birthday." Note from translator: English translation for the first sentence is from *Peking Review*, no. 35 (1966). I cannot find official English translation for the entire quote.

"the exploitation carried out by capitalists has its historical merit," that "the more exploitation, the greater the merit,"[1] and so on, thereby completely exposing the ugly face of an apologist for capitalism. The purpose of Liu Shaoqi and his clique in propagating the "theory that exploitation has merit" was to safeguard capitalism of exploitation, oppose the socialist revolution, and vainly attempt to turn our country into a colony of imperialism. This was, of course, a pipe dream. This small handful of traitors dreamed of obstructing the forward movement of the wheels of history, but ultimately met the shameful fate of being utterly crushed!

[1] Note from translator: Although it can be argued that these quotes were taken out of context, Liu Shaoqi did make these remarks, see "Speech at a Symposium with Industrialists and Businesspeople in Tianjin" (Chinese).

Chapter Three: Capital Accumulation and Impoverishment of the Proletariat

The previous chapter discussed Marx's theory of surplus value, analyzed the production process of surplus value, and revealed the secret of capitalist exploitation. This chapter discusses Marx's theory of capital accumulation. By analyzing the capitalist reproduction process, it has further exposed the essence of capitalist exploitation, clarified the impact of capital accumulation on the fate of the proletariat, thereby revealed the intensification of the fundamental contradictions of capitalist society and the historical trend toward the inevitable demise of capitalism, and pointed out the great historical mission of the proletariat.

Section One: Capitalist Reproduction. Essence of Capital Accumulation

Marx's theory of capital accumulation begins with an analysis of capitalist reproduction. A society cannot stop consuming and therefore cannot stop producing. Social production is a continuous process. The continuous repetition of the production process is reproduction. Production repeated on the original scale is called simple reproduction; its products are used entirely to replace the means of production and means of subsistence consumed in production. Production repeated on an extended scale is called extended reproduction; its products not only replace the material means consumed in production but also provide additional means of production and means of subsistence for expanding production.

All social production is a unity of the productive forces and the relations of production. The social reproduction process likewise comprises two aspects: the reproduction of material means and the reproduction of production relations; it is a unity of the reproduction of material means and the reproduction of production relations. In studying capital accumulation and analyzing the capitalist reproduction process, Marx focused not on the reproduction of material means but on the reproduction of capitalist relations of production. The primary question he sought to explain is how the exploitative relationship between capitalists and workers is continuously maintained in the reproduction process and, with the development of capitalist production, continually deepens and expands.

Capitalist Simple Reproduction

Marx's analysis of capitalist reproduction began with simple reproduction. This is because simple reproduction is the foundation and starting point of extended reproduction, as well as one of its components. It is easier to see clearly the essence of capitalist exploitation by first analyzing the relatively simpler productive form of reproduction. Capitalist simple reproduction refers to the capitalist using all surplus value for personal consumption, with reproduction repeatedly carried out on the original scale. "**Although this reproduction is a mere repetition of the process of production on the old scale, yet this mere repetition, or continuity, gives a new character to the process, or, rather, causes the disappearance of some apparent characteristics which it possessed as an isolated discontinuous process.**"[1]

[1] Karl Marx, "Chapter Twenty-Three: Simple Reproduction," in *Capital*, Vol. I.

The analysis of simple reproduction shows:

1. The wages paid by the capitalist to the workers are, in reality, created by the workers' own labor.

Capitalist production begins with the capitalist's purchase of labor power. If a single production process is viewed in isolation, it appears that the capitalist pays wages to the workers with their own money. The bourgeoisie and their pet scholars exploit precisely this illusion to propagate, with great fanfare, the fallacy that capitalists support workers. The renegade, traitor and scab Liu Shaoqi even shamelessly praised capitalists, saying: "In reality, you support the workers." Who, then, supports whom? A glance at the reproduction process makes the answer immediately clear. In the production process, workers, through their own labor, not only preserve the old value of the means of production but also create new value. One part of this new value is used to replace the capitalist's variable capital, while the other part is appropriated by the capitalist without compensation. This shows that the wages paid by the capitalist to the workers, as variable capital, are entirely created by the workers themselves in the production process; their value is already contained in the products. When the capitalist pays the workers their wages, even if they have not yet had time to sell the products, from the perspective of the reproduction process, by the time the workers produce the products of the current period, the products they produced in the preceding period have already been sold and converted into money. Thus, "**it is his labor of last week, or of last year, that pays for his labor-power this week or this year.**"[1]

Moreover, the capitalist does not pay wages before the workers begin laboring, but only after their labor has ended. "**The laborer is not paid until after he has expended his labor-**

[1] Ibid.

power, and realized in commodities not only its value, but surplus-value."[1] For example, at the former East Asia Woolen Mill, whether annual, monthly, or daily workers, all "received their pay once" only after working for half a month. This fully demonstrates that it is not the capitalist who first advances wages to the workers; on the contrary, it is the workers who first advance their labor power to the capitalist. Therefore, it is absolutely not a matter of "capitalists supporting workers"; rather, workers use their own labor to support themselves while also fattening the capitalists. The workers at the East Asia Mill put it bluntly in their "Anti-Thanksgiving Song"[2]: "What we eat comes from our own blood and sweat"; "If I do not work, you are fucked"! These words incisively exposed the bourgeoisie's hypocrisy and deception.

2. Not only variable capital, but also all of the capital advanced by the capitalist, is created by the workers' labor.

Viewed in isolation, a single production process makes it seem as though all the capital of the factory is the capitalists' property: without their putting up the money to construct the Factory buildings, purchase machinery, and hire workers, the factory could not operate. But this is still an illusion. Leaving aside the fact that the original capital advanced by the capitalist consists of the blood and sweat of the exploited working people, even if we assume that this capital came from other sources, its nature will change once it has passed through a period of reproduction process.

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[1] Ibid.

[2] Note from translator: Song Feiqing, the capitalist of the East Asia Woolen Mill, wrote a "Thanksgiving Song" and required his workers to sing it before every meal. The English translation of the lyrics are "We share this meal, with thankful hearts. Each bowl of rice comes hard-won. God grants our fellow workers' sweat and blood. With joyful hearts, we receive, and serve for good. Amen."
Workers wrote their "Anti-Thanksgiving Song" in protest. The English translation of the lyrics are "What Heavenly Father? It's all fucking lies. What we eat comes from our own blood and sweat. I work like a mule, you take it for free. If I do not work, you are fucked. Fuck!"

For example, suppose a capitalist invests 10,000 yuan to establish a factory: 8,000 yuan is used as constant capital to purchase the means of production, and 2,000 yuan as variable capital to purchase labor power. If the rate of surplus value is 100%, 2,000 yuan of surplus value is created each year. Suppose that the capitalist spends the entire 2,000 yuan of surplus value each year, while reproduction in the second year proceeds on the original scale. After five consecutive years, the capitalist will have spent a total of 10,000 yuan, yet will still possess 10,000 yuan in capital. Although the magnitude of value of this capital is the same as that of the original capital, it has undergone a change: the original 10,000 yuan of capital was long ago spent by the capitalist, whereas the 10,000 yuan of capital now in their hands consists entirely of surplus value created by the workers. It is therefore evident that whatever the initial source of any capital invested by the capitalist, as long as it undergoes "**the mere continuity of the process of production, in other words simple reproduction, sooner or later, and of necessity, converts every capital into accumulated capital, or capitalized surplus-value,**" "**Not a single atom of the value of his old capital continues to exist.**"[1]

For example, when the former East Asia Woolen Mill was established in 1932, its advanced total capital was 230,000 yuan (the paid-in capital was still less than this amount). But over the six years from 1933 to 1938, the capitalists took back more than 324,000 yuan under such headings as "dividends," "bonuses," "directors' and supervisors' bonuses," "salaries of general and deputy managers," and "bonuses of general and deputy managers." Capitalists Song Feiqing himself invested 55,000 yuan in establishing the factory (excluding his family), yet in the five years from 1933 to 1937 alone, he withdrew 54,800 yuan in surplus value under several

[1] Karl Marx, "Chapter Twenty-Three: Simple Reproduction," in *Capital*, Vol. I.

identities, including shareholder, chairman of the board, and manager. It is therefore evident that the East Asia Woolen Mill capitalists' start-up capital had long since been recovered or spent by them; the capital they subsequently controlled was entirely the crystallization of the surplus labor of the masses of workers.

During the 1957 Rectification and Anti-rightist Campaign, a ShanghaIcapitalist named Li Kangnian publicly clamored for "twenty-year of fixed interest," demanding that the state to repay the full capital value of private enterprises when implementing the policy of redemption. This was a frenzied attack by the bourgeois rightists on the working class. The policy of redemption was one method by which the Party, under China's specific conditions, carried out the socialist transformation of national capital; it certainly did not acknowledge the legitimacy of capitalists' ownership of capital. All the capital held by capitalists was originally created by the labor of workers. For the state under the dictatorship of the proletariat to expropriate the capitalists is equivalent to reclaiming the property created by its own labor, which did not "infringe" upon the capitalists' property in any way, and there could therefore be no question of "repaying" the full capital value of the capitalists' property. If land reform was "returning the land to its owners," then expropriating the bourgeoisie was "returning the property to its owners."

3. The personal consumption of wage laborers is also entirely subordinate to the bourgeoisie's need to extract surplus value and becomes a condition for the reproduction of capital.

In the capitalist reproduction process, workers engage in two different kinds of consumption. One is productive consumption, which consists in consuming the means of

production in the labor process in order to produce products containing surplus value. It is clear that this productive consumption by workers is for the capitalist and belongs to the capitalist. The other is personal consumption, in which workers use their wages to purchase consumer goods to meet their own and their families' living needs.

At first glance, workers' personal consumption takes place outside the labor process, or in their own homes, and appears unrelated to the capitalist's production. However, as soon as the matter is considered from the perspective of reproduction, the situation appears different. When workers engage in personal consumption, they restore the physical and mental energy they have expended and reproduce their labor power. In this way, they objectively preserve for the bourgeoisie a material condition necessary for reproduction: a wage laborer who can continue to be exploited. This is precisely how capitalists view the matter. In their eyes, workers' personal consumption is no different from horses and cattle eating grass or machines being supplied with fuel. Capitalists are concerned only with restricting workers' personal consumption to the minimum limit, that is, to the level that barely maintains the reproduction of labor power; anything beyond this is, in their view, non-productive consumption, a kind of "waste."

Therefore Marx said: "**From a social point of view, therefore, the working class, even when not directly engaged in the labor process, is just as much an appendage of capital as the ordinary instruments of labor. Even its individual consumption is, within certain limits, a mere factor in the process of production.**"[1] Workers are enslaved by the capitalist not only in the labor process; outside it as well, they exist for the needs of the entire class of capitalists. Before selling their labor power to a particular capitalist, they already belong to the entire

[1] Ibid.

bourgeoisie. Although they are free to change employers, the threat of starvation prevents them from escaping the clutches of the entire bourgeoisie. "**The Roman slave was held by fetters: the wage laborer is bound to his owner by invisible threads.**"[1] The proletariat appears independent and free, but in reality is merely the wage slave of the bourgeoisie.

In short, the continuous operation of the capitalist production process constantly reproduces the separation of labor power from the means of production. Because the capitalist continues to possess capital, exploitation can continue unabated, while workers, since they still own nothing, have no choice but to continue selling their labor power. The separation of labor power from the means of production, which serves as the starting point of capitalist production, becomes, through the capitalist reproduction process, the inevitable result of capitalist production. This is the reproduction of capitalist relations of production. Marx said: "**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.**"[2] The exploitative relationship between the bourgeoisie and the proletariat will inevitably be maintained and consolidated in the capitalist reproduction process. To attempt to change the exploitative relationship while preserving capitalism, thereby enabling the working masses to enjoy happiness and freedom, is either a petty-bourgeois fantasy or, inevitably, a deception by the bourgeoisie. If the working class is to achieve true liberation, it must completely smash capitalism of wage slave system.

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[1] Ibid.

[2] Ibid.

Capitalist Extended Reproduction

The characteristic of capitalist reproduction is not simple reproduction but extended reproduction. It is rare for capitalists to use all surplus value entirely for personal consumption. In pursuit of more surplus value and to strengthen their competitive power, capitalists often turn part of the surplus value into Additional investment. "**Employing surplus-value as capital, reconverting it into capital, is called accumulation of capital.**"[1] Extended reproduction under capitalism means that capitalists use the portion of surplus value converted into capital to purchase means of production and increase wage laborers, thereby expanding the Scale of production. By analyzing capital accumulation and extended reproduction, we will gain a further understanding of the essence of the exploitative relationship under capitalism.

First, surplus value is the sole source of capital accumulation.

For example, suppose that a capitalist invests 10,000 yuan: 8,000 yuan in constant capital and 2,000 yuan in variable capital. With a rate of surplus value of 100%, the capitalist produces 2,000 yuan in surplus value in the first year. If the capitalist uses half of it for accumulation, capital will increase to 11,000 yuan, comprising 8,800 yuan in constant capital and 2,200 yuan in variable capital. This makes it possible to purchase more means of production and labor power and carry out extended reproduction on a larger scale. Assuming that the rate of surplus value remains unchanged, by the end of the second year the capitalist can obtain 2,200 yuan in surplus value. … And so it continues: capital constantly increases, production continuously expands, and

[1] Karl Marx, "Chapter Twenty-Four: Conversion of Surplus-Value into Capital," in *Capital*, Vol. I.

surplus value correspondingly grows. This shows that the source of extended reproduction is capital accumulation, while the source of capital accumulation is the surplus value created by workers. Without exploiting workers, it is impossible for capitalists to expand production.

As for original capital, the capitalist always tries every possible way to justify it, stubbornly insisting that it was accumulated through their own or their ancestors' hard work. But when it comes to the source of the additional capital invested in expanding production, the capitalist is at a loss for words. For "**how that originated we know perfectly well. There is not one single atom of its value that does not owe its existence to unpaid labor.**"[1]

Moreover, capital accumulation is not only the result of exploiting workers; it also, in turn, becomes a means of deepening and expanding that exploitation.

After the capitalist converts part of the surplus value into capital, they use this capital to purchase additional means of production and labor power, thereby carrying out extended reproduction. The additional capital was originally surplus value created by workers; it was the workers' surplus labor appropriated without compensation. The capitalist now uses it to exploit more workers and extract more surplus value from them. The more the capitalist exploits, the more they can accumulate; and the more they accumulate, the more they can exploit. The extended reproduction of capitalism thus constitutes a vicious cycle that is entirely beneficial to capitalists and absolutely detrimental to wage laborers.

From this, we can see how different the law of capitalist appropriation is from the law of appropriation under simple commodity production. On the surface, the capitalist and the worker are both equal owners; they buy and sell labor power according to the principle of exchange of

[1] Karl Marx, "Chapter Twenty-Four: Conversion of Surplus-Value into Capital," in *Capital*, Vol. I.

equal values, as though neither were taking advantage of the other. In reality, however, the capital used by the capitalist to purchase additional labor power is itself a portion of surplus value extracted from the workers—like using money stolen from someone to buy something from that same victim. In production, the worker must not only replenish this variable capital but also create new surplus value. Thus, exchange of equal values is an illusion, and fair exchange is merely a façade. Once this beguiling veil is lifted, the buying and selling of labor power between the capitalist and the worker is revealed as nothing more than the capitalist using the surplus value created by the workers and appropriated without compensation to extract still more surplus value from them. The law of commodity production is here transformed into the law of capitalist appropriation. Under conditions of simple commodity production, ownership of products is based on one's own labor; now, ownership and labor have become completely separated. For the capitalist, ownership appears as the power to appropriate the labor products of others, whereas for the worker, it appears as the inability to appropriate the products of their own labor. Marx stated with profound insight: "**The relation of exchange subsisting between capitalist and laborer becomes a mere semblance appertaining to the process of circulation, a mere form, foreign to the real nature of the transaction, and only mystifying it. The ever repeated purchase and sale of labor-power is now the mere form; what really takes place is this — the capitalist again and again appropriates, without equivalent, a portion of the previously materialized labor of others, and exchanges it for a greater quantity of living labor.**"[1] This is the essence of the law of capitalist appropriation, and also the essence of capital accumulation.

[1] Ibid.

In short, the process of capital accumulation is the process by which capitalists continually expand and intensify the exploitation of workers. "**As simple reproduction constantly reproduces the capital relation itself, i.e., the relation of capitalists on the one hand, and wage workers on the other, so reproduction on a progressive scale, i.e., accumulation, reproduces the capital relation on a progressive scale, more capitalists or larger capitalists at this pole, more wage workers at that.**"[1] The extended reproduction of capitalism is not only the extended reproduction of material means, but also the extended reproduction of capitalist relations of production. It is on the basis of continually intensifying the extraction of workers' blood and sweat that capitalists build the "paradise" in which they indulge.

The bourgeoisie and their pet economists once fabricated all kinds of fallacies to conceal the essence of capital accumulation. The most absurd of these was undoubtedly the "abstinence theory of interest " of the Englishman Nassau Senior. He believed that capital accumulation was the result of capitalists going without food and clothing for the sake of social progress, and of their restraining all kinds of desires. Therefore, "'I substitute,' he proudly says, 'for the word capital, considered as an instrument of production, the word abstinence,'"[2] and that "the reward of his conduct is Profit."[3] This is truly the most vulgar nonsense. The surplus value created by workers is the sole source of accumulation. The extent of capital accumulation depends, on the one hand, on the amount of surplus value and, on the other, on the proportion in which surplus value is divided between the accumulation fund and the capitalist's personal consumption fund.

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[1] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

[2] Karl Marx, "Chapter Twenty-Four: Conversion of Surplus-Value into Capital," in *Capital*, Vol. I.

[3] Nassau Senior, "Society Divided into Three Classes," in *An Outline of the Science of Political Economy* (Sentry Press, 1965), 89.

If this proportion remains unchanged, then as the amount of surplus value expands, accumulation and the capitalist's personal consumption will increase together. Moreover, the greater the accumulation, the more surplus value the capitalists exploit, and the more conditions they have for leading a luxurious and extravagant life. In capitalist society, the capitalists' wasteful and extravagant lifestyle and their ostentatious display of wealth arise not only from their corrupt and parasitic nature; they are also means of flaunting wealth and seeking credit, as well as a resounding advertisement for their business. Marx pointed out: "**Although, therefore, the prodigality of the capitalist never possesses the bona fide character of the open-handed feudal lord's prodigality, but, on the contrary, has always lurking behind it the most sordid avarice and the most anxious calculation, yet his expenditure grows with his accumulation, without the one necessarily restricting the other. But along with this growth, there is at the same time developed in his breast, a Faustian conflict between the passion for accumulation, and the desire for enjoyment.**"[1] The "abstinence theory" substitutes flattering phrases for theoretical analysis, fully exposing the ugly face of the bourgeois lackeys represented by Senior.

[1] Karl Marx, "Chapter Twenty-Four: Conversion of Surplus-Value into Capital," in *Capital*, Vol. I.

Concentration and Centralization of Capital

Capital accumulation and extended reproduction are general features of capitalist society. What forces capitalists to continually increase accumulation and expand production?

First, the insatiable greed for surplus value drives them from within. Producing surplus value and making profits is the absolute law of the capitalist mode of production. Capitalists are never satisfied with the wealth they already possess. The more, the better. In pursuit of more surplus value, besides intensifying the exploitation of existing workers, they also do everything possible to expand the scope of exploitation. As long as they continually accumulate capital, expand production, and employ more workers, they can seize more surplus value.

Second, capitalist competition compels them from without. Competition is ruthless, and businesses in the same trade are rivals. Every capitalist fears being defeated by competitors. Only by continually accumulating capital, expanding production, and adopting new technical equipment can a capitalist lower the cost of production and strengthen their competitiveness in the market. Thus, the continual expansion of capital and production becomes an inevitable trend of capitalist reproduction.

As accumulation increases, capital rapidly becomes concentrated. The accumulation of capital refers to the control or possession of the means of exploitation by capitalists. Marx said: "**Every individual capital is a larger or smaller concentration of means of production.**"[1] The accumulation of a certain quantity of the means of production is the starting point and prerequisite of capitalist production. In the capitalist reproduction process, the accumulation of

[1] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

capital continually increases. It is not only the direct result of capital accumulation but also a condition for extending the scale of production and promoting capital accumulation. Alongside the accumulation of capital, concentration of capital also takes place. Concentration of capital refers to the process by which large capital absorbs small capital, or many small capitals merge to become large capital.

Accumulation of capital and concentration of capital are two forms of enlarging individual capital, but they differ in how they are achieved. Accumulation of capital occurs through the conversion of surplus value into capital, thereby increasing the total amount of individual capital; as the total amount of individual capital increases, total social capital also increases correspondingly. Concentration of capital, by contrast, occurs through the merger or absorption of already formed individual capitals, thereby increasing the total amount of individual capital; although the total amount of individual capital increases, total social capital does not increase correspondingly—it merely changes the distribution of total social capital among the capitalists. Marx said: "**This last does not mean that simple concentration of the means of production and of the command over labor, which is identical with accumulation. It is concentration of capitals already formed, destruction of their individual independence, expropriation of capitalist by capitalist, transformation of many small into few large capitals. … Capital grows in one place to a huge mass in a single hand, because it has in another place been lost by many. This is centralization proper, as distinct from accumulation and concentration.**"[1] Concentration of capital can bring together a large amount

[1] Ibid.

of capital in the blink of an eye, rapidly enlarging individual capital, thereby greatly advancing the expansion of capitalist production and the process of capital accumulation.

Competition and credit are two powerful levers of the concentration of capital. The concentration of capital may take the overtly coercive form of large capital annexing small capital, or the relatively "peaceful" form of organizing joint-stock companies. Regardless of the form, its essence is the swallowing up and domination of small capital by large capital. Let us examine the circumstances and methods of the concentration of capital at the former East Asia Woolen Mill. In 1934, when East Asia's wool-yarn business had just begun to prosper, the newly opened Xianghe Woolen Mill in Tianjin produced Airship-brand wool yarn, attempting to compete with East Asia's Diyang-brand wool yarn. Song Feiqing, the capitalist of East Asia, immediately counterattacked: he lured away Xianghe's capable salespeople with high salaries, while producing Anti-Aircraft Gun-brand wool yarn and specifically targeting Airship-brand wool yarn through price-cutting and dumping, as well as giving away one pound with every pound purchased. After a year of fierce struggle, Xianghe was finally defeated and was ultimately swallowed up by East Asia, becoming a branch factory of the East Asia Woolen Company. In 1936, East Asia also spent 4,000 yuan to buy up the Datong Woolen Company, making every effort to penetrate the commercial sector, expand its sales network, and strengthen its competitive power. At the same time, Song Feiqing broadly solicited shareholders and expanded capital. His principle was: "It does not matter if shareholders are small; what matters is not having too few shareholders." As a result, at its peak, East Asia had more than 10,000 shareholders, spread across all regions and social classes throughout the country. He also broadly absorbed private deposits, putting them into circulation and use; the amount of deposits

frequently reached 1.5 million yuan. Song Feiqing used these two methods to concentrate a large amount of capital, enabling the production of the East Asia Woolen Mill to develop rapidly and expanding and intensifying the exploitation of its workers.

Old China was a semi-feudal, semi-colonial society. Compared with ordinary capitalist countries, the accumulation and centralization of capital had certain distinctive characteristics.

First, the accumulation and centralization of capital bore an obvious character of primitive accumulation. Since the Opium War of 1840, imperialist aggression against China stimulated the development of Chinese capitalism. However, the purpose of imperialist aggression against China was by no means to transform feudal China into a capitalist China, but to turn China into a colony and semi-colony. Therefore, on the one hand, imperialism suppressed the development of national capital, while on the other hand it fostered the bureaucratic comprador bourgeoisie. Under these conditions, the accumulation and centralization of Chinese capital could not be achieved, as in other capitalist countries, through relatively smooth economic exploitation and free competition; instead, it developed under extra-economic coercions. The bureaucratic comprador bourgeoisie, especially the four big families[1] of the Kuomintang, directly used political privileges to carry out the most brutal plunder of the broad masses of the working people, concentrating enormous wealth amounting to $10 to 20 billion, and causing the broad masses of peasants and artisans to go bankrupt one after another and

[1] Note from translator: The four big families were four politically influential families in the Republic of China, namely, the Chiang family (Chiang Kai-shek's family), the Soong family (renowned for the Soong sisters: Soong Ching-ling, who married Sun Yat-sen, and Soong Mei-ling, who married Chiang Kai-shek), the Kung family (who funded the 1911 Revolution led by Sun Yat-sen), and the Chen family (who were in charge of the internal affairs of the Kuomintang). Collectively, they were the most notorious examples of bureaucratic comprador bourgeoisie of the old China.

become sellers of labor power. It was on this basis that they accumulated enormous money capital.

Second, the pace of accumulation of capital was relatively slow, whereas the pace of concentration of capital was relatively fast. Imperialist oppression and exclusion severely constrained the growth of China's national capital. Part of the surplus value appropriated by bureaucratic capital flowed into the countryside to purchase land and carry out feudal exploitation, while another part was used for their unproductive consumption. Therefore, generally speaking, the pace of capital accumulation in old China was relatively slow. In contrast, however, the pace of capital concentration was very fast. Bureaucratic capital enjoyed various political and economic privileges. In collusion with imperialism, it used various means to attack, control, and absorb small and medium-sized capital, thereby producing a high degree of capital concentration and even completely monopolizing the economic lifelines of the state. As Chairman Mao pointed out, Old China's modern industry was "**extremely concentrated; the largest and most important part of the capital is concentrated in the hands of the imperialists and their lackeys, the Chinese bureaucrat-capitalists.**"[1]

Third, the degree of accumulation and concentration of capital in non-productive sectors such as finance and trade was higher than that in the industrial sectors. During the stage of free competition in capitalist countries, the accumulation and concentration of capital in the industrial sector formed the basis for the accumulation and concentration of capital in sectors such as banking and commerce. Old China was different. Imperialism treated semi-colonial China as a source of raw materials and a sales market; the focus of its investment was not industry but

[1] Mao Zedong, "Report to the Second Plenary Session of the Seventh Central Committee of the Communist Party of China," in *Selected Works of Mao Zedong*, Vol. I.

banking and commerce. This facilitated the plunder of raw materials and the promotion of commodities, while enabling imperialism to control the economic lifelines of the national economy through financial institutions. Chinese bureaucratic capital originally had a strong comprador character. Because the profits from selling imperialist commodities and procuring raw materials were exceptionally high, the focus of its investment was likewise not industry but commerce, especially import and export trade. As a result, the accumulation and concentration of capital in old China acquired a strongly speculative and fluid character. Rather than promoting industrial development, it merely intensified the brutal exploitation of the Chinese people, particularly the broad masses of workers and peasants.

Section Two: Increase in Organic Composition of Capital. Formation of Industrial Reserve Army

Beginning with this section, we examine the impact of capital accumulation on the fate of the working class. "**The most important factor in this inquiry is the composition of capital and the changes it undergoes in the course of the process of accumulation.**"[1] Therefore, our analysis begins with the composition of capital.

Increase in Organic Composition of Capital in the Course of Accumulation

The composition of capital refers to the way in which the two major parts of capital are structured. This can be understood in two senses. From the perspective of value, the composition

[1] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

of capital refers to the proportion in which capital is divided into constant capital and variable capital, which is called the value composition of capital. From the perspective of the material components that function in the production process, capital is divided into means of production and living labor power. The proportion between them is determined by the technological level of production: the higher the technological level, the more means of production each unit of labor power sets in movement. The proportion between a given quantity of means of production and the labor power required to use them is called the technical composition of capital.

The technical composition of capital and the value composition of capital are closely related. The technical composition of capital is the material basis of the value composition of capital. Generally speaking, the technical composition of capital determines the value composition of capital: when the technical composition of capital changes, the value composition of capital must change accordingly. A change in the former means that the quantitative ratio between the means of production and labor power has changed; consequently, the ratio between constant capital used to purchase the means of production and variable capital used to purchase labor power must also change accordingly. Changes in the value composition of capital usually reflect changes in the technical composition of capital.

However, changes in the value composition of capital do not completely coincide with changes in the technical composition of capital. In addition to depending on changes in the technical composition of capital, changes in the value composition of capital are also affected by changes in the value of the means of production and the value of labor power. Sometimes, even when the technical composition of capital remains unchanged, the value composition of capital may change as a result of changes in the value of the means of production or the value of labor

power. Therefore, changes in the value composition of capital do not always fully reflect changes in the technical composition of capital, but only reflect them in general.

Because the value composition of capital and the technical composition of capital are objectively closely connected, Marx called "**the value composition of capital, in so far as it is determined by its technical composition and mirrors the changes of the latter, the organic composition of capital.**"[1] For example, if a company's capital is divided equally between means of production and labor power, its organic composition of capital is 1:1; as production technology advances, if the capitalist invests 80% of the capital in means of production and 20% in labor power, the organic composition of capital rises to 4:1. This change in the value composition that reflects changes in the technical composition is a change in the organic composition of capital. Marx's theory of the organic composition of capital is of great significance for understanding the formation of the industrial reserve army and the impoverishment of the proletariat in capitalist society.

The organic composition of capital differs among enterprises and production sectors. Averaging the different organic compositions of capital among all enterprises within the same sector yields the organic composition of the total capital of that production sector; averaging the different organic compositions of capital among the various production sectors yields the organic composition of a country's social capital. In the following analysis, changes in the organic composition of capital refer to changes in the organic composition of social capital.

In the process of capital accumulation, the organic composition of capital tends to rise continuously. In pursuit of extra surplus value and to strengthen their competitive position,

[1] Ibid.

capitalists invariably do everything possible to increase their enterprises' labor productivity, adopt new machinery and equipment, and improve production technology; and the higher the technological level of production, the more machinery and equipment and raw materials each worker operates, and consequently the higher the technical composition of capital. The constant capital component used to purchase means of production inevitably grows faster than the variable capital component used to purchase labor power; the proportion of constant capital in total capital grows increasingly larger, while the proportion of variable capital becomes increasingly smaller. This is the rise in the organic composition of capital. In the process of capital accumulation and extended reproduction, the rise in the organic composition of capital is an inevitable trend. Although it is directly caused by improvements in the technological level of production, in reality it is the result of capitalists' pursuit of surplus value and their efforts to strengthen competition.

In modern capitalist states, the tendency for the technical composition and organic composition of capital to rise is very evident. The rise in the technical composition of capital is first reflected in the increase in the value of fixed capital—machinery, equipment, factory buildings, and so on—allocated to each worker. From 1929 to 1956, the value of fixed capital allocated to each employed person in the manufacturing industry, calculated at constant-dollar prices, increased from $1,300 to $2,200 in Britain, from $1,900 to $2,300 in Germany, and from $4,900 to $5,200 in the United States. The average organic composition of capital in the entire United States manufacturing industry was 4.4:1 in 1899, 6.1:1 in 1929, 11.55:1 in 1958, and had risen to 15.1:1 by 1968.

In old China, because of imperialist aggression and oppression, industry was underdeveloped, production technology was backward, and the organic composition of capital was relatively low. However, under the influence of the law of surplus value and the law of competition, production technology nevertheless developed to some extent, and there was likewise a tendency for the organic composition of capital to rise. For example, at the former East Asia Woolen Mill, from 1934 to 1937, capital increased from 500,000 yuan to 800,000 yuan, and production expanded rapidly, while the number of workers not only failed to increase but instead fell from 430 to 409. The average value of fixed assets per worker, calculated at the same price level, rose from 1,240 yuan to 1,952 yuan. The tendency for the organic composition of capital to rise is universal wherever capitalist production exists.

Relative Surplus Population Under Capitalism

What impact does the continuous increase in the organic composition of capital have on the working class? To gain a comprehensive understanding of the history of the development of capitalism and answer this question in depth, let us first examine what impact capital growth would have on the condition of the working class, assuming that the organic composition of capital remains unchanged.

In the process of capital accumulation, the surplus value transformed into additional capital is used respectively to purchase additional means of production and labor power. If the organic composition of capital remains unchanged, as capital accumulation grows, the variable capital portion used to purchase labor power will grow in the same proportion as the constant

capital portion, which means that the demand for labor power will increase accordingly. Particularly when stimulated by new profit opportunities, such as the opening of new production sectors or new markets, the scale of capital accumulation may suddenly expand, and the demand for labor power may even exceed its supply, causing demand for wage laborers to exceed supply and leading to an increase in wages. This phenomenon occurred in Britain in the fifteenth century and the first half of the eighteenth century. Nevertheless, even this situation in no way changes the nature of capitalist production, nor does it alter the workers' subordinate relationship to capital or their exploited position. No matter how favorable the conditions under which labor power is sold may be for workers, they must ultimately continue to sell their labor power and create surplus value for the capitalist. Marx pointed out profoundly: "**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.**"[1] Moreover, throughout the development of capitalism, this is merely a special and temporary phenomenon. Once the rise in wages affects the amount of surplus value, capital accumulation will decline, and the demand for labor power will correspondingly decrease, causing workers' wages to fall again. Thus Marx said: "**The rise of wages therefore is confined within limits that not only leave intact the foundations of the capitalistic system, but also secure its reproduction on a progressive scale. The law of capitalistic accumulation, … in reality merely states that the very nature of accumulation excludes every diminution in the degree of exploitation of labor, and every rise in the price**

[1] Ibid.

of labor, which could seriously imperil the continual reproduction, on an ever-enlarging scale, of the capitalistic relation."[1]

We shall now analyze the impact of the rising organic composition of capital on the fate of the working class in the process of capital accumulation.

As the organic composition of capital rises during accumulation, variable capital decreases relatively, and consequently capital's demand for labor power also decreases relatively. For example, suppose an enterprise has total capital of 30,000 yuan, an organic composition of 2:1, constant capital of 20,000 yuan, variable capital of 10,000 yuan, and employs 100 workers. If the organic composition of capital rises from 2:1 to 3:1, when total capital increases from 30,000 yuan to 60,000 yuan, variable capital increases only from 10,000 yuan to 15,000 yuan, rather than to 20,000 yuan, and the number of workers increases only from 100 to 150, rather than to 200. Accumulation doubles, but variable capital increases by only 50%, and capital's demand for labor power also increases by only 50%. As the organic composition of capital continues to rise, the proportion of variable capital in total capital becomes increasingly smaller. If the organic composition of capital rises from 2:1 to 3:1, and then to 4:1…, the proportion of variable capital correspondingly declines in the sequence 1/2, 1/3, 1/4, … Since capital's demand for labor power is determined not by the size of total capital but by the size of variable capital, as the organic composition of capital rises during accumulation, capital's demand for labor power also decreases relatively day by day. In other words, the development of capitalist production does not increase the employment opportunities it provides for workers in proportion to the

[1] Ibid.

growth of total capital; rather, those opportunities diminish relatively, and they contract at a rate faster than the growth of total capital.

Not only that. As capital accumulation and the organic composition of capital increase, the demand for labor power by capital not only declines relatively but, in certain production sectors and enterprises, even declines absolutely. Marx pointed out: "**In some spheres a change in the composition of capital occurs without increase of its absolute magnitude, as a consequence of simple centralization; in others the absolute growth of capital is connected with absolute diminution of its variable constituent, or of the labor power absorbed by it.**"[1] In both cases, owing to the absolute reduction in variable capital, some workers are dismissed by the capitalists and driven out of the factory.

The foregoing analysis still assumes that changes in the number of employed people correspond exactly to changes in variable capital. In reality, the relative decrease in demand for wage laborers is much faster than the relative decrease in variable capital. This is because increasing the amount of labor does not necessarily require increasing the labor power; even when variable capital increases, it can command a greater amount of labor without increasing, or with only a small increase in, the labor power, thereby setting greatly increased means of production in movement. The capitalist need only force workers to increase their labor intensity and extend their Labor time to achieve this. Marx said: "**On the one hand, therefore, with the progress of accumulation, a larger variable capital sets more labor in action without enlisting more laborers; on the other, a variable capital of the same magnitude sets in action more labor with the same mass of labor power; and, finally, a greater number of**

[1] Ibid.

inferior labor powers by displacement of higher."[1] Thus, from the perspective of society as a whole, compared with the growth of variable capital, the growth in the number of employed people is always slower. On the other hand, the labor power supplied by capitalist society increases day by day, far exceeding natural population growth. As capitalist production develops, women, adolescents, and even children become sellers of labor power. Workers' meager incomes cannot sustain family life, so they are forced to send their wives and children to work in factories as well. At the same time, the widespread use of machinery and the increasing simplification of operating methods make it possible for women and children to perform certain operations. Capitalists are naturally willing to employ more women and child workers: they are easier to control and facilitate intensified exploitation. In addition, the expansion of the sphere of capital's domination, especially the development of capitalism in agriculture, causes large numbers of peasants to become impoverished and go bankrupt, driving them toward the cities; the number of bankrupt small-scale artisans also steadily increases, and they too have no choice but to depend on selling their labor power for their livelihood. Furthermore, the intensification of capitalist competition causes some small and medium-sized capitalists to go bankrupt, and they too are forced to join the ranks of wage laborers.

Thus, we see two sharply opposed trends brought about by capital accumulation: on the one hand, the demand for labor power is increasingly decreasing relatively, and sometimes even absolutely; on the other hand, the supply of labor power to capital is rapidly increasing. As a result, more and more people inevitably become unable to find work and remain unemployed, creating a steadily growing relative surplus population. This so-called surplus population is not

[1] Ibid.

absolute but relative, because these people are surplus and redundant only in relation to the needs of capital—that is, its need to extract surplus value. Taking Britain at that time as an example, Marx pointed out: "**If tomorrow morning labor generally were reduced to a rational amount, and proportioned to the different sections of the working class according to age and sex, the working population to hand would be absolutely insufficient for the carrying on of national production on its present scale. The great majority of the laborers now 'unproductive' would have to be turned into 'productive' ones.**"[1] The ever-growing army of unemployed is entirely caused by capitalism and is a specific product of capitalist relations of production.

The relative surplus population in capitalist society has three main forms.

The first is the floating surplus population. Most of them are found in modern industrial centers. As production expands and contracts, they are sometimes recruited to work in factories and mines, and at other times dismissed and driven into the ranks of the unemployed, remaining constantly in a state of flux.

The second is the latent surplus population, referring mainly to the unemployed and underemployed in rural areas. With the development of capitalism, large numbers of small peasants go bankrupt, while the demand of agricultural capital for agricultural workers decreases increasingly as the organic composition of capital rises, with the result that more and more peasants fall into unemployment. This unemployment is often concealed by the fact that they still retain a small plot of land, making them a latent surplus population. They live in extreme poverty and are constantly ready to enter the ranks of the urban proletariat.

[1] Ibid.

The third is the stagnant surplus population. These people have highly irregular occupations: they either perform processing work for capitalists at home or work as temporary laborers outside. Their labor time is the longest and their wages the lowest, and they are frequently in a state of underemployment.

Finally, the lowest layer of the relative surplus population consists of those who have completely lost their jobs and labor capacity. Driven out of factories, they drift through the streets and fall into a state of extreme poverty.

In short, every worker during a period of underemployment or complete unemployment belongs to the relative surplus population; together, they constitute capitalism's army of unemployed.

The existence of a large number of unemployed workers is not only an inevitable result of capital accumulation but also a powerful instrument for accelerating capital accumulation; it has even become a condition for the existence and development of the capitalist mode of production.

1. Unemployed workers are the industrial reserve army of capitalism. Capitalist production is characterized by its ungoverned nature: the various sectors develop unevenly and undergo cyclical fluctuations from crisis to boom and from boom back to crisis. When production expands rapidly in certain sectors or during a particular period, large numbers of additional workers are immediately needed, and this cannot be met in time through natural population growth alone. The large number of unemployed workers who constantly exist provides the labor needed for such sudden, leap-like expansion of capitalist production. It is precisely in this sense that Marx called the unemployed population the industrial reserve army of capitalism.

2. The existence of the unemployed population also helps capitalists intensify the exploitation of employed workers. The unemployment of large numbers of workers indicates that labor power exceeds demand, enabling capitalists to exploit competition among workers to depress the wages of employed workers, compel them to increase labor intensity, and lengthen the working day. The additional labor provided by employed workers, in turn, further reduces capital's need for labor power, causing still more workers to become unemployed. Competition between the active labor army and the reserve labor army enables capitalists to profit from the situation, continuously intensify the exploitation of the entire working class, and impose the dictatorship of capital over labor. Marx said: "**The overwork of the employed part of the working class swells the ranks of the reserve, whilst conversely the greater pressure that the latter by its competition exerts on the former, forces these to submit to overwork and to subjugation under the dictates of capital. The condemnation of one part of the working class to enforced idleness by the overwork of the other part, and the converse, becomes a means of enriching the individual capitalists.**"[1]

The mass unemployment of workers sharply exposed the limitations of capitalism and demonstrated that capitalist relations of production had already become a serious obstacle to the development of the productive forces. Clearly, the unemployment problem, which has the greatest impact on the fate of the working class, is rooted in capitalism of exploitation. Therefore, attempting to find a remedy for the chronic problem of unemployment within the framework of capitalism can only be futile. To eliminate unemployment completely and end the

[1] Ibid.

suffering it brings to the working class and working people, the only solution is to abolish capitalism of exploitation completely.

Critique of Malthusian Reactionary Population Theory

For a century, bourgeois writers have fabricated all kinds of so-called "population theory" to justify unemployment and poverty in capitalist society. Their ancestor was the notorious Thomas Robert Malthus, an eighteenth-century English clergyman. To this day, Malthusianism remains a lingering influence, continuing to be used by the monopoly bourgeoisie to numb the working people, uphold capitalism, and serve imperialism's policy of wars of aggression.

The main views of Malthus's population theory are as follows: The population problem is a purely natural phenomenon unrelated to the social system. Its basis lies in two physiological desires of human beings: the need to eat and the desire to marry. Population grows according to a geometric progression, rapidly increasing in multiples of 1, 2, 4, 8, 16, 32…; it doubles every twenty-five years. The means of subsistence, however, grow according to an arithmetic progression, increasing slowly at the rate of 1, 2, 3, 4, 5, 6…; every twenty-five years they increase only by one unit of the initial base. The conclusion is: "The power of population is indefinitely greater than the power in the earth to produce subsistence for man."[1] If a given year is taken as the starting point, "In two centuries and a quarter, the population would be to the means of subsistence as 512 to 10: in three centuries as 4096 to 13."[2] This will inevitably result in widespread absolute overpopulation; consequently, unemployment and poverty are

[1] Thomas Malthus, *Principle of Population* (J. Johnson, London, 1798), 13

[2] Ibid, 25-26.

unavoidable. What is to be done? Malthus advocated restraining and reducing the population through sexual abstinence, celibacy, and even famine, epidemics, and war. He believed that relying on social reform to eliminate unemployment and poverty was impossible. "Against any very marked and striking change for the better …. any great and decided amelioration of the condition of the lower classes of mankind, the most numerous, and, consequently, in a general view of the subject, the most important part of the human race."[1] The reactionary nature of this "theory" is self-evident.

Malthus's "Essay on Population" has no objective scientific basis whatsoever. His two major premises—that population grows according to a geometric progression while food grows according to an arithmetic progression—are both sheer nonsense and completely contrary to the facts. His only basis was that, during one period, the population of the United States doubled in twenty-five years. In fact, the rapid population growth in the United States during that period was an exceptional phenomenon caused by large-scale immigration. As for the claim that food increases every twenty-five years only by one initial base unit according to an arithmetic progression, he could provide no evidence whatsoever; he simply took an assumption as a premise as a matter of course. Actual life is not like that. Even under capitalism, national wealth and the means of subsistence may grow faster than the population. For example, in France, during the eighty years from 1760 to 1840, the population increased by 60%, while the quantity of food doubled. In Germany, during the hundred years of the nineteenth century, the population doubled, while the means of subsistence tripled. In socialist states, owing to the rapid development of the productive forces, the means of subsistence grow much faster than the

[1] Ibid, 276-277.

population. For example, since liberation, our country's population has increased by approximately 60%, while total grain output has increased 1.4-fold, cotton output 4.7-fold, and the number of pigs nearly fourfold; the growth of other industrial consumer goods has been even greater. These facts are sufficient to refute Malthus's reactionary fabrication.

Malthus's population theory emphasized only that people are consumers, failing to see that they are producers; it emphasized only that people need food, without understanding that means of subsistence are created through human labor. People have not only one mouth, but also two hands. Without a system of exploitation, the working people, relying on their own diligent labor, would certainly be able to enjoy abundant food and clothing and continuously improve their living standards. On the eve of our country's liberation in 1949, agents of U.S. imperialism once "predicted" that New China could not bear the pressure of its large population and that the Communist Party could not solve the Chinese people's food problem. When refuting this absurd claim, Chairman Mao profoundly pointed out: "**Revolution plus production can solve the problem of feeding the population.**" He also said: "**Of all things in the world, people are the most precious. Under the leadership of the Communist Party, as long as there are people, every kind of miracle can be performed.**"[1] The historical development of New China has proved the immense correctness of Chairman Mao's assertion.

The fundamental error of Malthus's population theory lies in discussing the laws of population apart from specific social and economic relations, attributing the relative surplus population peculiar to capitalism to natural causes, and presenting it as a universal phenomenon of all societies. In fact, there is no such thing as a "natural law of population." people live in

[1] Mao Zedong, "The Bankruptcy of the Idealist Conception of History," in *Selected Works of Mao Zedong*, Vol. I.

society, and population movements are inevitably constrained by economic relations and influenced by the superstructure. Population is always a concrete, social, and historical phenomenon. Marx said: "**In fact every special historic mode of production has its own special laws of population, historically valid within its limits and only in so far as man has not interfered with them.**"[1] Malthus made every effort to deny the social and historical character of the laws of population, concealing an extremely reactionary political purpose. He sought to deceive the working people into believing that the causes of unemployment and poverty did not lie in capitalism, thereby achieving the reactionary goal of paralyzing the proletariat's revolutionary consciousness and preserving capitalism.

Today, imperialism and social imperialism are also energetically propagating Malthus's population theory in an effort to conceal their aggression against and plunder of the third world. They claim that "the economies of developing countries are developing slowly because there are too many people," and use such alarmist phrases as "population explosion" to frighten ordinary people. The facts completely refute this nonsense. There are only twelve people per square kilometer in Africa and fifteen in Latin America. The population density of developing countries in Asia is somewhat higher, but it is still lower than that of the developed capitalist countries—how, then, can anyone say that there are too many people? In reality, the root of the poverty and backwardness of third world countries lies in the exploitation by imperialist monopoly capital, especially the aggression and plunder perpetrated by the two superpowers. To gradually eliminate unemployment and poverty, the working people of the third world must first unite to oppose the political control and economic plunder of imperialism, particularly the superpowers;

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[1] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

develop the national economy through self-reliance; and rely on the strength of the people to build new, prosperous, and powerful states.

Section Three: General Law of Capitalist Accumulation and Impoverishment of the Proletariat

Capital Accumulation Necessarily Leads to the Impoverishment of the Proletariat

Under capitalism, the accumulation of capital and the expansion of production cause polarization in society: on the one hand, the wealth in the hands of the bourgeoisie grows ever greater; on the other hand, the proletariat becomes increasingly pauperized, the number of unemployed people continues to rise, the torment of labor grows more severe, and living conditions steadily deteriorate. Thus, the general law of capitalist accumulation is: the more capital accumulates, the more unemployed workers there are, the more severe the exploitation suffered by employed workers, and the more impoverished the working class as a whole becomes. Marx pointed out: "**The greater the social wealth, the functioning capital, the extent and energy of its growth, and, therefore, also the absolute mass of the proletariat and the productiveness of its labor, the greater is the industrial reserve army. … But the greater this reserve army in proportion to the active labor army, the greater is the mass of a consolidated surplus population, whose misery is in inverse ratio to its torment of labor. The more extensive, finally, the lazarus layers of the working class, and the industrial**

reserve army, the greater is official pauperism. This is the absolute general law of capitalist accumulation."[1]

This tendency of capitalist accumulation is determined by capitalism of exploitation and is the inevitable result of the operation of the law of surplus value. Capitalists accumulate for the purpose of intensifying exploitation and extracting more surplus value. Therefore, the process of capitalist accumulation is inevitably a process of the increasing impoverishment of the proletariat. Marx said: "**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. It follows therefore that in proportion as capital accumulates, the lot of the laborer, be his payment high or low, must grow worse.**"[2]

The working class creates social wealth through its own labor, yet this wealth becomes increasingly concentrated in the hands of capitalists and, in turn, brings endless disasters upon workers. The more social wealth increases, the poorer its creators become, struggling ever more desperately on the brink of unemployment, exhausting labor, hunger, and death. This is the utterly evil capitalist system. Marx's theory of the general law of capital accumulation scientifically demonstrates that, in the development of capitalism, the contradiction between the proletariat and the bourgeoisie does not become increasingly reconciled, but instead expands and deepens. Apart from completely destroying capitalism through revolutionary means, this antagonistic contradiction can never be resolved.

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[1] Ibid.

[2] Ibid.

Relative Impoverishment of the Proletariat

The impoverishment of the proletariat can be analyzed from two aspects: relative impoverishment and absolute impoverishment.

The relative impoverishment of the proletariat refers to the fact that the income and assets received by the proletariat are progressively decreasing relative to those of the bourgeoisie. This is manifested in the continuous decline of the proportion accounted for by the proletariat's total wages in national income (all the new value created by society within a year), while the proportion of surplus value appropriated by the bourgeoisie continuously increases. Lenin said: "**The relative impoverishment of the workers, i.e., the diminution of their share in the national income, is still more striking. The workers' comparative share in capitalist society, which is fast growing rich, is dwindling because the millionaires are becoming ever richer.**"[1]

In modern capitalist states, the downward trend in the proportion of workers' wages in national income is very evident. For example, in the United States, the share of the exploiting class's income in national income rose from 40.7% in 1938 to 50.8% in 1960; during the same period, the share of the working people's income in national income fell from 59.3% to 49.2%. In the manufacturing industry of the United States, workers' wages accounted for 57.3% of the national income created in that sector in 1946, but had fallen to 44.07% by 1972.

The relative impoverishment of the working class is the inevitable result of the capitalists' intensifying exploitation. It indicates that the antagonism between the proletariat and the bourgeoisie is growing ever deeper. As Lenin said: "**The growth of social wealth proceeds side**

[1] Vladimir Ilyich Lenin, "Impoverishment in Capitalist Society," in *Lenin's Collected Works*, Vol. 18.

by side with the growth of social inequality; the gulf between the class of property-owners (the bourgeoisie) and the class of the proletariat is growing."[1]

Absolute Impoverishment of the Proletariat

The absolute impoverishment of the proletariat refers to the increasingly deteriorating living and labor conditions of the proletariat: their lives become increasingly unstable and insecure, and they increasingly experience hardship and difficulty. Marx pointed out: The general law of capitalist accumulation "**establishes an accumulation of misery, corresponding with accumulation of capital. 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.**"[2]

The absolute impoverishment of the proletariat is particularly evident in the following respects:

1. Decline in real wages

The previous chapter discussed how Marx revealed the laws governing wage movements under capitalism, pointing out: "**The very development of modern industry must progressively turn the scale in favor of the capitalist against the working man, and that consequently the general tendency of capitalistic production is not to raise, but to sink the**

[1] Vladimir Ilyich Lenin, "Material for the Preparation of the Programme of the R.S.D.L.P.," in *Lenin's Collected Works*, Vol. 6 (Progress Publishers, Moscow, 1964).

[2] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

average standard of wages, or to push the value of labor (value of labor power) **more or less to its minimum limit.**"[1] The continual decline of real wages toward the minimum limit of the value of labor power is an important manifestation of the absolute impoverishment of the proletariat.

As has already been pointed out in the analysis of the characteristics of commodity labor power, the value of labor power is determined by two factors: first, purely physiological factors; second, historical and moral, that is, social, factors. Purely physiological factors refer to the means of subsistence absolutely necessary for maintaining and reproducing labor power; the value of these means of subsistence constitutes the minimum limit of the value of labor power. The historical and moral element refers to the needs of life formed in each country by its level of production, historical traditions, and social customs; the scope of these needs continually changes with the development of the social economy and culture. Therefore, the value of labor power changes continually across different periods, and the levels of the value of labor power in different countries during the same period also vary. But under capitalism, "**this historical or social element, entering into the value of labor, may be expanded, or contracted, or altogether extinguished, so that nothing remains but the physical limit.**"[2] This means that the capitalist always strives to force workers' wages down to the minimum limit of purely physiological needs. The growth of capital accumulation and the rise in the organic composition of capital produce a large relative surplus population; the supply of labor power continually

[1] Karl Marx, "XIV. The Struggle Between Capital and Labour and its Results," in *Value, Price and Profit.*

[2] Ibid.

exceeds demand, thereby providing the capitalist with favorable conditions to force workers' wages down to the minimum limit of the value of labor power.

The decline in real wages is an objective trend in the development of the capitalist economy, but this does not mean that workers' wages decline in a straight line. As a result of the unity and struggle of the working class, real wages sometimes remain stable and may even rise somewhat on occasion. Generally speaking, however, such increases do not cause real wages to exceed the value of labor power; rather, real wages tend to fluctuate between the physiological and social limits of the value of labor power. Within these limits, the specific level of real wages depends primarily on the balance of forces between the working class and the bourgeoisie. Although the working class's struggle to raise wages may, to some extent, prevent a sharp decline in real wages, it cannot fundamentally alter the objective trend of their decline. Under capitalism, this objective law governing the movement of real wages profoundly demonstrates the absolute deterioration of the working class's living conditions.

In capitalist states, the phenomenon of declining real wages is widespread. For example, in the United States, workers' wage growth often fails to keep pace with rising taxes and prices, making it increasingly difficult for real income to maintain even a minimum standard of living. In 1960, according to the Heller Committee for Research in Social Economics, the annual cost of living required by a family of four was approximately $6,488, whereas in reality, the incomes of most working people's families were far below this amount.[1] Even Kennedy, United States President at the time, acknowledged that in 1960, half of all families in the United States had incomes of less than $5,000, 7 million families had incomes of less than $2,000 dollars, and 2.5

[1] Note from translator: U.S. Congress, Congressional Record — House, June 22, 1961, 11100. The figure of $6,488 refers to "Cost of budget for a family of 4, September 1960, Wage earner, home renter."

million families had incomes of less than $1,000. During the nine years from 1965 to 1973, the average weekly real wages after taxes of a worker supporting a family of four in the United States declined in five years, and the extent of the decline grew increasingly larger. According to figures published by the United States Bureau of the Census in 1972, in 1971 there were 25.6 million poor people in the United States below the "poverty line," accounting for more than 12% of the national population; approximately one in every eight people in the United States was officially classified as poor.[1] On November 5, 1972, the *New York Times Magazine*, citing the results of a 1970 survey of 51 metropolitan areas published by the United States Bureau of the Census, stated: "Within the neighborhoods covered by these surveys, more than 60 per cent of all workers did not earn enough to maintain a decent standard of living for their families, and 30 per cent could not even earn a poverty-level income."[2]

In old China, because of the frenzied plunder by imperialism, feudalism, and bureaucratic capitalism, as well as the brutal exploitation by national capital, workers' real wages were not only far lower than those in the developed capitalist countries but also declined more markedly. This was particularly the case during the War of Resistance Against Japanese Aggression and the period of Kuomintang reactionary rule following victory in the war. Prices soared, the real wages of the broad masses of workers plummeted, and living conditions became increasingly difficult. Most workers labored to the point of exhaustion yet still could not maintain even the most basic family livelihood. For example, in 1919, the average monthly wage of workers at the Shanghai Fuxin Flour Mill was 12.25 yuan, whereas the minimum monthly cost of living for workers'

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[1] Note from translator: Elizabeth C. Shelburne, Vivian M. Simmons and Eldridgina A. Houston, "Characteristics of the Low-Income Population: 1971," United States Census Bureau, December 1972.

[2] William Spring, Bennet Harrison and Thomas Vietorisz, "Crisis of the Underemployed," *New York Times Magazine*, November 5, 1972.

families in Shanghai was 17.50 yuan for a household of two and 34.76 yuan for a household of four. Workers' average wages thus amounted to only 35–70% of the minimum cost of living. The annual average wages of workers at the former Tianjin East Asia Woolen Mill, calculated at the 1932 price level, were approximately 160 yuan in 1936–37, equivalent to only a little over 60 yuan in 1940 and a little over 40 yuan in 1948. After victory in the War of Resistance Against Japanese Aggression, because the Kuomintang reactionary government adopted a policy of rampant inflation, the real wages of the broad masses of workers declined even more sharply, and their living conditions deteriorated rapidly.

2. Increase in unemployed workers

The ever-increasing number of unemployed and underemployed people is another important manifestation of the absolute impoverishment of the proletariat. Stalin pointed out: "**If there is a reserve army of unemployed, whose members cannot live except by the sale of their labor power, then the unemployed must necessarily form part of the working class; and if they do form part of the working class, then their destitute condition cannot but influence the living standards of the workers engaged in production. I therefore think that when describing the living standards of the working class in capitalist countries, the condition of the reserve army of unemployed workers should also be taken into account.**"[1]

As has already been discussed, the formation of the relative surplus population is a law of population peculiar to capitalism. With the expansion of capitalist production and the rise in the organic composition of capital, the numbers of unemployed and underemployed workers continue to grow, and periods of unemployment also become increasingly prolonged. Once

[1] Joseph Stalin, "Economic Problems of the USSR," in *Stalin's Collected Works*, Vol. 16 (Foreign Languages Press, Peking: 1972).

workers become unemployed, their sources of income are cut off. With no means of livelihood, they fall into extreme poverty and can survive only by relying on "relief," borrowing money, and begging. Unemployed workers affect employed workers, further worsening the living conditions of the latter. This is because capitalists can use the supply exceeding demand for labor power to intensify their exploitation of employed workers, while unemployed workers often also have to rely on employed workers among their family members and friends to help maintain their livelihoods. Therefore, the increase in the unemployed population inevitably deepens the absolute impoverishment of the entire proletariat.

The unemployment problem in modern capitalist states is extremely serious. Take the United States, for example: even according to the greatly reduced figures officially published, total unemployment in ordinary postwar years was nearly 3 million, with the unemployment rate around 4%; during the first five crises, the annual average number of unemployed reached 4–5 million, and the unemployment rate rose to 5% or more than 6%; the sixth crisis was even more severe. In May 1975, the number of unemployed surged to 8.35 million, and the unemployment rate reached the unprecedented postwar record of 9.2%. As of October 1975, the numbers of unemployed in the other major capitalist countries were as follows: Britain, 1.1654 million; France, 1.0156 million; West Germany, 1.0613 million; Japan, 1.4130 million; and Italy (August 1975), 1.0552 million.

In old China, the suffering of unemployed workers was even more severe than that in capitalist countries. Under Kuomintang reactionary rule, there was not even the sham capitalist "social relief" represented by "welfare measures." Once workers became unemployed, they immediately faced the threat of hunger and death. Many were forced to beg in the streets, and

some even froze or starved to death on roadsides and in the wilderness. Song Feiqing, the capitalist of the former East Asia Woolen Mill, would immediately dismiss workers upon discovering that they had pulmonary disease. As a result, almost all workers who became unemployed because of illness died tragically under the torment of disease and poverty.

3. Deterioration of labor conditions

Lenin pointed out with profound insight: the barbaric, all-pervasive exploitation of capital "**squeeze out of the worker three times more labor, mercilessly drain him of all his strength, and are three times faster in sucking out every drop of the wage slave's nervous and physical energy.**"[1] In capitalist states, the proletariat endures the most painful labor torment. Capitalists widely adopt a sweatshop wage system, accelerate the operation of machinery, and continually increase labor intensity through the use of various forms of science and technology, thereby intensifying their brutal exploitation of workers. Excessive physical depletion and mental strain severely damage workers' health. Compared with workers in developed capitalist states, workers in old China had longer working days and greater labor intensity.

The increase in labor intensity and the deterioration of working conditions have led to a growing number of workers suffering from occupational diseases, while industrial accidents occur one after another. Today in the United States, even the relevant government departments have been compelled to admit that at least 85% of United States workers are constantly exposed to the risk of injury at work; every year, 3% to 5% of United States workers die or suffer serious injuries as a result of industrial accidents. In France, more than 2,400 work-related deaths occurred in 1972, and more than one million people were injured at work. In Italy, 1.59 million

[1] Vladimir Ilyich Lenin, "A 'Scientific' System of Sweating," in *Lenin's Collected Works*, Vol. 18.

industrial accidents occurred in 1973, that is, on average, one person was injured every 20 seconds, one became disabled every hour, and one died every two hours. More than 100,000 United States workers die from occupational diseases every year. In Britain, 3,800 coal miners suffer from silicosis, accounting for one-sixth of underground workers. In old China, occupational diseases and industrial accidents were even more common in factories and mines. At the Tangshan Qixin Cement Company alone, 172 industrial accidents occurred during 1942 to 1943, resulting in 22 deaths and 10 serious injuries. The former Tianjin Santiaoshi machine foundry industry had outdated machinery and intense labor, and industrial accidents occurred with extreme frequency. For example, Zhu Fugui, worker of the Chunfatai Factory, had his arm severed by a shaft belt; the capitalist refused to provide medical treatment, and he died in agony. Wang Fuyuan, worker of the Sanhecheng Kerosene Lamp Factory, was subjected to inhuman labor exploitation, and had nine fingers crushed in less than ten years.

The heavy burden of labor and the appalling living conditions severely have damaged the physical and mental health of workers and their children. Engels pointed out: "**A pretty list of diseases engendered purely by the hateful money-greed of the manufacturers! Women made unfit for child-bearing, children deformed, men enfeebled, limbs crushed, whole generations wrecked, afflicted with disease and infirmity, purely to fill the purses of the bourgeoisie.**"[1]

4. Deterioration of material life and intensification of mental anguish

As the unemployed population grows and real wages declines, workers' material life becomes increasingly difficult. Although developed capitalist countries produce enormous

[1] Friedrich Engels, "Single Branches of Industry," in *Condition of the Working Class in England* (Institute of Marxism-Leninism, Moscow, 1969).

amounts of material wealth, it is entirely plundered by the bourgeoisie, while the broad masses of workers and working people remain empty-handed, and live in the misery of hunger and inadequately clothed. Take housing, for example: "**The greater the centralization of the means of production, the greater is the corresponding heaping together of the laborers, within a given space; that therefore the swifter capitalistic accumulation, the more miserable are the dwellings of the working-people.**"[1] Former U.S. President Kennedy once admitted that 14 million American households lived in substandard or increasingly deteriorating housing, while 39 million households suffered from "the encroachment of blight and slums"[2]; together, these accounted for more than half of all American households. According to heavily understated official U.S. statistics from 1960, slums accounted for 20% of the rooms used for housing in American cities, while their residents accounted for 33% of the U.S. population.

The poverty of life and the torment of labor inflict extreme mental suffering on workers. Many cannot see the meaning of life and are pessimistic and despairing about the future; they are troubled and spiritually dejected, while some, driven into desperate circumstances, are forced to take risks. Today, social conditions in the United States are extremely depraved, criminal activity is increasing sharply, and new disasters are being brought upon working people. Many others resort to drug use to numb themselves. At present, there are more than 20 million substance users in the United States, creating a serious social crisis and fully reflecting the decay and decline of capitalism.

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[1] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

[2] John F. Kennedy, "Special Message to the Congress on Housing and Community Development," March 9, 1961, *The American Presidency Project.*

Critique of the Reactionary Fallacy that Denies the Impoverishment of the Proletariat Held by the Bourgeoisie and Revisionism

The Marxist theory of the impoverishment of the proletariat elucidated the true causes of unemployment and poverty among working people and pointed out to the proletariat the only way out of poverty—overthrowing bourgeois rule and abolishing capitalism. The bourgeoisie are terrified of this scientific conclusion and therefore viciously attack the Marxist theory of the impoverishment of the proletariat, particularly by denying the absolute impoverishment of the proletariat and doing everything they can to beautify capitalism. The old and new revisionists likewise spout such nonsense as that Marx's theory of the impoverishment of the proletariat is "incorrect" and has already "become outdated," doing everything they can to echo the bourgeoisie.

One of the "grounds" on which the bourgeoisie and revisionists deny the impoverishment of the proletariat is that some workers in the United States own their own housing, cars, and durable consumer goods, and live a rather "good" life. In fact, this is entirely a superficial phenomenon. In the United States and other developed capitalist countries, those who can afford to buy housing and cars are mostly higher-income skilled workers. Given extremely high rents, highly inconvenient public transportation, and very expensive transportation costs, they purchase housing and cars out of necessity; moreover, most of these purchases are made on credit through payment by installments. This so-called "consumer credit" developed widely after the war, becoming a tool used by monopoly capitalists to ease economic crises, artificially expand the market, and maintain false prosperity, as well as a new means of their brutal exploitation and

enslavement of workers. When housing is purchased in this way, a portion of the price must be paid upfront, while the remainder is borrowed from a bank against the housing as collateral and repaid by the worker; the bank's loan and interest are then repaid in installments. The interest on these loans is exceptionally high, generally reaching 12% to 24%, and in some cases as much as 66%. Until the debt has been fully repaid, the purchased goods do not truly belong to the buyer; once the debt can no longer be repaid, the house, car, and other property are repossessed, leaving the worker with nothing. The crushing debt weighs on workers until they can barely breathe. By the end of 1973, the total personal debt in areas such as consumer credit and mortgage loans of the working people in the United States had reached $821.3 billion. Average annual debt per person was $4,000, and every year more than 100,000 households declared bankruptcy because they could not repay their debts. Under the crushing burden of debt, workers became even more afraid of unemployment, and monopoly capitalists exploited workers' fear of dismissal to intensify their rule and exploitation. The working class was firmly chained to capital's iron pillar, becoming not only wage slaves but also debt slaves.

The bourgeoisie also often publicize their so-called "social relief," "social insurance," and other forms of "social welfare," using them as "grounds" for denying the impoverishment of the proletariat. In reality, these so-called welfare measures are extremely limited and cannot solve any problems at all. According to reports in the United States press, the national average weekly unemployment benefits in the United States amounted to only one-third of the average weekly wages of employed workers, while the average period for which they were received was only 14 weeks; moreover, only some workers could enjoy them. It was reported that, among the 5 million unemployed people in the United States in August 1974, only 2 million received

unemployment "relief." As for the so-called "social insurance benefits" for the elderly, they were also pitifully meager. Some elderly people living in New York City and its suburbs had to spend 80% of their old-age benefits on rent, leaving them barely enough even to eat. Among people over 60 in Michigan, one-third could not eat three meals a day. *The Washington Post* said that some elderly people were forced to "ransack garbage cans or buy a can of dog food to get through two or three meals."[1] Even these limited so-called "social welfare" benefits were by no means gifts from the bourgeoisie; they were paid for out of the social insurance taxes and various withholding charges contributed by workers. In 1973, each employed worker in the United States paid an average of $760 in social insurance taxes, which is a heavy burden for them. This money is taken by the monopoly bourgeoisie as capital to further exploit working people. The unemployed masses and impoverished people awaiting relief are in fact all supported by the working class's own labor income, while the bourgeoisie uses this so-called "social welfare" precisely to strengthen its control over workers, keeping the unemployed in a state of extreme poverty in which they are neither adequately fed nor allowed to starve to death, thereby preparing a reserve of people always available for exploitation in the interests of capital accumulation.

The bourgeoisie and revisionist elements often seize upon the fact that some employed workers have experienced certain temporary and slight improvements in their material life, and that, as a result of socioeconomic development, more consumer goods have entered the sphere of workers' consumption, in order to deny the impoverishment of the proletariat as a whole. This too is completely untenable. They grasp at one point while ignoring the rest, looking only at

[1] Note from translator: I am unable to find the original quote from *The Washington Post*.

appearances and not at essence; looking only at workers' nominal wages and not at their real wages; looking only at workers' consumption and not at the torment of their labor; looking only at the condition of employed workers and not at that of unemployed workers; looking only at the lives of workers in a few developed capitalist countries and not at the miserable circumstances of workers in the vast colonial and backward countries. In short, they use partial, temporary, and superficial phenomena to conceal the universal and essential fact that the proletariat of the entire capitalist world is becoming increasingly impoverished. It is particularly important to point out that they have no understanding whatsoever of the distinctive features of the determination of the value of labor power, and they observe workers' lives apart from the historical conditions of socioeconomic development and deliberately distort the fundamental Marxist-Leninist view of the impoverishment of the proletariat. Marx and Lenin repeatedly emphasized that the impoverishment of the working class should not be examined solely in the material sense, but also in the social sense. Marx said: "**Although the pleasures of the laborer have increased, the social gratification which they afford has fallen in comparison with the increased pleasures of the capitalist, which are inaccessible to the worker, in comparison with the stage of development of society in general. Our wants and pleasures have their origin in society; we therefore measure them in relation to society; we do not measure them in relation to the objects which serve for their gratification.**"[1] Lenin also pointed out: "**Poverty grows, not in the physical but in the social sense, i.e., in the sense of the disparity between the increasing level of consumption by the bourgeoisie and consumption by society as a whole, and the**

[1] Karl Marx, "Relation of Wage-Labour to Capital," in *Wage Labour and Capital*.

level of the living standards of the working people."[1] Therefore, it is meaningless to compare in isolation the quantity and quality of the consumer goods obtained by workers at different historical stages, disregarding the different levels of social development at those stages, and on that basis determine whether the working class is absolutely impoverished. What matters is not only the absolute amount of real wages, but also whether real wages correspond to the value of labor power, whether they can meet the necessary cost of living of workers' families, and whether they are compatible with the general living standard that society ought to attain. The actual situation in modern capitalist countries is that the means of subsistence workers obtain are increasingly below the general level that society ought to attain; their lives are becoming increasingly difficult, unstable and insecure. This trend toward absolute impoverishment is something the bourgeoisie and revisionists absolutely cannot deny.

The bourgeoisie and revisionists desperately oppose Marx's and Lenin's theory of the impoverishment of the proletariat in order to peddle the class conciliation theory of "harmony of interests between labor and capital" and maintain capital's reactionary rule. They attempt to "prove" that the root cause of the working class's poverty does not lie in capitalism and that, with the development of capitalist production, the working class's material life and social status will even improve accordingly. This is nothing but a pack of lies. Under capitalism, the working class can never escape the poverty and suffering imposed upon it. Only by overthrowing bourgeois rule through violent revolution and abolishing the system of exploitation can the proletariat and working people escape their misery and create a beautiful, happy new life with their own hands.

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[1] Vladimir Ilyich Lenin, "Book Review: Karl Kautsky. Bernstein und das sozialdemokratische Programm. Eine Antikritik," in *Lenin's Collected Works*, Vol. 4 (Progress Publishers, Moscow, 1964).

Section Four: Historical Trend of Capitalist Accumulation

Marx's theory of capital accumulation further exposed the antagonistic nature of the capitalist mode of production and also clarified the historical trend toward the inevitable demise of capitalism.

The capitalist system of wage slavery was established on the basis of expropriating small producers. The process of primitive accumulation of capital was the process of separating small producers from the means of production; in other words, it was the process by which the bourgeoisie used violence to expropriate small private proprietors. After capitalism has established, the expropriation of private proprietors begin to take on a new form. It is no longer capitalists expropriating small producers, but capitalists expropriating capitalists—that is, through the concentration of capital, large capital absorbs small and medium-sized capital, thereby expropriating it. If primitive accumulation of capital made it possible to establish the capitalist mode of production, then the concentration and centralization of capital not only promotes the development of capitalism, but also prepares the conditions for the demise of capitalism. The concentration and centralization of capital makes the fundamental contradiction of capitalism—that between the social character of production and the private capitalist form of appropriation—increasingly acute, thereby determining the objective necessity for capitalist private ownership to be replaced by socialist public ownership.

The development of capital accumulation has made the socialization of capitalist production increasingly pronounced, as manifested in the following: enterprises are growing ever larger; the means of production are being used jointly by an increasing number of people; and

production is increasingly becoming socialized large-scale production carried out through the collaboration of vast numbers of workers. The social division of labor is becoming increasingly fine-grained; the interdependence and connections among various sectors and enterprises are growing ever closer; and social production as a whole is becoming interconnected into an indivisible entity. Scattered local markets are merging into a unified domestic market, while the world market is also rapidly expanding, linking production, circulation, and consumption across an ever wider scope. All this demonstrates that the productive forces are increasingly taking on a highly social character and therefore objectively require social ownership and social control. Yet, on the contrary, capital accumulation has expanded private ownership, concentrating capital increasingly in the hands of a small number of people. They control social production, ruthlessly exploit the masses of workers, and seize for themselves the material wealth created by the working people. This creates a sharp conflict between the relations of production and the productive forces. The more capital accumulates and the more capitalist production expands,"**the more clearly was brought out the incompatibility of socialized production with capitalistic appropriation.**"[1]

The increasingly acute fundamental contradiction of capitalism is manifested economically in the following two respects:

First, the contradiction between the organized character of individual enterprises and the ungoverned state of social production as a whole. Socialized large-scale production objectively requires planned and proportional development, as well as close coordination and cooperation among enterprises and departments; the private ownership of capitalism, however, leaves social

[1] Frederick Engels, "II. Theoretical, Part III: Socialism," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

production fragmented and in a ungoverned state, prevents the rational arrangement and utilization of the productive forces and frequently causes serious disproportions in the social economy.

Second, the contradiction between the blind expansion of social production and the relative contraction of social demand with ability to purchase. In pursuit of surplus value, capitalists continually expand accumulation, resulting in the blind expansion of production; yet under the brutal exploitation of the bourgeoisie, the proletariat and working people grow increasingly impoverished, while the domestic market continually contracts relatively. This inevitably gives rise to periodic economic crises, seriously undermining and obstructing the development of the social productive forces.

The fundamental contradiction of capitalism is the root cause of all the contradictions of capitalism. The class expression of this fundamental contradiction is the contradiction between the proletariat and the bourgeoisie. As the fundamental contradiction of capitalism intensifies, the contradiction between the proletariat and the bourgeoisie also gradually sharpens.

The contradiction between the social character of production and the private capitalist form of appropriation is constantly intensifying, demonstrating that capitalist relations of production are increasingly becoming shackles on the development of the productive forces. Engels emphasized: "**In these crises, the contradiction between socialized production and capitalist appropriation ends in a violent explosion.**" "**On the one hand, therefore, the capitalistic mode of production stands convicted of its own incapacity to further direct these productive forces. On the other, these productive forces themselves, with increasing energy, press forward to the removal of the existing contradiction, to the abolition of their**

quality as capital, to the practical recognition of their character as social productive forces."[1] Therefore, abolishing capitalist private ownership and establishing socialist public ownership suited to socialized production have become an inevitable trend of historical development. Capitalist socialized large-scale production not only sets the task of realizing a thorough transformation of relations of production, but also prepares a sufficient material basis for realizing this transformation.

Capital accumulation, while preparing the objective material conditions for the demise of capitalism, also prepares capitalism's gravedigger: the proletariat. Marx and Engels pointed out: "**But not only has the bourgeoisie forged the weapons that bring death to itself; it has also called into existence the men who are to wield those weapons — the modern working class — the proletarians.**"[2]

The proletariat emerged with the emergence of capitalist relations of production and gradually developed and grew stronger in the course of capital accumulation. The development of capitalist production continually increased the number of proletarians and rapidly expanded their ranks. They suffer the deepest exploitation and the most severe oppression, and possess the greatest revolutionary thoroughness. They own nothing, have the greatest foresight, are utterly selfless, and have developed strong organizational abilities and discipline through modernized large-scale production. In the course of long-term revolutionary struggle, armed ideologically with Marxism, they are gradually united around their own political party and continuously raised their political consciousness, transforming themselves from a class-in-itself into a class-for-itself.

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[1] Ibid.

[2] Frederick Engels and Karl Marx, "Chapter I. Bourgeois and Proletarians," in *Manifesto of the Communist Party*.

The proletariat's class struggle against the bourgeoisie is the decisive force in bringing about the thorough transformation of capitalist society. The proletariat's great historical mission is to abolish the cannibalistic capitalist system and create a beautiful socialist society and communist society.

The bourgeoisie will never voluntarily withdraw from the historical stage. It controls the bourgeois state apparatus and is bound to use counterrevolutionary violence to brutally suppress the resistance of the working masses. Therefore, overthrowing the reactionary rule of the bourgeoisie by force is a prerequisite for the complete abolition of capitalism of exploitation. Marx and Engels openly declared in the *Manifesto of the Communist Party*: The proletariat's goal "**can be attained only by the forcible overthrow of all existing social conditions.**"[1] Chairman Mao also taught us: "**Political power grows out of the barrel of a gun.**"[2] Only under the leadership of a Marxist-Leninist party, through violent revolution, by destroying the bourgeois state apparatus and establishing the dictatorship of the proletariat, can the proletariat achieve its complete emancipation.

In short, the development of capitalist accumulation has intensified the fundamental contradiction of capitalism and class contradictions. The thorough transformation of capitalist private ownership through proletarian revolution has become an irresistible historical trend. "**The monopoly of capital becomes a fetter upon the mode of production, which has sprung up and flourished along with, and under it. Centralization of the means of production and socialization of labor at last reach a point where they become incompatible with their**

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[1] Frederick Engels and Karl Marx, "Chapter IV. Position of the Communists in Relation to the Various Existing Opposition Parties," in *Manifesto of the Communist Party*.

[2] Mao Zedong, "Problems of War and Strategy," in *Selected Works of Mao Zedong*, Vol. II.

capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds. The expropriators are expropriated."[1] This is the historical trend of capitalist accumulation.

Marx's theory of capital accumulation profoundly revealed the historical law that capitalism is bound to perish and socialism is bound to triumph. The development of the proletarian world revolution over more than a century has fully demonstrated this great truth. Although the course of history may still encounter twists and turns of one kind or another, the historical trend of capitalism's inevitable demise cannot be reversed by any force. "**The socialist system will eventually replace the capitalist system; this is an objective law independent of man's will. However much the reactionaries try to hold back the wheel of history, eventually revolution will take place and will inevitably triumph.**"[2]

[1] Karl Marx, "Chapter Thirty-Two: Historical Tendency of Capitalist Accumulation," in *Capital*, Vol. I.

[2] Mao Zedong, "Socialism and Communism," in *Selected Quotes of Chairman Mao* (Peking Foreign Languages Press, 1966).

Part Two: Circulation Process of Capital

Chapter Four: Circuit and Turnover of Capital

Capital is value that produces surplus value. Capital can increase in value only through continuous movement. The entire movement of capital includes not only the direct production process of capital but also its circulation process; it is the unity of the production process and the circulation process. We have already analyzed the direct production process of capital, revealing the essence of capitalist production and the laws governing its development. This chapter examines the circulation of capital from the perspective of the unity of the production process and the circulation process, and further reveals the characteristics of the movement of capital in order to gain a more comprehensive and profound understanding of the essence of capitalism and its contradictions.

Section One: Circuit of Capital

Capital moves continuously, passing from circulation into production and then from production back into circulation; after passing through three stages and assuming three forms, it

finally returns to its original starting point. The entire process of this movement constitutes the circuit of industrial capital. The study of the circuit of capital primarily analyzes the various stages through which capital passes and the various forms it assumes during its circuit, thereby identifying the most general and essential characteristics of the movement of capital.

Three Stages and Three Functional Forms of the Circuit of Productive Capital

Industrial capital passes through three stages in succession during its circuit, correspondingly assuming three different functional forms.

Stage One: namely, the purchase stage of capital. The capitalist appears as a purchaser in the commodity market and the labor-power market, using money to purchase the means of production and labor power. If M represents money, C represents commodities, L represents labor power, and MP represents the means of production, this process can be expressed by the following formula: $M — C < {}^{L}_{MP}$.

$M — C < {}^{L}_{MP}$ is not only general commodity circulation but also a specific stage in the circuit of capital, namely, the stage in which capital value is transformed from the money form into the productive form—that is, the stage in which money capital is transformed into productive capital. It becomes a specific stage in the circuit of capital first of all because the means of production and labor power purchased here are not ordinary commodities, but the material elements of capitalist production: the former are the material factor, and the latter the human factor. Marx said: "**What renders this act of the general circulation of commodities simultaneously a functionally definite section in independent circuit of some individual capital is primarily not the form of the act but its material content, the specific use-character of the commodities which change places with the money.**"[1] The specific use values

[1] Karl Marx, "Chapter 1: The Circuit of Money Capital," in *Capital*, Vol. II(Progress Publishers, Moscow 1956).

of these commodities purchased by capital are manifested not only qualitatively in the distinction between the means of production and labor power, but also quantitatively in the requirement that the two maintain a certain proportional relationship: the quantity of the means of production must correspond to the quantity of labor power. Once this purchase has been completed, the purchaser can command a quantity of labor greater than that required to compensate the value of labor power, as well as the means of production necessary to absorb this quantity of labor. The elements of production of ordinary commodities have now become elements of production capable of producing surplus value. "**The value advanced by him in money-form has now assumed a bodily form in which it can be incarnated as a value generating surplus-value (in the shape of commodities). In brief, value exists here in the condition or form of productive capital, which has the factor of creating value and surplus-value.**"[1] For this reason, general commodity circulation here becomes a specific stage in the circuit of capital, namely, the stage in which money capital is transformed into productive capital.

At M — C $< {}^{L}{}_{MP}$, capital must first take the money form. Here, money performs a dual function. On the one hand, it performs the functions of money, serving as a general means of purchase or a means of payment. Money can perform this role not because it is capital, but because it is money. On the other hand, money also performs the capital function, becoming the first functional form of capital in the circuit process. In other words, money is merely the form; in substance, it is capital, capital in the money form. "**What turns the money-functions into functions of capital is the definite role they play in the movement of capital, and therefore also the interrelation of the stage in which these functions are performed with the other stages of the circuit of capital.**"[2] Here, money purchases the means of production and labor power merely to prepare for the production of surplus value, enabling capital to assume the physical form of productive capital.

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[1] Ibid.

[2] Ibid.

The decisive factor in transforming money into money capital is the purchase of labor power as a special commodity. As Marx said: "**M — L is the characteristic moment in the transformation of money-capital into productive capital, because it is the essential condition for the real transformation of value advanced in the form of money into capital, into a value producing surplus-value. M — MP is necessary only for the purpose of realizing the quantity of labor bought in the process M — L.**"[1] Capitalist production is based on the exploitation of wage labor. The labor of wage laborers is the source of surplus value. It is precisely because money is used to purchase labor power that money undergoes expansion of value and is actually transformed into capital.

M — C $< {}^{L}_{MP}$ is a commodity exchange relationship, but this exchange relationship already contains profound class relations. Considered solely from the perspective of M — MP, the transformation of money into the means of production is likewise realized through commodity exchange; however, the buyer's status as a private owner does not change: at first, the buyer simply possesses money and later possesses the means of production. M — L is different. Although this too is a commodity exchange relationship, it embodies the relationship between the money owner and wage laborers. This relationship is based on the fact that the purchaser of labor power possesses the means of production, while the seller of labor power has been deprived of the means of production. Marx pointed out: "**It is a purchase and sale, a money-relation, but a purchase and sale in which the buyer is assumed to be a capitalist and the seller a wage-laborer. And this relation arises out of the fact that the conditions required for the realization of labor-power, viz., means of subsistence and means of**

[1] Ibid.

production, are separated from the owner of labor-power, being the property of another."[1] It can thus be seen that the reason the ordinary functions of money can become one of the functions of capital is in fact determined by specific social and economic conditions and the class relations of capitalism.

Through M — C $< ^{L}_{MP}$, money capital is transformed into productive capital, capital value changes from the money form into the form of the material elements of production, and the circuit of capital thus enters its second stage.

Stage II: the productive stage of capital. Using the labor power and means of production he has purchased, the capitalist carries out capitalist production, producing a certain quantity of new products whose total value is greater than the value of their various elements of production and which contain the surplus value created by wage laborers. This process can be represented by the following formula: C $< ^{L}_{MP}$ ... P … C'. P represents the production process, the dotted line represents the interruption of the circulation process, and C' represents the new product, whose value is greater than the value of C $< ^{L}_{MP}$.

C $< ^{L}_{MP}$ are the material elements of production, but here they are also productive capital, the functional form of capital that operates in the production process. In this process, the means of production and labor power also play a dual role. On the one hand, as material elements of production, they produce a certain quantity of material products possessing specific use values; on the other hand, as material elements of productive capital, they produce value containing surplus value. The basic function of productive capital is to produce surplus value.

[1] Karl Marx, "Chapter 1: The Circuit of Money Capital," in *Capital*, Vol. II.

In any social formation, labor power and the means of production are the basic elements of production. They must be combined in a certain way for production, and different forms of combination embody different modes of production. Marx said: "**The specific manner in which this union is accomplished distinguishes the different economic epochs of the structure of society from one another.**"[1] Under capitalism, labor power and the means of production are combined under the control of the capitalist. Through this specific form of combination, labor power and the means of production enter the capitalist production process and function as the capitalist's capital. Only thus do the material elements of production acquire the character of productive capital.

The production process under capitalism has already been analyzed in the preceding chapters. From the perspective of the metamorphosis of capital, the result of the production process is the creation of a certain quantity of commodities. These commodities contain surplus value, constitute one form of capital's existence, and are a form of commodity capital. The second stage in the circuit of capital is the stage in which productive capital is transformed into commodity capital. Once this process is completed, the circuit of capital enters its third stage.

The third stage: that is, the sale stage of capital. Acting as a commodity seller, the capitalist sells commodities on the market in exchange for money; the amount of money received in return is greater than the amount of money originally advanced. This process can be expressed by the following formula: C'—M'. C' represents the commodities produced, and M' represents the money received in return; it is greater than the money M originally advanced, that is, M' > M.

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[1] Ibid.

C' — M' is not merely commodity circulation; it is also a stage in the circuit of capital, namely, the stage in which capital is transformed from the commodity form into the money form.

Here, C' likewise has a dual nature. On the one hand, it is a commodity. On the other hand, it is also commodity capital, the functional form assumed by capital at this stage of its circuit. Marx pointed out: "**Commodities become commodity-capital as a functional form of existence — stemming directly from the process of production itself — of capital-value which has already produced surplus-value.**"[1] In other words, C' becomes commodity capital because of the nature of the production process. Here, production is capitalist production, that is, a process of expansion of value. As the product of the capitalist production process, C' contains both the advanced capital value and surplus value. The function of commodity capital is to recover the advanced capital value and realize surplus value through the sale of commodities. The realization of surplus value is the most fundamental function of commodity capital. It is this function that gives C' the character of commodity capital.

Through the sale of commodity C', money M' is received in exchange. Because C' is greater in value than $C < {}^{L}_{MP}$, C' is also greater than C. The C' — M' stage is the stage in which commodity capital is transformed into money capital. Through this stage, capital returns to its point of departure. The difference is that its value has now increased.

Capital successively assumes three different forms, passes through three different stages, preserves and increases its value, and finally returns to its original point of departure. This entire process of movement is called the circuit of capital. The entire process of the circuit of capital can be represented by the following formula:

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[1] Ibid.

$$M — C < {}^{L_{MP}}{}_{\ldots} P \ldots C' \ldots M'$$

In the circuit of capital, capital successively assumes the forms of money capital, productive capital, and commodity capital. These three forms of capital are not three different types of independent capital; rather, they are simply the three different functional forms assumed by industrial capital in the course of its movement. In essence, they are all capital because they are unified by the fundamental purpose of producing and appropriating surplus value. They are also different functional forms of capital because they play different roles in the production and appropriation of surplus value: money capital prepares the conditions for the production of surplus value, productive capital produces surplus value, and commodity capital realizes surplus value. Among the three functional forms of industrial capital, productive capital is decisive, because it plays a determining role in the process of expansion of value of capital.

The three stages through which capital passes successively in its circuit also show that the movement of capital is the unity of the production process and the circulation process.

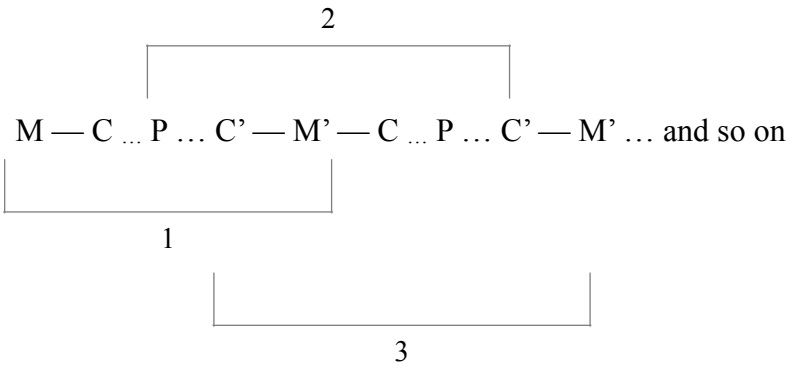
The first and third stages of the circuit of capital belong to the circulation sphere, while the second stage belongs to the production sphere. Among these, the decisive role is played by the production process, because only the production process can create value and surplus value; the circulation process can only bring about a change in the form of capital and cannot increase its value. However, the movement of capital cannot be separated from the circulation process. Without the circulation process, the capitalist would be unable to obtain the means of production and labor power to carry out the production of surplus value, nor could the products be sold and the capital value and surplus value realized. Therefore, the role of circulation in production cannot be overlooked.

The three stages of the circuit of capital are not isolated from one another; rather, they are interdependent and closely connected. Capital can circulate continuously without interruption only by passing through these three stages in succession. If an obstruction occurs in the first stage, money will become hoarded money and will be unable to perform the function of capital. This is most evident when the supply of means of production is tight. If an obstruction occurs in the second stage, the means of production and labor power will lie idle and will be unable to produce surplus value for the capitalist. This is why a workers' strike interrupts the production process and poses a major threat to the capitalist. If an obstruction occurs in the third stage, the commodities cannot be sold, making it impossible to realize the capital value and surplus value contained in them and causing the capitalist to suffer enormous losses. During an economic crisis, the capitalist will feel this particularly acutely.

Capital successively assumes the three functional forms of money capital, productive capital, and commodity capital in its circulation and performs the corresponding function in each form; this capital is industrial capital. It includes capital in all production sectors, such as industry, agriculture, transportation industry, and construction industry. The circulation of industrial capital encompasses both the circulation process and the production process; it not only produces surplus value but also realizes and appropriates surplus value. Therefore, industrial capital determines the capitalist nature of social production and directly embodies the class relations between the bourgeoisie and the proletariat.

The Circuit of Industrial Capital is the Unity of Three Forms of Circuit

The circuit of industrial capital passes through three stages and assumes three forms, with the sole purpose of producing and appropriating surplus value. The capitalist's greed for surplus value is limitless; consequently, the circuit of capital is continually repeated. The continuous circulation of capital can be represented by the following formula:



If we examine them separately, each functional form of capital must pass through the three stages of the circuit and return to its original point of departure. Thus, the circuit of capital has three different forms:

The circuit of money capital: M — C … P … C' — M'

The circuit of productive capital: P … C' — M' — C … P

The circuit of commodity capital: C' — M' — C … P … C'

The circuit of industrial capital begins with money capital. In the circuit of money capital M — C … P … C' — M', the starting point is the advanced money capital M, and the endpoint is the expanded money capital M'. This clearly shows that the motive and purpose of capitalist production are the pursuit of surplus value. Therefore, the circuit of money capital becomes the general form of the circuit of industrial capital. However, as a particular form of the circuit of

industrial capital, the circuit of money capital is also a distorted manifestation of capitalist production. Here, both the starting point and the endpoint are money; the productive stage is merely the intermediary between two circulation stages (namely, M — C and C' — M'); the advanced capital value appears as the means of the entire circuit, whereas the expanded capital value appears as its purpose. Money capital thus acquires a mysterious quality, as though it could itself generate more money. Hence Marx said: "**The circuit made by money-capital is therefore the most one-sided, and thus the most striking and typical form in which the circuit of industrial capital appears.**"[1]

The circuit of productive capital differs from that of money capital; its form is P … C' — M' — C … P. In this form of the circuit, both the starting point and the endpoint are productive capital, while the two circulation processes become intermediate links. It embodies the periodic renewal of productive capital and the capitalist reproduction process. It includes not only the production of surplus value but also its periodic reproduction, thereby dispelling the illusion created by the circuit of money capital: money no longer appears as money undergoing self-expansion. However, in this form of the circuit, money capital serves only as a medium of circulation or a means of payment, appearing as a mere medium for maintaining the reproduction process, and thus once again concealing the purpose of capitalist production. Therefore, although the circuit of productive capital overcomes the one-sidedness of the circuit of money capital, it produces another kind of one-sidedness: it seems that the purpose of capitalist production is not surplus value—that is, more money—but production for the sake of production. Marx points out: "**The general form of the movement P ... P is the form of reproduction and, unlike M ... M',**

[1] Ibid.

does not indicate the self-expansion of value as the object of the process. This form makes it therefore so much easier for classical Political Economy to ignore the definite capitalistic form of the process of production and to depict production as such as the purpose of this process."[1]

The circulation of commodity capital differs from the previous two forms of circulation. The form of circulation of commodity capital is C' — M' — C … P … C'. Its starting point is commodity capital, which is capital value that has already undergone expansion of value and includes the value of advanced capital and surplus value. The first stage of this circulation, C' — M', is both the sale stage of the commodity and the process through which the value of the advanced capital and surplus value are realized. Marx said: "**The commodity-capital circuit, on the contrary, does not open with just capital-value but with capital-value augmented in the commodity-form. Hence it includes from the start the circuit of not only capital-value existing in the form of commodities, but also of surplus-value.**"[2] Here, the total consumption of the products of commodity production (including productive consumption and personal consumption) becomes a condition for the normal operation of the capital circulation. In fact, satisfying the needs of consumption is not the purpose of capitalist production. However, because the circulation process—namely, the realization and consumption of commodities—occupies the primary position in the circulation of commodity capital, this gives rise to the illusion that capitalist production also exists to satisfy social needs rather than to pursue surplus value. Thus, the circulation of commodity capital likewise has its own one-sidedness.

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[1] Karl Marx, "Chapter 3: The Circuit of Commodity-Capital," in *Capital*, Vol. II.

[2] Ibid.

Having analyzed the three forms of circulation of industrial capital, we can see that each form reveals the characteristics of the movement of capital from one aspect while also possessing its own one-sidedness. Only by examining the three forms of circulation as a unified whole can we gain a comprehensive understanding of the essence of the movement of capital. In the course of its continuous movement, industrial capital is in fact the unity of the circulation of money capital, the circulation of productive capital, and the circulation of commodity capital.

The above examination of the circuit of capital assumes that the entire capital value successively takes only one capital form: first, it is all treated as money capital, then it is all transformed into productive capital, and finally it is all transformed into commodity capital. This assumption is made merely to facilitate an explanation of the three different stages through which capital successively passes in its circuit and the three different forms it successively takes. Marx pointed out: "**The circuit-describing process of capital means constant interruption, the leaving of one stage and the entering into the next, the discarding of one form and the assuming of another. Each one of these stages not only presupposes the next but also excludes it.**"[1]

In reality, however, industrial capital cannot, during its circuit, exist entirely in one functional form at each stage; if it does, the circuit of industrial capital would be interrupted. Suppose that industrial capital is transformed entirely from money capital into productive capital and then entirely from productive capital into commodity capital. In that case, before the commodities have been sold—that is, before commodity capital has been transformed into money capital—production would have to stop because there would be no money with which to

[1] Karl Marx, "Chapter 4: The Three Formulas of the Circuit," in *Capital*, Vol. II.

purchase the means of production and labor power, and the circuit of capital would be interrupted. For capitalist production, or the circuit of capital, to proceed continuously, it must therefore satisfy the following two conditions.

First, total industrial capital must be divided into three parts and simultaneously exist in the three forms of money capital, productive capital, and commodity capital. In other words, industrial capitalists must always retain a portion of money capital ready to purchase means of production and labor power at any time; at the same time, a portion of productive capital must be engaged in the production process so that production can proceed without interruption; and there must also be a portion of commodity capital available to obtain money through sales. When capitalists transform a given quantity of commodity capital into money capital, a corresponding amount of productive capital simultaneously transforms into commodity capital, while a corresponding amount of money capital transforms into productive capital. Only in this way can the circulation of industrial capital proceed without interruption. The proportions in which money capital, productive capital, and commodity capital are distributed are determined by many factors, the main ones being the size of the capital owned by the capitalists, the nature of the production sector, the speed of capital turnover, transport conditions, market conditions, and so on.

Secondly, each part of industrial capital must successively pass through the three stages of the circuit and successively assume the three functional forms. Money capital must continually be transformed into productive capital and commodity capital, and finally return to the money form; productive capital and commodity capital must likewise be transformed, in sequence, into the other two forms and finally return to their respective starting points. The

circuit of industrial capital can proceed continuously only when all three parts of capital simultaneously complete their own circuits normally. If any part of capital or any stage of the circuit encounters an impediment, the entire circuit will be interrupted.

In sum, for the circuit of capital to proceed without interruption, the three forms of capital must coexist, and each part must successively pass through the three stages of the circuit. These two aspects presuppose and constrain each other. The succession of the stages is conditioned by the coexistence of the three forms, while their coexistence is itself the result of this succession. Marx pointed out: "**The succession [das Nacheinander] of these parts is here governed by their co-existence [das Nebeneinander], that is to say, by the division of capital.**" "**However co-existence, by which continuity of production is determined, is only due to the movement of those parts of capital in which they successively pass through their different stages. Co-existence is itself merely the result of succession.**"[1]

It can be seen from the foregoing that only the unity of the coexistence of capital in its three forms and the succession of the various forms of capital in their own circuits can ensure the continuity of the circuit of total capital. "**The actual circuit of industrial capital in its continuity is therefore not alone the unity of the processes of circulation and production but also the unity of all its three circuits.**"[2]

Marx's analysis of the circuit of industrial capital further revealed the essence and characteristics of capital. Capital not only embodies a relation of production; it is also a movement. Only through ceaseless movement can capital realize the expansion of value. As

[1] Ibid.

[2] Ibid.

Marx pointed out: "**Capital as self-expanding value embraces not only class relations, a society of a definite character resting on the existence of labor in the form of wage-labor. It is a movement, a circuit-describing process going through various stages, which itself comprises three different forms of circuit-describing process. Therefore it can be understood only as a motion, not as a thing at rest.**"[1]

Marx's analysis of the circuit of capital clarified the conditions under which the movement of capital can proceed normally. However, in capitalist society, various antagonistic contradictions exist, along with competition and the anarchy of social production, and it is impossible for these conditions to be present consistently. Consequently, the circuit of industrial capital can proceed only amid continual disruption and the constant generation of disorder.

Section Two: Turnover of Capital

Capital must circulate continuously for its value to increase continually. This periodic repetition of capital's circuit is called the turnover of capital. Marx said: "**A circuit performed by a capital and meant to be a periodical process, not an individual act, is called its turnover.**"[2] The purpose of examining the turnover of capital is primarily to analyze the speed of the movement of capital and its impact on the production of surplus value, thereby revealing the inherent laws governing the movement of capital.

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[1] Ibid.

[2] Karl Marx, "Chapter 7: The Turnover Time and the Number of Turnovers," in *Capital*, Vol. II.

Turnover Time and Number of Turnovers

The turnover time of capital is equal to the sum of its time of circulation and its time of production. It marks the interval between the total capital value in one cycle and that in the next. For the capitalist, the turnover time of capital is the time required from the moment they advance the capital, through the movement of capital generating surplus value, until it returns to its original form of capital.

Capital passes through two distinct spheres during its turnover: the production sphere and the circulation sphere. The time capital spends in the production sphere is its time of production, while the time it spends in the circulation sphere is its time of circulation. The lengths of time of production and time of circulation affect the length of the turnover time of capital.

The time of production of capital consists of three parts. The main part of time of production is the working time, that is, the time during which workers process the objects of labor. The length of the working period depends first of all on the characteristics of the product. The products of some production sectors can be completed within a relatively short labor process, with finished products available every day or every week; other production sectors require a longer period before they can provide a finished product. Second, the length of the working period also depends on the level of production technology. To produce a given quantity of products, enterprises with a high level of production technology require a shorter working period, whereas those with a low level of production technology require a longer one.

In many production sectors, time of production includes not only the working period but also the time during which natural forces act upon the subjects of labor when the labor process is

interrupted. "**We are dealing here rather with interruptions independent of the length of the labor-process, brought about by the very nature of the product and its fabrication, during which the subject of labor is for a longer or shorter time subjected to natural processes, must undergo physical, chemical and physiological changes, during which the labor-process is entirely or partially suspended.**"[1] At this time, although the labor process comes to a complete or partial halt, the production process continues. For example, seeds that have been sown require a period of natural growth; wine production requires a period of fermentation; ceramic products must undergo a drying process; tanning, bleaching, and dyeing each involve a process of chemical change, and so forth. The discrepancy between time of production and the working time is most pronounced in agricultural and forestry production. In a temperate climate, grain is usually sown and harvested only once a year. The afforestation industry, by contrast, must pass through several or even several dozen years before returns can be obtained.

The time of production of any department should also include part of the storage time of means of production. To ensure that the production process does not come to a halt because of market supply and transport conditions, the capitalist must maintain a certain quantity of raw-material reserves. Although these raw materials have already entered the production sphere, they have not yet functioned in the production process. The size and duration of such reserves depend on the needs of the production process, the state of market supply, and transport conditions.

The sum of the above three periods of time is the time during which capital is in the production sphere, that is, time of production. Time of production is longer than the working period: "**This excess always arises from the latent existence of productive capital in the**

[1] Karl Marx, "Chapter 13: The Time of Production," in *Capital*, Vol. II.

sphere of production without functioning in the process of production itself or from its functioning in the productive process without taking part in the labor-process."[1] Industrial capital that is within time of production but outside the labor process does not produce surplus value. The closer time of production is to the working period, the greater the value increment of productive capital within a given period. Therefore, the capitalist always seeks by every possible means to shorten that portion of time of production exceeding the working period.

The time of circulation of capital consists of two parts: first, the time required for money capital to be transformed into productive capital; second, the time required for commodity capital to be transformed into money capital. Within time of circulation, the more difficult yet decisive part is the latter, namely, commodity sale time. Marx said: "**The time of circulation, and hence the period of turnover in general, are long or short depending on the relative length of this selling time.**"[2] Under normal circumstances, the length of time required to sell commodities depends on market supply and demand.

Another important factor determining the length of time of circulation is the distance between the production unit and the market. The distance from the market affects not only the time required to sell commodities but also the time required to purchase means of production. Generally speaking, the closer the market, the shorter the time of circulation; conversely, the farther the market, the longer the time of circulation. In addition, the development of transport vehicles can shorten this time in absolute terms. Thus, transport conditions are also a factor affecting time of circulation.

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[1] Karl Marx, "Chapter 5: The Time of Circulation," in *Capital*, Vol. II.

[2] Karl Marx, "Chapter 14: The Time of Circulation," in *Capital*, Vol. II.

Time of circulation and time of production are both mutually conditional and mutually exclusive. When capital is in the circulation sphere, it cannot simultaneously function as productive capital and therefore does not produce surplus value. The longer capital remains in the circulation sphere, the shorter the time it operates in the production sphere. Thus, the length of time of circulation imposes a negative limitation on the shortening or lengthening of time of production. Marx pointed out: "**A capital's time of circulation therefore limits, generally speaking, its time of production and hence its process of generating surplus-value. And it limits this process in proportion to its own duration. This duration may considerably increase or decrease and hence may restrict capital's time of production in a widely varying degree.**"[1]

Because the lengths of time of production and time of circulation differ among production sectors, the turnover times of capital also differ. To measure and compare the speed of capital turnover in different production sectors, a unit of time is necessary. The "year" is the natural unit of calculation for measuring capital turnover. "**The natural basis of this unit is the circumstance that the most important crops of the temperate zone, which is the mother country of capitalist production, are annual products.**"[2]

If T represents the unit of capital turnover time, "year," t represents the turnover time of capital, and n represents the number of turnovers of capital, the formula for calculating the number of capital turnovers in one year is n = T/t. Suppose that a factory requires three months for one turnover of capital; the number of turnovers is 12/3 = 4, that is, four turnovers per year.

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[1] Karl Marx, "Chapter 5: The Time of Circulation," in *Capital*, Vol. II.

[2] Karl Marx, "Chapter 7: The Turnover Time and the Number of Turnovers," in *Capital*, Vol. II.

Another factory requires 18 months for one turnover of capital; the number of turnovers is 12/18=2/3, that is, in one year it completes only two-thirds of one turnover. Comparing the two capitals, the turnover speed of the former is five times that of the latter. It can thus be seen that, within a given period, the shorter the turnover time of capital, the greater the number of turnovers and the faster the turnover speed; conversely, the longer the turnover time of capital, the fewer the turnovers and the slower the turnover speed. Therefore, the turnover time of capital is inversely proportional to the number of turnovers of capital.

Accelerating the turnover of capital has a significant impact on the production of surplus value. Before analyzing this issue, however, it is first necessary to clarify the distinction between fixed capital and circulating capital.

Fixed Capital and Circulating Capital

In addition to the length of time of production and time of circulation, the composition of productive capital is also an important factor affecting the speed of turnover of capital.

Industrial capital can be divided into fixed capital and circulating capital according to the difference in turnover .

Industrial capital used to purchase factory buildings, machinery, equipment, and other instruments of labor always retains its original material form during the production process and can continuously perform its function over a relatively long period through continuous labor processes. Industrial capital invested in instruments of labor is advanced in full at one time by the capitalist. During the production process, the value of the means of labor is gradually

transferred to the products according to the extent of their wear and tear, and is successively converted into money as the products are sold; but while the means of labor remain effective, a greater or lesser portion of their value is always fixed in the material form that continues to perform its function. The value preserved in this material form decreases bit by bit, while the value converted into money increases bit by bit. Only when these means of labor can no longer be used is their full value withdrawn from circulation; the capital is then used to purchase machinery and equipment to replace the means of labor that have become unusable, and a new turnover begins. Because of this characteristic of the way capital turns over, Marx called the portion of capital advanced for instruments of labor "fixed capital."

Industrial capital used to purchase raw materials, fuel, auxiliary materials, and other means of production circulates in another way. These means of production are entirely consumed during the labor process and no longer retain their original material form. Their value, of course, cannot retain any part of its original material form either; instead, it is transferred in its entirety to the new product, then, through the sale of the product, is wholly converted into money, which in turn is converted into constituent elements of the product, thereby undergoing replacement in material form. Marx called this portion of capital "circulating capital."

The portion of productive capital used to purchase labor power also belongs to circulating capital. However, the value of labor power is not transferred to the product; rather, it is recreated by living labor. In the labor process, workers add to the product not only a value equal to the value of labor power, but also surplus value. It can be seen that labor power and raw materials play fundamentally different roles in the process of expansion of value. Nevertheless, viewed from the standpoint of the way value circulates, they also share common characteristics. The

capital value advanced by the capitalist for labor power is likewise added in its entirety to the product at once during the production process, and recovered in its entirety from circulation at once, after which it is used again to purchase labor power. It is precisely in this sense that Marx included the portion of capital embodied in labor power within the scope of circulating capital. Marx pointed out: "**However different otherwise may be the relation between labor-power, so far as the creation of value is concerned, and the component parts of constant capital which do not constitute fixed capital, this kind of turnover of its value labor-power shares with them, in contradistinction to fixed capital. These components of the productive capital … by reason of their common turnover characteristics confront the fixed capital as circulating or fluent capital.**"[1]

The foregoing analysis shows that the distinction between fixed capital and circulating capital consists mainly of the following points. First, their modes of circulation of value differ. The value of fixed capital is transferred to the product gradually and piece by piece; the value of circulating capital, by contrast, is transferred to—or added to—the product all at once in its entirety. Second, their modes of capital turnover differ. Fixed capital completes one turnover only after passing through repeated production processes or circuits of capital; circulating capital completes one turnover within a single production process or circuit of capital. Third, the speed of capital turnover differs: fixed capital turns over more slowly, while circulating capital turns over more quickly; the time required for one turnover of fixed capital encompasses multiple turnovers of circulating capital. Marx pointed out: "**The definiteness of form of fixed and circulating capital arises merely from the different turnovers of the capital-value,**

[1] Karl Marx, "Chapter 8: Fixed Capital and Circulating Capital," in *Capital*, Vol. II.

functioning in the process of production, or of the productive capital. This difference in turnover arises in its turn from the different manner in which the various components of productive capital transfer their value to the product; it is not due to the different parts played by these components in the generation of product value, nor to their characteristic behavior in the process of self-expansion."[1]

On the basis of the different roles of capital in the production of surplus value, Marx divided capital into constant capital and variable capital, with the aim of revealing the true source of surplus value. Now, on the basis of the different modes of capital turnover, Marx further divides capital into fixed capital and circulating capital, in order to explain the speed of capital turnover and further reveal the laws governing the movement of capital. The criteria and purposes of the two divisions are different, so they should not be confused. The relationship between these two methods of division is shown in the diagram below:

Based on Production of Surplus Value	**Different Components of Capital**	**Based on Circulation**
Constant Capital	Factory buildings and other buildings	Fixed Capital
	Machinery, equipments, and other tools	
	Raw material, fuel, and auxiliary materials	Circulating Capital
Variable Capital	Wage	

One of the errors of bourgeois economics is that it recognizes only the division between fixed capital and circulating capital while rejecting the division between constant capital and variable capital, thereby concealing the exploitative relationship embodied in capital. If capital is divided solely into fixed capital and circulating capital, "**on account of the identity of form**

[1] Ibid.

assumed in the turnover by the variable capital and the circulating constituent of the constant capital, their essential difference in the process of self-expansion and of the formation of surplus-value is hidden, so that the entire secret of capitalist production is obscured still more. The common designation "circulating capital" abolishes this essential difference. Political Economy subsequently went still farther by holding fast not to the antithesis between variable and constant capital but to the antithesis between fixed and circulating capital as the essential and sole delimitation."[1]

Although bourgeois economists acknowledge only the distinction between fixed capital and circulating capital, their concepts of these two forms of capital are extremely confused. For example, some bourgeois economists mistakenly regard certain material properties of the instruments of labor as properties of fixed capital itself. In their view, instruments of labor such as buildings and machines are fixed capital because they are physically immovable and cannot be relocated. This view is, of course, extremely absurd. Although instruments of labor such as ships and vehicles are physically movable and frequently change location, they nevertheless belong to fixed capital. As Marx said: "**Neither does immobility in the one case bestow upon it the character of fixed capital, nor does mobility in the other case deprive it of this character.**"[2]

The material elements of fixed capital undergo continual depreciation during use. Depending on the different causes of this depreciation, it can be divided into material wear and tear and moral depreciation. Material wear and tear is caused first of all by use; generally speaking, this wear is directly proportional to the degree of use of fixed capital. Second, it is

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[1] Karl Marx, "Chapter 10: Theories of Fixed and Circulating Capital. The Physiocrats and Adam Smith," in *Capital*, Vol. II.

[2] Karl Marx, "Chapter 8: Fixed Capital and Circulating Capital," in *Capital*, Vol. II.

caused by the action of natural forces, such as the decay of timber and the rusting of metals. This wear is often inversely proportional to the degree of use of fixed capital.

The causes of moral depreciation are, first, that an increase in labor productivity in a sector reduces the working time required to produce the same kind of fixed capital, thereby lowering the value of the existing fixed capital; second, that technological improvements bring more efficient machinery and equipment into production, which also devalues the existing fixed capital. Marx pointed out: "**In both cases, be the machine ever so young and full of life, its value is no longer determined by the labor actually materialized in it, but by the labor-time requisite to reproduce either it or the better machine. It has, therefore, lost value more or less.**"[1] The wear of fixed capital inevitably prompts capitalists to make every effort to avoid this loss. They always use methods such as extending the working day and intensifying labor to increase the utilization rate of machinery and equipment and accelerate the turnover of fixed capital, so as to recover the full value of the fixed capital within a shorter period.

Wear and tear of fixed capital inevitably causes some of its components to fail. To ensure that fixed capital continues to function normally throughout its service life, certain maintenance costs must be incurred. For example, machines must be cleaned and undergo minor repairs regularly, and certain spare parts must be replaced. This additional capital is not advanced in a single payment but in installments as needed. Marx said: **"This capital, expended in repairs properly so called, is in many respects a capital sui generis, which can be classed neither as circulating nor as fixed capital, but belongs with greater justification to the former, since it**

[1] Karl Marx, "Chapter Fifteen: Machinery and Modern Industry," in *Capital*, Vol. I.

figures among the running expenses."[1] In addition, at a certain stage, the physical equipment comprising fixed capital must undergo major repairs. Such major repairs involve the partial renewal of fixed capital in its material form; therefore, the costs of major repairs should be classified as fixed capital.

The value of fixed capital is gradually transferred to products according to the extent of its wear and tear. After the products are sold, this portion of value must be withdrawn and accumulated so that, when the time comes, the fixed capital that has been completely worn out can be compensated for in value and replaced in kind. This is what is commonly referred to as fixed capital depreciation. The value of fixed capital withdrawn and accumulated each year according to the extent of wear and tear is called the depreciation charge. For example, for a machine worth 10,000 yuan with a service life of 10 years, 1,000 yuan of value should be transferred to new products each year. Therefore, the capitalist must withdraw 1,000 yuan annually from the money recovered as the machine's depreciation charge. After 10 years, the accumulated 10,000 yuan can be used to purchase new fixed assets to replace the old equipment that has been almost completely worn out.

The amount of value transferred through the wear and tear of fixed capital directly affects the speed of fixed capital turnover.

[1] Karl Marx, "Chapter 8: Fixed Capital and Circulating Capital," in *Capital*, Vol. II.

The Aggregate Turnover of Advanced Capital. The Impact of Accelerating Capital Turnover on the Production of Surplus value

Fixed capital and circulating capital turn over in different ways and at different speeds. Since different parts of capital turn over at different speeds, discussion of the turnover speed of capital always refers to the total turnover of all advanced capital. To determine the speed of total turnover of advanced capital, the turnover times of fixed capital and circulating capital must be averaged. Marx pointed out: "**The aggregate turnover of an advanced capital is the average turnover of its various constituent parts**."[1] Specifically, the total value of the fixed and circulating capital turned over is divided by the total value of the advanced capital; the resulting quotient is the number of turnovers of all advanced capital in one year.

Assume that a factory's fixed capital is 150,000 yuan, of which the factory buildings are worth 40,000 yuan and can be used for 40 years; the machines are worth 90,000 yuan and can be used for 10 years; and the tools are worth 20,000 yuan and can be used for 4 years. Its circulating capital is 60,000 yuan, turning over six times a year. The total turnover of the factory's advanced capital is therefore as shown in the following table:

Elements of Productive Capital	Value (yuan)	Number of Turnovers per Year	Total Annual Turnover Value (yuan)
Fixed Capital	150,000	1/10	150,000
Of which: Factory Building	40,000	1/40	1,000
Machinery	90,000	1/10	9,000
Tools	20,000	1/4	5,000
Circulating Capital	60,000	6	360,000

[1] Karl Marx, "Chapter 9: The Aggregate Turnover of Advanced Capital, Cycles of Turnover," in *Capital*, Vol. II.

Total Advanced Capital	210,000	1.78	375,000

As can be seen from the table above, the total advanced capital is 210,000 yuan, the total annual turnover is 375,000 yuan, and the average turnover speed is 1.78 times.

The speed of total turnover of advanced capital depends not only on the turnover time of fixed capital and circulating capital, but is also closely related to the composition of productive capital. The greater the proportion of fixed capital in total capital, the slower the turnover of the total advanced capital; conversely, the greater the proportion of circulating capital, the faster the turnover of the total advanced capital. For example, capitalists A and B have both advanced a total capital of 40,000 yuan. The composition of capitalist A's productive capital is half fixed capital and half circulating capital; in capitalist B's productive capital, fixed capital accounts for 3/4, while circulating capital accounts for 1/4. Suppose also that the number of turnovers of fixed capital and circulating capital is exactly the same—one turnover every 10 years and two turnovers per year, respectively. The number of turnovers of the total advanced capital of capitalists A and B within one year is shown in the following two tables:

(A) Number of Turnovers of the Total Capital Advanced

	Value (yuan)	Number of Turnovers per Year	Total Annual Turnover Value (yuan)
Fixed Capital	20,000	1/10	2,000
Circulating Capital	20,000	2	40,000
Total Advanced Capital	40,000	1.05	42,000

(B) Number of Turnovers of the Total Capital Advanced

	Value (yuan)	Number of Turnovers per Year	Total Annual Turnover Value (yuan)
Fixed Capital	30,000	1/10	3,000
Circulating Capital	10,000	2	20,000
Total Advanced Capital	40,000	0.57	23,000

The two tables above show that although capitalists A and B advanced the same total amount of capital, and the turnover speeds of fixed capital and circulating capital were exactly the same, the number of turnovers of the total advanced capital also differed because the compositions of their productive capital were different: the former turned over 1.05 times a year, while the latter turned over only 0.57 times a year.

Accelerating the turnover of capital has an important impact on the production of surplus value.

Accelerating the turnover of fixed capital can avoid losses caused by moral depreciation, as was analyzed earlier. We will now further explain the role of accelerating the turnover of circulating capital in saving circulating capital. Assume that enterprises A and B are of the same scale and that each invests 30,000 yuan of circulating capital every month. However, the circulating capital of enterprise A turns over quickly, once every two months: the 30,000 yuan advanced at the beginning of the first month can be fully recovered by the end of the second month; the 30,000 yuan advanced at the beginning of the second month can be fully recovered by the end of the third month; at the beginning of the third month, the 30,000 yuan advanced in the first month and recovered at the end of the second month can be advanced again. Thus, a total of only 60,000 yuan is needed to meet the requirements for circulating capital for the whole

year. The circulating capital of enterprise B turns over slowly, once every four months: the 30,000 yuan advanced at the beginning of the first month cannot be recovered until the end of the fourth month, ... and it is not until the fifth month that the 30,000 yuan advanced in the first month and recovered at the end of the fourth month can be advanced again; consequently, a total of 120,000 yuan is needed to meet the circulating-capital requirements for the whole year. It can therefore be seen that the faster the turnover of circulating capital, the less capital is required to maintain production at the same scale, and hence the more advanced capital can be saved.

Accelerating the turnover of circulating capital necessarily accelerates the turnover of the variable capital component contained within it; consequently, advancing the same amount of variable capital can generate more surplus value. Suppose that the variable capital of each of two enterprises amounts to 10,000 yuan and that the rate of surplus value is 100% for both, but that the turnover speeds of their circulating capital differ: the variable capital of enterprise A turns over six times a year, whereas that of enterprise B turns over three times a year. At year-end, enterprise A obtains a total amount of surplus value of 10,000*100%*6=60,000 yuan, whereas enterprise B obtains a total amount of surplus value of 10,000*100%*3=30,000 yuan. The example above shows that although the variable capital advanced by capitalists A and B and their rate of surplus values are exactly the same, the annual amounts of surplus value they obtain differ by a factor of two because their circulating capital turns over at different speeds.

The turnover speed of variable capital not only affects the annual amount of surplus value, but also directly affects the annual rate of surplus value. The annual rate of surplus value is, in other words, “**the ratio of the total surplus-value produced during one year to the sum**

of value of the advanced variable capital."[1] Continuing with the example above, the annual rate of surplus value of enterprise A is 60,000/10,000=600%; that of enterprise B is 30,000/10,000=300%. It can be seen that, with all other conditions being equal, the faster the turnover of the variable capital advanced, the greater the annual amount of surplus value and the higher the annual rate of surplus value; conversely, the slower the turnover of the variable capital advanced, the smaller the annual amount of surplus value and the lower the annual rate of surplus value. The annual amount and annual rate of surplus value are directly proportional to the turnover speed of the variable capital advanced.

Since the rate of turnover of variable capital can affect the annual mass of surplus value and the annual rate of surplus value, this creates the illusion that "**the rate of surplus-value depends not only on the quantity and intensity of exploitation of the labor-power set in motion by the variable capital, but besides on inexplicable influences arising from the process of circulation.**"[2] In fact, we do not study the question superficially, this phenomenon is easy to understand. Since surplus value is always generated by variable capital that is actually functioning, the faster variable capital turns over during the year, the greater the amount of variable capital that actually functions. Under these circumstances, if the amount of variable capital advanced remains unchanged, more workers can be hired and exploited, thereby increasing both the annual mass of surplus value and the annual rate of surplus value; if the number of workers hired remains unchanged, the variable capital advanced can be reduced, thereby raising the annual rate of surplus value.

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[1] Karl Marx, "Chapter 16: The Turnover of Variable Capital," in *Capital*, Vol. II.

[2] Ibid.

The general rate of surplus value and the annual rate of surplus value have different meanings. The general rate of surplus value is the ratio of the variable capital in operation to the surplus value it generates, reflecting the degree of exploitation of wage laborers. The annual rate of surplus value is the ratio of the advanced variable capital to the annual amount of surplus value, reflecting the degree to which the advanced variable capital increases in value over the course of a year.

Since accelerating the turnover of capital can bring capitalists more surplus value, capitalists always try every possible means to accelerate the turnover of capital. The turnover time of capital consists of time of production and time of circulation; only by shortening the time of production and time of circulation of capital can its turnover be accelerated. Therefore, capitalists reduce the labor time contained in each unit of product and shorten the time during which the objects of labor is acted upon by natural forces by adopting such measures as new technology, improving production methods, increasing labor intensity, and extending the working day, so as to shorten time of production as much as possible. At the same time, they shorten the time of circulation of capital through the development of transportation and postal-telecommunications services and the expansion of the commercial network.

Capitalists' attempts to accelerate the turnover of capital often cannot be successfully realized because of the inherent contradictions of capitalism. For example, by disregarding workers' lives and frantically extending the working day and increasing labor intensity, capitalists inevitably deepen the class contradictions of capitalist society and provoke fierce resistance from the working class. Capitalists' adoption of new technology is also constrained by capitalism; moreover, as the proportion of fixed capital rises, the speed of turnover of capital

instead becomes slower. Capitalist competition and the anarchy of production not only frequently cause interruptions in the circuit of capital, but also result in an irrational distribution of production and uncoordinated development among sectors, leading to blind transportation and greatly offsetting the positive effects brought about by the development of the transportation industry. At the same time, capitalist exploitation makes the broad masses of working people increasingly impoverished, reducing their purchasing power; large quantities of commodities cannot find markets, making sales difficult and also prolonging time of circulation.

In short, the antagonistic contradictions inherent in capitalism created numerous difficulties for the capitalist in the process of accelerating the turnover of capital. Since the methods of accelerating the turnover of capital are based on intensifying the exploitation of workers, they inevitably deepen the antagonism between the bourgeoisie and the proletariat. Thus, examining the production process and circulation process of capital as a unified process of the movement of capital further reveals the complex and acute contradictions within the movement of capital.

Chapter Five: Reproduction and Circulation of Social Capital

The previous chapter examined the circulation process of individual capital. This chapter will further examine the reproduction and circulation of total social capital, revealing the general laws and profound contradictions of the reproduction of social capital.

Section One: Individual Capital and Social Capital

In capitalist society, there are many capitalist enterprises, and the capital of each enterprise operates independently. The capital of a single enterprise is individual capital. Individual capital does not exist in isolation. In the reproduction process, each individual capital comes into contact with other individual capitals when purchasing means of production and selling commodities, thereby forming an organic whole. The sum of the individual capitals that are interconnected and mutually constrained in society is social capital, or total social capital. Just as an individual capitalist is a member of the class of capitalists, each individual capital is also an independent component of total social capital.

Individual capital passes through three stages in the course of its circuit, correspondingly assuming three functional forms. The circuits of individual capitals are also mutually conditioning and closely related. For example, when one capital changes from the money form into the form of constituent elements of the product, this is also when another capital changes

from the commodity form into the money form. Each change of form undergone by individual capital in its circuit is a link in a series of changes of form undergone by social capital. Therefore, the sum total of the movements of interconnected individual capitals constitutes the movement of total social capital. Marx pointed out: "**The circuits of the individual capitals intertwine, presuppose and necessitate one another, and form, precisely in this interlacing, the movement of the total social capital.**"[1]

Where should we begin in examining the movement of total social capital? Marx pointed out that we should begin with an analysis of total commodity capital. This is because, first, the various independent individual capitals establish connections through the buying and selling of commodities in the circulation process—that is, through the form of commodity capital. Starting from total commodity capital makes it possible to reflect the overall movement through which the various individual capitals are interconnected. Second, the circuit of total commodity capital contains from the outset not only the movement of total advanced capital but also the movement of total surplus value. Only by beginning with total commodity capital can the movement process of total social capital be fully revealed. Third, the movement of total commodity capital includes both productive consumption and capital circulation, as well as personal consumption and general commodity circulation; this precisely reflects the characteristics of the movement of total social capital. The difference between the movement of individual capital and that of social capital is that the former includes only the process of productive consumption and capital circulation, not the process of personal consumption or general commodity circulation. From the standpoint of individual capital, although the capitalist uses part of the surplus value for personal

[1] Karl Marx, "Introduction," in *Capital*, Vol. II.

consumption and workers use all their wages for personal consumption, such personal consumption and simple commodity circulation take place outside the movement process of capital and do not belong to the scope of capital circulation. However, when examined from the standpoint of the overall movement of social capital, the process through which capitalists and workers purchase personal consumer goods with money is simultaneously the process through which enterprises producing personal consumer goods sell commodities and transform commodity capital into money capital. Therefore, personal consumption and the general commodity circulation connected with it can no longer be excluded from the movement process of capital. Marx said, "**The circuit of the aggregate social capital, as was noted, comprises also the commodity circulation lying outside the circuit of individual capital, i.e., the circulation of commodities which do not represent capital.**"[1]

Since the point of departure is total commodity capital, analyzing the movement of total social capital is also analyzing the movement of total commodity capital. The circuit form of commodity capital is:

$$C' — M' \begin{cases} M — C \begin{cases} L \\ Pm \end{cases} \\ m — c \end{cases} \ldots P \ldots C'$$

This circuit formula shows that it begins with commodity capital containing surplus value, which is entirely sold and thereby transformed into money capital. This money is divided into two parts: one part is used to purchase labor power and means of production, transformed into productive capital, enters the production process, and reproduces commodities containing

[1] Ibid.

surplus value; the other part is used by the capitalist to purchase consumer goods and enters personal consumption. This clearly reflects how one part of total commodity capital is used for productive consumption through capital circulation, while the other part is used for personal consumption through general commodity circulation. Thus, the circuit of total commodity capital best demonstrates the movement of social capital.

The total commodity capital referred to here is the total social capital existing in commodity form, that is, the social product. The social product refers to the sum total of the material products produced by society in one year. To examine the movement of social capital from the standpoint of the social product, it is necessary to analyze it from the perspective of the unity of compensation in value and compensation in kind. When examining the reproduction of individual capital, it was assumed that the capitalist's sale of commodities and purchase of means of production on the market posed no problem, and that workers' and capitalists' purchase of articles of consumption likewise posed no problem. Since the purpose of that examination was to expose the exploitative essence of capitalist reproduction, and since it took as its premise the existence of countless other capitals besides individual capital, it was both necessary and reasonable to abstract from the problem of compensation in kind and analyze matters solely from the perspective of compensation in value. However, this assumption does not apply when analyzing the reproduction of social capital. For what must be answered here are precisely those questions previously treated as posing "no problem": for example, where workers and capitalists obtain means of personal consumption, where capitalists obtain means of production, and how these products meet the needs of extended reproduction in the various departments of social production. Clearly, examining the movement of total social capital requires analyzing both the

problem of compensation in value and that of compensation in kind. Marx pointed out: "**This movement is not only a replacement of value, but also a replacement in material and is therefore as much bound up with the relative proportions of the value-components of the total social product as with their use-value, their material shape.**"[1]

The problems to be studied in the reproduction of social capital ultimately amount to the problems of compensation in value and compensation in kind for the social product: whether the social product produced in one year can, in value, compensate for the capital value consumed and, in kind, replace the consumed material means. This is in fact the realization problem of the social product. Therefore, the theory of social reproduction may also be called the theory of realization. The conditions of realization of the social product are also the conditions of reproduction of social capital.

In order to examine the conditions of realization of the social product from the unified perspective of compensation in value and compensation in kind, it is first necessary, in theory, to correctly determine the value composition and material composition of the social product. According to its material composition, the social product can be divided into two major departments: one consists of means of production, and the other of articles of consumption. Correspondingly, social production is also divided into two major departments: the department producing means of production is called Department I, while the department producing articles of consumption is called Department II. Each of the two major departments comprises many different production sectors, and each sector in turn comprises tens of thousands of enterprises. According to its value composition, the social product can be divided into three parts, namely

[1] Karl Marx, "Chapter 20: Simple Reproduction," in *Capital*, Vol. II.

c+v+s: c represents the constant capital consumed, v is used to compensate variable capital, and s is surplus value. Of these three parts, c is transferred old value; v+s is newly created value, which constitutes a country's national income.

The principle that social production is divided into two major departments and that the social product is divided in value terms into three parts constitutes two basic premises of Marx's theory of the reproduction of social capital and is of great theoretical and practical significance. It provides a key for studying the intricate movement of total social capital. Lenin said that it was precisely by establishing these two basic premises that "**enabled Marx to build up his brilliant theory of the realization of the social product in capitalist society.**"[1]

Section Two: Conditions of Realization of Social Capital

Conditions of Realization of Simple Reproduction

To examine the conditions of realization of the social product, one should begin with an analysis of simple reproduction. This is because simple reproduction is the foundation of extended reproduction; at the same time, to facilitate the explanation, factors such as accumulation and the expansion of the scale of production must temporarily be set aside.

First, the following assumptions should be made: the entire state is a purely capitalist economy, with only two classes, capitalists and workers; the production cycle is one year, and the value of constant capital is transferred entirely to the products within one year; all commodities

[1] Vladimir Ilyich Lenin, "Chapter I. The Theoretical Mistakes of the Narodnik Economists, The Development of Capitalism in Russia," in *Lenin's Collected Works, Vol 3.*

are sold according to their value, with neither value nor price undergoing any change; there is no foreign trade, and the issue is examined only within the scope of a single country.

To examine the conditions of realization of the social product under simple reproduction, we take the following diagram as our starting point:

$$\left.\begin{array}{ll} \text{I} & 4{,}000c+1{,}000v+1{,}000s=6{,}000 \\ \text{II} & 2{,}000c+500v+500s=3{,}000 \end{array}\right\} \quad 9{,}000$$

This schema assumes that the constant capital of Department I is 4,000 (in units of a billion yuan, hereafter the same), its variable capital is 1,000; the constant capital of Department II is 2,000, its variable capital is 500; and the surplus value rate is 100% in both departments. The total value of the annual social product is therefore equal to 6,000+3,000=9,000.

In this schema, the products of Department I are means of production, with a total value of 6,000; the products of Department II are articles of consumption, with a total value of 3,000. If the products of both departments can be realized—that is, compensated for in value and replaced in material form—simple reproduction can proceed smoothly. How, then, can the products of the two departments be realized?

First, consider the 4,000c of Department I. These products consist entirely of means of production and represent the value of the constant capital consumed in production by this department. They are replaced as follows: a small portion need not pass through exchange but enters directly into the reproduction process of the unit itself. For example, much of the coal used by coal mines, the machine tools used by machine-building plants, and the seeds used by farms are produced by the units themselves. The vast majority of products, however, must be realized through exchange among the various enterprises within Department I. “**It is an exchange of one**

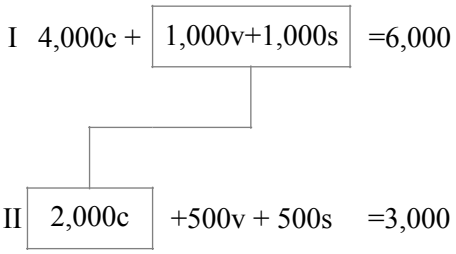
bodily form of constant capital for another bodily form of constant capital, of one kind of means of production for other kinds of means of production."[1] For example, a coal-mine capitalist sells coal and purchases machines, while the capitalist of a machine-building plant sells machines and purchases coal, and so on. In this way, the means of production valued at 4,000 are realized through direct use or exchange within Department I.

Next, consider the 500v and 500s in Department II. This portion of the product consists of articles of consumption and represents the value of the variable capital and surplus value consumed in production by this department. Since these products are precisely the articles of consumption required by the workers and capitalists of Department II, they can be realized through exchange within Department II. Articles of consumption worth 1,000 are purchased by the workers and capitalists of Department II with wages and surplus value and enter personal consumption.

Finally, let us look at Department I's remaining 1,000v and 1,000s, together with Department II's remaining 2,000c. Although Department I's 1,000v and 1,000s represent the variable capital and surplus value of that department and should be used to meet the personal consumption needs of workers and capitalists, the products' material form is means of production, and therefore they cannot be realized within Department I. Although Department II's 2,000c represents the constant capital consumed by that department and should be used to meet its productive consumption needs, the products' material form is articles of consumption, and therefore they likewise cannot be realized within Department II. What is to be done? The only solution is to realize them through exchange between the two departments. Department I sells the

[1] Karl Marx, "Chapter 20: Simple Reproduction," in *Capital*, Vol. II.

products represented by 1,000v and 1,000s to Department II, which needs means of production, and purchases articles of consumption from Department II; Department II, in turn, sells the products represented by 2,000c to Department I, which needs articles of consumption, and purchases means of production from Department I. Through this exchange, the remaining products of the two departments are realized simultaneously. This can be represented schematically as follows:



Through the three forms of exchange described above, the social product of the two departments is correspondingly compensated both in value and materially, and simple reproduction can proceed smoothly.

The foregoing analysis shows that, under the conditions of simple reproduction, the condition for the realization of the social product is that the variable capital plus surplus value of Department I must equal the constant capital of Department II. Expressed as a formula, this is I(v+s)=IIc. The products whose value compensation and replacement in material form must be realized through exchange between the two departments are precisely I(1,000v+1,000s) and II2,000c. Therefore, only when the values of these two portions of the products are equal can mutual compensation be fully achieved. I(v+s)=IIc is the basic condition for the realization of the products of the two departments and also the basic condition for the smooth progress of reproduction in the two departments. Marx pointed out: "**On the basis of simple reproduction,**

the sum of the values of v + s 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 IIc, which is likewise taken as a proportional part of the total commodity-product of department II; or I(v + s)=IIc."[1]

Under the conditions of simple reproduction, the condition for the realization of the social product can also be expressed by the following two formulas:

(1) The value of all the products of Department I should equal the sum of the values of the constant capital of the two departments, namely, I(c+v+s)=Ic+IIc. The constant capital consumed by the two departments over the course of a year must be compensated both in value and in material form. However, only Department I produces means of production, so the total value of the products produced by Department I during the year must equal the sum of the values of the constant capital consumed by the two departments during the year.

(2) The value of all products in Department II should equal the sum of the variable capital and surplus value of the two departments, namely, II(c+v+s)=I(v+s)+II(v+s). The articles of consumption required by the workers and capitalists of both departments can be supplied only by Department II; therefore, the total value of Department II's products must equal the wages and surplus value of both departments.

The three formulas above reflect the internal connections of social capital reproduction from different perspectives. I(v+s)=IIc embodies the internal connection between the two departments, indicating the proportional relationship between the production of means of production by Department I and Department II's need for means of production, as well as

[1] Karl Marx, "Chapter 20: Simple Reproduction," in *Capital*, Vol. II.

between the production of articles of consumption by Department II and Department I's need for articles of consumption. I(c+v+s)=Ic+IIc indicates the proportional relationship between the production of means of production and the two departments' need for means of production. II(c+v+s)=I(v+s)+II(v+s) indicates the proportional relationship between the production of articles of consumption and the need for articles of consumption of all workers and capitalists. The formula I(v+s)=IIc embodies the most fundamental proportional relationship between the two departments and is the primary condition for the smooth progress of simple reproduction; the other two formulas are derived from this basic formula. The proportional relationship between the two departments is an important basic principle of Marxist reproduction theory.

Social reproduction not only requires a certain proportional relationship to be maintained between the two major departments, but also requires certain proportional relationships to be maintained among the various production sectors within each department. However, in capitalist society, characterized by competition and the anarchy of production, it is impossible to maintain these proportional relationships continuously. Once they are disrupted, social reproduction cannot proceed normally, fully revealing the profound contradictions and historical limitations of capitalism.

Conditions of Realization of Extended Reproduction

Accumulation is the source of extended reproduction. In order to realize extended reproduction of social capital, capitalists can use only part of the surplus value for personal consumption, while accumulating the other part as additional capital for expanding production.

According to its composition, additional capital must also be divided into two parts: one part serves as constant capital and is used to purchase additional means of production; the other part serves as variable capital and is used to purchase additional labor power.

Additional capital first appears as a certain quantity of money, but whether this additional money can be converted into productive capital that actually functions also depends on whether the social product provides the material conditions necessary for extended reproduction. Marx said: "**To accumulate it is necessary to convert a portion of the surplus-product into capital. But we cannot, except by a miracle, convert into capital anything but such articles as can be employed in the labor process (i.e., means of production), and such further articles as are suitable for the sustenance of the laborer (i.e., means of subsistence).**"[1] This shows that, in order to realize the extended reproduction of social capital, the social product must contain additional means of production and additional articles of consumption. Additional labor power is, of course, also a necessary factor in extended reproduction, but in capitalist society there is often a vast industrial reserve army, so this factor does not pose a problem.

Under the conditions of extended reproduction, the various components of the social product must be recombined, thereby establishing proportional relationships different from those of simple reproduction.

What are the prerequisites for extended reproduction?

First, the variable capital and surplus value of Department I must be greater than the constant capital of Department II, that is, I(v+s)>IIc. In other words, the means of production provided by Department I for Department II, after replacing the constant capital already

[1] Karl Marx, "Chapter Twenty-Four: Conversion of Surplus-Value into Capital," in *Capital*, Vol. I.

consumed by Department II, must still leave a surplus. Only in this way can additional means of production be provided for extended reproduction. Marx stated: "**It goes without saying that as soon as we assume accumulation, I(v + s) is greater than IIc, not equal to IIc, as in simple reproduction.**"[1]

Second, the total value of the products of Department I must be greater than the constant capital of the two departments, that is, I(c+v+s)>Ic+IIc. This means that, after replacing the constant capital consumed by the two departments, the total product of Department I still contains a surplus. This surplus is precisely one of the necessary conditions for extended reproduction in the two departments.

Finally, the total value of the products of Department II must be less than the variable capital and surplus value of the two departments, that is, II(c+v+s)<I(v+s)+II(v+s). This formula indicates that the total new value created by the two departments, namely, national income, must not be used entirely for consumption; instead, a portion of the surplus value must be set aside for accumulation. Otherwise, extended reproduction of social capital cannot take place.

These three inequalities are all prerequisites for extended reproduction, while I(v+s)>IIc is the most fundamental prerequisite for extended reproduction.

Next, we further examine the conditions of realization of the social product under extended reproduction. Based on the prerequisites of extended reproduction, this can be illustrated by the following schema:

$$\left.\begin{array}{ll} \text{I} & 4{,}000c+1{,}000v+1{,}000s=6{,}000 \\ \text{II} & 1{,}500c+750v+750s=3{,}000 \end{array}\right\} \; 9{,}000$$

[1] Karl Marx, "Chapter 21: Accumulation and Reproduction on an Extended Scale," in *Capital*, Vol. II.

This schema not only conforms to the prerequisites of extended reproduction, but also shows that the organic composition of capital in Department I is higher than that in Department II, which likewise accords with the general practical situation.

For extended reproduction, assume that the capitalists in Department I allocate half of the 1,000s (500s) to the consumption fund and the other half (500s) to the accumulation fund; if the organic composition of capital remains unchanged at 4:1, then of the 500 accumulation fund, 400 constitutes additional constant capital and 100 constitutes additional variable capital. Accordingly, the total product of Department I is recombined according to its uses as follows:

I 4,400c+1,100v+500s=6,000

Of which, 4,400c exists in the form of means of production and represents the value of the constant capital consumed by this department and of the additional constant capital; it can be replaced through exchange within Department I. Although 1,100v + 500s also exists in the form of means of production, it represents the department's original and additional variable capital, as well as the surplus value used for the capitalists' personal consumption. Since means of production cannot enter personal consumption, this portion of the product cannot be replaced through exchange within Department I and can be realized only through exchange with Department II.

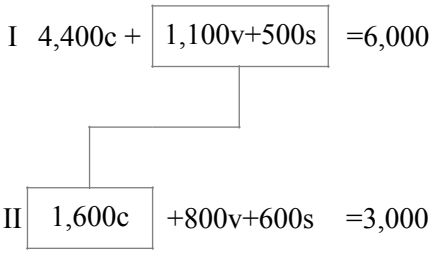
The value of the means of production that Department I must exchange with Department II is 1,100v+500s=1,600. The constant capital originally consumed by Department II was 1,500c. Since Department I can provide an additional 100 in value of means of production, Department II can consequently set aside 100s as additional constant capital, thereby expanding production accordingly. It is precisely because Department II added 100c that Department I's 1,100v+500s

could be fully realized. Since Department II added 100c, under the condition that the organic composition of capital remains unchanged, it must of course correspondingly set aside 50s as additional variable capital to purchase labor power. Thus, Department II's accumulation fund amounts to 150 (100c+50v) in total, while the capitalist's consumption fund is 600s. Department II's total product is recombined according to its uses as follows:

II 1,600c+800v+600s=3,000

The 800v+600s exists in the form of articles of consumption and represents the original and additional variable capital of this department, together with the surplus value used for the capitalist's personal consumption; it can therefore be compensated through exchange within Department II. The remaining 1,600c is materially in the form of articles of consumption, but represents the constant capital consumed and additionally invested by Department II. Since articles of consumption cannot enter productive consumption, this portion of the product cannot be compensated through exchange within Department II, but can be realized only through exchange with Department I.

The exchange of the various components of the social product between the two departments can be represented by the following diagram:



Through exchange, the entire social product is realized. The constant capital consumed by both departments is fully replaced, and they also obtain the additional means of production

required for extended reproduction. All the capitalists and workers in both departments—including the additional workers—also purchase the articles of consumption they need. Thus, social production in the second year can continue on an extended scale.

At the beginning of the second year, the structure of social capital in the two departments was as follows:

$$\left.\begin{array}{ll} \text{I} & 4{,}400c+1{,}100v=5{,}500 \\ \text{II} & 1{,}600c+800v=2{,}400 \end{array}\right\} \quad 7{,}900$$

Total social capital increased from 7,250 to 7,900. With a surplus value rate of 100%, the second year will produce a social product worth 9,800.

$$\left.\begin{array}{ll} \text{I} & 4{,}400c+1{,}100v+1{,}100s=6{,}600 \\ \text{II} & 1{,}600c+800v+800s=3{,}200 \end{array}\right\} \quad 9{,}800$$

If the accumulation rate of Department I (the proportion of the amount accumulated to the amount of surplus value) and the organic compositions of capital in the two departments remain unchanged, the realization of the social product and the operation of extended reproduction in the second year can still be calculated according to the method described above.

At the beginning of the third year, the capital structure of the two departments was as follows:

$$\left.\begin{array}{ll} \text{I} & 4{,}840c+1{,}210v=6{,}050 \\ \text{II} & 1{,}760c+880v=2{,}640 \end{array}\right\} \quad 8{,}690$$

Assuming that all other conditions remain unchanged and that extended reproduction continues, the social product produced in the third year will be:

$$\left.\begin{array}{ll} \text{I} & 4{,}840c+1{,}210v+1{,}210s=7{,}260 \\ \text{II} & 1{,}760c+880v+880s=3{,}520 \end{array}\right\} \quad 10{,}780$$

.....

The foregoing analysis shows that under the conditions of extended reproduction, the conditions of realization of the social product are as follows: the sum of the original and additional variable capital of Department I and the surplus value used for personal consumption by the capitalists of this department must equal the sum of the original and additional constant capital of Department II. If m_1 represents the accumulation fund, m_2 represents the capitalists' consumption fund, cm_1 represents additional constant capital, and vm_1 represents additional variable capital, the conditions of realization of the social product under extended reproduction can be expressed by the following formula: $I(v+vm_1) + m_2 = II(c+cm_1)$.

This equation embodies the internal relationship between the two departments under the conditions of extended reproduction, namely, the proportional relationship between the production of means of production by Department I and Department II's demand for means of production (including the demand arising from extended reproduction), as well as between the production of articles of consumption by Department II and Department I's demand for articles of consumption (including the demand arising from the additional workers).

The conditions of realization for the products of extended reproduction can also be expressed by the following two formulas:

(1) The value of all the products of Department I must equal the constant capital of the two departments plus the additional constant capital, namely $I(c+v+s)=I(c+cm_1)+II(c+cm_1)$. This

equation expresses the proportional relationship between the production of means of production by Department I and the two departments' demand for means of production (including the demand arising from extended reproduction).

(2) The value of all products of Department II must equal the sum of the variable capital and additional variable capital of the two departments, plus the surplus value used by capitalists for personal consumption. That is, $II(c+v+s)=I[(v+vm_1)+s_2]+II[(v+vm_1)+s_2]$. This equation reflects the proportional relationship between the production of articles of consumption in Department II and the two departments' demand for articles of consumption (including the demand of additional workers).

Among the three equations above, $I(v+vm_1)+s_2=II(c+cm_1)$ embodies the most fundamental proportional relationship between the two major divisions and is the basic condition for the realization of the social product under extended reproduction.

An analysis of the extended reproduction of social capital clearly reveals the interrelations and mutual interactions between the two departments. First, the expansion of production in Department I plays a decisive role in the development of Department II. Without Department I providing Department II with additional means of production, Department II could not expand production; moreover, the extent of Department II's production expansion is also determined by Department I's accumulation rate. Second, the development of production in Department II, in turn, constrains the expansion of Department I. If Department II does not accumulate and provide Department I with additional articles of consumption, the realization of Department I's products and the expansion of its production will also encounter difficulties. Marx pointed out: "**Just as I has to supply the additional constant capital of II out of its**

surplus-product, so II likewise supplies the additional variable capital for I. II accumulates for I and for itself, so far as the variable capital is concerned, by reproducing a greater portion of its total product, and hence especially of its surplus-product, in the shape of necessary articles of consumption."[1] Therefore, the dialectical relationship between the two departments and between production and consumption should be understood comprehensively and correctly.

Section Three: The law of the Priority Growth of Production of Means of production

The Priority Growth of Production of Means of production and Its Dependence on the Production of Articles of consumption

When examining the conditions of realization of the social product under extended reproduction, the factor of technological progress was previously set aside, on the assumption that the organic composition of capital remained unchanged over many years. In reality, however, owing to the operation of the law of surplus value, the expansion of capitalist production is always accompanied by technological development and an increase in the organic composition of capital. If this factor is taken into account, the process of extended reproduction of social capital will exhibit a phenomenon in which the growth rate of production in Department I is faster than that in Department II. Let us continue to illustrate this with a schema:

[1] Karl Marx, "Chapter 21: Accumulation and Reproduction on an Extended Scale," in *Capital*, Vol. II.

I 4,000c+1,000v+1,000s=6,000

II 1,500c+750v+750s=3,000

Assume that the accumulation rate of Department I is 50% and its organic composition of capital is 9:1; the organic composition of capital of Department II is 5:1, and the extended reproduction fund is:

I 4,450c+1,050v+(500s)=6,000

II 1,550c+760v+(690s)=3,000

In the second year, if the rate of surplus value of both departments is 100%, the value of the total product should be:

I 4,450c+1,050v+1,050s=6,550

II 1,550c+760v+760s=3,070

Assume that the accumulation rate of Department I remains 50%, its organic composition of capital rises from 9:1 to 20:1, and that of Department II rises from 5:1 to 8:1; the extended reproduction fund is:

I 4,950c+1,075v+(525s)=6,550

II 1,600c+766v+(704s)=3,070

In the third year, if the rate of surplus value of both departments remains 100%, the value of the total product is:

I 4,950c+1,075v+1,075s=7,100

II 1,600c+766v+766s=3,132

Assume once again that the accumulation rate of Department I is 50%, its organic composition of capital rises from 20:1 to 25:1, and that of Department II rises from 8:1 to 10:1; the extended reproduction fund is:

I 5,467.5c+1,095v+(537.5s)=7,100

II 1,632.5c+769v+(730.5s)=3,132

In the fourth year, under the same conditions, the value of the total product should therefore be:

I 5,467.5c+1,095v+1,095s=7,657.5

II 1,632.5c+769v+(769s)=3,170.5

And so on.……

We shall now compare the growth of the various components of the aforementioned social product:

	Means of Production For Producing Means of Production		Means of Production For Producing Articles of Consumption		Articles of Consumption		Aggregate Social Capital	
	Product	%	Product	%	Product	%	Product	%
First Year	4,450	100	1,550	100	3,000	100	9,000	100
Second Year	4,950	111.24	1,600	103.22	3,070	102	9,620	107
Third Year	5,467.5	122.85	1,632.5	105.21	3,132	104	10,232	114

It can thus be seen that, with the advance of technology and the rise in the organic composition of capital, the growth rate of Department I must inevitably exceed that of Department II. Within Department I, moreover, the growth rate of the sectors producing means of production for their own department must inevitably exceed that of the sectors producing means of production for Department II. This is the law of the priority growth of Department I.

The fundamental reason for the priority growth of the production of means of production lies in the rise in the organic composition of capital. Since the organic composition of capital rises during extended reproduction, constant capital must inevitably grow faster than variable capital, and therefore the demand for means of production must grow faster than the demand for articles of consumption; only more rapid growth in the production of means of production can meet the greater demand for means of production resulting from the rising organic composition of capital. At the same time, because the rate at which the organic composition of capital rises in Department I is generally somewhat faster than in Department II, the constant capital component of Department I grows faster than that of Department II. Consequently, the demand for means of production used to manufacture means of production grows faster than the demand for means of production used to manufacture articles of consumption. Thus, within Department I, the production of means of production for that department must necessarily grow faster than the production of means of production for Department II.

The priority growth of the production of means of production is a basic principle of the reproduction of social capital and an important law governing extended reproduction under conditions of a rising organic composition of capital. In Volume II of *Capital*, Marx noted that one of the differences between capitalist society and primitive and savage people is that "**capitalist society employs more of its available annual labor in the production of means of production (ergo, of constant capital).**"[1] However, in analyzing the reproduction of social capital, Marx proceeded only from the assumption of an unchanged organic composition of capital and therefore did not fully elaborate this principle.

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[1] Karl Marx, "Chapter 20: Simple Reproduction," in *Capital*, Vol. II.

In *On the So-Called Market Question* and other works, Lenin made important additions to Marx's reproduction theory. He incorporated the factor of the continually rising organic composition of capital into the schema of extended reproduction, thereby further clarifying the law governing the priority growth of the production of means of production in the process of extended reproduction driven by technological progress. He pointed out: "**We thus see that growth in the production of means of production as means of production is the most rapid, then comes the production of means of production as means of consumption, and the slowest rate of growth is in the production of means of consumption.**"[1]

However, the priority growth of the production of means of production by no means signifies that it can develop independently of, or become completely detached from, the production of articles of consumption. On the contrary, this priority growth ultimately depends on personal consumption and on the growth of the production of articles of consumption. Although some of the products of Department I are realized within Department I itself, the development of the production of means of production is, after all, not intended for the production of means of production as such, but to provide Department II with more means of production in order to produce more consumer goods. Therefore, if the production of articles of consumption does not expand correspondingly, some of the rapidly increasing products of Department I will be unable to find a market. As Marx put it, the production of means of production is definitely limited by individual consumption, "**since constant capital is never produced for its own sake but solely because more of it is needed in spheres of production**

[1] Vladimir Ilyich Lenin, "On the So-Called Market Question," in *Lenin's Collected Works*, Vol. 1 (Progress Publishers, Moscow).

whose products go into individual consumption."[1] At the same time, in order to expand production, Department I must not only add constant capital, that is, means of production, but also add variable capital, that is, articles of consumption. Without a corresponding increase in production by Department II, the expansion of production in Department I would likewise encounter obstacles. Lenin pointed out: "**To expand production … it is first of all necessary to produce means of production, and for this it is consequently necessary to expand that department of social production which manufactures means of production, it is necessary to draw into it workers who immediately present a demand for articles of consumption, too. Hence, 'consumption' develops after 'accumulation,' or after 'production.'**"[2]

It can thus be seen that the growth of the production of means of production ultimately depends on personal consumption and on the growth of the production of articles of consumption. This is also an objective law and another fundamental principle of Marxist reproduction theory. Lenin pointed out: "**From this it follows that Department I of social production (the production of means of production) can and must develop more rapidly than Department II (the production of articles of consumption). Obviously, it does not follow from this that the production of means of production can develop in complete independence of the production of articles of consumption and outside of all connection with it. … In the final analysis, therefore, productive consumption (the consumption of**

[1] Karl Marx, "Chapter 18. The Turnover of Merchant's Capital. Prices.," in *Capital*, Vol. III.

[2] Vladimir Ilyich Lenin, "V Accumulation in Capitalist Society, A Characterisation of Economic Romanticism," in *Lenin's Collected Works*, Vol. 2 (Progress Publisher, Moscow).

means of production) is always bound up with individual consumption and is always dependent on it."[1]

The Priority Growth of the Production of Means of Production Has Intensified the Internal Contradictions of the Capitalist Economy

The Marxist theory of reproduction shows that the realization of the social product and the normal progress of extended reproduction must be premised on maintaining certain proportional relationships among the two major departments of social production and their respective sectors. However, in capitalist society based on private ownership, there exist various insurmountable antagonistic contradictions. Social production can only be governed by the laws of competition and the anarchy of production; proportional relationships are repeatedly disrupted, and consequently the realization of the social product often encounters difficulties, while extended reproduction often cannot proceed smoothly. Lenin pointed out: "**The abstract theory of realization assumes and must assume the proportional distribution of the product between the various branches of capitalist production. But, in assuming this, the theory of realization does not, by any means, assert that in a capitalist society products are always distributed or could be distributed proportionally.**"[2] The disorder, disruption, and crises that frequently occur in production fully reflect the profound contradictions from which the capitalist economy cannot free itself.

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[1] Vladimir Ilyich Lenin, "A Note on the Question of the Market Theory," in *Lenin's Collected Works*, Vol. 4 (Progress Publisher, Moscow).

[2] Vladimir Ilyich Lenin, "Once More on the Theory of Realisation," in *Lenin's Collected Works*, Vol. 4

The law of the priority growth of production of means of production has deepened the inherent contradictions of capitalist production. This law shows that production of means of production grows faster than production of articles of consumption. Since the production of means of production for manufacturing means of production is carried out within Department I and is not directly connected with production in Department II or personal consumption, it can, for a certain period and to a certain extent, rapidly grow independent of Department II, and is not directly dependent on personal consumption. This means that even when personal consumption, that is, social purchasing power, is relatively weak and the production of articles of consumption develops slowly, the production of means of production may still expand rapidly, thereby causing capitalist production as a whole to expand blindly and rapidly. This is precisely why the bourgeoisie can stimulate a temporarily rapid increase in production through expansion of investment.

However, productive consumption must ultimately depend on personal consumption, and the growth of the production of means of production must ultimately depend on the growth of the production of articles of consumption. Under capitalism, the impoverishment of the working masses and the relative contraction of their purchasing power are inevitable. The relative reduction in personal consumption not only restricts the growth of the production of articles of consumption, but may even cause overproduction of articles of consumption. At this point, the blind expansion of Department I apart from Department II, and the more serious overproduction resulting from it, are manifested with particular sharpness. The operation of the law of the priority growth of Department I intensifies the anarchy of capitalist production and the

separation of production from consumption, thereby greatly deepening the economic crisis of capitalism.

Part Three: The Overall Process of Capitalist Production

Chapter Six: Division of Surplus Value

Previously, we examined the production process and circulation process of capitalist society, exposing the essence and laws of movement of capital. Throughout that analysis, industrial capital remained the object of study. However, capitalist society contains not only industrial capital but also commercial capital and loan capital. Nor can the surplus value created by industrial workers be appropriated entirely by industrial capitalists; it must also be divided among commercial capitalists, loan capitalists, and large landowners. Marx pointed out that the industrial capitalist "**is, indeed, the first appropriator, but by no means the ultimate owner, of this surplus-value**"; surplus value must be divided into various parts, "**fall to various categories of persons, and take various forms, independent the one of the other, such as profit, interest, merchants' profit, rent, &c. It is only in Book III. that we can take in hand these modified forms of surplus-value.**"[1] Therefore, it is necessary to conduct a further analysis of the various concrete forms of capital and surplus value.

This chapter is intended to "**locate and describe the concrete forms which grow out of the movements of capital as a whole.**"[2] Through our analysis, we will gradually approach the surface phenomena of the capitalist economy and grasp the capitalist economic system as a

[1] Karl Marx, "Chapter Twenty-Three: Simple Reproduction," in *Capital*, Vol. I.

[2] Karl Marx, "Chapter 1. Cost-Price and profit," in *Capital*, Vol. III.

whole through the unity of essence and appearance. Since economic phenomena under capitalism invariably distort and conceal its essence, thereby mystifying capitalist relations, this analysis can further strip away the layers of disguise surrounding capitalist relations, enabling us to see more clearly the essence of capitalist exploitation and the superficiality and absurdity of bourgeois economic theory. The analysis will also help us gain a more comprehensive understanding of the intricate class relations in capitalist society and further recognize that capitalist exploitation is the class exploitation of the proletariat by all property owners and exploiters; for the proletariat to break free from the shackles of capital and achieve emancipation, it must abolish the entire exploiting class and the entire capitalist system.

Surplus value, the basis for the existence of the various exploitative groups in capitalist society, is directly extracted by industrial capital during the production process. Therefore, we should first examine industrial capital and industrial profit, analyze how surplus value is transformed into profit and average profit, and how it is distributed among industrial capitalists.

Section One: Average Profit and Prices of Production

Cost-Price and Profit

As mentioned earlier, the commodity value produced by capitalist enterprises can be divided into three parts: the value of constant capital, the value of variable capital, and surplus value. Expressed as a formula: C=c+v+s. If surplus value (s) is subtracted from the commodity value, the remainder is exactly equivalent to the capital value c+v consumed in producing the

commodity. For example, suppose a capitalist spends 500 yuan in capital to produce a certain commodity, of which 20 yuan represents the value of the wear and tear of factory buildings, machinery, and so on, 380 yuan represents the value of the raw materials consumed, and 100 yuan represents wages; suppose further that the rate of surplus value is 100%. The total commodity value is therefore: C=400 yuan (c)+100 yuan (v)+100 yuan (s)=600 yuan. If the 100 yuan of surplus value is subtracted, 500 yuan remains, exactly equal to the 500 yuan of capital value already consumed. Since this part of the commodity value is used to compensate the capitalist for the capital value consumed in commodity production, from the capitalist's perspective it is the commodity's production expense or cost-price. However, the actual production expense or actual cost-price of a commodity should be the entire amount of socially necessary labor actually expended in producing it—that is, the commodity's total value. Marx pointed out: "**The capitalist cost of the commodity is measured by the expenditure of capital, while the actual cost of the commodity is measured by the expenditure of labor. Thus, the capitalist cost-price of the commodity differs in quantity from its value, or its actual cost-price. It is smaller than the value of the commodity.**"[1] This is because the surplus value contained in the commodity is created by workers and appropriated gratuitously by the capitalist; it costs the capitalist nothing. Therefore, when calculating the commodity's production expense, or cost-price, the capitalist counts only capital consumption and does not include surplus value. It can thus be seen that the capitalist production expense, or cost-price, of a commodity is the transformed form of the values of constant capital and variable capital within the commodity

[1] Karl Marx, "Chapter 1. Cost-Price and profit," in *Capital*, Vol. III.

value. If k represents the cost-price, then the formula C=c+v+s for commodity value is transformed into C=k+s; in other words, commodity value = cost-price + surplus value.

The category of cost-price is not merely the result of calculation; rather, it arises from capitalist relations of production and has major practical significance for the capitalist. First, it is a dividing line between making a profit and suffering a loss. Since cost-price represents the capital expended in commodity production, after selling the commodity, the capitalist must at least recover the cost-price in order to ensure that production can continue on its original scale. Therefore, "**the minimal limit of the selling price of a commodity is its cost-price.**"[1] If the commodity is sold below cost-price, the capitalist will incur a loss, not even simple reproduction can be maintained; if commodities are sold above their cost-price, capitalists can obtain a certain profit, and the greater the excess, the greater the profit.

Secondly, the level of the cost-price is also a key factor determining success or failure in capitalist competition. Since the cost-price is part of the commodity value, there is a difference between it and the commodity value. Among enterprises producing the same commodity, the cost-prices must vary because their scales of production, technical equipment, and labor productivity differ. The further the cost-price falls below the social value of the commodity, the greater the difference between cost-price and value, and the more likely capitalists are to sell commodities below their value, thereby obtaining a considerable profit while more easily defeating their competitors.

For example, in the 1935 competition between East Asia Woolen Mill and Xianghe Woolen Mill, the reason East Asia Wool yarn could be sold off at rock-bottom prices, with a buy-

[1] Ibid.

one-get-one-free offer, and drive Xianghe out of business was that the East Asia mill had a large scale and low product costs; although it sold below value, it still made a profit. Clearly, whether the cost-price of commodities can be reduced is a key factor determining whether capitalists can win in competition. Marx said: "**There is obviously an indefinite number of selling prices possible between the value of a commodity and its cost-price. The greater the surplus-value element of the value of a commodity, the greater the practical range of these intermediate prices.**" This explains "**the everyday phenomena of competition, such as certain cases of underselling, abnormally low commodity-prices in certain lines of industry, etc.**"[1]

The category of cost-price conceals the distinction between constant capital and variable capital, as well as the different roles played by these two parts of capital in the process of expansion of value. As mentioned earlier, the cost-price of a commodity consists of the constant capital and variable capital consumed in production. This is the result of our scientific analysis; it certainly does not mean that the capitalist also uses the concepts of constant capital and variable capital when calculating the cost of a commodity. The capitalist neither understands how to do this nor would ever do so. If we open the accounting books of the East Asia Woolen Mill, under the "manufacturing cost" column for the commodity, what we see are only raw-material costs, machinery depreciation charges, manufacturing expenses (including fuel, auxiliary materials, management expenses, and so on), and wages. The category of cost-price not only fails to show the distinction between constant capital and variable capital; it actually conceals this distinction. Under the category of cost-price, constant capital and variable capital alike appear as expenditures of capital, seemingly all sources of surplus value. If there is any difference, it is

[1] Ibid.

merely that the material elements purchased are different: the former purchases means of production, while the latter purchases labor power. To the capitalist, however, this difference is immaterial; what matters is that, in order to produce commodities containing surplus value, neither type of capital can be dispensed with. Thus, the distinction between constant capital and variable capital, and the special role of variable capital in the expansion of value of value, disappear. At the same time, under the category of cost-price, the distinction directly visible is merely that between fixed capital and circulating capital. When calculating a commodity's cost-price, the value of fixed capital such as factory buildings and machinery and equipment is consumed only in part during each production process; only the portion of value consumed through wear and tear is added to the commodity's cost-price. By contrast, the value of circulating capital such as raw materials and wages is consumed in full at once during the production process, and is therefore fully included in the commodity's cost-price. Because the different components of circulating capital—raw materials and wages—share common characteristics in the turnover of capital, the essential distinction between constant capital and variable capital within them is concealed. As Marx put it: "**The variable portion of capital invested in labor-power is here emphatically identified under the head of circulating capital with constant capital (that part of capital which consists of materials of production), and this completes the mystification of the self-expansion process of capital.**"[1]

The formation of the cost-price necessarily causes surplus value to appear as the product of the total capital expended. The production process of surplus value has already shown that it is merely the result of a change in the value of variable capital (v), an increment generated by

[1] Ibid.

variable capital. However, in the eyes of the capitalist, the commodity containing surplus value is the result of the operation of all the capital expended in the production process; surplus value therefore appears to have been generated by the total capital expended, as an increment in the value of the total capital expended (c+v). The formula c+(v+s) becomes the formula (c+v)+s. The former formula reveals the source of surplus value, showing that surplus value (s) is an increment generated by variable capital (v); the latter formula, however, presents surplus value (s) as an increment generated by the total capital expended (c+v), thereby concealing the true source of surplus value.

Not only that, the capital relation further presents surplus value as the product of, or an increase in the value of, all the capital employed (all the advanced capital). In the capitalist's conception, capital is merely the object used to produce commodities; whether capital expended or capital employed, both are indispensable material conditions for producing commodities and surplus value. Although only part of the value of all the capital employed enters the commodities' cost-price, as a material condition it participates in the production process of the commodities in its entirety and thus also participates in the formation of surplus value. Surplus value is therefore regarded as having been generated by all the capital and as being the product of all the capital employed.

When surplus value is regarded as an increase in the total capital employed and compared with that total capital, surplus value takes the form of profit. Marx said: "**In its assumed capacity of offspring of the aggregate advanced capital, surplus-value takes the converted form of profit.**"[1] With the transformation of surplus value into profit, commodity value becomes

[1] Ibid.

equal to cost-price + profit. If p is used to represent profit, the original formula C=c+v+s or C=k+s is transformed into a new formula: C=k'+p.

It is not difficult to see that surplus value and profit are essentially the same thing. However, the relationships they reflect are different. Surplus value reflects the essence of things, which can be understood only through scientific analysis; it expresses the intrinsic connection between surplus value and its own source (variable capital), revealing capital's exploitative relationship with wage labor. Profit, on the other hand, is the transformed form or phenomenal form of surplus value. It presents surplus value as the product of the total capital advanced, thereby concealing the true source of surplus value and masking the exploitative relationship between capital and wage labor. In the form of profit, surplus value appears not to have been created by the labor of wage laborers, but rather to have been produced by capital itself; the social attribute by which capital brings about surplus value through the exploitation of workers thus appears as a natural attribute inherent in capital. Marx pointed out: "**The profit, such as it is represented here, is thus the same as surplus-value, only in a mystified form that is nonetheless a necessary outgrowth of the capitalist mode of production. The genesis of the mutation of values that occurs in the course of the production process, must be transferred from the variable portion of the capital to the total capital, because there is no apparent distinction between constant and variable capital in the assumed formation of the cost-price. Because at one pole the price of labor-power assumes the transmuted form of wages, surplus-value appears at the opposite pole in the transmuted form of profit.**"[1]

[1] Ibid.

Rate of Profit

The ratio of surplus value to the total advanced capital is called the rate of profit. The rate of profit is the transformed form of the rate of surplus value. "**The rate of surplus-value measured against the variable capital is called rate of surplus-value. The rate of surplus-value measured against the total capital is called rate of profit. These are two different measurements of the same entity.**"[1] The rate of surplus value s'=s/v; if p' represents the rate of profit and C represents all advanced capital, the rate of profit p'= m/C.

Although the rate of profit is a transformed form of the rate of surplus value, the two differ significantly. First, the rate of profit and the rate of surplus value are two different quantities, with the former always smaller than the latter. Since the advanced total capital in the production of commodities is always greater than the capital actually expended, while the expended capital is always greater than the variable capital, the ratio of the same quantity of surplus value to the advanced total capital is necessarily smaller than its ratio to the variable capital. For example, in 1937, the East Asia Woolen Mill had advanced total capital of 800,000 yuan, variable capital of slightly more than 80,000 yuan, and surplus value of slightly more than 340,000 yuan. The rate of surplus value =340,000/80,000 = 425%; the rate of profit = 340,000/800,000= 42.5%.

Second, the relationships expressed by the rate of profit and the rate of surplus value are also different. The rate of surplus value expresses the capitalist's exploitative relationship with the workers and accurately reflects the degree of exploitation by capital; the rate of profit, by

[1] Karl Marx, "Chapter 2. The Rate of Profit," in *Capital*, Vol. III.

contrast, indicates nothing more than the degree of value expansion of the advanced total capital. These two points show that, as a transformed form of the rate of surplus value, the rate of profit presents the latter in a mystified form, thereby both concealing the exploitative relationship under capitalism and distorting the degree of exploitation under capitalism.

Profit and the rate of profit are the goals that capitalists directly care about and pursue. When a capitalist invests a certain amount of capital to establish a business, the purpose is to obtain profit, and what they pursue is the highest possible rate of profit. Marx once quoted the British commentator Dunning to reveal this nature of capital: "Capital is said by a Quarterly Reviewer to fly turbulence and strife, and to be timid, which is very true; but this is very incompletely stating the question. Capital eschews no profit, or very small profit, just as Nature was formerly said to abhor a vacuum. With adequate profit, capital is very bold. A certain 10 per cent. will ensure its employment anywhere; 20 per cent. certain will produce eagerness; 50 per cent., positive audacity; 100 per cent. will make it ready to trample on all human laws; 300 per cent., and there is not a crime at which it will scruple, nor a risk it will not run, even to the chance of its owner being hanged. If turbulence and strife will bring a profit, it will freely encourage both. Smuggling and the slave-trade have amply proved all that is here stated."[1]

The rate of profit of capitalist enterprises is constantly changing and is affected by many factors. Since the rate of profit is the ratio of surplus value to advanced total capital, all factors that affect the amount of surplus value and the amount of advanced total capital will affect the level of the rate of profit. Specifically, there are several aspects:

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[1] Quote from T. J. Dunning. Karl Marx, "Chapter Thirty-One: Genesis of the Industrial Capitalist," in *Capital*, Vol. I.

First, the rate of surplus value. The level of the rate of profit is directly proportional to the level of the rate of surplus value. If the quantity of advanced total capital and the organic composition of capital are fixed, the level of the rate of profit will depend on the amount of surplus value, while the amount of surplus value in turn depends on the level of the rate of surplus value. The higher the rate of surplus value, the greater the amount of surplus value and, consequently, the higher the rate of profit. For example, at the East Asia Woolen Mill, the advanced total capital was 1 million yuan in both 1938 and 1939. In 1938, the rate of surplus value was 800% and the amount of surplus value was 680,000 yuan, so the rate of profit was 68%; in 1939, the rate of surplus value rose to 1,400%, the amount of surplus value surged to 2 million yuan, and the rate of profit consequently rose sharply to 200%. Since raising the rate of surplus value can raise the rate of profit, capitalists always seek by every possible means to intensify the exploitation of workers, adopting methods such as extending the working day, increasing labor intensity, and raising labor productivity to increase the rate of surplus value and thereby achieve the goal of raising the rate of profit.

Second, the organic composition of capital. For the production sector as a whole, the rate of profit varies inversely with the organic composition of capital. Assuming that the value of labor power and the rate of surplus value remain unchanged, the lower the average organic composition of capital in a sector, the more labor power is employed by a given amount of capital, and the greater the amount of surplus value produced; consequently, the rate of profit is naturally higher. For example, if total capital is 100 yuan and the rate of surplus value is 100%, then, if the organic composition of capital is 6:4, the commodity value C=60c+40v+40s=140, and the rate of profit is 40/100=40%; if the organic composition of capital rises to 8:2, then

C=80c+20v+20s=120, and the rate of profit is 20%. For individual enterprises, however, the situation is precisely the opposite. If an individual enterprise's organic composition of capital is higher than the sector average, it can obtain excess surplus value, thereby increasing the rate of profit.

Third, the speed of turnover of capital. As discussed earlier, the level of the annual rate of profit is directly proportional to the speed of turnover of capital. If all other conditions remain unchanged, the faster the turnover, the greater the number of turnovers of variable capital each year, and the greater the amount of surplus value generated by the same amount of variable capital. This increases both the annual rate of surplus value and the annual rate of profit of capital. Suppose an enterprise advances capital of 10,000 yuan, with an organic composition of 6:4 and a rate of surplus value of 100%. If the capital turns over once a year, 4,000 yuan of surplus value can be obtained annually, and the rate of profit is 40%; if the capitalist increases the speed of turnover of capital to twice a year, 8,000 yuan of surplus value can be obtained annually, and the rate of profit consequently rises to 80%. Therefore, in order to raise the annual rate of profit and obtain more profit, the capitalist always seeks to accelerate the turnover of capital.

Fourth, saving on constant capital. The rate of profit is directly proportional to the saving of constant capital. If the amount of variable capital and the rate of surplus value are given, the greater the saving of constant capital, the smaller the advanced total capital; consequently, the same amount of surplus value in relation to a smaller total amount of capital yields a higher rate of profit. How do capitalists save on constant capital? Mainly in the following ways: 1. Extending the working day. This makes it possible to produce more commodities and surplus

value without increasing the number of workers or factory buildings and equipment, thereby relatively reducing the fixed-capital portion of constant capital; at the same time, it can accelerate the turnover of capital and reduce the advance of the circulating portion of constant capital. 2. Concentrating the use of the means of production. This reduces expenditure on factory buildings, lighting, and other equipment. 3. Saving on working conditions at the expense of workers. In order to save constant capital, capitalists do not hesitate to sacrifice workers' physical and mental health and personal safety. Disregarding whether workers live or die, they minimize expenditure on labor protection, causing workers' working conditions to deteriorate drastically and industrial accidents to occur one after another. Marx said: "**In line with its contradictory and antagonistic nature, the capitalist mode of production proceeds to count the prodigious dissipation of the laborer's life and health, and the lowering of his living conditions, as an economy in the use of constant capital and thereby as a means of raising the rate of profit.**"[1]

In short, in order to extract more profit from the same amount of advanced capital, the capitalist is bound to seek every possible way to raise the rate of profit. All methods of raising the rate of profit therefore entail intensified exploitation of workers and consequently deepen the contradictions and struggle between the bourgeoisie and the proletariat.

[1] Karl Marx, "Chapter 5. Economy in the Employment of Constant Capital," in *Capital*, Vol. III.

Transformation of Profit Into Average Profit

The foregoing analysis examined several factors affecting the rate of profit. Across different production sectors, the main factors affecting the level of the rate of profit are the rate of surplus value and the organic composition of capital. However, because the rate of surplus value in the various production sectors tends to converge and become uniform, the organic composition of capital becomes the decisive factor affecting the rate of profit.

As discussed above, the rate of profit changes in the opposite direction to the organic composition of capital. In capitalist society, because the characteristics of the production process itself and the degree of technological development vary among different production sectors, the average organic composition of capital differs from one production sector to another. Even when the rate of surplus value and other conditions are the same, their rates of profit must necessarily differ. Production sectors with a low organic composition of capital have a higher rate of profit, whereas those with a high organic composition of capital have a lower rate of profit. Suppose there are three industrial sectors in society: Industrial sector A has an organic composition of capital of 70c:30v, industrial sector B has an organic composition of capital of 80c:20v, and industrial sector C has an organic composition of capital of 90c:10v. The total investment in each sector is 1 million yuan, the rate of surplus value is 100%, and it is further assumed that the value of constant capital is transferred to the products in a single operation. Then, the values of the products of the sectors will be 1.3 million yuan, 1.2 million yuan, and 1.1 million yuan, respectively. If the commodities are sold at their values, the rates of profit will be, respectively: industrial sector A, 30%, industrial sector B, 20%; industrial sector C, 10%.

However, the purpose of capitalist production is to obtain profit. In order to secure as much profit and as high a rate of profit as possible, capitalists in different production sectors inevitably engage in fierce competition, and large amounts of capital inevitably move from sectors with low rates of profit to those with high rates of profit. For example, capitalists in production sector C will rush to transfer their capital to production sector A. As a result, because large amounts of capital flow out of production sector C, production declines, commodity prices gradually rise because demand exceeds supply, and the rate of profit consequently increases generally; whereas in production sector A, because large amounts of capital flow in, production expands, commodity prices fall because supply exceeds demand, and the rate of profit consequently declines generally. This free transfer of capital will stabilize temporarily only when the rates of profit in the various sectors are approximately equal. This is the process by which rates of profit are equalized across production sectors. Marx said: "**Capital withdraws from a sphere with a low rate of profit and invades others, which yield a higher profit. 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, and values are, therefore, converted into prices of production.**"[1]

The equalization of the rate of profit is an objective tendency under capitalism, the inevitable result of the operation of the law of surplus value and the law of competition, and reflects the relationship whereby capitalist groups in different sectors divide surplus value according to the principle that equal amounts of capital demand equal amounts of profit.

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[1] Karl Marx, "Chapter 10. Equalisation of the General Rate of Profit Through Competition. Market-Prices and Market-Values. Surplus-Profit," in *Capital*, Vol. III.

In the process of equalizing rates of profit, the average rate of profit for society is formed. The so-called average rate of profit is the rate of profit calculated on the basis of total social capital; it is the ratio of the total amount of surplus value in society to the total amount of capital. Average Rate of Profit =Total Value of Surplus Value/Total Social Capital. At this point, the profit received by capitalists in the various sectors may no longer correspond to the surplus value they directly extract in quantitative terms. They must all calculate and obtain profits according to the average rate of profit. The profit calculated and obtained according to the average rate of profit is called average profit: Average Profit = Total Advanced Capital*Average Rate of Profit. In this case, sectors with a low organic composition of capital obtain an average profit smaller than the surplus value directly extracted in their own sectors; sectors with a high organic composition of capital obtain an average profit greater than the surplus value produced in their own sectors; only in sectors whose organic composition of capital corresponds to the average organic composition of capital in society does the average profit obtained roughly correspond to the surplus value produced in their own sectors. The foregoing can be represented in a chart as follows:

Production Sector	Capital	Capital Composition	Rate of Surplus Value	Surplus Value	Average Profit Rate	Average Profit	Difference Between Average Profit and Surplus Value
A	100	70c+30v	100%	30	20%	20	-10
B	100	80c+20v	100%	20	20%	20	0
C	100	90c+10v	100%	10	20%	20	10
Society	300	240c+60v (80c+20v)	100%	60	20%	60	0

The organic composition of capital listed in the table for sectors A, B, and C represents the average level within each sector; it does not mean that the organic composition of capital of every enterprise in a sector exactly corresponds to this average. In fact, the organic composition of capital of individual enterprises within each sector varies, and therefore their rates of profit necessarily differ as well. Enterprises whose organic composition of capital is higher than the average composition of their sector have relatively higher labor productivity and can obtain surplus-profit exceeding the average profit; conversely, enterprises whose organic composition of capital is lower than the average composition of their sector have relatively lower labor productivity and cannot obtain even the average profit. Therefore, in the process of equalizing rates of profit, competition among capitalists within each sector remains very intense. To pursue surplus-profit, they must nevertheless continually improve technology, renew equipment, raise labor productivity, and intensify the exploitation of workers. As Marx said: "**In fact, the direct interest taken by the capitalist, or the capital, of any individual sphere of production in the exploitation of the laborers who are directly employed is confined to making an extra gain, a profit exceeding the average, either through exceptional overwork, or reduction of the wage below the average, or through the exceptional productivity of the labor employed.**"[1]

Once profit has been transformed into average profit, the profits received by capitalists in some sectors no longer correspond to the surplus value produced in those sectors. Does this negate the operation of the law of surplus value? No. The equalization of the rate of profit not only does not negate the law of surplus value; it is more accurate to say that it is based on that law. This is because:

[1] Ibid.

First, average profit is merely a transformed form of profit (surplus value). After the average rate of profit has formed, although the amount of profit in some sectors no longer corresponds to the amount of surplus value, from the standpoint of society as a whole, the total profit received by the bourgeoisie as a whole still corresponds to the total amount of surplus value created by the working class. The equalization of the rate of profit merely redistributes equally, in proportion to the size of capital, the total amount of surplus value created by workers. The portion exceeding surplus value that capitalists in certain sectors obtain through the equalization of profit is precisely the portion below surplus value that capitalists in other sectors lose through the equalization of profit. Surplus value remains the basis of average profit, and the total amount of surplus value determines the level of the amount of average profit.

Second, the law of the average rate of profit is merely the necessary result and concrete manifestation of the operation of the law of surplus value. Competition among sectors presupposes that individual capitalists pursue more surplus value or profit; objectively, this competition must lead to the equalization of the rate of profit, so that capitalists in general can obtain only average profit.

The transformation of profit into average profit further conceals capital's exploitation of wage labor. As a transformed form of surplus value, profit appears as the product of total capital, thereby concealing the source of surplus value; however, profit and surplus value are still identical in quantity, which to some extent makes one feel that they derive from the labor of workers. Once profit is transformed into average profit, however, the quantitative correspondence between average profit and surplus value also becomes accidental, while their inconsistency becomes the general phenomenon. Since equal amounts of capital yield equal

amounts of profit, profit appears even more clearly as the product of capital as a whole. The connection between profit and variable capital, and between profit and the surplus labor of wage laborers, can no longer be seen at all. This completely conceals the true source of profit and the exploitative relationship between capital and wage labor, further deepening the fetishistic character of capital. Marx pointed out: "**The actual difference of magnitude between profit and surplus-value — not merely between the rate of profit and the rate of surplus-value — in the various spheres of production now completely conceals the true nature and origin of profit not only from the capitalist, who has a special interest in deceiving himself on this score, but also from the laborer.**"[1]

The theoretical explanation of the law of the average rate of profit shows that all industrial capitalists divide surplus value among themselves in proportion to the capital they have advanced, regardless of whether all that surplus value was produced in their own production sector. This profoundly reveals that the exploitative relationship under capitalism is not merely the relationship of individual capitalists exploiting the workers of individual enterprises, but the relationship of the entire bourgeoisie exploiting the entire proletariat. Since the average rate of profit is the ratio of the total amount of surplus value to total social capital, the amount of profit received by each capitalist is determined not only by the degree of exploitation of the workers in their own enterprise, but also by the degree of exploitation of the entire working class by the entire bourgeoisie. Capitalists certainly have conflicting interests when dividing surplus value among themselves, but they share common class interests in intensifying the exploitation of the working class in order to extract a greater amount of surplus

[1] Karl Marx, "Chapter 9. Formation of a General Rate of Profit (Average Rate of Profit) and Transformation of the Values of Commodities into Prices of Production," in *Capital*, Vol. III.

value. Therefore Marx said: "**Here, then, we have a mathematically precise proof why capitalists form a veritable freemason society vis-a-vis the whole working-class, while there is little love lost between them in competition among themselves.**"[1] Therefore, if the proletariat wishes to free itself from capitalist exploitation and oppression, it is not enough merely to oppose individual capitalists. Only by uniting in common struggle, overthrowing the reactionary rule of the bourgeoisie as a whole, and abolishing the entire capitalist system of exploitation can the proletariat achieve complete liberation.

Transformation of Value Into Prices of Production

The organic composition of capital differs across the various production sectors, and so do the rates of profit. This is the inevitable result of commodities being sold at their values. However, unequal rates of profit are equalized into an average rate of profit, and the capitalists in each sector no longer obtain the surplus value they directly extract, but rather an average profit. Consequently, commodities can no longer be sold according to their values; they must be sold according to prices of production that provide an average profit. As profit is transformed into average profit, value is necessarily transformed into prices of production. The value of a commodity equals its cost-price plus profit (quantitatively identical to surplus value), whereas the price of production equals its cost-price plus average profit (not quantitatively identical to surplus value). The transformation from value to prices of production is illustrated in the following table:

[1] Karl Marx, "Chapter 10. Equalisation of the General Rate of Profit Through Competition. Market-Prices and Market-Values. Surplus-Profit," in *Capital*, Vol. III.

Production Sector	Capital Composition	Surplus Value	Average Profit	Value	Prices of Production	Difference Between Average Profit and Surplus Value
A	70c+30v	30	20	130	120	-10
B	80c+20v	20	20	120	120	0
C	90c+10v	10	20	110	120	10
Society	240c+60v	60	60	360	360	0

As can be seen from the table above, under the operation of the law of the average rate of profit, sector A, with a low organic composition of capital, can sell its products only at prices of production below their values; sector C, with a high organic composition of capital, can sell its products at prices of production above their values; only sector B, whose organic composition of capital corresponds to the social average organic composition of capital, has a rate of profit that accords with the social average profit rate, and only in this sector do prices of production correspond to value.

With the transformation of value into prices of production, the law of value also takes the form of the law of prices of production in its operation. At this point, commodity exchange is no longer based on value but on prices of production. Prices of production are the center, while market prices fluctuate around them; this is the form in which the law of prices of production operates.

First, the law of value, through the form of the law of prices of production, spontaneously regulates production in capitalist society. For example, during a certain period, if the market price of products in a particular production sector falls below the prices of production because of supply exceeding demand, some capitalists in that sector, unable to obtain average profit, will

inevitably transfer large amounts of capital to other sectors with higher rates of profit. As a result, the commodity supply decreases, the market price rises, and the rate of profit increases. If the market price of products in certain sectors rises above the prices of production because of demand exceeding supply, and the rate of profit exceeds the average profit, large amounts of capital will in turn flow into these sectors. As a result, the commodity supply increases, the market price falls, and the rate of profit declines. As capital is continually transferred in this way, the law of prices of production spontaneously regulates social production in capitalist society through the free transfer of capital. This role of the law of prices of production as a spontaneous regulator of social production is realized through the operation of the law of surplus value, the law of the average profit, and the law of competition.

Second, the law of prices of production also promotes the development of the social productive forces. The prices of production of each production sector mentioned above do not refer to the individual prices of production of particular enterprises, but to the social prices of production of the sector as a whole, generally determined by the average production conditions of the entire sector. In reality, production conditions differ among enterprises within a sector, and their cost-prices are therefore not the same; consequently, their individual prices of production (individual cost-prices plus average profit) also differ. The production conditions of most enterprises are broadly equivalent to the sector's average production conditions, and their individual prices of production are therefore broadly equivalent to the sector's social price of production; a small number of enterprises with better production conditions have individual prices of production below the social price of production; while other enterprises with poorer production conditions have individual prices of production above the social price of production.

Just as only the social value of a commodity is its real value, only the social price of production of a commodity is its real price of production. All enterprises must sell commodities at the social price of production. Thus, enterprises with good production conditions and individual prices of production below the social price of production can obtain surplus-profit exceeding average profit; enterprises with poor production conditions and individual prices of production above the social price of production cannot obtain average profit. In order to obtain surplus-profit, capitalists compete with one another to continually improve production equipment and technology, thereby promoting the development of the social productive forces. At the same time, this also brings about differentiation among the capitalist owners of enterprises within the sector. Because of their enrichment, enterprises with good production conditions achieve an increasingly large scale of capital accumulation and gain an ever greater advantage in production and capital strength; conversely, enterprises with poor production conditions increasingly find themselves in an unfavorable and disadvantaged position, and may even fall into bankruptcy. This role of the law of prices of production in promoting the development of the productive forces and bringing about the differentiation of capitalists is likewise realized through the operation of the law of surplus value, the law of the average profit rate, and the law of competition.

Does the transformation of value into prices of production mean that the law of value no longer operates? No. The question of the relationship between value and prices of production is one of the important theoretical contributions of Marxist political economy and represents a deepening and development of Marx's labor theory of value. Ricardo, one of the primary representatives of bourgeois classical political economy and the consummator of British classical

political economy, made a tremendous contribution to laying the foundations of the labor theory of value. However, because he failed to clearly understand the distinction and connection between value and prices of production and conflated the two, his theoretical system encountered an insurmountable difficulty: the contradiction between equal capitals obtaining equal profits and the labor theory of value, which led to the collapse of the Ricardo school. Bourgeois vulgar economists seized upon the phenomenon that prices of production and value are quantitatively inconsistent and falsely claimed that Marx's theory of prices of production conflicted with the theory of value, and that Volume I of *Capital* and Volume III contradicted each other, in an attempt to use this to fundamentally deny Marx's labor theory of value. This was not only an expression of vulgarity and ignorance but also a malicious slander against Marx. Through his scientific theory of prices of production, Marx profoundly revealed the essence of prices of production as a transformed form of value, as well as the intrinsic connection between prices of production and value. He resolved the contradiction that bourgeois classical economists could not overcome, delivered a powerful rebuttal to the bourgeois vulgar school, and laid an unshakable foundation for Marxist labor theory of value and the theory of surplus value.

In the "Preface" Engels wrote for Volume III of *Capital*, he sharply refuted the shameless distortion and slander of Marx's theory of prices of production by bourgeois scholars, pointing out that their methodological error lay in "**the false assumption that Marx wishes to define where he only investigates, and that in general one might expect fixed, cut-to-measure, once and for all applicable definitions in Marx's works. It is self-evident that where things and their interrelations are conceived, not as fixed, but as changing, 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."[1] It was precisely from the standpoint and by the method of dialectical materialism, and through their historical and logical formation, that Marx elucidated the necessity of the transformation of value into prices of production, established the theory of prices of production, and resolved the major theoretical issue of "**in which way an equal average rate of profit can and must come about, not only without a violation of the law of value, but on the very basis of it.**"[2]

Historically, value was formed before prices of production. Marx pointed out: "**The exchange of commodities at their values, or approximately at their values, thus requires a much lower stage than their exchange at their prices of production, which requires a definite level of capitalist development.**"[3] Under the conditions of simple commodity production, commodities are exchanged according to their values. During the stages of simple cooperation and manufacture under capitalism, a uniform average rate of profit had not yet formed, and value had not yet been transformed into prices of production. This process of transformation was completed only when capitalism entered the stage of machine industry. This was because:

First, at that time "**commodities are not exchanged simply as commodities, but as products of capitals, which claim participation in the total amount of surplus-value, proportional to their magnitude, or equal if they are of equal magnitude.**"[4] Exchange according to value yields unequal rates of profit; only exchange according to prices of production

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[1] Frederick Engels, "Preface," in *Capital*, Vol. III., by Karl Marx.

[2] Ibid.

[3] Karl Marx, "Chapter 10. Equalisation of the General Rate of Profit Through Competition. Market-Prices and Market-Values. Surplus-Profit," in *Capital*, Vol. III.

[4] Ibid.

can provide average profit and realize the principle that equal amounts of capital yield equal amounts of profit.

Second, the formation of prices of production presupposes the formation of a socially uniform average rate of profit, while the formation of a uniform average rate of profit requires a series of conditions, chiefly the following: (1) Capital must be able to move freely and rapidly from one production sector to another and from one region to another. This requires all production sectors to be subordinate to the capitalist mode of production, the formation of a unified domestic market, the elimination of internal social monopolies, complete commercial freedom, and a sufficiently developed credit system, among other things. (2) Labor power must be able to move freely and rapidly from one production sector to another and from one region to another. This requires all workers to be subordinate to capital, freed from the guild constraints of feudalism, and the laws obstructing the free movement of labor power to have been thoroughly abolished, among other things. These conditions could be met only when capitalism had developed considerably and machine industry had assumed a dominant position. Only then could competition among production sectors fully unfold, could the average rate of profit form throughout the entire sphere of capitalist production, and could the historical process of the transformation of value into prices of production finally be completed.

In the actual operation of the capitalist economy, value is also the basis of prices of production. First, value and surplus value are formed in the production process of capital; only then can surplus value be distributed, the rate of profit equalized, and value transformed into prices of production. Average profit is the transformed form of surplus value, while prices of production are the transformed form of value. From the perspective of each individual sector,

although prices of production and value often differ in magnitude, from the perspective of society as a whole, the total prices of production of commodities and the total value of commodities are still equal. At the same time, the total value of commodities determines the overall level of prices of production, and changes in commodity value determine changes in prices of production. As social labor productivity increases, the socially necessary labor time required to produce commodities decreases, the magnitude of value falls, and the prices of production of commodities fall accordingly; conversely, when the magnitude of commodity value increases, prices of production also rise accordingly. The direction of movement of prices of production is completely consistent with that of value.

The Law of the Tendency of the Average Profit Rate to Fall

In capitalist society, the average rate of profit formed through competition is not unchanging. In the long run, the average rate of profit tends to decline.

The fundamental reason for the decline in the average rate of profit is the increase in the organic composition of total social capital. In capitalist society, capitalists all strive to expand the scale of production, adopt new technology, and raise labor productivity in order to obtain surplus-profit. As total social capital expands and technology advances, the organic composition of capital also continually rises. Once the organic composition of capital throughout an entire sector or society as a whole has generally increased, not only will the surplus-profit of individual capitalists disappear, but the average rate of profit of society as a whole will also decline accordingly. This is because an increase in the organic composition of capital indicates that

constant capital increases faster than variable capital. As the share of variable capital in total capital declines day by day, the labor power set in motion by capital also decreases relatively; consequently, the ratio of the total surplus value generated by variable capital to total capital—that is, the rate of profit—must also decline. Therefore, the decline in the average rate of profit is the inevitable result of the increase in the organic composition of capital, an objective trend independent of the personal will of capitalists.

However, a decline in the average rate of profit does not mean a decline in the rate of surplus value, a reduction in the degree of exploitation of the proletariat, or, still less, a decline in the amount of profit. As the average rate of profit declines, the rate of surplus value may remain unchanged or even continue to rise. Moreover, as total social capital expands, although the rate of profit tends to decline, the total amount of profit can nevertheless continue to increase, because within the expanded total social capital, the relative amount of variable capital decreases while its absolute amount increases; the number of exploited workers increases in absolute terms, and therefore the total amount of surplus value they produce—that is, the total amount of profit—must also increase. Marx said: "**As the process of production and accumulation advances therefore, the mass of available and appropriated surplus-labour, and hence the absolute mass of profit appropriated by the social capital, must grow. Along with the volume, however, the same laws of production and accumulation increase also the value of the constant capital in a mounting progression more rapidly than that of the variable part of capital, invested as it is in living labour. Hence, the same laws produce for the social capital a growing absolute mass of profit, and a falling rate of profit.**"[1]

[1] Karl Marx, "Chapter 13. The Law As Such," in *Capital*, Vol. III.

Alongside the decline in the average rate of profit, a series of factors also exert an opposite influence, impeding the decline in the rate of profit. These factors are as follows:

First, an increase in the degree of exploitation of workers. This is the factor that most frequently comes into play. On the one hand, methods of producing absolute surplus value, such as extending the working day and increasing labor intensity, can raise the rate of surplus value with little or no increase in fixed capital; on the other hand, methods of producing relative surplus value, such as increasing labor productivity, can raise the rate of surplus value by reducing the value of consumer goods and the value of labor power. All these factors impede and slow the decline in the rate of profit.

Second, the reduction of wages below the value of labor power. Capitalists can thereby obtain a greater quantity of surplus value or profit, thus impeding the decline in the rate of profit.

Third, the reduction in the value of means of production. As labor productivity increases, the means of production become increasingly inexpensive. This reduction weakens the pace at which the organic composition of capital rises and also delays the decline in the rate of profit.

Fourth, the existence of a relative surplus population. This lowers the price of labor power, leading some production sectors and enterprises to prefer using hand labor rather than machinery. Therefore, "**the variable capital makes up a considerable portion of the total capital and wages are below the average, so that both the rate and mass of surplus-value in these lines of production are unusually high.**"[1]

Fifth, foreign trade. Developed capitalist countries can obtain relatively inexpensive means of production and means of subsistence through foreign trade, especially trade with

[1] Karl Marx, "Chapter 14. Counteracting Influences," in *Capital*, Vol. III.

economically backward countries. "**Since foreign trade partly cheapens the elements of constant capital, and partly the necessities of life for which the variable capital is exchanged, it tends to raise the rate of profit by increasing the rate of surplus-value and lowering the value of constant capital.**"[1] In addition, they can extract higher profits by selling commodities to backward countries and making direct investments there, which also alleviates the decline in the rate of profit to a certain extent.

However, these factors can only slow the rate at which the rate of profit declines; they cannot absolutely prevent the rate of profit from declining. Marx said: "**We have thus seen in a general way that the same influences which produce a tendency in the general rate of profit to fall, also call forth counter-effects, which hamper, retard, and partly paralyse this fall. The latter do not do away with the law, but impair its effect. Otherwise, it would not be the fall of the general rate of profit, but rather its relative slowness, that would be incomprehensible. Thus, the law acts only as a tendency. And it is only under certain circumstances and only after long periods that its effects become strikingly pronounced.**"[2]

The law governing the tendency of the general rate of profit to fall fully reflects the profound contradictions in the development of the capitalist economy. Capitalists' frantic pursuit of profit paradoxically results in a decline in the general rate of profit. Faced with the continual decline in the rate of profit, the bourgeoisie is naturally unwilling to accept it and is bound to adopt every means of preventing the rate of profit from falling in order to ensure the acquisition of high profits. This sharpens all the contradictions in capitalist society.

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[1] Ibid.

[2] Ibid.

First, it intensifies the contradiction between the bourgeoisie and the proletariat and the broad masses of working peasants. The bourgeoisie's primary means of preventing the rate of profit from falling is to intensify the exploitation of the working class and working peasants and to plunder small producers. As a result, the contradiction between the bourgeoisie and the working class and working peasants inevitably becomes increasingly acute.

Second, it also intensifies the contradictions within the bourgeoisie. As the general rate of profit declines, the contradictions among capitalists over the division of surplus value become increasingly acute, competition grows fiercer, and the struggles among various capitalist groups and between large capital and medium and small capital become still more intense.

Third, it further intensifies the contradiction between the developed capitalist countries and the backward colonial countries. In order to prevent the rate of profit from falling, the bourgeoisie intensifies its plunder of backward countries: on the one hand, it purchases cheap raw materials and food; on the other hand, it extracts high profits through commodity exports and capital exports. All this naturally causes the contradiction between the developed capitalist countries and the backward colonial countries to intensify with each passing day.

The various contradictions mentioned above, which become increasingly acute as the rate of profit declines, cannot be resolved under capitalism. Only by replacing capitalism with the socialism can all the inherent contradictions of capitalism be eliminated.

Section Two: Commercial Capital and Commercial Profit

Commercial Capital

The foregoing analysis still assumes that industrial capitalists appropriate all the surplus value created by workers. However, the actual situation in capitalist society is that, alongside industrial capital, there is also independent commercial capital, which likewise participates in the division of surplus value. It is therefore necessary to examine further the issues of commercial capital and commercial profit.

Commercial capital, also known as merchant's capital, is an independent form of capital specializing in commodity trading. Its primary function is to serve commodity circulation and realize commodity value; its fundamental purpose is to obtain commercial profit. Its formula of movement, like the general formula for the movement of capital, is M—C—M'.

Commercial capital had already emerged as early as the initial stage of slave society. It "**is older than the capitalist mode of production, is, in fact, historically the oldest free state of existence of capital.**"[1] However, commercial capital before capitalist society differed from commercial capital in capitalist society in two primary respects. First, it developed independently of the various production sectors. At that time, commodity production was relatively underdeveloped, while the natural economy still predominated. Although commercial capital arose from simple commodity circulation, its development was not always brought about by the expansion of commodity production. Rather, through the counteracting influence of commerce, some self-sufficient production was drawn into the commodity economy, turning certain

[1] Karl Marx, "Chapter 20. Historical Facts about Merchant's Capital," in *Capital*, Vol. III.

products originally intended for the producers' own use into commodities. Marx said: "**It is commerce which here turns products into commodities, not the produced commodity which by its movements gives rise to commerce.**"[1] At that time, commerce dominated industry and the various production sectors, unlike in capitalist society, where industry dominates commerce. Second, commercial profits were very high and were obtained mainly by buying cheap and selling dear. Through unequal exchange, commercial capital, on the one hand, appropriated without compensation part of the value created by small producers and, on the other hand, seized for itself part of the surplus product extracted by slave owners or feudal lords. Therefore, in terms of the source, level, and method of obtaining commercial profit, it also differed essentially from commercial capital in the capitalist period.

In capitalist society, the nature and role of commercial capital has underwent fundamental changes. Commercial capital has became an independent part of industrial capital: it is separated from industrial capital while remaining subordinate to it and serving it. At this point, the function performed by commercial capital is the function originally performed by industrial capital when it was in the form of commodity capital—namely, converting commodity capital into money capital by selling commodities, thereby realizing the advanced capital value and surplus value contained in the commodities. The difference is that, as commodity capital, it remains an organic component of industrial capital; as commercial capital, it has already separated from industrial capital and operates independently within the circulation sphere.

Why can commodity capital become independent from industrial capital and transform into commercial capital? First, this is because the function of commodity capital is inherently

[1] Ibid.

different from the functions of the other two forms of capital in the circulation of industrial capital—money capital and productive capital. Therefore, it is possible for capitalists to implement a division of labor, entrusting the function of commodity capital to capitalists who specialize in commodity trading. Second, from the perspective of total social capital, some capital is always situated in the circulation sphere, performing the functions of money capital and commodity capital, and coexisting with productive capital. Since commodity capital possesses this relative independence, it can also separate from industrial capital. Marx pointed out: "**Inasmuch as this function of capital in the process of circulation is at all set apart as a special function of a special capital, as a function established by virtue of the division of labour to a special group of capitalists, commodity-capital becomes commercial capital.**"[1]

At the same time, with the development of capitalist production, objective conditions also require commodity capital to become independent from industrial capital. As production rapidly develops and the market continuously expands, industrial capitalists encounter increasing difficulties when simultaneously engaging in commerce and selling what they produce themselves. They must increase the commodity capital in circulation, establish enormous commercial establishments, employ large numbers of commercial employees, and become familiar with constantly changing market conditions and the specialized knowledge required to conduct commerce. This increases advanced total capital, relatively or absolutely reduces productive capital, and may also prolong time of circulation and slow the turnover of capital because of poor management, thereby lowering the rate of profit of industrial capital. This is clearly unfavorable to industrial capitalists seeking to expand production and intensify the

[1] Karl Marx, "Chapter 16. Commercial Capital," in *Capital*, Vol. III.

extraction of surplus value; objectively, therefore, it requires that the function of selling commodities be entrusted to specialized functional capitalists. Some capitalists adapt to this need by independently conducting commerce with their own capital and specializing in the buying and selling of commodities, thereby becoming commercial capitalists. The emergence of commercial capitalists shows that commodity capital has become independent from the circulation of industrial capital and has become commodity-trading capital. At this point, the final realization of commodity capital is no longer the affair of industrial capitalists but that of commercial capitalists. Once industrial capitalists sell the commodities to commercial capitalists, the process by which commodity capital transforms into money capital is considered complete from the perspective of industrial capitalists; but for commodity capital itself, the process of transformation of its form of capital has not been completed. It remains in the market, awaiting sale. Only after commercial capitalists sell the commodities to consumers is the process of transformation by which commodity capital assumes the form of money capital finally complete. Thus, commercial capital, or commodity-trading capital, actually performs the function of commodity capital.

However, unlike mere commodity capital, commercial capital is already an independently functioning form of capital. This independence is manifested mainly in the following respects: first, it is represented by capitalists who specialize in buying and selling commodities—namely, commercial capitalists. Commercial capitalists do not engage in commodity production; rather, they make the sale of commodities their own specialized and exclusive business. Second, commercial capitalists independently advance money capital and seek to obtain the corresponding capital profit through commodity operations.

In short, commercial capital in capitalist society is nothing more than an independent part of industrial capital. On the one hand, the function performed by commercial capital is essentially the function of commodity capital as a part of industrial capital. Therefore, commercial capital is subordinate to and serves industrial capital. On the other hand, commercial capital makes this function its own independent and exclusive function and realizes expansion of value as independent capital. Therefore, it is also a form of capital that exists independently of industrial capital, has its own objectives, and serves itself.

Commercial Profit

Commercial capitalists open shops in order to obtain profit. If productive activities such as packaging, storage, and transportation are set aside, then, considering only the simple buying and selling of commodities, the activity of commercial capital belongs purely to the circulation sphere. Where, then, does its profit come from?

On the surface, commercial profit appears to arise from the circulation sphere, but this is merely an illusion. In reality, commercial profit is also surplus value created by workers in the en production sector and transferred by industrial capitalists to commercial capitalists. Marx said: "**Since merchant's capital does not itself produce surplus-value, it is evident that the surplus-value which it pockets in the form of average profit must be a portion of the surplus-value produced by the total productive capital.**"[1]

[1] Karl Marx, "Chapter 17. Commercial Profit," in *Capital*, Vol. III.

A portion of the surplus value is transferred from industrial enterprises to commercial enterprises through the price difference. Industrial capitalists sell commodities to commercial capitalists at prices below the prices of production, and commercial capitalists then sell the commodities to consumers at the prices of production. A difference arises between the price at which commercial capitalists sell the commodities and the price at which they purchase them. This price difference constitutes commercial profit—that is, the portion of surplus value transferred by industrial capitalists to commercial capitalists.

Commercial capital is an independent form of capital. It not only obtains profit but, compared with an equal amount of industrial capital, also demands to obtain average profit. Marx pointed out: "**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.**"[1] In other words, the amount of commercial profit is likewise governed by the law of the average profit rate. This is determined by competition between the commercial sector and the industrial sectors. As functional capitalists, commercial capitalists and industrial capitalists, provided they advance equal amounts of capital, are equally unwilling to accept less profit. If the commercial profit rate is lower than the industrial profit rate, some commercial capital will shift to the industrial sector; conversely, if the commercial profit rate is higher than the industrial profit rate, some industrial capital will shift to the commercial sector. Competition and the reciprocal transfer of capital lead to the equalization of

[1] Ibid.

commercial profit and industrial profit, forming a unified average profit rate for society as a whole, including commercial capital.

Assume that the total industrial capital advanced for one year is 720c+180v=900 (in units of 100 million yuan), and that the rate of surplus value is 100%, so the total amount of surplus value is 180. The total value or prices of production of the product (which, for society as a whole, are identical) is therefore equal to 720c+180v+180s=1,080, and the average profit rate is 180s/(720c+180v)=20%. Now assume that, in addition to the 900 of industrial capital, there is 100 of commercial capital, so that total social capital increases to 900+100=1,000. Since the purely buying and selling activities of the commercial sector create neither value nor surplus value, the total amount of surplus value remains 180. Commercial capital, however, must participate in the distribution of surplus value, and the average rate of profit consequently falls to 180/(900+100)=18%. As a result, industrial capitalists can obtain only 900*18%=162 in average profit, while commercial capitalists can obtain 100*18%=18 in average profit. In reality, industrial capitalists sell the commodities to merchants at a price of 720c+180v+162p (industrial profit)= 1,062, while merchants sell them to consumers at a price of 1,062 + 18m (commercial profit)= 1,080. Commercial profit is the difference between 1,080 and 1,062. Although commercial capitalists obtain commercial profit according to the average rate of profit, they still sell "**at their prices of production, or, from the standpoint of the total commodity-capital, at their values in excess of their prices of production.**"[1]

Commercial capital and industrial capital jointly divide up surplus value, causing surplus value to be divided into industrial profit and commercial profit. The actual prices of production

[1] Ibid.

or value of the total commodity capital of society is equal to cost-price+industrial profit+commercial profit, namely k+p+m.

Since commercial capital participates in the division of surplus value, the social average rate of profit is reduced. Is this disadvantageous to industrial capitalists? Not at all. If commercial capital did not independently undertake the function of realizing the value of commodity capital, and industrial capitalists themselves operated the commercial business, they would necessarily advance more capital because of decentralized operations and slow the turnover of capital, thereby reducing the rate of profit even further. As in the preceding example, when independent commercial capital exists, the social average rate of profit is 180/(900+100)=18%; if industrial capitalists themselves operated the commercial business, the commodity-trading capital they had to advance would certainly exceed 10 billion yuan. Assuming that it amounted to 30 billion yuan, the social average rate of profit would then fall to 180/(900+300)=15%.

Thus, the independence of commercial capital is actually beneficial to industrial capital. Since commercial profit derives from surplus value, commercial capitalists, like industrial capitalists, are all members of the exploiting class, and all make their living by feeding on the blood and sweat of the workers. The more surplus value industrial capitalists squeeze from the workers, the higher the average profit rate in society, benefiting both industrial capital and commercial capital. Although industrial capitalists and commercial capitalists fight and scramble when dividing up surplus value, their class interests are identical when it comes to intensifying the exploitation of workers.

In a capitalist's store, the capitalist himself does not work; all business activities, such as buying and selling commodities, are undertaken by the shop assistants. Shop assistants also make a living by selling their labor power and are wage laborers, but their labor differs from that of industrial workers: it is mainly devoted to buying and selling commodities and does not create value or surplus value but merely realizes value and surplus value. Although the labor of shop assistants is not productive labor, it is, from the standpoint of society, indispensable to the capitalist reproduction process; the function of commercial capital is fulfilled through their labor. While using their labor to effect the transformation of commodity forms, shop assistants transfer to the commercial sector a portion of the surplus value created by industrial workers. After the portion used to compensate their wages is deducted, the remainder constitutes the commercial profit gratuitously appropriated by commercial capitalists. Therefore, the entire labor of shop assistants is also divided into necessary labor and surplus labor. The surplus value realized through necessary labor is used to compensate the variable capital advanced by merchants—that is, shop assistants' wages—whereas the surplus value realized through surplus labor constitutes commercial profit. Marx pointed out: "**Just as the laborer's unpaid labour directly creates surplus-value for productive capital, so the unpaid labour of the commercial wage-worker secures a share of this surplus-value for merchant's capital.**"[1] Only through the labor of commercial shop assistants can commercial capitalists appropriate a portion of the surplus value created by industrial workers. This shows that commercial capitalists exploit not only industrial workers but also commercial employees. Like industrial workers, shop assistants are also exploited wage laborers.

[1] Ibid.

To make money and amass wealth, commercial capitalists always resort to every possible means to expand shop assistants' surplus labor, so as to appropriate more surplus value without compensation. What methods do they use to expand shop assistants' surplus labor and intensify their exploitation?

First, they extend labor time. Since shop assistants' wages are generally fixed, the longer they work each day, the more commodities they sell, and the greater the profit capitalists obtain. In old China, stores generally had no prescribed working hours, and the working day usually exceeded 12 hours. The capitalists at Tianjin Huazhen Department Store even declared: "The moment there are no more customers, that is when you may get off work!" They often began business at five or six in the morning and did not close until around midnight, making the working day as long as 18 hours. Whenever business was brisk during suitable seasons or holidays, capitalists forced shop assistants to work overtime day and night.

Second, they intensify labor and raise work efficiency. As shop assistants' labor intensity increases, sales inevitably rises accordingly, enabling capitalists to earn more money. To make shop assistants work tensely and efficiently, capitalists use both carrots and sticks. Before liberation, all the major stores in Tianjin had harsh and severe store regulations, compelling shop assistants not to relax or be careless during business hours and not to take leave at will when business was busy; otherwise, their wages were deducted at double the rate. The manager of the former Huazhu Silk and Cloth Store even supervised the shop in person, reprimanding shop assistants whenever they sold too little. After returning to the shop at midnight, he also forced employees, exhausted after a full day's work, to study such tasks as wrapping packages, tying cords, and settling accounts. Under the capitalists' constant threat of dismissal, shop assistants

dared not be the slightest bit negligent at work. Fearing that they might offend customers, they strove to complete more transactions and sell more goods. In addition, capitalists adopt such material-incentive measures as gifts, sales rewards, year-end profit sharing, and sales commissions. In order to seize more commercial profit, they take a small remainder from the profits as bait, and lure shop assistants into working twice as hard.

Third, they depress shop assistants' wages. When wages are lowered, the surplus labor extracted from shop assistants inevitably expands correspondingly. The apprenticeship system was widespread in stores across old China. Apprentices were forced to spend the first three years "learning the trade" and receive no wages; the store merely provided food and lodging, making them the cheapest labor power. The wages of regular shop assistants were also pitifully low. At Huazhen Department Store, even regular shop assistants received no wages; instead, they were paid by sales commission. Yet the commission rate was extremely small. The shop assistants worked desperately from morning till night, but each person's monthly earnings could buy at most half of a shirt, while the lowest earners could buy only a pair of socks. Because their wages were meager, many shop assistants in various stores found it difficult to support their families and had to sell cigarettes, polish shoes or other sidekicks after work to earn a little money to supplement their household expenses. Under the brutal exploitation of commercial capitalists, shop assistants, like Industrial workers, are in a deeply miserable situation. Their labor is arduous and their lives painful; once unemployed, they are utterly helpless. During the thirteen years from 1936 to 1949, Huazhu Silk and Cloth Store dismissed more than 500 shop assistants in succession—an average of more than three per month. In the ten years from 1939 to 1949, seventy-five employees of Huazhen Department Store successively developed heart disease or

lung disease due to overwork; twenty-six of them were driven out of the store because of serious illness, and six died from the combined effects of poverty and disease. Apprentice Xin Guilin was afraid of being dismissed and did not dare say anything even when he was vomiting large amounts of blood. Eventually, however, the capitalist discovered his condition and immediately drove him out of the store. After the employees pooled money to send him home, he died tragically a month later. These bloody facts show that within commercial capitalists' vast wealth there was, besides the labor and sweat of Industrial workers, also the boundless blood and tears of commercial shop assistants!

Another way for commercial capitalists to make money is to exploit peasants and small producers by forcing down purchase prices. In capitalist society, large numbers of individual peasants and small producers still exist. They have to sell the commodities they produced to merchants, while the means of production or consumer goods they need has to be purchased from merchants; consequently, they cannot escape exploitation by commercial capitalists. When purchasing commodities, commercial capitalists always take advantage of the various difficulties faced by small producers, buying at low prices and then reselling at high prices to reap exorbitant profits. For example, Zhengxingde Tea House, the largest tea shop in Tianjin before liberation, purchased tea directly in tea-producing regions such as Fuzhou, Hangzhou, Huangshan, and Dafang, monopolized the producing areas, and exploited tea farmers. In the Huangshan producing area, for instance, it colluded with local tea brokerage firms (intermediaries engaged in buying and selling on commission). Whenever new tea came onto the market, it deliberately forced down prices. If tea farmers complained that the prices were too low, Zhengxingde would conspire with the tea brokerage firms to stop purchasing. Since the tea farmers needed money

and could not wait long, they had no choice but to lower their prices drastically in desperation to make a sale. Zhengxingde then took advantage of the situation to buy at low prices, generally forcing prices down by about 10%. When purchasing jasmine flowers for scenting tea, it also drove prices down by every means, to the point that some flower growers carried jasmine flowers from far away to sell them for less than the cost of transporting them.

Raising commodity prices and employing every kind of deceptive tactic to exploit consumers by every possible means is another important way for commercial capitalists to obtain profit. They not only take advantage of demand exceeding supply to raise prices; they also use despicable methods as substituting inferior goods for superior ones, short-weighting and short-measuring, and falsifying information to deceive customers and covertly raise commodity prices. In order to sell their goods, commercial capitalists often spared no expense in conducting extensive advertising campaigns and engaging in all kinds of fraudulent practices. In Tianjin before liberation, shops held so-called “grand sales,” “grand sacrifice sales,” and “closeout sales,” among others, almost all year round to attract customers. The commercial capitalists appeared to be losing money as a result, but in fact they earned even more. For example, during its annual spring and autumn “grand sales,” the Huazhu Silk and Cloth Store claimed to offer overcoats at 20% off. In reality, it had already raised the marked prices, so even after the discount they differed little from the original prices. Many customers, unaware of the truth, nevertheless flocked in, and turnover suddenly increased eight- to ninefold. In the end, the customers were deceived and the shop assistants were exhausted, while the capitalists made a great deal of money from it.

In short, the portion of surplus value allocated by industrial capitalists to commercial capitalists is the basic source of commercial profit; while a portion of the labor products of small producers and a portion of consumers' labor income are supplementary sources of commercial profit. Commercial capitalists exploit not only industrial workers but also commercial employees; they exploit workers not only as producers but also as consumers; and they exploit not only wage laborers but also the broad masses of working peasants and small producers.

Circulation Expenses

Commercial capitalists engaged in commerce must first advance a portion of capital to purchase commodities. This advanced capital can be recovered after the commodities are sold, together with a corresponding profit. In addition to this investment, merchants must also advance a portion of capital to cover circulation costs. Circulation costs are the various expenses incurred by commodities during the circulation process; they constitute an important component of the capital advanced by merchants. This capital advanced by merchants must likewise be recovered and must yield a profit. Therefore, it is also necessary to analyze the issue of compensating circulation costs.

Circulation costs in capitalist commerce are divided into two types: productive circulation costs and unproductive circulation costs. This distinction is based on the duality of the commodity. Under capitalism, the movement of the commodity manifests itself, on the one hand, as the movement of use value and, on the other hand, as the movement of value (that is, a change in the form of value). Productive circulation costs are connected with the movement of

the commodity as use value, such as packaging costs, storage costs, transportation costs, and so on. Any commodity, as a use value, can enter the sphere of consumption only after passing through exchange and distribution. Before this occurs, the preservation and transfer of use value, like its production, are socially necessary and may be regarded as a continuation of the production process in the circulation sphere. Therefore, all labor used to preserve and transfer use value, including labor involved in packaging, storage, and transportation, should also be regarded as productive labor. Not only is the value of the means of production consumed transferred to the product, but the living labor expended also creates new value. In other words, productive circulation costs can increase the value and surplus value of the commodity. Thus, the merchant's expenditures on such circulation costs can be compensated from the increased commodity value and can yield average profit.

All costs purely associated with the movement of commodities as values are unproductive circulation costs, also called pure costs of circulation. Pure costs of circulation are a type of cost peculiar to the commodity economy, including advertising expenses, commercial office expenses, clerks' wages, and so on. Marx said, "**these costs arise due to the product having the economic form of a commodity.**"[1] Their function is merely to effect a change in the commodity form, transforming commodities into money; they do not increase commodity value in any way. These circulation costs cannot increase commodity value, yet they consume part of society's material resources and living labor. Thus, from society's perspective, they are purely a waste, equivalent to a deduction from the social product and total value. With the development of capitalism, these pure costs of circulation have become increasingly large.

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[1] Ibid.

Although pure costs of circulation are a fictitious expense for society, social reproduction can proceed normally only when they are compensated for materially and in value terms. The question is: which part of the annual value of the social product is the source of compensation for pure costs of circulation? The value of the annual social product consists of three parts: constant capital, variable capital, and surplus value, namely c+v+s. Constant capital c is used to compensate for the value of the means of production consumed each year and, of course, cannot be used to compensate for pure costs of circulation. Variable capital v is used to compensate for the consumption of labor power in the production sector; it is necessary to maintain the reproduction of labor power and likewise cannot be used to compensate for commercial fictitious expenses. The only part remaining is surplus value. Therefore, the pure costs of circulation of commerce can be compensated for only out of surplus value. Marx explicitly stated: "**The general law is that all *costs of circulation*, *which arise only from changes in the forms of commodities do not add to their value*. They are merely expenses incurred in the realisation of the value or in its conversion from one form into another. The capital spent to meet those costs (including the labour done under its control) belongs among the *faux frais* of capitalist production. They must be replaced from the surplus-product and constitute, as far as the entire capitalist class is concerned, a deduction from the surplus-value or surplus-product.**"[1]

If industrial capitalists themselves also conduct commercial operations, they must advance the pure costs of circulation themselves, with compensation coming from surplus value, and their rate of profit will correspondingly decline. When these costs are advanced

[1] Karl Marx, "Chapter 6: The Costs of Circulation," in *Capital*, Vol. II.

independently by merchants, this does not alter the nature of the issue. Continuing with the previous example, suppose that, in addition to advancing 100, the merchant must also advance 50 as pure costs of circulation. The total surplus value of 180 must then be distributed between industrial capital amounting to 900 and commercial capital amounting to 150, and the average rate of profit will fall to 180/(900+150)=17.14%. In this case, the industrial capitalist can receive only 900*17.14%=154.29 as average profit, while the commercial capitalist can receive 150*17.14%=25.71 as average profit. The price at which the industrial capitalist sells the commodities to the merchant will be 900+154.29=1,054.29; the merchant then adds the commercial profit and the advanced pure costs of circulation to the selling price of the commodities and sells them to consumers at 1,054.29+25.71=1,130. It can thus be seen that the pure costs of circulation incurred by the merchant are compensated for through the specific mechanism of a commercial markup incorporated into the selling price. The portion of the commercial capitalist's selling price that exceeds the commodity value is the portion that commodity purchasers pay in excess of value. If the commodity purchaser is a capitalist, the portion of surplus value thereby lost by the capitalist directly becomes the source of compensation for the pure costs of circulation. If the purchaser of the commodity is a worker, a portion of wage income compensates for the pure costs of circulation. However, the premise of our theoretical analysis is that wages are paid according to the value of labor power; we must therefore assume that workers' nominal wages will increase correspondingly as the prices of means of subsistence rise, in order to compensate for the pure costs of circulation. Thus, the ultimate source of compensation for this portion of the pure costs of circulation is still surplus value.

It should be added that when Marx made an abstract analysis of issues concerning the capitalist economy, although he always assumed that wages are paid according to the value of labor power, he also frequently emphasized that workers may not actually receive the full value of their labor power. This is because capitalists use the large unemployed population to drive workers' wages below the value of labor power. Therefore, whenever possible, capitalists always strive to shift the burden of compensating for pure costs of circulation onto workers. Commercial capitalists raise commodity prices, while industrial capitalists do not necessarily raise workers' wages accordingly. As a result, workers have no choice but to use part of their wage income to compensate for pure costs of circulation. From the standpoint of society as a whole, this amounts to deducting wages from workers and increasing the degree of exploitation of workers. In capitalist society, the growth of pure costs of circulation is an important factor in the continuous rise of commodity prices; it inevitably causes real wages to fall and deepens the impoverishment of the working class.

Under capitalist conditions, even productive costs in the circulation sphere increasingly become unproductive circulation costs. The development of commercial speculation, difficulties in sales caused by economic crises, and so on lead to the massive accumulation of commodities in the circulation sphere, as well as waste in packaging, storage, and transportation, causing the costs of packaging, storage, and transportation of commodities to greatly exceed the socially necessary limits. The portion of these costs that exceeds the actual requirements for preserving and transferring the use value of commodities thus becomes unproductive pure costs of circulation. This situation is entirely caused by the capitalist economic system. The enormous

scale and continuous growth of pure costs of circulation fully demonstrate the decay of capitalism.

The Role of Commercial Capital

Commercial capital plays a dual role in the capitalist economy: on the one hand, it promotes the development of the capitalist economy; on the other hand, it deepens the contradictions and crises of capitalist society.

The role of commercial capital in promoting the development of the capitalist economy is manifested in the following three aspects:

1. The independence of commercial capital reduces the amount of money capital in the circulation sphere, because the capital advanced by commercial capitalists in conducting commerce is less than the capital advanced when industrial capitalists conduct commerce themselves. Independent commercial capital can concentrate commercial operations on a large scale, simplify the commercial network, and save commercial expenses. A single store can sell commodities for many factories in many sectors and serve the turnover of many industrial capitals. All this reduces the portion of total social capital invested in the circulation sphere and increases the portion used in the production sphere, thereby increasing the total amount of surplus value and the general rate of profit.

2. Independent commercial capital can promote the specialization of business, while merchants become more familiar with market conditions. This facilitates the sale of

commodities, shortens time of circulation, accelerates the turnover of industrial capital, and raises the annual rate of surplus value and rate of profit of industrial capital.

3. Driven by commercial capital, commodity-money relations develops rapidly and the market expands further; this, in turn, actively influences the development of industrial capital, and promotes the expansion of capitalist production and increasing accumulation.

At the same time, commercial capital also exacerbates the contradictions and crises of capitalist society. This is manifested mainly in the following ways:

1. It has aggravated the anarchy of capitalist production and economic crises. The development of commercial capital has widened the gap between production and consumption and intensified the blindness of capitalist production. Because large and small merchants participate and commodities change hands repeatedly, commodity circulation must pass through many intermediate links. In addition, increasingly rampant commercial speculation often creates false demand for commodities in the market, causing capitalist production to expand even more blindly and production and consumption to become even more seriously disconnected. At the same time, the development of commercial capital has intensified the exploitation of workers and the working masses, depressed the purchasing power of the working people, and further deepened the antagonistic contradictions between production and consumption. All this inevitably makes capitalist economic crises increasingly frequent and severe.

2. It intensifies the class contradictions in capitalist society. Commercial capital promotes capital's exploitation of wage laborers, accelerates capital accumulation and the impoverishment of the proletariat, and inevitably makes the class contradictions and class struggle between the bourgeoisie and the proletariat increasingly acute. Moreover, because merchants plunder

peasants and small producers through unequal exchange, the class contradictions between the bourgeoisie and the other working masses also intensify. The formation of commercial capital also makes the struggle among the various groups within the bourgeoisie over the division of surplus value more complex and fierce.

3. It deepens the contradictions between capitalist states, as well as between capitalist states and colonial and undeveloped countries. The development of capitalist commerce, especially foreign trade, has created the world market. The bourgeoisie of the advanced capitalist states uses import and export trade to plunder the working people of the colonies and undeveloped countries, purchase raw materials and agricultural products at low prices and selling industrial goods at high prices, thereby securing surplus-profits. This inevitably provokes resistance from the working people of the colonial and backward countries. At the same time, the capitalist states wage trade wars against one another in order to seize favorable sales markets and sources of raw materials, and the contradictions among them grow increasingly acute.

Commercial Capital in Old China

The commercial capital of old China gradually took shape with the invasion by imperialism and the development of industrial capital. Unlike that of typical capitalist states, the commercial capital of old China bore the characteristics of a semi-feudal, semi-colonial society.

First, foreign capital monopolized China's import and export trade. After the Opium War of 1840, international capitalism sought to turn China into its sources of raw materials and commodity sales markets, subjecting the Chinese people to economic exploitation. To this end,

through unequal treaties, it opened and controlled many treaty ports along the coast and rivers, firmly seized administrative control of Customs, lowered import tariff rates, and dumped large quantities of surplus commodities in China. Foreign capital also established foreign trading firms in important ports and commercial cities, monopolizing import and export trade and serving the dumping of commodities and plundering of raw materials. In 1930, commercial enterprises such as foreign-owned trading firms and shops established in China totaled 8,297; foreign capital's trade investment amounted to $555 million, accounting for 28.1% of the capital of all foreign enterprises. China's foreign trade was completely monopolized by foreign merchants. In 1928, total foreign trade amounted to 218 million liang of silver, 90% of which was controlled by foreign merchants. Imperialism monopolized the international trade of old China and exploited the Chinese people's blood and sweat through unequal exchange; in the 70 years from 1868 to 1938 alone, the wealth plundered amounted to approximately more than $4 billion. Imperialism seized China's valuable natural resources, while most of what it sold consisted of drugs, arms, luxury goods, and ordinary consumer goods, which seriously impeded the development of China's industry and national economy.

Secondly, bureaucratic capital controlled domestic commerce. The bureaucratic capital of old China arose to meet the needs of imperialist aggression, and its primary representatives were the four big families of Chiang, Soong, Kung, and Chen. They had already established a monopoly over commerce before the War of Resistance Against Japanese Aggression, which was further strengthened during and after the War of Resistance. The commerce operated by the four big families primarily handled the import and export of goods, assisted imperialism in commodity exports and trade plunder, and had a pronounced comprador character. This form of

organization of bureaucratic comprador commercial capital was divided into two types: the "official" and the "commercial." "State-operated" commercial organizations were the various commercial establishments under the Kuomintang government, such as the Trade Commission, Resources Commission, Monopoly Administration Bureau, and Cotton, Yarn, and Cloth Administration Bureau. They centrally purchased and sold important export commodities such as tea, silk, pig bristles, and tungsten, and enforced monopolies over basic daily necessities such as salt, sugar, tobacco, cotton yarn, and matches. "Commercially operated" organizations, which appeared directly as private businesses, were also spread throughout the major cities of the country and monopolized the trading of many important commodities. The most infamous examples included the "China Cotton Company," "South China Rice Company," and "National Products Joint Company," controlled by Soong Tzu-wen; the "Xiangji Trading Firm," "Qianghua Company," and "Qingji Yarn Firm," controlled by H. H. Kung; and the "Cotton Transport and Marketing Company" and "Huahua Silk and Satin Company," controlled by the Chen brothers. Bureaucratic comprador commercial capital, represented by the four big families, was the most overt commercial monopoly in Chinese history; through their commercial monopolies, they seized enormous commercial profits. This bureaucratic comprador commercial capital relied on imperialism abroad, colluded with feudal forces at home, plundered the working people, suppressed national capital, and seriously undermined the productive forces of society.

Third, the strength of national commercial capital was weak, and it had a certain degree of feudal and comprador character. In old China, national commercial enterprises were mostly small and medium-sized commercial capital, subordinate to national industry and primarily serving the sale of commodities and realization of surplus value for national industrial capital.

Because national industry in old China was extremely backward, the development of national commerce was also very weak. Although these enterprises played some positive role in expanding commodity circulation and promoting market prosperity, they also maintained intricate ties with imperialism and feudal forces. From major cities to remote rural areas, small and medium-sized commercial capital formed a vast commercial network, and helped foreign merchants to market foreign goods, purchase raw materials, and exploit the Chinese people, while only receiving only a small share of the spoils. In small and medium-sized towns and the vast countryside, commercial capital was also often colluded with landlords and usurers, to exploit peasants and artisans and obtain profits through unequal exchange. Because national commercial capital depends on imperialism and feudal forces, it had a weak foundation, and was highly speculative, it was also detrimental to the development of national industry and the national economy.

Section Three: Loan Capital and Credit

Loan Capital

Under capitalism, capitalists set up factories and open shops, and often need to borrow some capital from banks for use. This borrowed capital is called loan capital.

Loan capital is the capitalist form of interest-bearing capital. Another ancient form of interest-bearing capital was usurious capital. Marx pointed out: “**Interest-bearing capital, or, as we may call it in its antiquated form, usurer's capital, belongs together with its twin**

brother, merchant's capital, to the antediluvian forms of capital, which long precede the capitalist mode of production and are to be found in the most diverse economic formations of society."[1] In slave society and feudal society, whether peasants, small producers, slave owners, or feudal lords borrowed money from usurers, they did so to cover production or living expenses, and did not use the borrowed money as capital; the money was capital only for the usurers, because it could bring them interest. The interest on usurious capital was very high. It came from the surplus labor of slaves or serfs and the surplus products of small producers, and embodied the exploitative relationship of usurers toward slaves, serfs, and small producers. Since this form of capital was not based on capitalist relations of production, Marx said: "**Usurer's capital employs the method of exploitation characteristic of capital yet without the latter's mode of production.**"[2]

Loan capital gradually took shape with the emergence and development of the capitalist economy. In the capitalist reproduction process, large amounts of temporarily unused money capital inevitably appear. For example, the depreciation fund for fixed capital withdrawn annually by enterprises remains temporarily idle until machinery and equipment are renewed; after commodities are sold, the portion of circulating capital intended for purchasing raw materials or paying wages may also become idle money capital; and accumulated surplus value may likewise remain idle in monetary form before reaching the amount required for conversion into additional investment. These idle money capitals, which have become detached from the process of turnover of capital, temporarily turn into hoarded money and cannot function as

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[1] Karl Marx, "Chapter 36. Pre-Capitalist Relationships," in *Capital*, Vol. III.

[2] Ibid.

capital. But capitalists are unwilling to let money remain locked in a safe and lose its capacity for expansion of value. They must find a way to create an outlet for these temporarily idle money capitals, enabling them to generate income for themselves through their movement.

The turnover of capital among various enterprises is interwoven. When some enterprises have temporarily idle money capital, other enterprises may happen to need large amounts of money capital to purchase raw materials, pay wages, or make additional investments. Thus, a credit relationship arises among capitalists. Some capitalists lend their temporarily idle money capital to capitalists who temporarily need large amounts of money, receiving interest from the latter as remuneration. Loan capital is formed in this way. In essence, loan capital is merely money capital that capital owners temporarily transfer to functional capitalists for use in order to obtain interest.

Although loan capital is based on the movement of functional capital, subordinate to and serving functional capital, as an independent form of capital it also possesses characteristics different from those of functional capital, such as industrial capital or commercial capital.

First, loan capital is a capital commodity. In capitalist society, once money is transformed into capital, it acquires a dual use value: on the one hand, it can serve as a universal equivalent and be used to purchase any commodity; on the other hand, it can function as capital, serving as a means of extracting surplus value. The transformation of money capital into loan capital means that this quantity of money is treated as a special commodity and transferred by its owner to its user. However, it is not transferred as mere money, but as capital; that is to say, what is transferred is not the function of money as a universal equivalent, but its use value as capital—its capacity to generate profit. For both parties to the loan, this sum of money is capital. Therefore,

loan capital is capital that functions as a commodity. "**Capital, however, appears here as a commodity, inasmuch as it is offered on the market, and the use-value of money is actually alienated as capital.**"[1] However, the transfer of loan capital as a capital commodity is not permanent, but only temporary; it does not transfer ownership, but the right of use; it is not a sale, but a loan. After loan capital has been lent out, it is returned to its owner after a certain period, together with interest. Therefore, interest is not the price of this capital commodity, but the remuneration paid for using it.

Second, loan capital is also a form of capital that exists as property. Since the transfer of loan capital is temporary, it gives rise to a temporary separation between ownership of capital and the right to use capital. The person who uses loan capital is not the owner of that capital, while the owner of loan capital does not use it but merely retains ownership of the capital. This ownership is manifested in the fact that, after a certain period, the person using the capital must return it to the owner together with interest. Thus, loan capital has a dual existence: for its owner (the loan capitalist), it is capital as property; for its user (the functional capitalist), it is capital in operation, that is, functional capital. These characteristics of loan capital make it possible for a type of capitalist to emerge who lives exclusively from ownership of capital: they do not operate any enterprise but simply subsist on interest from the capital property in their possession. The emergence of this rentier class further reflects the parasitic and decadent nature of capitalism.

Third, loan capital is the independent form of capital with the most fetishistic character. After capital is lent out, although it operates within the functional departments, for loan capital itself its movement appears as money lent out generating more money by itself. Thus, unlike the

[1] Karl Marx, "Chapter 21. Interest-Bearing Capital," in *Capital*, Vol. III.

circuit formula of industrial capital M — C … P … C'—M' and the circuit formula of commercial capital M — C— M', the circuit formula of loan capital is M—M'. Here, neither the production process nor the circulation process serves as a mediator; capital becomes value that undergoes "self-expansion." Interest directly appears as the product of capital. The social relations embodied in capital have become completely invisible. Loan capital is like the money tree of mythology, capable of producing fruits of gold by itself. Marx said: "**Thus we get the fetish form of capital and the conception of fetish capital. In M — M' we have the meaningless form of capital, the perversion and objectification of production relations in their highest degree, the interest-bearing form, … the capacity of money, or of a commodity, to expand its own value independently of reproduction — which is a mystification of capital in its most flagrant form.**"[1]

Interest

Loan capitalists lend money capital to functional capitalists for use in order to obtain interest. Interest comes from a portion of the enterprise's average profit. Industrial capitalists or commercial capitalists use borrowed money to operate their enterprises and generally obtain average profit. However, they cannot appropriate the entire average profit for themselves; they must pay a portion of it as interest to loan capitalists. Otherwise, loan capitalists would not lend them money. At the same time, loan capitalists cannot take the enterprise's entire average profit as interest; otherwise, functional capitalists would have no profit and would not borrow money to

[1] Karl Marx, "Chapter 24. Externalization of the Relations of Capital in the Form of Interest-Bearing Capital," in *Capital*, Vol. III.

operate their enterprises. Therefore, when functional capitalists use loan capital, the average profit earned by the enterprise must be divided between functional capitalists and loan capitalists: one portion is taken by loan capitalists as interest, while the other is retained by functional capitalists as enterprise profit. It can thus be seen that interest is merely a portion of average profit that functional capitalists pay to loan capitalists as remuneration for using loan capital, and is a special transformed form of surplus value.

The division of average profit into interest and enterprise profit further conceals capital's exploitation of wage labor, thereby rendering capitalist relations of production even more mystified. This purely quantitative division creates the illusion that interest and enterprise profit are two kinds of income differing in nature and that they "**originated from two essentially different sources.**"[1] Interest appears as the fruit of ownership of capital, or as the natural product of capital itself; enterprise profit, meanwhile, appears as the result of capital performing its function, or as remuneration for the "labor" of functional capitalists in managing the enterprise and supervising production. In this way, the capitalists' exploitation of workers becomes entirely invisible. Some bourgeois economists exploit precisely this illusion to fabricate all kinds of bizarre theories to deceive the working class. In fact, neither interest nor enterprise profit is a natural product of capital, nor does either have anything to do with supervising and managing production; both are merely surplus value created by workers and appropriated by capitalists without compensation, and both are special transformed forms of surplus value. Of course, loan capitalists and functional capitalists have conflicting interests in dividing surplus value, because, given a certain amount of average profit, the amounts of interest and enterprise profit are

[1] Karl Marx, "Chapter 23. Interest and Profit of Enterprise," in *Capital*, Vol. III.

inversely proportional; however, this conflict does not preclude their unity of interests in intensifying the exploitation of the working class.

How is the proportion in which average profit is divided into Interest and enterprise profit determined? To clarify this, we must first understand what the interest rate is. The interest rate refers to the ratio of the amount of Interest to the amount of Loan capital over a given period (usually calculated annually). The level of Interest is expressed by the interest rate. For example, if 100 yuan of loan capital yields 3 yuan in interest annually, the annual interest rate is 3%, commonly called an annual rate of three li. Since Interest is only a portion of average profit, the upper limit of the interest rate cannot exceed the average profit rate, while its lower limit cannot be zero; the interest rate fluctuates within these upper and lower limits. Generally speaking, the interest rate changes along with fluctuations in the average profit rate. When the average profit rate is fixed, the level of the interest rate depends on the state of supply and demand for Loan capital in the market.

When analyzing changes in the interest rate, attention should be paid to the distinction between two interest rates: first, the market interest rate, that is, the interest rate in the financial market during each period. It is directly determined by the state of supply and demand for loan capital, and therefore varies across different stages of the industrial cycle: it rises to its highest point during crises and falls to its lowest point during periods of stagnation. Changes in the market interest rate do not always move in the same direction as changes in the rate of profit. Second, the average interest rate, that is, the interest rate calculated as an average over the entire industrial cycle. Its changes become apparent only over a relatively long period, and they move in the same direction as changes in average profit.

With the development of capitalism, the average interest rate tends to decline. The primary reason for this declining trend is the fall in the average profit rate. Since the interest rate varies with changes in the average profit rate, it must necessarily tend to decline along with the declining trend in the average profit rate. Second, the supply of loan capital has grown faster than the demand for loan capital. The increase in the number of rentier-class members and the development of the credit system have transformed large amounts of idle money into loan capital, causing a sharp increase in the supply of loan capital. In contrast, owing to the deepening capitalist crisis and the slowing pace of production, together with the development of credit transactions and clearing systems, demand for loan capital has relatively declined. This is another important reason promoting the gradual decline of the average interest rate.

Credit System

Loan capital, like other forms of capital, can function only when it is in movement. It is continually lent out and then continually returned to its original owner together with interest. This movement takes the form of credit relations between lenders and borrowers. Capitalist credit is the form of movement of loan capital. Since loan capital may take either the commodity form or the money form, capitalist credit is also divided into two types: commercial credit and bank credit.

Commercial credit is credit provided in the commodity form between functional capitalists. The seller sells the commodity to the buyer on credit, and the buyer pays the seller after a certain period. A debt relation is thereby established between the seller and the buyer. The

price of commodities sold on credit is higher than in cash transactions, and the difference is the interest paid by the buyer to the seller. Commercial credit is characterized by the following: it is a credit relation between functional capitalists; the object of borrowing and lending between the two parties is commodity capital. This commodity capital belongs to a part of industrial capital in the circulation process and has not yet separated from industrial capital; therefore, the process of providing credit is simultaneously the process of buying and selling commodities. The movement of commercial credit corresponds to that of industrial capital at every stage of the economic cycle: when production develops during prosperity, commercial credit correspondingly expands; when production declines during a crisis, commercial credit correspondingly contracts.

The instruments of commercial credit are commercial bills. A bill is a debt certificate between the creditor and debtor in commercial credit, and is divided into two types: promissory notes and bills of exchange. A promissory note is a guarantee letter issued by the debtor to the creditor, promising to pay the creditor a certain amount of cash at a specified time. A bill of exchange is a payment order issued by the creditor to the debtor, instructing the debtor to pay a certain amount of cash to a third party at a specified time. Since a bill of exchange is issued by the creditor, it must first be accepted by the debtor—that is, the debtor must sign and affix a seal to the bill, thereby assuming responsibility for payment. A commercial bill is a special written debt security whose holder has the right to demand payment of a certain amount of money from the drawer or acceptor upon maturity. Bills can also be transferred and circulated. For example, when a textile-productive capitalist obtains machinery from a machinery-manufacturing capitalist on credit, the former issues a promissory note; when the latter purchases steel on credit from a steel-mill capitalist, this promissory note can also be used for payment. When a bill is

transferred, the creditor must make an “endorsement,” signing the back of the bill to transfer it; the right to collect payment thereby passes to the new holder of the bill. Upon maturity, the steel-mill capitalist can use the promissory note to demand payment directly from the textile-productive capitalist. When bills circulate, because many capitalists are both creditors and debtors, most bills due at maturity can be mutually offset through centralized settlement, and only the balance needs to be paid in cash, thereby saving cash in circulation.

Commercial credit and the circulation of bills emerged as early as the feudal society, but they were only widely developed under capitalism. Commercial credit is the foundation of the capitalist credit system and plays a significant role in expanding trade and accelerating commodity turnover. However, since commercial credit arises between individual functional capitalists, it also has considerable limitations. First, the scale of commercial credit is limited by the amount of capital owned by individual Functional capitalists. The amount of capital held by an individual capitalist is always limited; consequently, the scale of commercial credit generally cannot be very large. Second, the scale of commercial credit is also limited by the conditions under which individual capital is recovered. If turnover is slow and capital recovery is difficult, the scale of commercial credit will contract. Third, commercial credit is also constrained by the material form of commodity capital. The channels for obtaining commercial credit are quite narrow. For example, capitalists in the textile production industry can purchase commodities on credit from capitalists in the coal and textile machinery industries, thereby obtaining commercial credit; however, the capitalists in the coal and textile machinery industries cannot, in turn, obtain credit from the capitalists in the textile production industry, because they do not need textiles as means of production. These limitations show that commercial credit cannot meet the needs of

extended reproduction under capitalism. Consequently, bank credit developed on the basis of commercial credit.

Bank credit is credit provided by banks in the form of money to functional capitalists. It has characteristics distinct from those of commercial credit: bank credit involves credit relations between money capitalists and functional capitalists through banks; the object of borrowing and lending by both parties is idle money capital separated from the circulation of industrial capital, and the provision of credit is separated from the process of buying and selling commodities; the movement of bank credit at the various stages of the cycle does not completely correspond to, and may even run counter to, the movement of industrial capital. For example, during a crisis, production declines and trade contracts, whereas demand for bank credit increases considerably. Owing to these characteristics, bank credit largely overcomes the limitations of commercial credit. First, the scale of bank credit is no longer restricted by the amount of capital held by individual functional capitalists or by the state of capital recovery. Banks not only centralize large amounts of idle money capital belonging to industrial capitalists and rentier classes but also pool the small monetary incomes of all social strata, transforming them into enormous loan capital and thereby making it possible to provide loans on a very large scale. Second, bank credit is no longer restricted by the material form of commodity capital. Since banks lend money capital, functional capitalists can convert the money they borrow at any time into the means of production they need. Thus, bank credit is far superior and more flexible than commercial credit: it can provide enterprises of all kinds with loans of different sizes and terms, and is better able to meet the needs of the development of the capitalist economy.

Bank credit is conducted through banks. A capitalist bank is a capitalist enterprise that operates money capital. The primary function of a bank is to serve as an intermediary in credit. On the one hand, it concentrates socially dispersed idle money capital and small monetary incomes, forming vast loan capital; on the other hand, it lends out this money capital for use by various functional capitalists. Thus, banks become intermediaries between depositors and borrowers, and between creditors and debtors. Correspondingly, a bank's credit business is divided into two aspects: liability business and asset business.

A bank's liability business is the business of absorbing capital. The money capital controlled by a bank consists of two parts: first, the own capital invested by bank capitalists; and second, deposits. A bank's own capital is raised by issuing shares. The capital absorbed by a bank through deposits, however, is far greater in amount than its own capital and constitutes the main component of bank capital. For example, in 1936, the Yien Yieh Commercial Bank, Kincheng Bank, Continental Bank, and China & South Sea Bank of the old Tianjin—known as the "Four Northern Banks"—had total assets of 605.89 million yuan, of which bank deposits exceeded 544.26 million yuan, accounting for approximately 90% of total assets.

The main sources of bank deposits are money capital temporarily idle in the hands of functional capitalists; large amounts of money capital held by rentier classes; and the small monetary incomes of ordinary residents, which are transformed into loan capital after being deposited in banks. Bank deposits are divided into time deposits and demand deposits. Time deposits mainly absorb the large amounts of money capital held by rentier classes. They have low liquidity and can therefore be fully utilized, so the interest on deposits is relatively high. Demand deposits mainly absorb the idle money capital of functional capitalists. Depositors can

withdraw their funds at any time. The primary purpose of such deposits is not to earn interest but to facilitate settlement and obtain loans; consequently, interest on demand deposits is relatively low. In some countries, banks do not even pay interest, but handle payment procedures for customers free of charge. To expand lending capital as much as possible, banks also devise various methods and contrive numerous labels to attract deposits. For example, in 1923, Tianjin's Four Northern Banks established the Four Banks Savings Association, which offered various forms of deposits, including time savings, long-term savings, lump-sum deposits with lump-sum withdrawals, lump-sum deposits with installment withdrawals, installment deposits with lump-sum withdrawals, installment deposits with installment withdrawals, prize-linked savings, and so forth. By broadly absorbing idle funds from society, it obtained a large amount of money capital. In the mere thirteen years from 1923 to 1936, the Four Banks Savings Association's total assets reached more than 100 million yuan, while its various savings deposits exceeded 80 million yuan, making it the largest savings bank in the country at the time.

The asset business of banks, that is, the business of employing bank capital. Lending and deploying capital are the basic ways in which banks employ capital. Specifically, they mainly include the following:

1. Bill discounting. If a capitalist holding a commercial bill needs funds for commercial purposes before the bill matures, they may exchange the bill for cash at a bank by paying interest in advance; this is called bill discounting. Although discounting appears to involve a bank purchasing a bill before maturity, it is not an ordinary sale but a special form of credit loan. The bank can recover the money from the drawer only when the bill matures. Therefore, the bank charges the customer discount interest in advance, and the discount interest rate is generally

equivalent to the loan interest rate. For example, when discounting a promissory note for 10,000 yuan due in three months at an annual discount rate of 4%, the bank should collect 400 yuan in discount interest per year, or 100 yuan for three months, as a rebate, and pay 9,900 yuan to the holder of the discounted promissory note.

2. Mortgage loans, namely, current or fixed-term loans granted against various forms of collateral. Collateral may include bills, negotiable securities, real estate, commodities, and various commodity documents, such as warehouse receipts, railway bills of lading, ship manifests, and so forth.

3. Credit loans, namely, current or fixed-term loans granted without actual collateral. Banks grant such loans because they are familiar with the enterprise's circumstances and trust the borrower's ability to repay; at the same time, they charge higher Loan interest and impose various additional conditions for supervision.

4. The purchase of government bonds and corporate bonds, which is in fact a form of credit lending.

5. Purchasing shares to invest in enterprises, in order to obtain high dividends and control the enterprises.

6. Buying and selling negotiable securities, real estate, Gold and foreign exchange, and so forth, to engage in financial speculation and obtain excessive profits.

In addition to the credit business mentioned above, banks also undertake various other intermediary businesses. For example, banks collect and make payments on behalf of their depositors, conduct non-cash settlement through cheque transfers, and serve as intermediaries in payments and centers for enterprise settlement. In addition, banks remit and cash funds on behalf

of clients, buy and sell negotiable securities, precious metals, and foreign currencies, and preserve or manage property and valuables, among other things. When banks engage in these intermediary businesses, they charge a certain service fee as remuneration.

Bank capitalists establish banks and operate money capital in order to obtain profit. The basic source of bank profit is the difference between loan interest and deposit interest. Since loan interest is higher than deposit interest, after deducting the expenses required to maintain banking operations, the remaining amount is profit. In addition, bank profit also comes from service fees for conducting various intermediary businesses; dividends and bonuses earned from direct investment in enterprises; and the excess profits obtained through speculative activities such as securities trading. Since bank capitalists independently operate money capital and have their own investments and business operations, they naturally also demand that their profits be equivalent to the social average profit. If the profit is too low, they will transfer their capital to the industrial and commercial sectors. The ratio of bank profit to the bank's own capital is the bank’s rate of profit. In the course of capitalist competition, the bank’s rate of profit is also governed by the law of the average rate of profit and approaches the average rate of profit of general industrial and commercial enterprises in society.

The profits obtained by bank capitalists through various means ultimately all come from the surplus value created by workers in the industrial sectors. Therefore, bank capitalists, like other loan capitalists, exploit workers together with functional capitalists. At the same time, bank capitalists also exploit bank employees. Although the labor of bank employees does not create value and surplus value, it enables bank capitalists to receive a share of the surplus value; they therefore also belong to the exploited wage laborers.

Joint-Stock Company

On the basis of the growth of capitalist production and the expansion of the credit system, joint-stock companies have developed extensively. As capitalist production increasingly grows, the establishment of large enterprises become more and more constrained by the amount of individual capital, which objectively required many capitalists to operate enterprises jointly. The development of bank credit can satisfy the large demand for money capital when capitalists jointly operated enterprises, and can also help joint-stock companies issue shares to raise capital. As an important form of concentration of capital, joint-stock companies are the inevitable result of the development of the capitalist economy. Marx once pointed out: "**The world would still be without railways if it had had to wait until accumulation had got a few individual capitals far enough to be adequate for the construction of a railway. Centralization, on the contrary, accomplished this in the twinkling of an eye, by means of joint-stock companies.**"[1] In the developed capitalist countries, almost all large enterprises take the form of joint-stock companies.

A joint-stock company is a capitalist enterprise jointly operated by many capitalists, in which capital takes the form of shares and is raised through the issuance of stocks. Anyone holding shares is a company shareholder and is entitled to obtain a certain income on the basis of those shares. On the surface, it appears that every shareholder is the owner of the joint-stock company, with the right to attend shareholders' meetings and participate in enterprise management. In reality, however, voting rights at shareholders' meetings are controlled by a

[1] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

small number of major shareholders who hold large quantities of shares. They control the enterprise, taking most of its enterprise profit. A joint-stock company is a form through which large capital controls and dominates small and medium-sized capital, and an important means by which major capitalists strengthen the concentration of capital.

Joint-stock companies have developed extensively in modern capitalist states, and even a small number of workers might hold a few shares. The bourgeoisie and their economists then begin to clamor, fabricate the myth of "people's capitalism," and spout nonsense that "capital" has already been "democratized," that "ownership" has already been "dispersed," that "everyone is a capitalist," and so on. Song Feiqing, the capitalist of the former Tianjin East Asia Woolen Mill, was also well versed in this game. While widely recruiting small shareholders, he staged the sham trick of "giving shares" to workers at the mill and loudly proclaimed that "the labor side is the capital side," claiming that "nearly all the employees of our company are shareholders." This was nothing but an outrageous lie! It is true that, over the past several decades, the number of people holding shares in certain capitalist countries has increased. But the growth in the number of small shareholders not only fails to weaken large capital; it actually makes it easier for large capital to control enterprises. Lenin pointed out long ago that the "democratization" of share ownership was in reality "**one of the ways of increasing the power of the financial oligarchy.**" "**As a matter of fact, experience shows that it is sufficient to own 40 per cent of the shares of a company in order to direct its affairs, since in practice a certain number of small, scattered shareholders find it impossible to attend general meetings, etc.**"[1] Since voting power at the shareholders' meeting is determined by the number of

[1] Vladimir Ilyich Lenin, "III. Finance Capital And The Financial Oligarchy, Imperialism, the Highest Stage of Capitalism," in *Lenin's Selected Works* (Progress Publishers, Moscow, 1963).

shares held, the more dispersed the shares are, the more likely it is that large capitalists can control the entire enterprise with a smaller investment. Among the tens of thousands of shareholders of the former East Asia Woolen Mill, real control of the enterprise lay only with the Board of Directors composed of a dozen or so capitalists, including Song Feiqing; through various pretexts, they appropriated a considerable portion of the profits. Although Song Feiqing gave the grand name "Campaign to Recruit Comrades for Saving the Nation through Industry" to his widespread recruitment of small shares worth one hundred yuan, it concealed an extremely despicable scheme. At the annual shareholders' meeting in 1935, he openly admitted: "The widespread recruitment of small shareholders can both collect scattered funds and increase the assistance available for marketing our company's products, bringing many benefits. I previously met the primary of a girls' school, who is a small shareholder in our company. I therefore vigorously introduced Diyang-brand wool yarn to the students of that school and proved that it is a domestic product; consequently, everyone competed to purchase our company's products, greatly increasing sales. We therefore intend to collect small shares fully throughout the country, so as to make still better use of their effectiveness." These few words exposed the true motive behind issuing small shares without the slightest ambiguity.

As for capitalists selling or giving shares to workers, this is even more a means of enslaving and deceiving them. By urging workers to purchase small-denomination shares, capitalists can both collect workers' limited savings—and even part of their essential living expenses—for their own use, thereby expanding capital accumulation, and numb workers' class consciousness, creating the illusion that "personal interests coincide with the interests of the enterprise" and making them willing to endure capitalist exploitation. The dividends from a few

shares are negligible and cannot solve any real problem; once a crisis arrives and share prices fall, there is even a danger of losing the primary. In 1943, Song Feiqing's method of "giving shares" to employees was as follows: daily workers received one share, monthly workers two shares, yearly workers three shares, junior clerks four shares, and senior clerks five shares. The condition was that they commit no factory-rule violations for three years before the shares could be handed over; after each violation, the three-year calculation had to start over. In reality, this was merely a matter of Song Feiqing taking a tiny portion of the surplus value created by the workers and offering it as bait, enticing them to work twice as hard for him so that he could extract still more surplus value. To say that workers had also become East Asia's bosses, just like the capitalists, is an even more astonishing tall tale! In 1944, East Asia had share capital of 10 million yuan, divided into 100,000 shares, while the total received by the 1,390 workers who were "given" shares amounted to only 6,628 shares—just 6% of the total. These were still empty promises. Under the capitalists' mass layoffs and the numerous restrictions imposed by factory rules, scarcely anyone ultimately managed to obtain the shares. Even those fortunate enough to receive a few shares found them to be just pennies, offering no real help. Song Feiqing alone received dividends and bonuses amounting to tens of thousands of yuan each year, while the workers' dividends consisted of only two boxes of hair wax and one small box of menthol balm! It is perfectly clear that the development of joint-stock companies is a means by which the bourgeoisie accelerates the concentration of capital and intensifies the exploitation of workers; it cannot alter the capitalist exploitative relationship in the slightest. "people's capitalism" and "democratization of capital" are merely seductive slogans, nothing more than a dose of intoxicating medicine used by capitalists to numb workers!

Shares are certificates evidencing investment in a joint-stock company. The income obtained by a shareholder on the basis of shares is called dividends. Dividends are a portion of enterprise profit distributed according to the nominal value of the shares; in essence, they are still surplus value created by workers. Once purchased, shares cannot be returned but may be sold. Shares therefore become a special commodity, and the price at which shares are bought and sold is called the market price of shares. The market price of shares differs from their par value. It is not the monetary expression of the capital value represented by the shares, but rather the capitalization of dividend income. This is because capitalists generally purchase shares in order to obtain dividend income, which is much like depositing money in a bank to obtain interest income. Capitalists always compare share dividends with deposit interest: if the dividends received from a share are equal to the interest received from a deposit, the share and the deposit have the same value and significance for them. They may deposit the money in a bank, but they are equally willing to use it to purchase shares. For example, a share with a par value of one hundred yuan yields annual dividends of ten yuan, giving a dividend rate of 10%; if one hundred yuan is deposited in a bank, it yields annual interest of five yuan, giving an interest rate of 5%. In that case, the share with a par value of one hundred yuan can be sold for two hundred yuan, because the interest income generated by depositing those two hundred yuan as loan capital in a bank is equal to the dividend income from the share with a par value of one hundred yuan. It can be seen that the price of shares equals the value of the loan capital required to obtain interest income equal to the dividends. The calculation formula is: Share Prices=Dividends/Interest Rate, for example 10/5%=200 yuan. Share prices are determined by two factors: the amount of dividends and the interest rate. Share prices are directly proportional to dividends: the higher the

dividends, the higher the share price; share prices are inversely proportional to the interest rate: the higher the interest rate, the lower the share price. All factors in society that affect enterprise dividends and bank interest rates will affect fluctuations in share prices.

Share prices do not correspond to their par value, opening up a new avenue for capitalists to obtain surplus-profits. Since interest is merely a portion of enterprise profit, and the interest rate is generally lower than the dividend rate, share prices are therefore generally always higher than the par value of shares. When capitalists establish joint-stock companies and issue shares, the total proceeds from selling the shares must exceed the actual investment represented by the shares' par value. This difference is called founding profit, and it all falls into the pockets of the capitalists who establish the enterprise. Of course, the capitalists who establish enterprises often do not sell all the shares issued, but retain a portion for themselves; in this way, they can obtain founding profit while also maintaining control of the enterprise as shareholders. In modern capitalist states, the pursuit of founding profit has become one of the important means by which large capitalists obtain windfall profits.

In addition to shares, there is another type of capital certificate that provides its holder with a fixed annual income, called a bond. Bonds are divided into corporate bonds and government bonds. Corporate bonds are a means by which private enterprises raise capital, whereas government bonds are issued by the state to make up fiscal deficits. The difference between corporate bonds and shares is that dividends on shares generally vary with enterprise profits, whereas interest on bonds is fixed in advance; shares have neither a fixed term nor the option of redemption, whereas bonds must be redeemed at maturity, with the primary returned to the bond purchaser. The holder of shares is a shareholder in a joint-stock company and is

regarded as a co-owner of the enterprise, whereas the holder of bonds is merely an ordinary creditor of the company and has no right to participate in enterprise management. Bonds, like shares, can be bought and sold. The price of a bond is likewise the capitalization of its interest income and is determined by the bond interest rate and the interest rate on bank deposits. Since bond interest is fixed in advance, fluctuations in bond prices are mainly influenced by changes in bank interest rates.

Shares and bonds are collectively known as negotiable securities. All negotiable securities are certificates proving ownership of capital. Negotiable securities are bought and sold on securities exchanges and through banks. A securities exchange is a special market dedicated to the trading of negotiable securities, where buyers and sellers gather and conduct various securities transactions through exchange brokers. The economic significance of securities exchanges lies in using the trading of various shares and bonds to spontaneously allocate large amounts of money capital among the various sectors of the capitalist economy for long-term investment or short-term deployment. At the same time, the exchange is also a center of securities speculation and a tool for large capitalists to plunder holders of small-denomination negotiable securities; it plays an important role in intensifying the anarchy of production and economic crises under the capitalist economy. Before the liberation of Tianjin, a securities trading market had existed there since as early as the 1920s. During the period of Japanese occupation, securities trading gradually became more active, and the number of securities firms reached more than 160 at its peak. After the North China Securities Exchange was established in 1944, all securities trading was conducted within the exchange. The securities traded mainly consisted of shares in enterprises such as Qixin Cement Company, Kailuan Mining Bureau,

Jiangnan Cement Plant, East Asia Woolen Mill, Renli Industrial Company, Tianjin Waterworks Company, Yaohua Glass Company, and Shoufeng Flour Company. Among these, Qixin Cement Company shares had the largest trading volume and became the primary target of securities speculation.

As mentioned earlier, the price of negotiable securities is determined by securities income and the bank interest rate, referring to the average market quotation of negotiable securities; the actual market price, however, is determined by the supply and demand for negotiable securities at the time and fluctuates sharply with complex changes in economic and political conditions. This creates conditions for securities speculation. Speculators purchase negotiable securities not to invest in enterprises, but to profit from fluctuations in market. The primary method of securities speculation is forward trading: after the buyers and sellers conclude a transaction, delivery and settlement are carried out after a certain period at the price agreed upon at the time of the transaction. Some bet on a rise in market prices, buying first at a low price and then selling at a high price after prices rise; others bet on a fall in market prices, selling first at a high price and then buying securities at a low price after prices decline to deliver to the buyer. Those who buy when they expect prices to rise are called “bulls,” while those who sell when they expect prices to fall are called “bears.” Success or failure depends on whether the actual changes in securities prices correspond to the speculator’s estimates. When trading, speculators often possess neither shares nor bonds, but instead buy and sell short, with one party paying the other only the difference resulting from price fluctuations at the time of settlement and delivery. In the great gambling arena of the stock exchange, large capitalists and financial magnates occupy an advantageous position because they possess abundant capital, control many economic sectors,

maintain close ties with the government, are familiar with inside political and economic conditions, and can even manipulate fluctuations in the prices of negotiable securities through various economic measures and despicable means. Major speculators always make enormous fortunes at the expense of small capitalists and small speculators. As Marx pointed out: "**Since property here exists in the form of stock, its movement and transfer become purely a result of gambling on the stock exchange, where the little fish are swallowed by the sharks and the lambs by the stock-exchange wolves.**"[1]

All negotiable securities are certificates of ownership of capital. They are not real capital, but rather the "**paper duplicates**"[2] of capital—a form of fictitious capital. Real capital should be commodities and money that possess value in themselves and actually function within a capitalist economy; negotiable securities, apart from being a piece of paper, have no value whatsoever and cannot perform the function of capital in the production process. They are regarded as capital only because they can generate income. At the same time, the quantity of fictitious capital and changes in its quantity often become detached from actual capital. The quantity of fictitious capital—that is, the total value of negotiable securities—is always greater than the quantity of actual capital. Changes in the quantity of fictitious capital caused solely by fluctuations in the prices of negotiable securities likewise do not reflect changes in the quantity of actual capital. For real capital, the amount of profit income is determined by the size of the capital; conversely, for fictitious capital, the size of the capital depends to a considerable extent on the amount of income from negotiable securities. With the development of capitalism, owing

[1] Karl Marx, "Chapter 27. The Role of Credit in Capitalist Production," in *Capital*, Vol. III.

[2] Karl Marx, "Chapter 30. Money-Capital and Real Capital.," in *Capital*, Vol. III.

to the decline in the average interest rate, the conversion of sole proprietorships into joint-stock companies, and the growth of state debt, fictitious capital has expanded much faster than real capital. The rapid growth of fictitious capital indicates that ownership and use of capital have become increasingly separated, that the rentier class is continually expanding, and that the parasitic and decaying nature of capitalism is becoming ever more pronounced.

The Role of Credit in the Capitalist Economy

Like commercial capital, credit and banking have two mutually contradictory aspects in capitalist society: they promote the development of the capitalist economy while simultaneously intensifying its various profound contradictions.

First, the development of credit accelerated the concentration and centralization of capital. Marx once pointed out: credit is one of the two most powerful levers for the concentration of capital; at first it merely "**creeps in as the humble assistant of accumulation,**" but ultimately it "**is transformed into an enormous social mechanism for the centralization of capitals.**"[1] Through banks, the credit system concentrates all idle money capital and small monetary incomes in society for use by functional capitalists, enabling enterprises to expand rapidly at a speed that would be entirely impossible if they relied solely on their own accumulation. Under the credit system, large enterprises have banks as their backing, strengthening their competitive power and making it easier for them to drive out and absorb small and medium-sized enterprises, thereby carrying out the compulsory concentration of

[1] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

capital. At the same time, banks also promote the development of joint-stock companies, because enterprises' shares are sold or purchased mainly through banks, while joint-stock companies are themselves an important form of the concentration of capital. Credit institutions become powerful weapons driving the rapid development of capitalism.

Second, the credit system helps save social circulation costs. Non-cash settlement, which developed on the basis of commercial credit and bank credit, means that a considerable portion of commodity purchases and sales can be conducted without cash; the circulation of bills and the issuance of credit money by banks play the same role. Under the circulation of metallic money, reducing the quantity of money required in circulation correspondingly saves part of the pure costs of circulation necessary for cash circulation. On the other hand, the development of credit also accelerates commodity turnover and the velocity of money circulation, shortens time of circulation, and consequently saves part of the circulation costs associated with commodity circulation. The shortening of capital time of circulation and the saving of various circulation costs enable a larger portion of total social capital to be invested in the production sphere, thereby increasing total profit and the average profit rate.

Third, credit also promotes the equalization of the rate of profit. The formation of the average profit rate presupposes the free transfer of capital among different sectors, but completely free transfers of capital are possible only when bank credit is highly developed. Because the forms of productive capital differ among sectors, capital cannot be transferred directly. With bank credit, capitalists can borrow large amounts of money capital at any time and invest them in sectors with high profit rates, thereby facilitating the convenient and flexible

transfer of capital and promoting the equalization of profit rates across the various sectors of the economy.

Fourth, the development of credit has further expanded and deepened the various contradictions inherent in capitalism, making capitalist economic crises increasingly acute.

Credit intensifies the fundamental contradiction of capitalism. Under the credit system, the accumulation and concentration of capital have accelerated at an unprecedented rate, production has continually expanded, and the degree of socialization of production has steadily increased. At the same time, social wealth has become increasingly concentrated in the hands of a small number of capital magnates. The contradiction between the socialization of production and the capitalist form of appropriation has been further sharpened by the operation of credit.

Credit exacerbates the class contradictions of capitalist society. While credit promotes the concentration of capital, the organic composition of capital rises rapidly, unemployed workers become increasingly numerous, and the working class grows poorer. The bourgeoisie also uses the credit system to intensify the exploitation and plunder of workers and small producers. This deepens the class opposition between the bourgeoisie and the working class, and causes the class contradictions of capitalist society to become increasingly acute.

Under the influence of the credit system, capitalist economic crises have become more frequent and profound. Credit has expanded total social capital, accelerated the concentration of capital, and promoted the blind expansion of capitalist production, causing production to exceed society's effective demand to an even greater extent and intensifying the uneven development of the various production sectors. Credit has also encouraged various forms of commercial and financial speculation, created false demand for commodities and a false prosperity in the market,

and further disconnected production from consumption. This inevitably makes overproduction more severe and economic crises more profound. Of course, although credit can deepen crises, it is not their cause. The profound root of crises lies in capitalism. Some bourgeois economists attributed crises to defects in the credit system and attempted to eliminate them through credit regulation. This was not only fundamentally erroneous in theory but also ended in complete failure in practice.

Credit and Banking in Old China

In the history of old China, usurious capital appeared at a very early stage. In late modern times, with the development of commodity and money relations and the emergence of capitalism, interest-bearing capital with capitalist characteristics emerged, along with draft banks engaged in money remittance and exchange and qianzhuang[1] engaged in currency exchange. Since the nineteenth century, because of the intrusion of foreign capitalism and the rise of Chinese national capitalism, new forms of loan capital and banks gradually emerged and developed.

The credit system and banking industry in old China, like other economic sectors, had a pronounced semi-feudal and semi-colonial character.

Imperialism and bureaucratic comprador capital occupied a dominant position in the financial industry of old China. In order to invade and plunder China, foreign capital first used banks operating in China to monopolize the country's financial and fiscal affairs. From the establishment of the Shanghai Branch of the Oriental Bank by Britain in Shanghai in 1848

[1] Note from translator: Qianzhuang was a type of primitive Chinese banks in the early modern period.

onward, the various countries competed to establish financial institutions in China. Bank investment grew rapidly and had reached first place among investments in all sectors by 1936. The imperialist banks operating in China possessed abundant financial resources. For example, the reserve fund of the British HSBC alone was two and a half times larger than the combined reserve funds of 26 Chinese banks with capital of more than one million yuan each. They used various privileges, relied on their economic strength, colluded with feudal comprador forces, and throttled China economically and financially. They served the economic plunder of monopoly capital and cruelly sucked the lifeblood of the Chinese people. Among domestic banks, bureaucratic comprador capital also held an absolute predominance. Of the country's 2,566 banking institutions in 1935, 1,971 were "officially run" banks, accounting for 77%. In 1936, the four major banks controlled by the so-called "four big families"—the Central Bank of China, Bank of China, Bank of Communications, and Farmers Bank of China—accounted for 59% of the total assets and 44% of the net earnings of the country's 164 banks. This bureaucratic comprador financial capital served imperialism's economic aggression abroad, while at home it relied on political and economic privileges to plunder the Chinese people ruthlessly. In old China, because of the rule and exclusion imposed by imperialism and bureaucratic capital, the financial industry of national capital developed to a certain extent but remained relatively weak and, in practice, became an appendage of the former.

The banks of old China also lacked a solid industrial foundation. In capitalist countries, loan capital and banks developed in response to the requirements of industrial capital, and in turn served industrial capital. Old China was different: the banking industry followed a special path of development, and its relationship with national industry was not close. Under the oppression of

imperialism, bureaucratic capitalism, and feudalism, China's national industry was weak and often unable to carry out the turnover of capital and extended reproduction normally. There was little idle money capital available as bank deposits, and it was even less capable of establishing large-scale banks independently. The foundation for the development of the banking and qianzhuang sectors in old China initially lay mainly in the development of commerce, particularly import and export trade; later, it lay primarily in the fiscal needs of the reactionary government, such as issuing government bonds and borrowing from banks. The capital and deposits of banks and Qianzhuang came mainly not from industrial capitalists, but from merchants, compradors, bureaucrats, warlords, and the reactionary governments. For example, the Four Northern Banks were established during the rule of the Beiyang warlords, and their major shareholders were mainly warlords and bureaucrats in the Beiyang government. In 1936, personal deposits accounted for more than 65% of the total deposits of Kincheng Bank, while industrial and commercial deposits accounted for less than 16%. Since the development of the banking industry lacked a solid industrial foundation and depended to a considerable extent on government borrowing and the issuance of government bonds, it was inevitably weak and unstable. Whenever the government collapsed or its credit failed, many banks consequently went bankrupt.

This distorted development of the financial industry not only failed to promote but actually hindered the development of national industry. A large amount of bank capital flowed into nonproductive spheres, with very little being lent to national commerce and industry, especially national industry. Although the weak national industries urgently needed the support of financial power, they found it difficult to obtain bank credit because their production lacked

security; moreover, loan interest was exceptionally high, making loans unaffordable for small and medium-sized enterprises. Since investing in industry was far less profitable than engaging in financial speculation, banks were also unwilling to lend extensively to enterprises. For example, the capital deployment operations of the "Four Northern Banks" were used mainly to underwrite government bonds issued by reactionary governments. From 1912 to 1925, the Beiyang warlord government issued government bonds nineteen times, totaling more than 872.39 million yuan. The "Four Northern Banks" accounted for the largest share of the underwriting, even exceeding their own capital by several times. Not only did they obtain banknote-issuing rights through underwriting government bonds, but they also seized enormous profits from the discounts and generous interest on those bonds. The "Four Northern Banks" also used large amounts of capital to speculate in real estate and gold and foreign exchange. For instance, the Four Banks Savings Association in Shanghai used almost all of the 90 million yuan in deposits it had absorbed by 1936 for real-estate speculation. Likewise, the relatively large Bank of China devoted only 6.57% of its total loans in 1930 to industry, and 20.14% to commerce, while government agencies accounted for 48.93%; adding the 4.56% in "personal loans" actually extended to warlords and bureaucrats, the total exceeded half. The Bank of Communications, which claimed to be "revitalizing industry," allocated only 9% of its total loans to commerce and industry in 1932. This clearly shows how pitiful the banks' "support" for industry was!

As for the economic plunder carried out by imperialism and bureaucratic capital through the financial power they monopolized, the economic support that banks provided to reactionary governments by underwriting government bonds and political loans, and the financial

speculation conducted by banks and the commercial speculation they encouraged, these were wholly harmful and offered no benefit whatsoever to national industry. At the same time, loan interest rates were very high. In 1910, the annual interest rate on loans in the 17 major cities was generally around 10%, reaching as high as 20%. Such high-cost loans were a heavy burden for some enterprises even when they could obtain them, and they often went bankrupt under the pressure of debt. For example, between 1931 and 1937, as many as 30 spinning mills were merged or auctioned off by banks through debt relations. The Beijing Branch of the Tianjin Yien Yieh Commercial Bank lent money to the Beijing Electric Light Company for 12 years, totaling 4 million yuan, at an astonishing monthly interest rate of 12%, with the result that nearly all of the company's profit was taken by the Yien Yieh Commercial Bank. It is therefore clear that the financial industry of old China did far more to undermine than to promote the development of industrial capital.

A pronounced feudal and comprador character was another notable feature of the financial industry in old China. Bank capital was often intricately connected with the political power of feudal warlords and rural feudal forces. For example, the “Four Northern Banks” were personally fostered by the Beiyang warlords and became the financial pillars of the Beiyang government. They formed a feudal regional financial group that confronted the “Four Southern Banks” of the East China financial group, as well as the financial groups of South and West China. Feudal separatist financial factions arose not only between groups, but also among branches in different places of the same bank or banking group. For instance, the banknotes issued by the “Four Northern Banks” were all printed with local place names and could not be exchanged at the “Four Northern Banks” outside the locality; even advances between their

individual branches required collateral. Compared with banks, the feudal character of the qianzhuang industry was even more pronounced. Money shops had already emerged in the late Qing dynasty, originating in currency exchange and the deposit and lending business that developed from it; they were originally old-style feudal financial institutions. After the rise of modern banks, qianzhuang was neither completely replaced nor thoroughly driven out. They merely declined to a secondary position, retained deep foundations, and continued to collude and cooperate with banks for mutual benefit, becoming an important component of the financial system of old China. The feudal character of qianzhuang was deeply entrenched. In terms of sources of capital, most of their capital and deposits came from feudal landlords and merchants. In their business practices, qianzhuang generally made loans on the basis of personal relationships with relatives and friends, emphasizing personal ties; the amounts were small, the terms short, and their clients were mainly small and medium-sized merchants, while loans to industry were extremely rare. At the same time, lending interest was very high, sometimes approaching usury. In their organizational regulations, qianzhuang associations had the character of feudal guilds and emphasized cliques and native-place ties. Thus, before liberation, Tianjin's qianzhuang industry was divided into the local clique, Shanxi clique, and Nangong clique. Qianzhuang employees were also often relatives or friends, while their organizational and accounting systems were far less sound than those of banks. In exploiting employees, there were no prescribed working hours, working days were very long, wages were far lower than those of bank employees, and a feudal apprenticeship system was widespread. These circumstances show that, compared with banks, qianzhuang had a more pronounced feudal character.

The comprador character of the financial industry in old China was manifested mainly in the dependence of banks and qianzhuang on the imperialist economy. Not only did the financial industry of bureaucratic capital rise through treason and directly serve as the comprador of international monopoly capital; the financial industry of ordinary national capital also gradually developed as foreign capital expanded its trade with China. These institutions were concentrated mainly in treaty ports and trade centers controlled by imperial powers, where they provided loans to import and export merchants and conducted currency exchange, serving imperialism's dumping of surplus commodities and plundering of natural resources. In terms of capital, personnel, and business operations, the Chinese financial industry had no choice but to depend on and even be controlled by foreign banks, and in practice became part of the international financial exploitation network of imperialism.

Section Four: Ground-Rent

The Essence of Capitalist Ground-Rent

Capitalist landownership gradually took shape on the basis of the disintegration of the feudal system and the differentiation of the small-scale commodity economy. Because the specific historical conditions of each state differed, the paths through which capitalism developed in agriculture also varied. Lenin studied extensive materials from many countries and summarized the development of capitalism in agriculture into two distinct paths. One path, represented by the United States, is called the American path. Its characteristic is that, on the basis of completely destroying feudal large estates, capitalist agriculture develops through the rapid differentiation of the small-peasant economy. This is a revolutionary path: feudal landownership is destroyed relatively thoroughly, and capitalist agriculture develops relatively rapidly. The other path, represented by Prussia, is called the Prussian path. Its characteristic is that, on the basis of preserving serfdom, capitalist agriculture develops through the spontaneous evolution of the landlord economy. This is a reformist path: the remnants of serfdom persist for a long time, and the development of capitalism is relatively slow. Although the specific forms of the development of capitalism in agriculture differ, their essence is the same: they are all processes in which capitalist landownership takes shape and peasants are transformed into wage laborers.

Capitalist landownership and feudal landownership are two land systems of different natures. First, capitalist landownership is characterized by the existence of three classes:

landowners (the landlord class), tenant farmers (the agricultural capitalist class), and wage laborers (the agricultural proletariat); under feudal landownership, by contrast, there are only two major classes: feudal landlords and dependent peasants. Second, in capitalist society, the tenancy relationship between landowners and agricultural operators is a purely economic contractual relationship, whereas under the feudal system, landlords enjoyed social and political privileges and subjected peasants to extra-economic coercion. Third, capitalist agriculture is based on wage labor, and the direct producers are agricultural proletarians deprived of the means of production; under the feudal system, however, the direct producers are individual peasants who possess their own means of production and a private economy.

All ground-rent is an expression of private ownership of land in the sphere of distribution and, in essence, is always exploitative income obtained by virtue of private ownership of land. However, under different forms of land ownership and economic conditions, the specific nature of ground-rent and the relations of production it embodies also differ. Capitalist ground-rent and feudal ground-rent are two forms of ground-rent of different natures.

Capitalist ground-rent is based on capitalist landownership. It is the portion of surplus value exceeding average profit that the tenant farmer pays to the landowner as compensation for using the land, and it originates from the surplus labor of agricultural wage laborers. In capitalist society, capitalists generally lease the land of large landlords to invest in and operate agriculture. However, just as with investment in the industrial sector, capitalists investing in agriculture must at least obtain average profit; otherwise, they would not invest in the agricultural sector. Capitalist operation itself determines that the tenant farmer must obtain average profit. At the same time, landowners lease out land in order to obtain ground-rent; otherwise, they would not

lease it out. Private ownership of land itself determines that landowners must receive ground-rent. Therefore, the surplus value that the agricultural capitalist extracts from agricultural workers must exceed average profit for there to be a balance that can be paid to the landowner as ground-rent. The source of capitalist ground-rent can only be the portion of surplus value exceeding average profit.

The differences between capitalist ground-rent and feudal ground-rent are as follows. First, capitalist ground-rent consists only of a portion of the surplus labor of agricultural workers appropriated by landlords without compensation, rather than all of it, because another portion is appropriated without compensation by agricultural capitalists as average profit. Feudal ground-rent, by contrast, includes all of the surplus labor or surplus product of feudal peasants. Second, capitalist ground-rent is based solely on economic coercion; its acquisition rests on the purely contractual relationships between landlords and tenant farmers and between tenant farmers and agricultural workers. Feudal ground-rent, however, presupposes extra-economic coercion and is based on the personal dependence of peasants on landlords. Third, capitalist ground-rent reflects relations among three classes: on the one hand, the exploitative relationship in which landlords and agricultural capitalists exploit agricultural wage laborers; on the other hand, the relationship in which landlords and agricultural capitalists divide surplus value between themselves. Feudal ground-rent reflects the relationship between only two classes, namely, the exploitative relationship in which the feudal landlord class exploits peasants.

To understand the nature of capitalist ground-rent, it is also necessary to distinguish rent from lease money, as the two are often easily confused. Marx pointed out: "**In practice, naturally, everything appears as ground-rent that is paid as lease money by tenant to**

landlord for the right to cultivate the soil."[1] In fact, in addition to true rent, lease money also include interest on investments incorporated into the land. Agricultural capitalists often need to make fixed-capital investments when operating farms, such as improving the soil and constructing irrigation and drainage facilities and agricultural buildings. Once the lease expires, the various improvements incorporated into the land become the property of the landlord. The landlord can use all the results of investments in the land to collect lease money, adding the depreciation and interest on the fixed capital incorporated into the land to the ground-rent and thereby increasing the amount of ground-rent. In addition, lease money sometimes include a portion of average profit and deductions from ordinary wages. Some small and medium-sized agricultural capitalists often have to pay relatively high ground-rent when leasing land. "**They are forced to be satisfied with less than the average profit, and to turn over part of it to the landlords as rent.**"[2] On the other hand, when rent is extremely high, capitalists seeking to obtain average profit often reduce workers' wages below the normal level, "**so that part of it is deducted to become part of the lease money and thus, in the guise of ground-rent, it flows into the pocket of the landlord rather than the laborer.**"[3]

It can be seen that lease money includes not only true ground-rent, but also interest on fixed capital, average profit, and the portion deducted as ordinary wages. Only the payment made for the use of the land itself is ground-rent in the true sense; it should be the portion of surplus value exceeding average profit. To make the analysis more concise and clear, the discussion below is limited to ground-rent in the strict sense.

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[1] Karl Marx, "Chapter 37. Introduction," in *Capital*, Vol. III.

[2] Ibid.

[3] Ibid.

How is capitalist ground-rent formed? How can the agricultural capitalist pay the landlord a portion of surplus value as ground-rent in addition to average profit? To answer these questions, it is necessary to analyze the two forms of rent: differential rent and absolute ground-rent.

Differential Rent

What is differential rent? Differential rent is the ground-rent paid by agricultural capitalists who operate better land. Because this ground-rent differs according to the varying grades of land quality, it is called differential rent. It is transformed from the surplus-profit obtained by agricultural capitalists whose land conditions are better. Capitalists investing in agriculture require an average profit, and agricultural products must be sold according to their social prices of production. Thus, because of their relatively high labor productivity, agricultural capitalists with better land conditions have individual prices of production for agricultural products that are lower than their social prices of production, enabling them to obtain surplus-profit. This is similar to the situation in the industrial sector. However, the formation of surplus-profit in agriculture also has its own characteristics.

First, surplus-profit in agriculture is relatively stable. In industry, the surplus-profit obtained by advanced enterprises can only be temporary, because their higher labor productivity depends mainly on advanced machinery and equipment and technology, neither of which can be monopolized by a small number of enterprises for a long period. Once advanced machinery and

equipment are widely adopted, labor productivity generally rises, and commodity value and prices of production inevitably fall; the original surplus-profit then disappears. The situation in agriculture is different. Farms that obtain surplus-profit have higher labor productivity mainly because they use better land, which is determined by the natural conditions of the land. However, the area of land is limited, and good land is even more limited. Unlike machinery and equipment, land cannot be created by capital or acquired at will. Capitalists who are the first to lease good land monopolize the right to use it; other capitalists can neither use it nor create good land through their own capital. Precisely because the capitalist monopoly of land operation hinders competition within the agricultural sector and obstructs the equalization of agricultural production conditions, agricultural capitalists operating better land can maintain higher labor productivity over a long period and thus obtain surplus-profit steadily and regularly.

Second, in agriculture, surplus-profit can be obtained not only by agricultural capitalists operating superior land, but also by those operating average land. In industry, the prices of production are generally determined by average production conditions, that is, average production conditions; capitalists operating under average production conditions can obtain only average profit, while those operating under superior production conditions can obtain surplus-profit. In agriculture, however, the prices of production of agricultural products is not determined by the production conditions of average land, but by those of inferior land. If the prices of production of agricultural products were also determined by the production conditions of average land, capitalists operating inferior land would be unable to obtain average profit. If such a situation arose in the industrial sector, industrial capitalists with poor production conditions could strive to improve their production equipment and catch up with, or even surpass, the

average level. In agriculture, however, because better land has already been rented and monopolized by others, capitalists operating inferior land cannot create good land with capital in order to improve their production conditions. Therefore, they would remain unable to obtain average profit for a long time and would have no choice but to transfer their capital to other industrial sectors. This would inevitably cause the supply of agricultural products to decrease and their prices to rise, until operating inferior land could also yield average profit. It can thus be seen that the social prices of production of agricultural products must ultimately be determined by the production conditions of inferior land; consequently, agricultural capitalists operating superior and average land can all obtain surplus-profit, though in varying amounts.

This surplus-profit, which agricultural capitalists operating better land regularly obtain, is handed over to landowners as payment for the use of the land and thus constitutes differential rent. Therefore, the cause of differential rent lies not in private ownership of land, but in the capitalist monopoly of land operation. The limited supply of land is the precondition for this capitalist monopoly of land operation. Precisely because good land is limited, once some capitalists rent it, other capitalists can no longer use it. Under this monopoly of operation, regardless of who owns the land, agricultural capitalists operating average or better land will regularly obtain the surplus-profit that constitutes differential rent; private ownership of land merely determines that this portion of surplus-profit is appropriated by landowners. Lenin pointed out: The capitalist monopoly of land operation "**originates in the limitedness of land, and is therefore inevitable in any capitalist society. This monopoly leads to the determination of the price of grain by the conditions of production on the worst land; the surplus profit obtained by the investment of capital on belier land, or by a more productive**

investment of capital, forms differential rent. This rent comes into being quite independently of private property in land, which simply enables the landowner to take it from the farmer."[1]

However, the reason for the emergence of differential rent should not be confused with the source of differential rent. What is the source of differential rent? Bourgeois vulgar economists absurdly claim that rent is produced by the land. In fact, differential rent is by no means a product of the land; it is created by the surplus labor of agricultural workers. "**The natural force is not the source of surplus-profit, but only its natural basis, because this natural basis permits an exceptional increase in the productiveness of labour.**"[2] The labor of agricultural workers cultivating superior and average land has relatively high labor efficiency and can be regarded as enhanced labor, capable of creating more value and surplus value. Marx pointed out: "**With a correct conception of rent, the first point to arise was of course that it does not originate from the land but … from the labour applied to the land, not from the land.**"[3] Marx's analysis of the source of rent thoroughly criticized the fallacies of bourgeois economics and profoundly elucidated the exploitative essence of capitalist ground-rent.

Differential rent has two forms because of differences in the conditions under which it arises: differential rent I and differential rent II.

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[1] Vladimir Ilyich Lenin, "II The Theory of Rent, The Agrarian Question and the 'Critics of Marx,'" in *Lenin's Collected Works*, Vol. 5 (Foreign Languages Publishing House, 1961, Moscow).

[2] Karl Marx, "Chapter 38. Differential Rent: General Remarks," in *Capital*, Vol. III.

[3] Karl Marx, "CHAPTER IX Notes on the History of the Discovery of the So-Called Ricardian Law of Rent.," in *Theories of Surplus-Value* (Progress Publishers).

Differential rent I. Marx stated: "**We shall first consider the unequal results of equal quantities of capital applied to different plots of land of equal size.**"[1] This unequal outcome is caused by two factors: first, differences in land fertility; and second, differences in the geographical location of the land. Differential rent arising from differences in land fertility and geographical location is called differential rent I.

If climate and other factors are set aside, the natural fertility of land is determined by the chemical composition of the topsoil. Soil fertility is not immutable. The use of chemical fertilizer, the adoption of scientific cultivation methods, and rational irrigation and drainage, among other measures, can improve infertile soil. However, although soil fertility can change, differences in the fertility of different lands always exist within any given period. Therefore, equal amounts of capital invested in land of different fertility yield different levels of productivity. Capital invested in superior or average land has higher labor productivity, and the individual prices of production of its products are lower than those of products from inferior land. Since agricultural products are sold at the social prices of production determined by inferior land, the agricultural capitalists operating superior and average land can obtain surplus-profits of differing amounts, thereby forming differential rent I. Let us take as an example three plots of land with equal areas but different levels of fertility and use a table to illustrate the formation of differential rent I:

Land Type	Capital Consumed (yuan)	Average Profit (yuan)	Yield (Per 50 kg)	Individual Prices of Production		Social Prices of Production		Differential Rent I (yuan)
				Total Product (yuan)	Per 50 kg (yuan)	Total Product (yuan)	Per 50 kg (yuan)	

[1] Karl Marx, "Chapter 39. First Form of Differential Rent (Differential Rent I)," in *Capital*, Vol. III.

Superior	100	30	4	130	32.5	65	260	130
Medium	100	30	3	130	43.3	65	195	65
Inferior	100	30	2	130	65.0	65	130	0

The table above lists three plots of land with equal areas but differing fertility. The investment in each is 100 yuan, and the average profit is 30 yuan, but their yields differ: superior land yields 200kg, average land 150 kg, and inferior land 100 kg. Although, in terms of the total product of each plot, the individual prices of production are all 130 yuan, because the yield of each plot differs, the individual prices of production per 50 kg of product also differ: 32.5 yuan for superior land, 43.3 yuan for average land, and 65 yuan for inferior land. The social prices of production of agricultural products are determined by the individual price of production of the agricultural products from inferior land (65); the agricultural products from superior and average land are also sold at 65 yuan per 50 kg. As a result, inferior land earns 130 yuan; after deducting the 100 yuan investment and 30 yuan in average profit, it earns no surplus-profit. Superior and average land earn 260 yuan and 195 yuan respectively; after deducting the investment and average profit, they obtain surplus-profits of 130 yuan and 65 yuan respectively. This surplus-profit constitutes differential rent I.

The formation of differential rent I is related not only to differences in land fertility but also to differences in geographical location. Some land is close to points of sale such as cities, railway stations, and ports, so the transportation costs for agricultural products are relatively low; other land is far from the market, so the transportation costs for agricultural products are relatively high. The transportation costs of agricultural products must be added to the cost-price; therefore, the distance of the land from the market affects the individual prices of production of

agricultural products. Since the social prices of production of agricultural products is determined by land under the poorest conditions, this means that it is also determined by the land with the worst geographical location. Thus, because of their lower transportation costs, farms with advantageous locations can still sell their products at the social prices of production and thereby obtain surplus-profit. This surplus-profit also belongs to Differential rent I.

Differential rent II. Differential rent arising because equal amounts of capital invested successively in the same piece of land have different productivity is called differential rent II. The growth of capitalist agriculture can be achieved either by expanding the area of cultivated land or through intensive cultivation. Intensive cultivation means adding more capital to the same piece of land, using modern machinery, constructing water-conservancy works, applying high-efficiency fertilizer, practicing intensive farming, and so on, in order to increase output per unit of area. Under normal circumstances, such additional investment will yield different levels of productivity. However, as long as the productivity of the additional investment is higher than that of inferior land, it will bring surplus-profit to the investor and form differential rent II. This can still be illustrated with a table (see the following page).

The first investment of 100 yuan on superior land produces 200 kg of grain. Sold at the social prices of production of 65 yuan per 50 kg, it yields 30 yuan in average profit and 130 yuan in surplus-profit, namely differential rent I. In the second year, suppose that an additional investment of 100 yuan is made on this land, bringing the total investment to 200 yuan and producing 450 kg of grain. Sold at the social prices of production of 65 yuan per 50 kg, it brings in a total of 585 yuan. After deducting the 200 yuan in investment and 60 yuan in average profit, an surplus-profit of 325 yuan is obtained. If the additional investment is calculated separately

from the original investment, it can also be said that the additional investment of 100 yuan produced 250 kg of grain and sold it for 325 yuan. After deducting the 100 yuan in investment and 30 yuan in average profit, it yielded an surplus-profit of 195 yuan. This 195 yuan constitutes differential rent II.

Land Type	Capital Consumed (yuan)	Average Profit (yuan)	Yield (Per 50 kg)	Individual Prices of Production		Social Prices of Production		Differential Rent (yuan)
				Total Product (yuan)	Per 50 kg (yuan)	Total Product (yuan)	Per 50 kg (yuan)	
Superior	100	30	4	130	32.5	65	260	I 130
	Additional 100	30	5	130	26	65	325	II 195
Medium	100	30	3	130	43.3	65	195	I 65
Inferior	100	30	2	130	65.0	65	130	0

The surplus-profit generated by additional investment is not necessarily immediately transformed in its entirety into differential rent and appropriated by the landlord. During the period in which the lease remains valid, the surplus-profit generated by additional investment flows into the pockets of the tenant farmer. This is an important distinction between differential rent II and differential rent I. However, land is always leased for a definite term. Once the lease expires, the landowner will include the benefits generated by additional investment in the rent and raise the rent when the lease is renewed. Thus, this surplus-profit is partially or wholly transformed into differential rent and falls into the hands of the landowner. "**This is why the tenants have fought for long leases, and, on the other hand, due to the greater power of the landlords, an increase in the number of tenancies at will has taken place, i.e., leases which can be cancelled annually.**"[1]

[1] Karl Marx, "Chapter 40. Second Form of Differential Rent (Differential Rent II)," in *Capital*, Vol. III.

Agricultural capitalists always hope for longer lease terms so that they can appropriate the surplus-profit generated by additional investment; landowners, however, strive to sign short-term leases in order to continually raise the amount of rent and transfer the benefits of the progress of capitalist agriculture into their own hands. This is the struggle over surplus-profit. This struggle drives agricultural capitalists to plunder soil fertility ruthlessly in order to recover the benefits of their investment to the greatest possible extent during the term of the lease, thereby causing the land to become infertile. It can thus be seen that under capitalism, the rational use of land is impossible. Marx said: "**In modern agriculture, as in the urban industries, the increased productiveness and quantity of the labour set in motion are bought at the cost of laying waste and consuming by disease labour-power itself. Moreover, all progress in capitalistic agriculture is a progress in the art, not only of robbing the laborer, but of robbing the soil; all progress in increasing the fertility of the soil for a given time, is a progress towards ruining the lasting sources of that fertility.**"[1]

The two forms of differential rent are closely connected. "**[Differential rent II's] basis and point of departure, not just historically, but also in so far as concerns its movements at any given period of time, is differential rent I.**"[2] Historically, differential rent I and differential rent II reflect two different stages in the operation of capitalist agriculture: extensive cultivation and intensive cultivation. In the early stages of the development of capitalist agriculture, there was relatively abundant cultivable wasteland, while available capital was relatively scarce and agricultural technology was not yet sufficiently developed. Thus, the growth of agricultural

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[1] Karl Marx, "Chapter Fifteen: Machinery and Modern Industry," in *Capital*, Vol. I.

[2] Karl Marx, "Chapter 40. Second Form of Differential Rent (Differential Rent II)," in *Capital*, Vol. III.

production relied mainly on expanding the area of cultivated land and carrying out extensive cultivation; the differential rent arising from this belonged to differential rent I. As the development of capitalism expanded the demand for agricultural products and capital accumulation grew rapidly, uncultivated land became increasingly scarce, thereby prompting capitalist agriculture to develop in the direction of intensification. The growth of agricultural production then relied mainly on additional investment in already cultivated land, intensive farming, and increasing output per unit of area, so differential rent II developed rapidly. It can be seen that differential rent I preceded differential rent II and was the historical precondition for the emergence and development of differential rent II. As regards the movement of differential rent II within a given period, it is likewise based on differential rent I. The reason is that the formation of differential rent II presupposes the simultaneous cultivation of land differing in fertility and location. Only by comparing the productivity of additional investment with the productivity of inferior land, which determines the social prices of production of agricultural products, can the formation of differential rent II be understood. It is precisely because the productivity of additional investment is higher than that of inferior land that it can provide the surplus-profit constituting differential rent II.

Although the two forms of differential rent arise under different conditions, in essence both are a portion of the surplus value created by agricultural workers and are special forms of the transformation of surplus value. Fertile land and land with a favorable location, having higher labor productivity, constitute the natural basis for obtaining surplus-profit, but not its source. The sole source of differential rent is the surplus labor of agricultural wage laborers.

Bourgeois economists once fabricated a so-called "law of diminishing," whose basic argument is that continuous additional investment in land would cause output to decrease successively. They sophistically argued: if additional investment did not reduce output, why expand the cultivated area? By continuously investing in one hectare of land, one could then feed the entire world. The classical bourgeois economist Ricardo once mistakenly linked his theory of differential rent to this so-called "law." He believed that it was precisely because the returns on additional investment diminished that agricultural operations gradually expanded from superior land to inferior land, thereby generating differential rent. In reality, because fertile land is not necessarily in a geographically suitable location, the sequence in which land is cultivated does not necessarily always proceed from superior land to inferior land. The order of land cultivation, or the question of whether returns on additional investment increase or decrease, has no relation to the emergence of differential rent. As long as equal amounts of capital invested side by side in different plots, or invested successively in the same plot, have different productivity, differential rent may arise. To regard "diminishing returns" as an objective law is extremely absurd. This is an empty inference contrary to reality, premised on the assumption that the technological and social conditions of agricultural production remain unchanged. In fact, additional investment itself is always combined with the adoption of new technology and new agricultural production methods. "**Indeed, the very term 'additional (or successive) investments of labour and capital' presupposes changes in the methods of production, reforms in technique. In order to increase the quantity of capital invested in land to any considerable degree, new machinery must be invented, and there must be new methods of land cultivation, stock**

breeding, transport of products, and so on and so forth."[1] Therefore, the productivity of additional investment will often increase, rather than necessarily diminishing.

Under capitalism, the phenomena of declining soil fertility, diminishing returns, and agricultural decline do indeed exist, but they are by no means the result of the operation of the "law of diminishing returns"; rather, they are caused by capitalism. So long as capitalist private ownership is abolished and socialist public ownership is established, land can be rationally utilized and protected, the abuse of land and destruction of soil fertility can be halted, soil fertility can gradually improve, and output per unit area can gradually increase. After liberation, the transformation of many alkali and low-lying lands, the conversion of many dry fields into irrigated fields, the transformation of many barren mountains and bare ridges into rice- and grain-producing areas, and the achievement of stable, high yields across large areas of farmland, among many other facts, completely exposed the fallacy of the "law of diminishing returns." This fabricated so-called "law" not only fails to conform to objective facts but also theoretically serves the reactionary purpose of concealing the contradictions of capitalism. For example, the notorious Malthusian theory of population took this "law" as its theoretical foundation. In Malthus's view, it was because of "diminishing returns" that the growth of the means of subsistence failed to keep pace with population growth, thereby causing "absolute overpopulation" and the impoverishment of the working people. It is thus clear that the "law of diminishing returns" is an extremely reactionary dogma fabricated by bourgeois scholars to conceal the class contradictions of capitalism and, in a vain attempt, forcibly attribute the root of the hunger and poverty of the working people to nature.

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[1] Vladimir Ilyich Lenin, "II The Theory of Rent, The Agrarian Question and the 'Critics of Marx,'" in *Lenin's Collected Works*, Vol. 5 (Foreign Languages Publishing House, 1961, Moscow).

Absolute Ground-Rent

When analyzing differential rent, it can be seen that inferior land does not provide surplus-profit exceeding the average profit. Does this mean that agricultural capitalists who rent inferior land do not have to pay ground-rent to landlords? No. In fact, agricultural capitalists who rent inferior land must also pay ground-rent, because landowners will never allow anyone to cultivate even inferior land for free. The ground-rent that must be paid for operating all land, including inferior land, is called absolute ground-rent.

Capitalists who lease inferior land must both obtain the average profit and pay ground-rent; therefore, agricultural products cannot be sold at the social prices of production determined by inferior land but must be sold above this social prices of production. Only in this way can capitalists who lease inferior land obtain the average profit after selling their agricultural products while also retaining a surplus for paying ground-rent.

The question is: Where does this balance come from? Does the fact that agricultural products are often sold at market prices exceeding prices of production violate the law of value? To resolve this question, we must begin by analyzing the organic composition of capital in agriculture. Marx said: "**If the composition of the capital in a given sphere of production is lower than that of the average social capital, i.e., if its variable portion, which is used for wages, is larger in its relation to the constant portion, used for the material conditions of labour, than is the case in the average social capital, then the value of its product must lie above the price of production.**"[1] In capitalist society, agricultural production technology lags

[1] Karl Marx, "Chapter 45. Absolute Ground-Rent," in *Capital*, Vol. III.

behind that of industry, and the organic composition of capital in agriculture is lower than that in the general industrial sector. Therefore, the value of agricultural products is often higher than their prices of production. If agricultural products are sold according to their value, there will be a difference between value and prices of production, and consequently between surplus value and average profit. It is precisely this difference that constitutes absolute rent and accrues to the landlord class. Thus, the existence of absolute rent does not violate the law of value. On the basis of strict adherence to the law of value, Marx resolved the question of the source of absolute rent. Absolute rent is also a component of the value of agricultural products, originating from the surplus value created by agricultural workers. The formation of absolute rent is illustrated in the following chart:

Production Sector	Organic Composition of Capital	Surplus Value (m'=100%)	Average Profit	Product Prices	Prices of Production	Absolute Rent
Industry	80c+20v	20	20	120	120	0
Agriculture	50c+50v	50	20	150	120	30

Suppose that the average organic composition of capital in the industrial sector is 80c+20v, and the rate of surplus value is 100%; both the commodity value and the prices of production are 120. The organic composition of capital in agriculture is 50c+50v, and the rate of surplus value is also 100%; the surplus value is 50, and the value of agricultural products is 150. Because of competition, the agricultural capitalist can obtain only the same average profit as the industrial capitalist, so the prices of production of agricultural products should also be 120. However, agricultural products are sold at a value higher than their prices of production, enabling the agricultural capitalist to obtain 30 more profit than the industrial capitalist; this profit of 30 is transformed into absolute rent.

The reason why this portion of surplus value in agriculture does not participate in the equalization of the rate of profit for society as a whole is the monopoly of private ownership of land. In industry, production sectors with a low organic composition of capital can also provide more surplus value, but competition among industrial sectors and the free movement of capital cause the rate of profit to tend toward equalization. In agriculture, however, the monopoly of private ownership of land constitutes an obstacle to the transfer of capital into the agricultural sector. This obstacle is manifested in the fact that capital cannot be invested in agriculture without paying rent to the landowner, even when the land operated is of the poorest quality. Therefore, agricultural products must be sold above their prices of production, calculated according to the average rate of profit already established in the industrial sector. The balance by which the value of agricultural products exceeds their prices of production, or by which surplus value exceeds average profit, remains within the agricultural sector and cannot participate in the equalization of profit throughout society; it thus forms absolute rent. It can therefore be seen that the fact that the organic composition of agricultural capital is lower than the average organic composition of capital in society is merely a prerequisite for the formation of absolute rent, whereas the fundamental cause of its formation lies in the monopoly of private ownership of land.

The preceding analysis examined the two forms of capitalist ground-rent: differential rent and absolute rent. They are determined by two monopolies of different natures in agriculture: "**In the first place, we have the monopoly (capitalist) of land economy. … In the second place, we have the monopoly of private property in land. Neither logically nor historically is this**

monopoly inseverably linked with the previous monopoly."[1] The capitalist monopoly of land operation, that is, the monopoly of land-use rights, is the cause of the formation of differential rent, whereas the monopoly of private ownership of land, that is, the monopoly of land ownership, is the cause of the formation of absolute rent. Correctly distinguishing between these two monopolies and the two forms of rent in capitalist agriculture is the key to understanding the Marxist theory of rent.

Monopoly Ground-Rent. Land Price

In addition to the two basic forms of ground-rent, differential rent and absolute ground-rent, capitalist society also contains monopoly ground-rent. Monopoly ground-rent is formed through the transformation of monopoly profit generated by monopoly prices. Certain plots of land, owing to their special natural conditions, can produce certain particularly valuable and extremely scarce products, such as exceptionally high-quality wines, fruit, and so on. These products may then be sold at monopoly prices that are higher not only than the prices of production but also than the value of the products. Such a monopoly price "**in general a price determined only by the purchasers' eagerness to buy and ability to pay, independent of the price determined by the general price of production, as well as by the value of the products. … This surplus-profit, which accrues from a monopoly price, is converted into rent and in**

[1] Vladimir Ilyich Lenin, "II The Theory of Rent, The Agrarian Question and the 'Critics of Marx,'" in *Lenin's Collected Works*, Vol. 5 (Foreign Languages Publishing House, 1961, Moscow).

this form falls into the lap of the landlord, thanks to his title to this piece of the globe endowed with singular properties."[1]

Large landowners can not only rely on private ownership of land to seize large amounts of ground-rent, but can also obtain enormous income by selling land. Land is not originally a product of labor and has no value, but under capitalism, as commodities became widespread, land also became an object of purchase and sale and acquired a price. Land price is not the monetary expression of land value, but an expression of the capitalization of ground-rent. Marx said: "**The purchase price of land is calculated in so many years' purchase which is merely another way of expressing the capitalization of ground-rent. It is in fact the purchase price-not of the land, but of the ground-rent yielded by it — calculated in accordance with the usual interest rate.**"[2] In other words, land price is equal to the value of a sum of capital which, if invested at interest, would yield annual interest income equivalent to the rent from the land. Expressed as a formula: Land Price=Ground-Rent/Interest Rate. For example, if one hectare of land yields 100 yuan in ground-rent each year and the deposit interest rate is 5%, then in order to obtain interest equivalent to the amount of ground-rent, one would need 100/5%=2,000 yuan in capital; the price of this hectare of land should therefore be 2,000 yuan. It can be seen that land price depends on two factors: first, the amount of ground-rent; second, the level of the interest rate. Land price is directly proportional to the amount of rent and inversely proportional to the interest rate. With the development of capitalism, ground-rent increases steadily, whereas the interest rate tends to decline; consequently, land prices continue to rise.

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[1] Karl Marx, "Chapter 46. Building Site Rent. Rent in Mining. Price of Land," in *Capital*, Vol. III.

[2] Karl Marx, "Chapter 37. Introduction," in *Capital*, Vol. III.

Marx's theory of ground-rent has important revolutionary significance. Through his analysis of capitalist landownership and ground-rent, Marx further revealed the complex class relations in the capitalist countryside. This shows that capitalists and large landowners are the two major exploiting classes in capitalist society. Although conflicts of interest exist between them and they have differences over the division of surplus value, they share common interests in exploiting wage laborers and both live off the workers' surplus labor. Large landowners in particular do not participate in the operation of any enterprise, yet they do everything possible to appropriate for themselves all the fruits of agricultural progress. They lead a thoroughly corrupt life of living without working and constitute a completely parasitic class. The existence of private ownership of land and the landlord class has raised the prices of agricultural products and other consumer goods, increased the burdens on the working class and working people, and become one of the roots of the impoverished living conditions of the working masses.

Marx's theory of ground-rent has also profoundly revealed how the private ownership of land seriously hinders the development of capitalist production. Because of the monopoly of private ownership of land, part of the surplus value in the agricultural sector does not participate in the process of equalization of profits throughout society, but is appropriated by landlords as absolute ground-rent and used for parasitic consumption, thereby reducing the average profit of the entire bourgeoisie and the amount of capital available for accumulation. Large landowners also do everything possible to seize all the benefits of agricultural progress, and add the interest on fixed capital investment in the land to ground-rent and transforming the surplus-profit generated by additional investment into differential rent II. Therefore, agricultural capitalists are entirely unwilling to undertake basic farmland construction involving fixed capital whose full

value cannot be recovered during the tenancy period, or any additional investment from which they cannot obtain sufficient benefits. This greatly restricts tenant farmers' enthusiasm for expanding investment and improving agricultural production technology. On the other hand, in order to obtain the maximum surplus-profit during the tenancy period, agricultural capitalists will ruthlessly exhaust the land's productive capacity, causing serious damage to soil fertility. If an agricultural capitalist wishes to escape the exactions of large landowners and obtain permanent tenancy rights to the land, they must advance enormous capital to purchase expensive land, which in turn greatly reduces the capital available for production. All the foregoing are destructive consequences brought about by private ownership of land, and all are detrimental to the development of capitalist agriculture and of capitalist production as a whole.

Marx's theory of ground-rent has thoroughly exposed the harmfulness of private ownership of land, thereby providing a theoretical basis for abolishing it. Marx pointed out: "**[Landed property] appears superfluous and harmful at a certain stage of development, even from the point of view of the capitalist mode of production.**"[1] Therefore, in the early stage of capitalism, the radical bourgeoisie, proceeding from their own class interests, once raised the slogan of nationalization of land. However, with the development of capitalism and the sharpening of social contradictions, the bourgeoisie not only no longer dare to raise the slogan of nationalizing land, but even completely change course and become defenders of large-scale private ownership of land. Fearing that abolishing private ownership of land would shake the foundation of the entire capitalist private ownership system, they desperately oppose the nationalization of land. This task thus falls to the proletariat. Marx's theory of rent is an

[1] Ibid.

important theoretical basis for the proletarian party's formulation of its land program. Only through proletarian revolution and the dictatorship of the proletariat can all private ownership of land be completely abolished.

Chapter Seven: Capitalist Economic Crises

In capitalist society, all kinds of profound and antagonistic socioeconomic contradictions are concentrated and most strikingly manifested in the economic crises that erupt periodically. Beginning in the 1820s, the extended reproduction of capitalism was periodically interrupted by economic crises. Economic crises are an inevitable product of capitalism; in turn, they intensify capitalism's inherent contradictions and accelerate the historical process by which capitalism moves toward its demise. The increasingly frequent and deepening economic crises most clearly reflect the historical limitations and transience of capitalism.

Section One: The Inevitability of Capitalist Economic Crises

The Nature of Capitalist Economic Crises

The economic crises that periodically erupt in capitalist society are, in their fundamental nature, crises of overproduction. During a crisis, the most important economic phenomenon is overproduction: large quantities of commodities cannot be sold. Lenin said: "**What are crises? Overproduction, the production of commodities which cannot be realized, for which there is no demand.**"[1] All the other abnormal economic phenomena during a crisis are caused by this fundamental economic phenomenon of overproduction.

[1] Vladimir Ilyich Lenin, "VII Crises, A Characterisation of Economic Romanticism," in *Lenin's Collected Works*, Vol. 2.

The concrete manifestations of the crisis in all aspects of social and economic life are as follows: large quantities of commodities cannot be sold, depression in commerce sets in, inventories increase sharply, prices fall precipitously, some commodities are destroyed; production declines sharply, enterprises operate below capacity, investment plummets, large numbers of enterprises go bankrupt; money becomes extremely scarce, credit contracts, interest rates rise to unprecedented levels, and the prices of negotiable securities fall precipitously; unemployment rises sharply, wages decline, and workers' living conditions deteriorate; and so on. In short, the economic crisis plunges the entire capitalist economy into chaos, severely damages the productive forces of society, and rapidly impoverishes workers and the working masses. Marx and Engels pointed out: "**In these crises, there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity — the epidemic of over-production.**"[1]

It is very important to recognize the fundamental nature of crisis. Overproduction reveals the essence of economic crisis; crises in money and credit also occur during periods of crisis, but these are derivative phenomena caused by the essence of overproduction. We must seek the fundamental causes of crisis phenomena in the spheres of circulation and credit in the crisis phenomena within the sphere of production, and never the reverse. Only by grasping the essence of overproduction can an analysis of the economic crisis correctly explain all the complex social and economic phenomena occurring during a crisis and correctly identify the profound roots of the economic crisis.

It must be pointed out that the overproduction occurring during a crisis is not absolute overproduction but relative overproduction. This overproduction is not considered in relation to

[1] Karl Marx and Friedrich Engels, "Chapter I: Bourgeois and Proletarians, Manifesto of the Communist Party," in *Marx/Engels Selected Works*, Vol. 1 (Progress Publishers, Moscow, 1969).

the actual needs of the broad working masses, but in relation to their demand backed by the ability to pay—that is, their purchasing power. Capitalists recognize money, not people; the only demand they know is demand backed by the ability to pay, and they never concern themselves with the actual needs of the working masses. The overproduction manifested during a crisis, with commodities remaining unsold, is not because the working masses truly have no need for them, but because they have no money to buy them. In fact, during a crisis, workers suffer the greatest hardship. On the one hand, consumer goods cannot find consumers, and even large quantities of "surplus" commodities are destroyed; on the other hand, consumers cannot obtain consumer goods, and the broad working masses live in hunger and deprivation. The contrast between the two is striking.

The Root Cause of the Capitalist Economic Crisis

Periodic economic crises are a special product of capitalism. The profound root cause of the crisis lies precisely in capitalist commodity production and in the capitalist economic system.

A self-sufficient natural economy does not produce economic crises. Under the conditions of a natural economy, producers and their families are both producers and consumers; products are used to meet their own needs rather than being taken to the market for exchange. Consequently, there can be no problem of surplus products or products being impossible to sell. Thus Marx said: "**In a situation where men produce for themselves, there are indeed no crises, but neither is there capitalist production.**"[1]

[1] Karl Marx, "[Chapter XVII] Ricardo's Theory of Accumulation and a Critique of it. (The Very Nature of Capital Leads to Crises)," in *Theories of Surplus Value.*

Simple commodity economy contains the possibility of crises, but not their inevitability. The development of commodity production and the emergence of money transformed barter into commodity circulation. Because money functions as a medium of circulation, selling and buying split into two independent stages; the separation of selling from buying thus contains the first possibility of crisis. Because money functions as a means of payment, commodity producers enter into intricate debt relations, and the disruption of credit relations contains the second possibility of crisis. These two forms of the possibility of crisis merely indicate that the conditions for a crisis to arise and the general forms in which a crisis manifests itself have already been established; they do not mean that a crisis must inevitably break out. In fact, before capitalist society, within simple commodity economy, the possibility of crisis could not yet become reality—that is, a crisis of general overproduction throughout society could not yet break out. This was mainly because, in the simple commodity economy before capitalist society, commodity producers were not deeply dependent on the market, and commodity economy was often combined with natural economy. At the same time, natural economy still prevailed throughout society, so the inability of an individual producer to sell commodities would not cause general overproduction in society. Moreover, under those economic conditions, because of the small scale of production and backward technology, social production developed extremely slowly, and the mode of appropriation based on individual labor could not cause a serious separation between production and consumption. In short, simple commodity economy still lacked the economic conditions for crises to arise inevitably. Marx pointed out: "**The conversion of this mere possibility into a reality is the result of a long series of relations, that, from our**

present standpoint of simple circulation, have as yet no existence."[1] "**The general conditions of crises, … must be explicable from the general conditions of capitalist production.**"[2]

It is only under the capitalist economic system that crisis becomes inevitable and unavoidable. Stalin said: "**The basis, the cause, of economic crises of overproduction lies in the capitalist system of economy itself. The basis of the crisis lies in the contradiction between the social character of production and the capitalist form of appropriation of the results of production.**"[3]

The contradiction between the socialization of production and the capitalist form of appropriation is the fundamental contradiction of capitalism. The emergence and establishment of capitalism promoted the tremendous development of social production and changed the nature of the social productive forces, transforming individual small-scale production into socialized large-scale production. The main manifestations of the socialization of production are as follows: the socialization of the means of production, whereby the means of production for individual use are transformed "**into social means of production only workable by a *collectivity of men***"; the socialization of the production process, whereby "**the individual workshop by the factory implying the co-operation of hundreds and thousands of workmen,**" and "**production itself changed from a series of individual into a series of social acts**"; and the socialization of labor products, whereby they changed "**the products from individual to social products.**"[4] The

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[1] Karl Marx, "Chapter Three: Money, Or the Circulation of Commodities," in *Capital*, Vol. I.

[2] Karl Marx, "[Chapter XVII] Ricardo's Theory of Accumulation and a Critique of it. (The Very Nature of Capital Leads to Crises)," in *Theories of Surplus Value.*

[3] Joseph Stalin, "Political Report of the Central Committee to the Sixteenth Congress of the C.P.S.U.(B.)," in *Works*, Vol. 12 (Foreign Languages Publishing House, Moscow 1955).

[4] Frederick Engels, "II. Theoretical, Part III: Socialism," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

nature of this socialized large-scale production requires society to own the means of production and labor products and to manage social production. However, capitalism is based on private ownership: the means of production used by society remain private property, the socialized production process continues to take place under private control, and socialized labor products continue to be privately appropriated. The nature of the productive forces has changed, but the form of private appropriation has not. Therefore, a profound contradiction must arise between the socialization of production and the private capitalist form of appropriation. It is precisely "**this contradiction, which gives to the new mode of production its capitalistic character, contains the germ of the whole of the social antagonisms of today**"[1] and constitutes the deep foundation of capitalist economic crises.

The fundamental contradiction of capitalism, manifested as the contradiction between the blind expansion of production and the relative contraction of the purchasing-power demand of the working masses, inevitably leads to a disconnect between production and consumption, triggering the outbreak of economic crises.

In capitalist society, production tends toward blind growth and unlimited expansion. This tendency is determined by the economic conditions of capitalism. First, the law of surplus value is the decisive force driving the unlimited expansion of production. In order to obtain more surplus value, capitalists necessarily deepen the degree of exploitation of workers and broaden its scope. This requires continually increasing accumulation and expanding the scale of production, thereby promoting the rapid growth of production. Second, the law of competition also forces capitalists to continually expand production. The larger the scale of an enterprise, the lower its

[1] Ibid.

production costs; consequently, capitalists are better able to secure a favorable position in the market, defeat their competitors, and avoid bankruptcy. Third, the socialized economy of capitalism also makes it possible for social production to develop rapidly. The technological conditions of machine industry provide the material and technical foundation for the rapid expansion of production; the development of capitalist credit provides a source of capital for this expansion; and the existence of the industrial reserve army provides the labor force needed for its rapid expansion. All this determines that capitalist production necessarily tends toward unlimited expansion. On the other hand, however, as a result of the brutal exploitation under capitalism, the broad masses of workers and working people are becoming increasingly impoverished. Their consumption demand backed by purchasing power falls far behind the expansion of social production, inevitably creating a contradiction between production and consumption. Moreover, "**the more productiveness develops, the more it finds itself at variance with the narrow basis on which the conditions of consumption rest.**"[1]

The contradiction and disconnection between production and consumption are determined by the essence of capitalist production. The essence of capitalist production is the production of surplus value. Capitalist production expands in pursuit of surplus value and relies on the exploitation of wage laborers. Workers can never receive the full value product created by their labor, but only the portion of this value product corresponding to the value of labor power. What workers receive is always less than what they create through their labor. However, workers are not only the basic producers of society but also its primary consumers; the overwhelming majority of consumer goods produced by social production must ultimately be purchased by the

[1] Karl Marx, "Chapter 15. Exposition of the Internal Contradictions of the Law," in *Capital*, Vol. III.

working masses. Since the wages workers receive in monetary form are sufficient only to purchase a small portion of the value product they create through their labor, the contradiction between production and consumption—that is, the contradiction between the production of surplus value and the realization of surplus value—is inevitable. It is precisely this essential relationship of capital's exploitation of wage labor that determines that capitalist production must, by its very nature, produce overproduction. Marx pointed out: "**The majority of the producers, the workers, can consume an equivalent for their product only so long as they produce more than this equivalent, that is, so long as they produce surplus-value or surplus-product. They must always be over-producers, produce over and above their needs, in order to be able to be consumers or buyers within the limits of their needs.**"[1] The more capitalist production expands and the higher the degree of exploitation under capitalism, the smaller the share workers receive of the value product they create. This means that the more overproduction they generate beyond their own demand backed by purchasing power. Since the blind expansion of the productive forces takes place on the basis of the restricted consumption capacity of the working masses, once the disconnection between production and consumption develops to a certain point, a crisis must inevitably break out, forcibly restoring the balance between production and consumption through the destruction of the productive forces. Lenin and Marx once pointed out: "**There is an undoubted contradiction between the drive towards the unlimited extension of production inherent in capitalism, and the limited consumption of the masses of the people (limited because of their proletarian status).**"[2] "**The ultimate**

[1] Karl Marx, "[Chapter XVII] Ricardo's Theory of Accumulation and a Critique of it. (The Very Nature of Capital Leads to Crises)," in *Theories of Surplus Value.*

[2] Vladimir Ilyich Lenin, "VI. Marx's Theory of Realisation, Chapter I. The Theoretical Mistakes of the Narodnik Economists," in *Lenin's Collected Works*, Vol. 3.

reason for all real crises always remains the poverty and restricted consumption of the masses."[1]

The fundamental contradiction of capitalism is also manifested as the contradiction between the organized production of individual enterprises and the anarchy of social production, inevitably leading to disproportion in social production and triggering the outbreak of economic crises.

In capitalist society, production by individual enterprises is planned and organized. Without this organization, the collective labor of thousands of workers could not proceed in an orderly and normal manner. However, social production as a whole is characterized by anarchy. Private ownership of the means of production divides social production into countless independent production units. What to produce, how much to produce, and how to produce it are all private matters for individual capitalists; consequently, social production as a whole cannot have a unified plan or leadership. This gives rise to the contradiction between the organization of individual enterprises and the anarchy of social production. Moreover, the stronger the organization of individual enterprises, the more severe the anarchy of social production becomes. This is mainly because the organization of individual enterprises raises labor productivity and strengthens enterprises' capacity for rapid expansion. This not only sharply displaces small-scale production and aggravates the disorder of social production, but also undermines the stability of production and intensifies the uneven development of enterprises and sectors. At the same time, the more organized production within individual enterprises becomes, the sharper competition among enterprises becomes; the greater the competitive forces, the broader their scope, and the

[1] Karl Marx, "Chapter 30. Money-Capital and Real Capital.," in *Capital*, Vol. III.

more destructive their effects, the more deeply social production as a whole falls into an even more serious state of anarchy. In addition, with the development of capitalism, the expansion of commercial capital, the development of the credit system, and the prevalence of speculative activities all further intensify the anarchy of social production.

Capitalist production is socialized large-scale production and therefore objectively requires proportional development. Only by maintaining corresponding proportional relationships between production and consumption, between the two major departments of production, and among the various sectors and enterprises within each department can social production as a whole proceed normally. However, the anarchy of production in capitalist society constantly causes disproportion among the various departments and sectors. Once this disproportion develops to a certain point, a crisis erupts and, through the destruction of the productive forces, forcibly restores proportion and balance among the various production sectors. Stalin said: "**Crises … are the direct results of present-day unorganized capitalist production.**"[1] The foregoing analysis leads to the conclusion that the root of economic crisis lies in the profound contradictions inherent in capitalism. Crisis is an inevitable product of capitalism and an incurable disease of the capitalist economy. "**To abolish crises it is necessary to abolish capitalism.**"[2] This is the fundamental political conclusion of the Marxist theory of crisis.

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[1] Joseph Stalin, "Anarchism Or Socialism?," in *Works*, Vol. 1 (Foreign Languages Publishing House, Moscow, 1954).

[2] Joseph Stalin, "Political Report of the Central Committee to the Sixteenth Congress of the C.P.S.U.(B.)," in *Works*, Vol. 12.

Critique of Bourgeois Crisis Theory

Economic crisis is an inevitable product of the capitalist mode of production and its contradictions. In order to conceal the contradictions of capitalism, bourgeois scholars initially denied the possibility of crises; later, faced with the fact that crises erupted periodically, they had no choice but to acknowledge them while fabricating various fallacies to distort their true causes and whitewash capitalism.

The so-called crisis theories, in which bourgeois economists deny crises and distort their causes, are diverse. As the contradictions of capitalism and crises continue to deepen, bourgeois crisis theories are becoming increasingly vulgar. At the same time, they carefully devise various anti-crisis measures in a futile attempt to save the decaying capitalist system. Revisionists, catering to the needs of the bourgeoisie, also vigorously spread the myth that modern capitalism can eliminate crises. Here, we will critically examine only the primary early bourgeois crisis theories.

From the nineteenth century until the 1930s, the theory proposed by the French vulgar bourgeois economist Say concerning the realization of capitalist commodities—that is, the so-called "Say's law"—was one of the more influential theories in bourgeois political economy. In brief, this "law" held that "production creates demand for products." Say argued that, unless each product was intended for the producer's own use, it would be exchanged for other products; therefore, the production of any commodity simultaneously creates demand for other products. "demand is determined only by production, or also that demand and supply are identical"[1];

[1] Karl Marx, "[Chapter XVII] Ricardo's Theory of Accumulation and a Critique of it. (The Very Nature of Capital Leads to Crises)," in *Theories of Surplus Value.*

consequently, general overproduction is impossible. For a considerable period, Say's view served as the primary theoretical basis for bourgeois economists' denial of the possibility of crises.

The fundamental error of Say's sophistry lies in confusing capitalist commodity production with simple commodity production, and equating commodity circulation mediated by money with direct barter. He attempts to use this method to conceal the contradictions of capitalism. In reality, even under conditions of simple commodity circulation, the possibility of crisis is contained within it. In commodity exchange, although one person's sale is indeed simultaneously another person's purchase, commodity circulation mediated by money differs from barter in that it is divided into two processes—selling and buying—that are separated in time and space; it therefore already contains the possibility of selling and buying becoming disconnected, and thus the possibility of crisis. However, the possibility of crisis contained in simple commodity circulation is merely a possibility; only under capitalist conditions does this possibility become reality. Economic crisis is an inevitable product of capitalism, determined by the fundamental contradiction of capitalism. If the capitalist nature of social production is set aside, and it is viewed as general, abstract social production and product exchange, one will naturally arrive at the erroneous conclusion that denies the necessity of crisis. In criticizing the crisis theory of Say and his associates, Marx pointed out: "**With regard to this subject, we may notice two methods characteristic of apologetic economy. The first is the identification of the circulation of commodities with the direct barter of products, by simple abstraction from their points of difference; the second is, the attempt to explain away the contradictions of capitalist production, by reducing the relations between the persons engaged in that mode of production, to the simple relations arising out of the circulation of**

commodities. The production and circulation of commodities are however, phenomena that occur to a greater or less extent in modes of production the most diverse. If we are acquainted with nothing but the abstract categories of circulation, which are common to all these modes of production, we cannot possibly know anything of the specific points of difference of those modes, nor pronounce any judgment upon them. In no science is such a big fuss made with commonplace truisms as in Political Economy. For instance, J. B. Say sets himself up as a judge of crises, because, forsooth, he knows that a commodity is a product."[1]

Sismondi, the last representative of the French bourgeois classical political economy and a petty-bourgeois economist, proposed the "underconsumption theory," a relatively influential crisis theory. Sismondi pointed out that overproduction under capitalism is unavoidable and determined by this system. This was his scientific achievement. However, he failed to reveal the fundamental contradiction of capitalism and therefore could not explain the true cause of economic crisis. He believed that the primary contradiction under capitalism was the contradiction between production and consumption, that the insufficient personal consumption of the broad masses was the fundamental cause of economic crisis, and that insufficient personal consumption was in turn caused by the unfair capitalist distribution system.

This crisis theory appears reasonable on the surface, but is in fact equally erroneous. First, explaining the causes of economic crises in terms of underconsumption does not accord with objective facts, because workers' personal consumption often increases precisely before a crisis occurs. Marx pointed out: "**It is sheer tautology to say that crises are caused by the**

[1] Karl Marx, "Chapter Three: Money, Or the Circulation of Commodities," in *Capital*, Vol. I.

scarcity of effective consumption, or of effective consumers. … But if one were to attempt to give this tautology the semblance of a profounder justification by saying that the working-class receives too small a portion of its own product and the evil would be remedied as soon as it receives a larger share of it and its wages increase in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working-class actually gets a larger share of that part of the annual product which is intended for consumption."[1]

Second, the insufficient consumption of the working masses is not a phenomenon peculiar to capitalist society. Various systems of exploitation have all experienced underconsumption over thousands of years, yet economic crises have erupted only under capitalism. This shows that underconsumption is not the true cause of economic crises. Engels wrote: "**The under-consumption of the masses is a necessary condition of all forms of society based on exploitation, consequently also of the capitalist form; but it is the capitalist form of production which first gives rise to crises. The under-consumption of the masses is therefore also a prerequisite condition of crises, and plays in them a role which has long been recognized. But it tells us just as little why crises exist today as why they did not exist before.**"[2]

Third, Marxist crisis theory does not deny the existence in capitalist society of antagonistic contradictions between production and consumption, nor does it deny the fact of underconsumption. However, it maintains that this fact must be assigned a subordinate position,

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[1] Karl Marx, "Chapter 20: Simple Reproduction," in *Capital*, Vol. II.

[2] Frederick Engels, "III. Production, Part III: Socialism," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

because the root of crisis lies in the fundamental contradiction of capitalism, that is, in the conditions of capitalist production. The "underconsumption theory" attributes crises to underconsumption and thus actually holds that their roots lie outside the conditions of production, as though crises could be eliminated merely by improving the distribution of national income or increasing the consumption of working people. This is clearly the erroneous view of separating distribution from production. Lenin said: "**Does [Marxist theory of crises] deny the fact of underconsumption? Of course not. It fully recognizes this fact, but puts it in its proper, subordinate, place as a fact that only relates to one department of the whole of capitalist production. It teaches us that this fact cannot explain crises, which are called forth by another and more profound contradiction that is fundamental in the present economic system, namely, the contradiction between the social character of production and the private character of appropriation.**"[1]

Another relatively popular bourgeois crisis theory is John Mills's[2] "theory of monetary and credit contraction." John Mills maintained that the economic depression accompanying a commercial crisis was merely a "temporary market disequilibrium," resulting from "excessive speculative purchases," whose most immediate cause was "credit contraction."

Marx subjected this crisis theory to profound criticism, pointing out: "**The superficiality of Political Economy shows itself in the fact that it looks upon the expansion and contraction of credit, which is a mere symptom of the periodic changes of the industrial**

[1] Vladimir Ilyich Lenin, "VII Crises, A Characterisation of Economic Romanticism," in *Lenin's Collected Works*, Vol. 2.

[2] Note from translator: Not to be confused with John Stuart Mill.

cycle, as their cause."[1] Monetary credit arises on the basis of commodity production and commodity exchange, while the circulation of credit money is likewise based on commodity circulation. The expansion and contraction of monetary credit depend on the cyclical development of capitalist reproduction. A monetary credit crisis is merely a product of the crisis of overproduction determined by the fundamental contradiction of capitalism, and is a manifestation of the crisis of overproduction in the circulation sphere; it is absolutely impermissible to reverse the relationship and regard the expansion and contraction of monetary credit as the primary factors determining the reproduction process of capitalist society, still less to claim that a monetary credit crisis is the cause of the crisis of overproduction. Of course, the expansion and contraction of monetary credit do have a certain impact on the process of capitalist reproduction and the outbreak of economic crises. However, the fundamental cause of the periodic outbreak of crises can be explained only by the fundamental contradiction of capitalism.

Moreover, John Mills attributed the outbreak of economic crises to changes in people's psychological state. He absurdly claimed, "the malady of commercial crisis is not, in essence, a matter of the purse but of the mind."[2] He maintained that, during the recovery phase, the generally optimistic mood of the capitalists led to excessive speculation; excessive speculation, however, would inevitably end in failure, which in turn produced widespread pessimism and thus triggered a crisis. This is pure nonsense rooted in subjective idealism. Another British vulgar economist, William Stanley Jevons, went even further, attributing the causes of economic crises

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[1] Karl Marx, "Chapter Twenty-Five: The General Law of Capitalist Accumulation," in *Capital*, Vol. I.

[2] John Mills, "On Credit Cycles and the Origin of Commercial Panics.," in *Transactions of the Manchester Statistical Society* (1867), 17.

to natural phenomena. He fancifully claimed that economic crises erupt periodically because sunspots appear periodically; the increase in sunspots generally follows a ten-year cycle, and economic crises therefore erupt once every ten years. This is even more absurd! Bourgeois economics does not seek the causes of social and economic phenomena in society itself, but instead turns to people's psychological state and natural phenomena. This fully exposes its vulgarity and poverty and shows that it has sunk to the point of disregarding the facts entirely in order to defend capitalism!

Marxist crisis theory, based on a profound analysis of capitalism and its contradictions, is the only truly scientific theory of crisis.

Section Two: The Cyclicality of Capitalist Economic Crises

The Cyclicality of Capitalist Production

The development of capitalist production is cyclical: it neither rises in a straight line nor remains permanently in crisis. Marx pointed out: "**capitalistic production moves through certain periodical cycles. It moves through a state of quiescence, growing animation, prosperity, overtrade, crisis, and stagnation.**"[1] Economic crises recur at regular intervals. In the history of capitalism, the first economic crisis occurred in Britain in 1825. From then on, capitalist large-scale industry entered a vicious cycle of economic crises.

Why is the capitalist economy cyclical in its crises? This, too, is determined by the fundamental contradiction of capitalism.

Crises are the inevitable result of the sharpening of contradictions of capitalism. Through the destruction caused by crises, the proportional relations of social production are forcibly restored and temporarily balanced, thereby enabling capitalist production to resume its development. However, crises not only fail to resolve the fundamental contradiction of capitalism; they instead deepen the inherent contradictions of capitalism. Thus, after a certain period following one crisis, another new crisis will erupt as a result of the renewed sharpening of these contradictions. Engels said: "**The extension of the markets cannot keep pace with the extension of production. The collision becomes inevitable, and as this cannot produce any**

[1] Karl Marx, "XII. General Relation of Profits, Wages, and Prices," in *Value, Price and Profit.*

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'."[1]

The period from the beginning of one crisis to the beginning of another is called a cycle. Each cycle generally includes four phases: crisis, depression, recovery, and prosperity.

When a crisis arrives, social purchasing power declines sharply, large quantities of commodities find no market, prices fall precipitously, and inventories increase rapidly; as commercial orders decrease, turnover of capital becomes sluggish and the rate of profit generally declines, causing the scale of production to contract; enterprises suspend operations or reduce production, capitalists dismiss workers on a large scale, the number of unemployed people rises dramatically, and real wages fall; at this point, competition among capitalist enterprises also reaches an unprecedented level of intensity, and many small and medium-sized enterprises, unable to withstand the impact of the crisis, go bankrupt one after another. During the crisis phase, many industrial and commercial enterprises are unable to repay their debts on schedule, causing credit relations to break down; the money market becomes tense, cash is in extremely short supply, interest rates rise, and small and medium-sized banks, unable to meet depositors' large-scale withdrawals, fail one after another, in turn triggering a monetary credit crisis. After the economic crisis continues for a period, the contradiction arising from production exceeding demand backed by purchasing power gradually eases because of the sharp contraction of production, enterprise closures, and so on; the crisis phase then gives way to the depression phase.

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[1] Frederick Engels, "II. Theoretical, Part III: Socialism," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

During the depression phase, the contraction of production comes to a halt, but production remains stagnant; commerce is sluggish, and prices remain low; idle capital is abundant, and interest rates are extremely low. At this time, in order to escape their difficulties, capitalists strive to reduce production costs, strengthen their competitive capacity, and increase profits. They intensify the exploitation of workers, reduce wages, and increase labor intensity, while also working to improve production technology and adopt modern machinery and equipment, enabling production to remain profitable even at low prices. This creates new demand for means of production, prompting the production of means of production to begin recovering and expanding. The expansion of production of means of production, in turn, drives production in the means of subsistence sector; consequently, overall social production gradually recovers, and commerce and credit also begin to revive. The depression phase thus gradually turns into the recovery phase.

During the recovery phase, investment continues to grow, the number of employed people steadily increases, social purchasing power gradually rises, prices increase slowly, and commerce and credit become increasingly active, further promoting the expansion of production. The production of the entire society gradually recovers to its pre-crisis level. When social production exceeds its pre-crisis peak, the recovery phase gives way to the boom phase.

During the boom phase, production expands rapidly, prices continue to rise, profits increase sharply, new enterprises keep emerging, and commerce and credit become exceptionally active, causing the entire capitalist economy to present a scene of “prosperity.” However, good times do not last; it is precisely amid this scene of “prosperity” that a new crisis is gestating. The insurmountable contradiction between the rapidly growing productive forces and the relatively

shrinking purchasing power of the working people will inevitably trigger an even more profound economic crisis.

In short, within the capitalist economic cycle, the crisis is the decisive phase: it is the starting point of every new cycle and the foundation of the cycle as a whole. The crisis phase is the explosive phase that occurs when the internal contradictions of the capitalist reproduction process become extremely acute. The depression phase, on the one hand, continues to thoroughly settle the contradictions that erupted during the crisis, while on the other hand creating the conditions for economic recovery and a boom. The recovery phase and the boom phase push the economy to a new height, while also causing the internal contradictions of the reproduction process to develop anew and preparing the conditions for the next crisis. It can be seen that the one dark thread running through the entire cycle is the crisis: on the one hand, the outbreak and thorough settlement of the crisis; on the other hand, the gestation and preparation of a new crisis. The capitalist reproduction process thus moves and develops through cyclical fluctuations from one crisis to the next. Engels said: "**As a matter of fact, since 1825, when the first general crisis broke out, the whole industrial and commercial world, production and exchange among all civilized peoples and their more or less barbaric hangers-on, are thrown out of joint about once every ten years. Commerce is at a standstill, the markets are glutted, products accumulate, as multitudinous as they are unsaleable, hard cash disappears, credit vanishes, factories are closed, the mass of the workers are in want of the means of subsistence, because they have produced too much of the means of subsistence; bankruptcy follows upon bankruptcy, execution upon execution. The stagnation lasts for years; productive forces and products are wasted and destroyed wholesale, until the accumulated**

mass of commodities finally filters off, more or less depreciated in value, until production and exchange gradually begin to move again. Little by little the pace quickens. It becomes a trot. The industrial trot breaks into a canter, the canter in turn grows into the headlong gallop of a perfect steeplechase of industry, commercial credit, and speculation, which finally, after break-neck leaps, ends where it began — in the ditch of a crisis. And so over and over again."[1]

The Material Basis of the Economic Cycle

The cyclical movement of capitalist production from crisis to boom and back to crisis is closely linked to the large-scale renewal of fixed capital in society.

The renewal of fixed capital is the material basis of the periodicity of crises. During a crisis, the productive forces suffer severe destruction, and the contradictions are temporarily resolved to a certain extent through forced liquidation. During the depression phase, in order to escape their predicament, stand firm amid fierce competition, obtain higher profit when prices are low, and intensify the exploitation of workers, capitalists vigorously improve production equipment and adopt new technology; consequently, they expand investment and renew Fixed capital on a large scale. The further concentration of capital caused by the crisis, together with the abundance of idle funds in the lending market, also provides favorable conditions for large-scale investment. Thus, a crisis becomes the starting point for large-scale new investment throughout society. Because capitalists renew fixed capital on a large scale and acquire new,

[1] Ibid.

more efficient machinery and equipment, this creates a large demand for means of production, and production of means of production is the first to recover. The recovery and development of these production sectors in turn require an increase in labor power and corresponding articles of consumption, thereby expanding demand for articles of consumption and driving the growth of production of articles of consumption. As a result, social production escapes stagnation and gradually enters the recovery and boom phase.

During the boom phase, fixed capital continues to undergo large-scale renewal, and promotes the widespread adoption of new technologies and the rapid expansion of the scale of production; however, the purchasing power of the working masses remains constrained by capitalism. The contradiction between the ever-growing productive forces and demand backed by purchasing power once again becomes acute, generating new overproduction and leading to an even more serious economic crisis. Clearly, the renewal of fixed capital is both the material condition for this crisis to enter the boom phase and the material prerequisite for the arrival of another new crisis. Thus Marx said: "**During this cycle business undergoes successive periods of depression, medium activity, precipitancy, crisis. True, periods in which capital is invested differ greatly and far from coincide in time. But a crisis always forms the starting-point of large new investments. Therefore, from the point of view of society as a whole, more or less, a new material basis for the next turnover cycle.**"[1]

It should be pointed out, however, that the renewal of fixed capital merely provides the material basis for the periodicity of crises and is by no means the cause of the outbreak of the crisis cycle. At the same time, each crisis cycle is not simply a repetition of previous cycles. With

[1] Karl Marx, "Chapter 9: The Aggregate Turnover of Advanced Capital, Cycles of Turnover," in *Capital*, Vol. II.

the development of capitalism, particularly after its entry into the stage of imperialism, the fundamental contradiction of capitalism has become unprecedentedly acute; crises have grown increasingly frequent, cycles have become progressively shorter, and the destructive effects of crises have become more severe. During the stage of free competition in capitalism, counting from the outbreak of the first periodic economic crisis in 1825 through 1873, a span of 48 years, five crises occurred, with one occurring on average every nine to ten years. During the historical stage of transition from free-competition capitalism to monopoly capitalism, from 1873 to the outbreak of the First World War in 1914—a period of 42 years—five crises also occurred, with one occurring on average about every eight years. After entering the stage of imperialism, from the end of the First World War in 1918 to the outbreak of the World War II in 1938, a period of only 20 years, three crises occurred, with one occurring on average in less than seven years. After the end of the World War II, crises became even more frequent. In the United States, for example, six crises occurred during the first 30 postwar years, with one occurring on average about every five years. The fact that cycles have become progressively shorter reflects the increasing intensification of the fundamental contradiction of capitalism and foreshadows the historical trend of the inevitable demise of capitalism. As Engels pointed out: "**This circle is gradually narrowing; that the movement becomes more and more a spiral, and must come to an end, like the movement of the planets, by collision with the centre.**"[1]

[1] Frederick Engels, "II. Theoretical, Part III: Socialism," in *Anti-Dühring. Herr Eugen Dühring's Revolution in Science.*

Characteristics of Agricultural Crises

Under capitalism, there are not only industrial crises of overproduction but also agricultural crises of overproduction. Although agricultural crises differ in their characteristics from industrial crises, their fundamental causes are the same. Compared with industrial crises, agricultural crises last much longer. From the nineteenth century to the 1930s, two worldwide agricultural crises occurred. The first began in the 1870s and lasted for twenty years; the second began in 1920 and, as it developed, became intertwined with the world industrial crisis of 1929–1933, continuing until the World War II. After the World War II, many capitalist countries experienced agricultural crises again, and these continue to develop to this day. Agricultural crises not only last a long time; during a crisis, agricultural production often does not contract but continues to increase. The prolonged accumulation of large quantities of agricultural products and the continued decline in agricultural products prices are important signs of agricultural crises.

The reason why agricultural crises last so long is, first and foremost, that land is concentrated in the hands of the large landlord class. The monopoly of private ownership of land forces agricultural capitalists to pay rent even during periods of crisis, while the additional profits they obtain from additional investment are also converted into rent and flow into the landlords' pockets. This limits agricultural capitalists' interest in making large-scale investments, making it more difficult to overcome a crisis than in industry. At the same time, the renewal of fixed capital in agriculture mainly involves purchasing industrial products rather than

agricultural products, and therefore cannot play the same role as in industry in promoting the recovery of production and shortening the duration of the crisis.

Secondly, in addition to capitalist farms, many individual peasant households engage in agricultural production. During a crisis, when product prices fall, individual peasant households must continue production through excessive labor and by lowering their own standard of living in order to hold on to their plots of land. To make up for the losses caused by falling prices, capitalist farms also intensify their exploitation of agricultural workers, maintaining high profits by increasing output. Output cannot be sharply reduced, so the crisis will naturally last for a longer period. Therefore, once a crisis of overproduction in agricultural production occurs, it will persist for a considerable length of time.

The agricultural and industrial crises influence each other. The industrial crises cause a large number of factories to close or suspend operations and reduce production, leaving many workers unemployed and lowering wage levels; all of this reduces demand for agricultural products and deepens the agricultural crisis. Conversely, the agricultural crises reduce farmers' incomes, forcing them to make fewer additional investments, or none at all, and to hire fewer workers, thereby increasing the unemployed population in rural areas. Together with the widespread bankruptcy of small and medium-sized farmers, these developments reduce demand for agricultural means of production and industrial consumer goods, further deepening the industrial crises. The interweaving of the industrial and agricultural crises makes it more difficult for the capitalist economy to emerge from crises.

Section Three: Economic Crises Deepen the Contradictions of Capitalism

The economic crises are the total eruption of all the contradictions of capitalism and, in turn, causes these contradictions to deepen and intensify further.

First, economic crises sharpen the fundamental contradiction of capitalism. Crises greatly accelerates the concentration of production and capital: many small and medium-sized enterprises become bankrupt and are absorbed by large capital, while some larger enterprises also successively merge. Take the United States as an example. During the crisis of 1857, 4,900 enterprises went bankrupt; during the crisis of 1873, a total of 47,000 bankruptcy cases occurred; and during the crisis of 1929–1933, 130,000 businesses closed because they were unable to repay their loans. A small number of large capitalists, however, take advantage of their substantial economic strength to plunder and absorb these small and medium-sized enterprises, thereby greatly accelerating the process of concentration of production and capital. As production and capital become further concentrated, the socialization of production reaches a new level, while the socialized means of production become even more concentrated in the hands of a small number of large capitalists. This sharpens the fundamental contradiction of capitalism and prepare the conditions for the next, more widespread and profound economic crisis.

Second, economic crises also intensify class contradictions in capitalist society. Economic crises bring profound disasters to the working class and other working people. During a crisis, capitalists curtail production and dismiss workers, causing the number of unemployed people to increase dramatically and periods of unemployment to lengthen considerably. Take the world crisis of 1929–1933 as an example: “**According to the figures of the American**

Federation of Labour, the number of unemployed in the United States, in all industries, at the end of 1932, was 11,000,000. In Britain, according to official figures, the number of unemployed increased from 1,290,000 in 1928 to 2,800,000 in 1932. In Germany, according to official figures, the number of unemployed increased from 1,376,000 in 1928 to 5,500,000 in 1932. This is the picture that is observed in all the capitalist countries. Moreover, official statistics as a rule minimize the number of unemployed, the total number of whom in the capitalist countries ranges from 35,000,000 to 40,000,000."[1] Unemployment leaves the great masses of workers without a means of livelihood and suffering from hunger and cold. At the same time, in order to shift the losses caused by the crisis, capitalists do everything possible to intensify the exploitation of employed workers and depress their wages as much as possible. For example, during the crisis of 1929–1933, "**according to official figures, average monthly wages in the United States have been reduced by 35 per cent compared with 1928. In Britain wages have been reduced by 15 per cent in the same period, and in Germany by as much as 50 per cent. According to the estimates of the American Federation of Labour, the American workers lost more than $35,000 million as a result of wage cuts in 1930-31.**"[2] The worsening condition of employed workers is also manifested in the continual lengthening of the working day, unprecedented increase in labor intensity, and the continual deterioration of working conditions. Crises also deal a severe blow to the peasant masses and other working people from various strata, accelerating their impoverishment and ruin. Therefore, contradictions

[1] Joseph Stalin, "The Results of the First Five-Year Plan," in *Problems of Leninism* (Foreign Languages Press, Peking, 1976).

[2] Ibid.

between working people such as workers, peasants, and small-scale artisans, on the one hand, and capitalists, landlords, and other exploiting classes, on the other, inevitably tend to intensify.

Third, economic crises also severely damage the productive forces. Every capitalist crisis brings enormous devastation to the productive forces, causing production levels to regress by several years, or even decades. For example, the crisis of 1929–1933 caused industrial output throughout the capitalist world to fall by 44%, bringing it back to the level of 1908–1909. Vast quantities of material wealth were destroyed, and large amounts of production equipment were abandoned. The United States, for instance, destroyed 92 blast furnaces, Britain destroyed 72, Germany 28, and France 10. In 1933, 10.4 million acres of cotton in the United States were destroyed in the fields, 6.4 million pigs were dumped into the Mississippi River, and large quantities of wheat were thrown into locomotive boilers and burned; in Brazil, approximately 22 million bags of coffee were dumped into the sea; and in Denmark, 117,000 head of livestock were destroyed. While the broad working masses lived in poverty, lacking adequate clothing and food, society deliberately destroyed vast quantities of material wealth. This fully exposed the decadence and reactionary nature of capitalism. As Stalin said: "**It must be admitted that a system of economy that does not know what to do with its 'superfluous' goods and is obliged to burn them at a time when want and unemployment, hunger and ruin reign among the masses -- such a system of economy pronounces its own death sentence.**"[1]

The periodic outbreak of economic crises makes it abundantly clear that capitalist relations of production can no longer adapt to the development of the social productive forces, have become serious shackles on those forces, and are destined to be replaced by socialist public

[1] Joseph Stalin, "Political Report of the Central Committee to the Sixteenth Congress of the C.P.S.U.(B.)," in *Works*, Vol. 12.

ownership. Marx and Engels pointed out: Crises show that "**the productive forces at the disposal of society no longer tend to further the development of the conditions of bourgeois property; on the contrary, they have become too powerful for these conditions, by which they are fettered, and so soon as they overcome these fetters, they bring disorder into the whole of bourgeois society, endanger the existence of bourgeois property. The conditions of bourgeois society are too narrow to comprise the wealth created by them.**"[1]

Crises intensify the contradictions of capitalism and weaken the foundation of bourgeois rule. They awaken the consciousness of the broad masses of workers, and make them realize that, under capitalism, the tragic fate of poverty and unemployment suffered by workers is unavoidable. They therefore rise up to resist and to make revolution. "***A new revolution is only a consequence of a new crisis. The one, however, is as sure to come as the other.***"[2] By uniting, seizing political power through violent revolution, overthrowing capitalism, and establishing socialism and communism, the working class and other working people can completely eliminate economic crises and enable the forces of social production to advance by leaps and bounds at a speed incomparable to that under capitalism. Economic crises will be eliminated together with capitalism. Socialism and communism will inevitably triumph throughout the world!

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[1] Karl Marx and Friedrich Engels, "Chapter I: Bourgeois and Proletarians, Manifesto of the Communist Party," in *Marx/Engels Selected Works*, Vol. 1.

[2] Karl Marx, "The Abolition of Universal Suffrage in 1850, The Class Struggles in France, 1848 to 1850," in *Selected Works*, Vol. 1 (Progress Publishers, Moscow 1969).