A course in 31 classes on

‘The evolution of property and how it rules the world’

presented at the Tshisimani Centre for Activist Education, Cape Town

April - December 2016

Class notes

combined, together with extracts from
The German Ideology used in class

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Course notes from
'The evolution of property and how it rules the world'

presented at the Tshisimani Centre for Activist Education, Cape Town, April-December 2016

Course presenters: Rob Petersen, Joey Hasson and Yoliswa Dwane
Class 12 was prepared and presented by Paula Ensor

Class 10	Complete the discussion of Shillington pages. Ancient Ghana. Answer questions distributed by email. Situate the period by reference to a timeline. Land and slavery in ancient Rome. Difference with feudal serfdom. Revisit schema of Marx and Engels. Reeves video on Medieval Society. Hand out chapter on the age of merchant capitalism from Rubin's History of Economic Thought.
Class 11	Presentation and discussion on feudalism, and why we are studying it. Groups discuss paras 29-42 of *German Ideology* extracts.
Class 12	Presentation and discussion on the age of merchant capitalism in Europe, based on Rubin's chapter on merchant capitalism handed out in Class 10.
Class 13	Why the Islamic empire did not lead to capitalism. Link between Atlantic slave trade and racism. Reading and discussion of paras 43-54 of *German Ideology* extracts. Vagabondage and 'surplus population'. 'Natural capital' explained.
Class 14	3 groups each discuss and answer to the class a question arising from paras 43-54 of *German Ideology* extracts. Table of topics to pursue. Simple diagram of production (inputs/output). Change from 'handicraft' to 'manufacture'. Then 'machinofacture' and its implications. And on to 'robofacture'...
Class 15	Contradiction resulting from machines increasing output and reducing labour required (some questions posed for future consideration). Groups read extracts from Adam Smith and Allyn Young on technical aspect of division of labour and its dependence on extent of market. BBC film on automated milk factory.
Class 16	Discussion of Adam Smith and Allyn Young extracts, and milk factory film. 1972 article by Robert M. Young. The beneficial material consequences of technology, and the 'Nordhaus' effect. Marx (1849) and the electric railway engine. Lenin (1913) and technological advances. Return to the two meanings of wealth and the increasing inequality of entitlements. Groups then read and discuss paras 55-61 of *German Ideology* extracts.
Class 17	Groups read and discuss paras 62-74 of *German Ideology* extracts. What drove colonisation? Protection and free trade. Continued imperialist rivalry and war. Return to meaning of 'capital'; the two meanings of wealth. Diagram of physical production. Who owns the product? Surplus — who owns it? Diagram of simple and expanded reproduction. What is 'capitalism'?
Class 18	Groups complete reading up to para 74 of *German Ideology* extracts. Recap, using diagram of simple and expanded reproduction. Indirect claims on surplus. Introduction to interest and 'ground rent' (return to this is a later class).
Class 19	BBC film on Industrial Revolution, followed by critical discussion. Extracts from Engels's *Condition of the English Working Class*. Some beneficial 'Nordhaus' effects from the development.
Class 20	Recap on Industrial Revolution. Consider paras 71-72 of *German Ideology* extracts: private property as a 'fetter'. Had it reached end of road with large-scale industry? Schema of Marx and Engels: its defects. Global production for exchange. Decline of industrial working class. Continued evolution of private property. Return to whether we should speak of 'capital' before capitalism. Interest and ground rent in more detail. Money — what is it, and how did it arise? Money as unit of account.
Class 21	Continue on money — what is it, and how did it arise? Mesopotamian clay tokens. Rai stones of Yap. Development of metal money and paper money. Role of the state. Spanish silver and gold. Potosí. The *mit'a* system of forced labour. Inflation in Europe; failure to develop Spain.
Class 22	(Notes combined with those for Class 23)
Class 23	Companies and shareholding: significance and how it works. Company as separate legal person, its property separate from shareholders. 'Assets' and 'liabilities'. Types of companies. 'Securities' and securities exchanges. Dividends. Holding

	companies and subsidiaries. Illustrations of this. Global spread of transnational corporations, investments and productive operations. Share valuation. Unit trusts. Bank deposits. Flow of surplus into the financial economy.
Class 24	Recap on flow of surplus. Making sense of the financial sector. 'Real rights' and 'personal rights'. Partington's explanation of net assets of society as distinct from net assets of individual. Real and derivative entitlements. Cession and transfer of personal rights. Financial 'paper'. 'Securitisation'. 'Junk' bonds and 'subprime' mortgages. Onset of the 2008 financial crisis. Illustrated by 'The Big Short'.
PART TWO	**THE ENGINE OF INEQUALITY:** Value theory: how it is that those who have more automatically get more
Class 25(a)	Supply, demand and the price mechanism: the technical aspect. Shifts in supply and demand curves. How (ideally) the market spontaneously organises and rationalises inputs and outputs. 'Equilibrium' — what does it mean and is it real? Is it nevertheless analytically helpful? Competition and market power.
Class 25(b) & Class 26	The 'engine of inequality' — global and local. Where surplus is generated and how it is appropriated. The concept of 'value': distinction between utility (value-in-use) and economic value (value-in-exchange). Why we need value theory. How the material product and surplus are 'valorised'. The non-independence of enterprises. Allocation of the *social* surplus product to enterprises contributing to it, via the price mechanism. From this initial appropriation, portion distributed to interest and ground-rent, leaving net profit of enterprise (before tax). Theories of value and surplus-value: a short history. The mercantilist theory of profit (buying cheap and selling dear): why it fails. The Physiocrats: their achievements and the basic fallacy of the 'land' theory of value. Adam Smith and the 'labour' theory of value: a flaw at the root.
Class 27	Value theory in Hegel. Introduction to Marx's 'labour' theory of value. Marx's key concepts. How Marx explained surplus value and profit. Marx's concept of exploitation. The formula: $c+v+s$. Two-column diagram illustrating Marx's conception.
Class 28	Critique presented of Marx's 'labour' theory of value. Discussion commenced. Handout of introduction to 'property' conception of value.
Class 29	Continued discussion of 'labour' theory of value, and explanation of 'property' conception of value.
Class 30	Continued discussion of value theory and its implications. Video: *The Tax-free Tour*.
PART THREE	**WHAT CAN BE DONE?** Outline of basic elements of program to deal with the problem
Class 31	Brief introduction to crisis theory. Systemic crisis the outcome of systemic inequality. Basic argument of Marx in this regard (not dependent on 'labour' theory of value) borne out. 'Three cardinal facts of capitalist production'. Additional effects of automation. Uninvested cash pile of $50 trillion. Programmatic schema of Marx and Engels in context of large-scale industry and the power of the industrial working class superseded by subsequent development. Initial success and eventual failure of Russian Revolution; root cause of collapse of Soviet Union and abandonment of central planning. Globalisation, and the current national-state based reaction. Task of achieving social appropriation of the *global* surplus. Main components of a sustainable program to advance this. How this program deals with the property relation and addresses the 'engine of inequality' while retaining production for exchange and the market mechanism at its base.

2016-04-18 From the preparatory notes for Class 01 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

PRE-CLASS ASSIGNMENT GIVEN TO THOSE ATTENDING THE COURSE:

Ask people in your family or community what they understand by the term 'property'. Ask at least three different people and write their responses down. Lastly, write down in not more than two sentences what you understand by the term 'property'.

Everyone present receives a notebook and is expected to bring it to each class.

The attendance register is taken before each class begins.

This slide is put on the screen before the class begins; the class is asked to guess who wrote it. (Anyone who already knows the answer should first give others a chance.)

'Everyone knows nowadays, that wherever there is a revolutionary convulsion, there must be some social want in the background, which is prevented by outworn institutions from satisfying itself. The want may not yet be felt as strongly, as generally, as might ensure immediate success, but every attempt at forcible repression will only bring it forth stronger and stronger, until it bursts its fetters. If, then, we have been beaten, we have nothing else to do but to begin again from the beginning.'

Answer (given on a following slide): Frederick Engels, *Revolution and Counter-Revolution in Germany, 1851-1852*.

Here is an outline of the course in three parts:[1]

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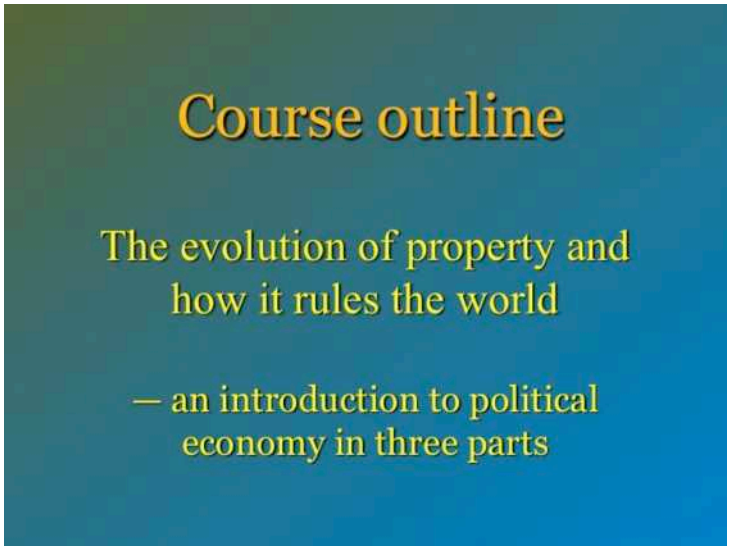
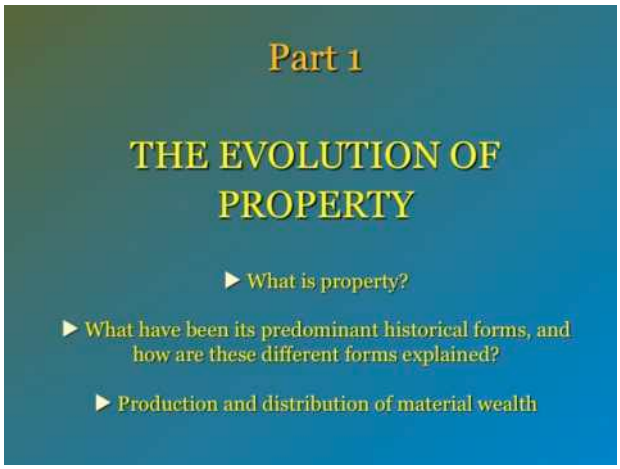
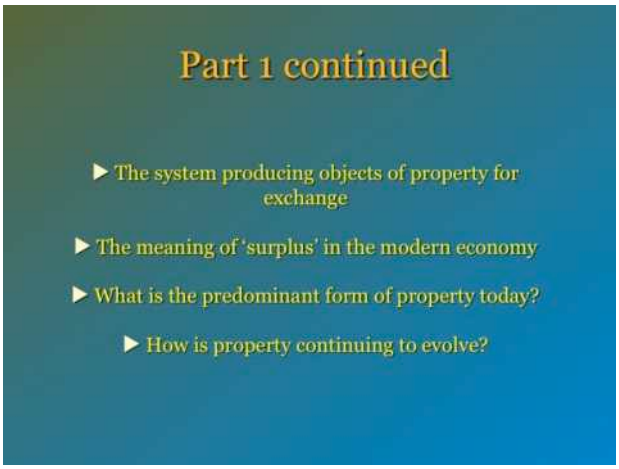
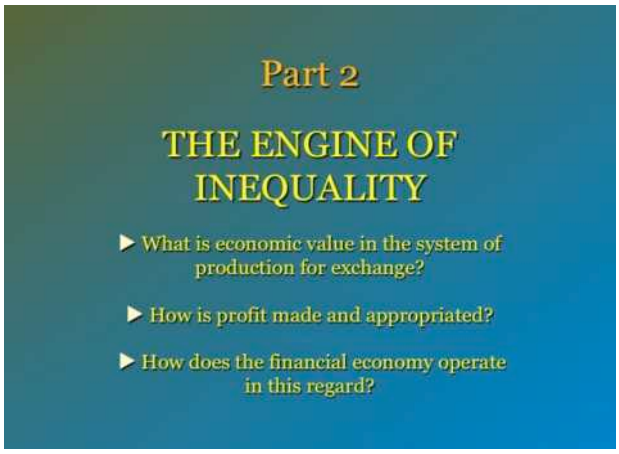
[1] The outline below has been modified slightly to reflect the actual sequence of topics discussed during the course. Also, lack of time prevented discussion of economic crisis in the detail initially intended.









The main argument of this course — to be studied, questioned, and dismissed or confirmed — is that *property rules the world*.

What is property?

Class reports back on the pre-class assignment. Most identify 'property' with *objects* that are

owned. But in fact ...

property is not a thing

Marx, in writing *Capital*, said that from his standpoint the development of the economic formation of society was 'viewed as a process of natural history'.[2] We propose to follow a similar approach in exploring with you the nature of property and its evolution to the present day.

We begin with the case of the 'white' rhino.

The case of the square-lipped ('white') rhinoceros

The square-lipped ('white') rhinoceros of Southern Africa is distinctly territorial. According to *Smithers' Mammals of Southern Africa: A Field Guide*, pages 144-145:

> 'Females and their young live in overlapping home ranges of 6–8 km² where food is abundant, increasing to 10–15 km² under poorer conditions; ... On patches of good grazing small amicable groups are formed.
>
> 'Mature bulls are territorial and solitary but tolerate other males in their territories as long as they behave submissively and keep away from females. ... Borders are marked with faeces deposited in middens. After defecating a bull kicks the faeces around and gouges the soil of the midden with his hind feet; young males kick only weakly, and females do not kick at all. Neighbours may share a midden, and square-lipped rhino middens may also be used by hook-lipped ['black'] rhinos.

[... continued]

[2] *Capital*, vol 1, Preface to the first edition, Penguin translation, p 92.

> ‘Neighbours meeting on their common boundary rub their horns on the ground and stand head to head pushing sideways against each other's horns. Bulls who have no water in their territories leave every 3–4 days to drink, passing through other bulls’ territories as they go. If confronted they squeal and shriek and hold their ears back to demonstrate their submission, and are usually allowed to proceed. ... Fights are usually over territory or females. ... Bulls that are supplanted by challengers may be allowed to remain in their old territories as long as they behave submissively.
>
> ‘... 50% of male deaths are due to fighting.’

Points to observe during the discussion:

Territorial behaviour of the rhino bulls is directly connected to survival (in terms of grazing or other food sources, access to water, and possession of females). Force plays a major role. But the natural tendency is to avoid fighting in favour of a sensible accommodation.

Why?

The accommodation is reciprocal. Territorial exclusivity of the bulls is preserved while making concessions necessary to avoid constant war. The rhinos display a sophisticated set of evolved social habits.

What does this tell us about the nature of property? Rhino bulls’ property is about the relationship between rhino bulls — in regard to grass, water, females, etc. It is not a simple relationship between the rhinos individually and the material objects that are important to their survival. Property is not a thing (or things). Property is a *social relation* in regard to things, with deep natural roots.

We can also see that property is not a special characteristic of some individuals as distinct from society as a whole. It depends on the *social* recognition of an exclusive entitlement, whether that entitlement is a recognised individual entitlement or the recognised entitlement of a group from which others are excluded.

Note that a specific power of enforcement (apart from self-help through fighting) is absent. The property relation is sustained by a mutual interest in doing so.

Note the effects of scarcity and plenty. The property relation relaxes and softens where resources are abundant, and hardens or tightens where resources are scarce.

Note how rhino females are treated as objects of male property.

In their *Field Guide to Mammals of Southern Africa*,[3] Chris and Tilde Stuart say this about white rhinos: 'The home range of cows may overlap with the territories of several territorial bulls but when a cow is receptive for mating the bull will attempt to keep her within his area.'

Territoriality in animals is not found in every species, but it is very common. In different species it takes different forms.

Female animals may also be territorial. [An example of female leopards fighting each other for territory in the Kgalagadi Transfrontier Park was mentioned, but the text in that regard omitted for lack of time.[4]]

But fighting is avoided if it can be. The social behaviour of the **titi monkeys** provides an illustration of this. Here is a short extract from something RP is in the process of writing up:

> Like all species in the wild, the titi monkeys of the Amazon rainforest cannot take their habitat for granted — and not only by reason of human encroachment. They are regularly at risk from rivals of their own kind. The field biologist Ian Redmond describes the daily ritual repeated before breakfast in each group's narrow range:[5]
>
> > 'At dawn, a titi group will emerge from the tangled vines in which the monkeys have rested together. The first activity on the family's agenda is to head to the edge of their territory to reinforce the boundaries and see if any neighbouring groups are nearby. Loud, distinctive vocalizations reverberate around the trees during these shows of territoriality, and these can be heard throughout the forest.'
>
> When confronting another group, the calling may be reinforced by displays of jumping, fur-bristling, tail-lashing and chasing. After this exchange, however, 'contact is broken off and groups spend the rest of their day away from the outer boundary of the home range.'[6]
>
> Territory cannot be secured against rivals without a willingness to fight, but for any species a war of all against all does not hold good prospects of survival. As with sabre-rattling, the object of a show of territoriality is just as much to avoid fighting as it is to prepare to fight. Despite — indeed because of — these regular pugnacious demonstrations, the titi monkeys rarely engage in physical fighting.[7]

[DISCUSS]

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[3] 3 ed, 2001, p 174.

[4] *20160125 SanParks Wild Card, Kgalagadi Leopard fight.pdf*

[5] Redmond, *Primates of the World*, p 84. Cf also Marc G. M. van Roosmalen, Tomas van Roosmalen, and Russell A. Mittermeier, 'A taxonomic review of the titi monkeys, genus *Callicebus* Thomas, 1903, with the description of two new species, *Callicebus* Bernhardi and *Callicebus* Stephennashi, from Brazilian Amazonia,' *Neotropical Primates* 10 (Suppl.), June 2002, pp 27, 42.

[6] K. J. Gron, *Primate Factsheets: Dusky titi (Callicebus moloch) Behavior* (19 December 2007), http://pin.primate.wisc.edu/factsheets/entry/dusky_titi/behav (accessed 2013 February 12).

[7] R. M. Nowak, *Walker's Primates of the World* (Baltimore: Johns Hopkins University Press, 1999), p 111.

Discuss the following hypothetical situation:

During the temporary absence of a member of the class, another member takes and holds onto an item of the absent member's property (e.g. a laptop or a bag). What would happen? Would other members of the class intervene? If so, why? If not, why not? Would it make a difference if a stranger entered and took the item of property?

More specifically: How is ownership of the bag recognised? If other members of the class would intervene, how would they do so?

In general, how is ownership enforced in society and what is the reason for it?

Assignment in preparation for the next class: ATTEMPT A BRIEF DEFINITION OF 'PROPERTY'

2016-04-25 From the preparatory notes for Class 02 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Note: A separate file containing the text extracts used in this class has been distributed.

"The aspects of things that are most important for us are hidden because of their simplicity and familiarity. (One is unable to notice something – because it is always before one's eyes.) The real foundations of his enquiry do not strike a man at all. Unless that fact has at some time struck him."

Wittgenstein, *Philosophical Investigations*, 1953, No. 125

In this course we'll be training ourselves to notice systematically something that is always before our eyes:

the property relation

– so that, after that, we are always struck by its implications.

Recap of last week's class by two members of the class.

Pick up on the discussion …

Before modern anthropology which combines social observations with detailed archeological investigations, **European philosophers who became famous in the 17th and 18th centuries** imagined the earliest human beings as isolated individuals. They differed in their speculation about how human beings lived and acted in the 'state of nature', but they had no concept of a collective human social life. Against this background, they also speculated crudely about 'human nature' — drawing mainly on their own fears, hopes and experiences in their own times.

Listening to some of the arguments last week, one is reminded of the English political philosopher **Thomas Hobbes (1588-1679)**

His most famous work, *Leviathan*,[1] was published in 1651. In it he wrote that in the natural state of human beings:

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[1] Extracts here are from the edition prepared for the McMaster University Archive of the History of Economic Thought, by Rod Hay.

> 'there be no Propriety [property], no Dominion, no *Mine* and *Thine* distinct; but only that to be every man's that he can get, and for so long, as he can keep it.'

He formed his views against the background of the English civil war, from which he had taken refuge in France. His idea of human beings was that they are intrinsically equal, but are engaged in relentless competition with one another. He had no conception of social co-operation, and developed a theory of the state (the 'Commonwealth') — indeed a theory of absolute state power (the 'Leviathan') — as a necessary means of suppressing the war of all against all.

It is surely not an accident that we are hearing a similar underlying argument from comrades who have experience of a situation in which society in fact has broken down; where hardly anyone has stable and reliable ownership of anything; where armed criminals run rampant, taking what they will; where policing is ineffective; and where a community often resorts in desperation to its own violent means of self-help.

Hobbes saw the state as arising from a necessary social contract in order to suppress the war of all against all, and he proceeded on this basis to extol and justify complete subordination of the individual to the 'sovereignty' of the state. His argument was a call for dictatorship by common consent.

Let's read some key passages from Hobbes's, *Leviathan*, Chapter 13 ('Of the Natural Condition of Mankind…'):

> [I]t is manifest that during the time men live without a common power to keep them all in awe, they are in that condition which is called war; and such a war as is of every man against every man. For war consisteth not in battle only, or the act of fighting, but in a tract of time, wherein the will to contend by battle is sufficiently known …
>
> Whatsoever therefore is consequent to a time of war, where every man is enemy to every man, the same consequent to the time wherein men live without other security than what their own strength and their own invention shall furnish them withal. In such condition there is no place for industry, because the fruit thereof is uncertain: and consequently no culture of the earth; no navigation, nor use of the commodities that may be imported by sea; no commodious building; no instruments of moving and removing such things as require much force; no knowledge of the face of the earth; no account of time; no arts; no letters; no society; and which is worst of all, continual fear, and danger of violent death; and the life of man, solitary, poor, nasty, brutish, and short.
>
> … To this war of every man against every man, this also is consequent; that nothing can be unjust. The notions of right and wrong, justice and injustice, have there no place. Where there is no common power, there is no law; where no law, no injustice. Force and fraud are in war the two cardinal virtues. Justice and injustice are none of the faculties neither of the body nor mind. … It is consequent also to the same condition that there be no propriety, no dominion, no mine and thine distinct; but only that to be every man's that he can get, and for so long as he can keep it. And thus much for the ill condition which man by mere nature is actually placed in; though with a possibility to come out of it, consisting partly in the passions, partly in his reason.
>
> The passions that incline men to peace are: fear of death; desire of such things as are necessary to commodious living; and a hope by their industry to obtain them.

> And reason suggesteth convenient articles of peace upon which men may be drawn to agreement.

[DISCUSS]

A view directly opposed to that of Hobbes was expounded a hundred years later by the French philosopher, **Jean-Jacques Rousseau (1712-1778)**. He shared with Hobbes the view that the earliest human beings were essentially solitary individuals, that society was non-existent, and that they banded together only for common tasks and mutual defence. He differed strongly with Hobbes, however, on whether humans were by nature violent or peaceful.

> [I]n truth nothing is gentler than man in his primitive state where, placed by nature midway between the stupidity of brutes and the fatal enlightenment of civilized man and limited equally by reason and instinct to ward off the evils threatening him, his natural pity deters him from doing harm to anyone, even when he has encountered harm himself. For according to the wise Locke: "Where there is no property, there is no injury."[2]

In an earlier passage in the same work — *Discourse on the Origin of Inequality* (1755) — Rousseau depicted the human being 'as he must have emerged from the hands of nature':

> I see an animal less strong than some, less agile than others, but on the whole the most advantageously constituted of all. I see him eating his fill under an oak tree, quenching his thirst at the first stream, making his bed at the base of the same tree that supplied his meal, and, behold, his needs are met.[3]

There was no conflict between humans and other animals because the earth provided for all of them abundantly. Conflict among humans only arose, according to Rousseau, when property was invented, and with property came the state. This put an end to their originally harmonious life. Humanity's problems ever since have been the result of individuals entering into society and of the rise of the state. For Rousseau, all progress beyond the primitive was progress in appearance only, and represented an enfeeblement of the human species.[4]

> As long as men were content with their rustic huts, as long as they confined themselves to stitching their garments of hides with thorns or fishbones, and adorning themselves with feathers or shells, to painting their bodies with various colours, to improving or decorating their bows and arrows, and to carving fishing-boats or a few crude musical instruments; in short, so long as they applied themselves only to work that one person alone could accomplish and to arts that did not require the collaboration of several hands, they lived as free, healthy, good, and happy lives as their nature permitted and continued to enjoy among themselves the delights of independent activity. But from the moment one man needed help from another, and as soon as they found it useful for one man to have provisions enough for two, equality evaporated, property was introduced and work became mandatory; vast forests were transformed into sunny open country that had to be watered with the sweat of man, and where slavery and adversity were soon seen to

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[2] Jean-Jacques Rousseau, *Discourse on the Origin of Inequality*, translated by Franklin Philip, Oxford University Press (1994) p 61. The reference to Locke is an improvisation by Rousseau. In fact Locke's argument was that appropriation from nature is the basis of human life, but that no injury is caused to others by appropriating from nature no more than one needs. See Chapter V of Locke's *Second Treatise of Government*.

[3] *Id.*, p. 26.

[4] *Id.*, p 62.

> germinate and ripen with the crops.[5]

Therefore civilisation and enlightenment represented, for Rousseau, not human progress but rather the degradation of the naturally free, equal and noble human being created by God. There are strong elements in Rousseau of the myth of the Garden of Eden, with the downfall of Adam and Eve and their successors once they had eaten the forbidden fruit of 'the tree of knowledge of good and evil'.

Although Rousseau died more than ten years before the great French Revolution, his attack on inequality and the state, as well as his demands for reform, had a big influence on the revolutionaries of that time — who used to read his writings aloud to crowds at street corners. Rousseau's concept of an idyllic primitive existence has attracted a following again in recent times, at least among the naive.

[DISCUSS]

You will have noted Rousseau's reference to the English liberal philosopher **John Locke (1632-1704)**. He quotes Locke as saying 'Where there is no property, there is no injury'. Actually this is an invention by Rousseau. In fact Locke's argument was that appropriation from nature is the basis of human life, but that no injury is caused to others by appropriating from nature no more than one needs.[6]

Locke, too, had speculated that the earliest human beings lived and produced their livelihood as individuals. He imagined that property emerged from individuals separately applying their labour to the earth, and argued that this made private property a natural right.[7] Let's read some of what he said. The following passage comes from Chapter V of his *Second Treatise of Government*:[8]

> 25. ... The earth and all that is therein is given to men for the support and comfort of their being. And though all the fruits it naturally produces, and beasts it feeds, belong to mankind in common, as they are produced by the spontaneous hand of Nature, and nobody has originally a private dominion exclusive of the rest of mankind in any of them, as they are thus in their natural state, yet being given for the use of men, there must of necessity be a means to appropriate them some way or other before they can be of any use, or at all beneficial, to any particular men. The fruit or venison which nourishes the wild Indian, who knows no enclosure, and is still a tenant in common, must be his, and so his — i.e., a part of him, that another can no longer have any right to it before it can do him any good for the support of his life.
>
> 26. Though the earth and all inferior creatures be common to all men, yet every man has a 'property' in his own 'person'. This nobody has any right to but himself. The 'labour' of his body and the 'work' of his hands, we may say, are properly his. Whatsoever, then, he removes out of the state that Nature hath provided and left it in, he hath mixed his labour with it, and joined to it something that is his own, and thereby makes it his property. It being by him removed from the common state Nature placed it in, it hath by this labour something annexed to it that excludes the common right of other men. For this 'labour' being the

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[5] *Id.*

[6] See Chapter V of Locke's *Second Treatise of Government*.

[7] *Id.*

[8] Locke is now thought to have written his *Two Treatises of Government* in about 1679. The extract here is from *The Works of John Locke*, 1823 edition in ten volumes. Vol V. Text as prepared by Rod Hay for the McMaster University Archive of the History of Economic Thought.

unquestionable property of the labourer, no man but he can have a right to what that is once joined to, at least where there is enough, and as good left in common for others.

27. He that is nourished by the acorns he picked up under an oak, or the apples he gathered from the trees in the wood, has certainly appropriated them to himself. Nobody can deny but the nourishment is his. I ask, then, when did they begin to be his? when he digested? or when he ate? or when he boiled? or when he brought them home? or when he picked them up? And it is plain, if the first gathering made them not his, nothing else could. That labour put a distinction between them and common. That added something to them more than Nature, the common mother of all, had done, and so they became his private right. And will any one say he had no right to those acorns or apples he thus appropriated because he had not the consent of all mankind to make them his? Was it a robbery thus to assume to himself what belonged to all in common? If such a consent as that was necessary, man had starved, notwithstanding the plenty God had given him. We see in commons, which remain so by compact, that it is the taking any part of what is common, and removing it out of the state Nature leaves it in, which begins the property, without which the common is of no use. And the taking of this or that part does not depend on the express consent of all the commoners. Thus, the grass my horse has bit, the turfs my servant has cut, and the ore I have digged in any place, where I have a right to them in common with others, become my property without the assignation or consent of anybody. The labour that was mine, removing them out of that common state they were in, hath fixed my property in them.

28. By making an explicit consent of every commoner necessary to any one's appropriating to himself any part of what is given in common. Children or servants could not cut the meat which their father or master had provided for them in common without assigning to every one his peculiar part. Though the water running in the fountain be every one's, yet who can doubt but that in the pitcher is his only who drew it out? His labour hath taken it out of the hands of Nature where it was common, and belonged equally to all her children, and hath thereby appropriated it to himself.

29. Thus this law of reason makes the deer that Indian's who hath killed it; it is allowed to be his goods who hath bestowed his labour upon it, though, before, it was the common right of every one. And amongst those who are counted the civilised part of mankind, who have made and multiplied positive laws to determine property, this original law of Nature for the beginning of property, in what was before common, still takes place, and by virtue thereof, what fish any one catches in the ocean, that great and still remaining common of mankind; or what ambergris any one takes up here is by the labour that removes it out of that common state Nature left it in, made his property who takes that pains about it. And even amongst us, the hare that any one is hunting is thought his who pursues her during the chase. For being a beast that is still looked upon as common, and no man's private possession, whoever has employed so much labour about any of that kind as to find and pursue her has thereby removed her from the state of Nature wherein she was common, and hath begun a property.

30. It will, perhaps, be objected to this, that if gathering the acorns or other fruits of the earth, etc., makes a right to them, then any one may engross as much as he will. To which I answer, Not so. The same law of Nature that does by this means give us property, does also bound that property too. "God has given us all things richly." Is the voice of reason confirmed by inspiration? But how far has He given it us—"to enjoy"? As much as any one can make use of to any advantage of life before it spoils, so much he may by his labour fix a property in. Whatever is beyond this is more than his share, and belongs to others. Nothing was made by God for man to spoil or destroy. And thus considering the plenty of natural provisions there was a long time in the world, and the few spenders, and to how small a part of that provision the industry of one man could extend itself and engross it to the prejudice of others, especially keeping within the bounds set by reason of what might serve for his use, there could be then little room for quarrels or contentions about property so established.

> 31. But the chief matter of property being now not the fruits of the earth and the beasts that subsist on it, but the earth itself, as that which takes in and carries with it all the rest, I think it is plain that property in that too is acquired as the former. As much land as a man tills, plants, improves, cultivates, and can use the product of, so much is his property. He by his labour does, as it were, enclose it from the common. Nor will it invalidate his right to say everybody else has an equal title to it, and therefore he cannot appropriate, he cannot enclose, without the consent of all his fellow-commoners, all mankind. God, when He gave the world in common to all mankind, commanded man also to labour, and the penury of his condition required it of him. God and his reason commanded him to subdue the earth—i.e., improve it for the benefit of life and therein lay out something upon it that was his own, his labour. He that, in obedience to this command of God, subdued, tilled, and sowed any part of it, thereby annexed to it something that was his property, which another had no title to, nor could without injury take from him.
>
> 32. Nor was this appropriation of any parcel of land, by improving it, any prejudice to any other man, since there was still enough and as good left, and more than the yet unprovided could use. So that, in effect, there was never the less left for others because of his enclosure for himself. For he that leaves as much as another can make use of does as good as take nothing at all. Nobody could think himself injured by the drinking of another man, though he took a good draught, who had a whole river of the same water left him to quench his thirst. And the case of land and water, where there is enough of both, is perfectly the same.

[DISCUSS]

We have seen that Hobbes, Locke and Rousseau all conceived of early human beings as relating *individually* to the natural world about them. Modern archeological and anthropological investigations have shown that view — that *speculation* by the philosophers — to be entirely unrealistic. In fact even the earliest human beings produced their subsistence in *social groups*.

Francis Fukuyama (1952 –) has recently provided a useful summary of the modern consensus of anthropologists regarding the life of early human beings. The pattern he describes was, as far as we can tell, universal.

Let us remember that, as far as we know, anatomically modern human beings first emerged between 250,000 and 400,000 years ago. We evolved as hunter-gatherers, and we evolved from primate predecessors who themselves evolved as hunter-gatherers over a period of perhaps 85 million years. This mode of existence, this form of production of material life, was always carried on, not in individual isolation, but in social groups.

In *The Origins of Political Order*: *From Pre-human times to the French Revolution* (2011), Fukuyama writes:[9]

> Many believe that the primordial form of human social organization was tribal. This view extends back to the nineteenth century, when early comparative anthropologists like Numa Denis Fustel de Coulanges and Sir Henry Maine argued that early social life had to be understood in terms of complex kinship groups. Tribal organization did not arise, however, until the emergence of settled societies and the development of agriculture around nine thousand years ago. The hunter-gatherer societies that preceded agricultural ones were organized for tens of thousands of years in a much simpler fashion, based on small groups of nomadic families comparable in scale to primate bands. Such societies still exist in marginal

[9] Profile Books edition, pp 53-55. Footnotes omitted.

environmental niches, and they include the Eskimos, the Bushmen of the Kalahari Desert, and Australian Aborigines. (There are some exceptions to this, like the indigenous tribes of the U.S. Pacific Northwest, who were hunter-gatherers but lived in an area of extraordinary resource abundance that could support complex social organization.)

Rousseau pointed out that the origin of political inequality lay in the development of agriculture, and in this he was largely correct. Since band-level societies are preagricultural, there is no private property in any modern sense. Like chimp bands, hunter-gatherers inhabit a territorial range that they guard and occasionally fight over. But they have a lesser incentive than agriculturalists to mark out a piece of land and say "this is mine." If their territory is invaded by another group, or if it is infiltrated by dangerous predators, band-level societies may have the option of simply moving somewhere else due to low population densities. They also tend to have fewer investments in cleared land, houses, and the like.

Within a band-level local group, there is nothing resembling modern economic exchange and, indeed, nothing resembling modern individualism. There was no state to tyrannize over people at this stage of political development; rather, human beings experienced what the social anthropologist Ernest Gellner has labeled the "tyranny of cousins." That is, your social world was limited to the circles of relatives surrounding you, who determined what you did, whom you married, how you worshipped, and just about everything else in life. Both hunting and gathering are done on a group basis by families or groups of families. Hunting in particular leads to sharing, since there is no technology for storing meat, and hunted animals must be consumed immediately. There is considerable speculation on the part of evolutionary psychologists that the almost universal contemporary practice of meal sharing (Christmas, Thanksgiving, Passover) is derived from the millennia-long practice of sharing the proceeds of hunts. Many of the moral rules in this type of society are not directed at individuals who steal other people's property but rather against those who refuse to share food and other necessities. Under conditions of perpetual scarcity, the failure to share can often affect the group's prospects for survival.

Band-level societies are highly egalitarian. The major social distinctions are based on age and sex; in hunter-gatherer societies, the men hunt and the women gather, and there is a natural division of labor in reproductive matters. But within the band, there is relatively little differentiation between families, no permanent leadership, and no hierarchy. Leadership is vested in individuals based on qualities like strength, intelligence, and trustworthiness, but it tends to migrate from one individual to another.

Apart from parents and their children, opportunities for coercion are very limited. In the words of Fried,

> It is difficult, in ethnographies of simple egalitarian societies, to find cases in which one individual tells one or more others, "Do this!" or some command equivalent. The literature is replete with examples of individuals saying the equivalent of "If this is done, it will be good," possibly or possibly not followed by somebody else doing it ... Since the leader is unable to compel any of the others to carry out his wish, we speak of his role in terms of authority rather than power.

In this type of society, leaders emerge based on group consensus; they have no right to their office and cannot hand it down to their children. Since there is no centralized source of coercion, there can obviously be no law in the modern sense

of third-party enforcement of rules.

Band-level societies are built around nuclear families and are typically what anthropologists label exogamous and patrilocal. Women marry outside of their immediate social group and move to their husband's place of residence. This practice encourages movement and contact with other groups, increasing genetic diversity and setting up the conditions for the emergence of something like intergroup trade. Exogamy also plays a role in mitigating conflict: disputes over resources or territory between groups can be smoothed over through the exchange of women, just as European monarchs made strategic marriage alliances for political purposes. The composition of groups tends to be more fluid than in later tribal societies: "The food supply in any locality, whether it be a harvest of pinyon nuts or wild grass seeds among the Pauite, or the seal population at winter and spring hunting grounds, and the caribou herd migrating through an inland valley among the Central Eskimos, is so unpredictable or so widely scattered that the tendency for particular kinfolk in any generation to form coherent exclusive groups is frustrated by the opportunism enforced on the individual and the household by the ecological situation."

FROM BAND TO TRIBE

The transition from band-level societies to tribal societies was made possible by the development of agriculture. Agriculture was invented in widely separated parts of the world, including Mesopotamia, China, Oceania, and Mesoamerica nine to ten thousand years ago, often in fertile alluvial river basins. The domestication of wild grasses and seeds took place gradually and was accompanied by large increases in population. While it might seem logical that new food technologies drove higher population densities, Ester Boserup has argued that the causality went the other way around. Either way, the social impact was enormous. Depending on climatic conditions, hunter-gatherer societies have a population density from 0.1 to 1 person per square kilometer, while the invention of agriculture permits densities to rise to 40–60 per square kilometer. Human beings were now in contact with one another on a much broader scale, and this required a very different form of social organization.

In future classes, we shall be studying some extracts from a work by **Marx and Engels** written in the **mid-19th century**, nowadays called *The German Ideology*. It deals with the historical evolution of property. Despite the fact that it was written more than 170 years ago, it has important insights to offer. We intend to read it critically, and use it as an aid to critical analysis of the situation we face today. What we have learned so far provides a preparation for that — although we still have some more preparatory ground to cover next time.

Let's at this stage test and apply what we have learned so far by considering the argument of the 19th century English reformer **Jeremy Bentham (1748-1832)** about the relationship between *property* and *law*.

*[The discussion of Bentham's argument began during this class but could not be completed for lack of time. It was continued in the next class. The notes for **Class 03** contain the text and questions discussed.]*

At the end of the class:

SOME READING MATERIAL FOR FUTURE CLASSES distributed. The class is asked to read the extracts from *The German Ideology* up to the end of **para 15** (dealing with what

Marx and Engels take to be the ‘first form’ of property, i.e. tribal property).

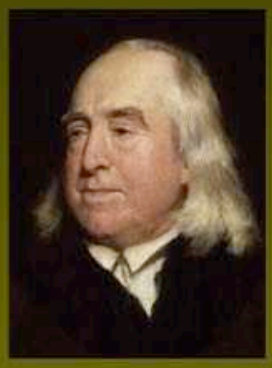
In due course, we’ll break into groups to read and discuss these passages in detail.

2016-05-09 From the preparatory notes for Class 03 of the introductory course on political economy: *'The evolution of property and how it rules the world'*.

Last time we were beginning to consider the argument of the 19th century English reformer **Jeremy Bentham (1748-1832)** about the relationship between ***property*** and ***law***.

The English reformer and moral philosopher JEREMY BENTHAM (1748-1832) argued that enlightened legislation could solve all social problems. In *The Theory of Legislation* he maintained:

'… there is no such thing as natural property, … it is entirely the work of law.'



'I cannot count upon the enjoyment of that which I regard as mine, except through the promise of the law which guarantees it to me. It is law alone which permits me to forget my natural weakness. It is only through the protection of law that I am able to enclose a field, and to give myself up to its cultivation with the sure though distant hope of harvest.'

'Property and law are born together, and die together. Before laws were made there was no property; take away laws, and property ceases.'

Do we agree? Begin with the first and third quotations. Then discuss the second quotation.

Does the second quotation from Bentham sustain the first quotation, or the third?

[Class split into 2 groups for 30 minutes. Return to plenary session and receive brief report-backs.]

Does the existence of property depend on law? Does property depend on enforcement by the state?

Recall: The social basis of property illustrated by the example of **the white rhino**, and by **the titi monkeys**.

In the earliest human societies, although the property relation had yet to undergo substantial development, its rudimentary existence is nevertheless clear. Let's consider a few passages from studies by South African historians.

In *The Forgotten Frontier: Colonist and Khoisan on the Cape's Northern Frontier in the*

*18th Centur*y, **Nigel Penn** writes about the San (who were hunter-gatherers) and the Khoi (who were mainly pastoralists, dependent on grazing grounds for their cattle):

> Resource areas were not necessarily the exclusive property or territory of one particular society prior to the arrival of the trekboers. There was some idea of territoriality among the pre-colonial societies, but this did not exclude other groups from entering the area. Such visits were usually temporary and it was expected that the intrusive group should recognise the superior rights of the original inhabitants by the payment of some small, symbolic tribute. A group might be forced to leave their accustomed round by war or drought, but such inter-regional movements in pre-colonial times were usually tolerated (provided that they did not jeopardise the resources of the society already present), since they enabled the host society to make reciprocal demands on their visitors in the future.[1]

The very fact of one social group being the 'host' with superior rights and others being 'intruders' or 'visitors' shows that a sense of proprietary entitlement was very real. It was the degree to which exclusiveness was qualified, or the degree to which it might customarily be relaxed, that made property relations in these societies different from the later, more rigid and absolute forms of property or property relations that we will be studying shortly.

The idea that so-called 'primitive communist' society (as Marx and Engels termed it) knew no property is incorrect; even a society of hunter-gatherers is necessarily territorial to a significant degree, and proprietary entitlement in such societies is not confined to territory alone.

Noël Mostert, in his book *Frontiers* (evidently much admired by Nelson Mandela) writes this about the 'Bushmen' or San:

> Dependence upon the gathering of wild plant foods and other forms of veldkos necessitated extensive territory. Territories were defined by landmarks such as trees, outcrops, hills, rivers, but principally by water holes, close to which camps were usually established, though always well removed from them so as not to discourage the game. These territorial limits were strictly observed between bands. Trespass could lead to war or blood feuds. However, wounded game could be followed into an adjoining territory so long as a portion of the meat was given to the occupiers of the land.[2]

He continues:

> The 'Bushman's' individual sense of property was attached to three things: to water, first of all, and to any beehive or nest of ostrich eggs he might find in the wild. An arrow in the ground beside ostrich eggs marked ownership. Honey was a cherished luxury, to be eaten in the comb or fermented and used as an intoxicant. But water was the most jealous possession of all, with springs and pools passed from generation to generation through the group. Water was precious for itself and because it brought the game. And it was water, tragically, that began extermination of the race. When black men and white colonists moved into 'Bushman' territories, the former from the east and the latter from the west, they claimed the springs and killed off the game. The 'Bushmen' retaliated by attacking them with their poisoned arrows and, in lieu of lost game, killed or drove off

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[1] 2005. P 18.

[2] 1992. Pp 28-29.

> their stock.[3]

The pioneering Polish anthropologist **Bronisław Malinowski (1884–1942)** found that the Trobriand islanders of the southwest Pacific — clans in settled villages living mainly by fishing, and whom he studied by living among them for extended periods from 1914-1920 — did not own their canoes in common.

> [W]ithin each canoe it would be found that there is one man who is its rightful owner, while the rest act as a crew. All these men, who as a rule belong to the same sub-clan, are bound to each other and to their fellow-villagers by mutual obligations; when the whole community go out fishing, the owner cannot refuse his canoe. He must go out himself or let some one else do it instead. The crew are equally under an obligation to him. … [E]ach man must fill his place and stand by his task. Each man also receives his fair share in the distribution of the catch as an equivalent of his service. Thus the ownership and use of the canoe consist of a series of definite obligations and duties uniting a group of people into a working team.[4]

There is no reason to suppose that the socially recognised entitlement to a canoe, and the social obligations going with it, could have been fundamentally otherwise at an earlier time.

Malinowski provided this definition of law in the light of his field studies among these and other Melanesian islanders, as well as his earlier researches on the aborigines of Australia:[5]

> The rules of law stand out from the rest in that they are felt and regarded as the obligations of one person and the rightful claims of another. They are sanctioned not by a mere psychological motive, but by a definite social machinery of binding force, based, as we know, upon mutual dependence, and realized in the equivalent arrangement of reciprocal services, as well as in the combination of such claims into strands of multiple relationship. The ceremonial manner in which most transactions are carried out, which entails public control and criticism, adds still more to their binding force.

However, while this describes very well the binding force of social *custom*, it does not adequately distinguish the more concentrated, coercive enforcement that comes with the development of specific rules of *law*. Law, properly so called, emerges together with the first embryos of what later becomes the state.

The renowned American anthropologist **E. Adamson Hoebel (1906–1993)** studied the history of the indigenous social systems of the Northern Cheyenne, Northern Shoshone, Comanche, and Pueblo people of North America. In *The Law of Primitive Man*, he wrote:[6]

> Consider the case of [the Cheyenne warrior] Wolf Lies Down, whose horse was 'borrowed' by a friend in the absence of the owner. When the friend did not return from the warpath with the horse, Wolf Lies Down put the matter before his society — the Elk Soldiers. 'Now I want to know what to do,' he said. 'I want you to tell me the right thing.' The society

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[3] P 30.

[4] 1926. *Crime and Custom in Savage Society*, p 18.

[5] Id., p 55.

[6] 1954. *The Law of Primitive Man: A study in comparative legal dynamics*, pp 24-26. Footnotes omitted.

> chiefs sent a messenger to bring the friend in from the camp of a remote band. The friend gave an adequate and acceptable explanation of his conduct and offered handsome restitution to the complainant in addition to making him his blood brother. Then said the chiefs: 'Now we have settled this thing.' But they went on, half as a legislature: 'Now we shall make a new rule. There shall be no more borrowing of horses without asking. If any man takes another's goods without asking, we will go over and get them back for him. More than that, if the taker tries to keep them, we will give him a whipping.' Can anyone deny that the Elk Soldiers were in effect sitting as a court for the entire tribe? ...
>
> Among the Yurok Indians of California, as typical of a less specifically organized people, the 'court' was less definite, but it was nevertheless there. An aggrieved Yurok who felt he had a legitimate claim engaged the legal services of two non-relatives from a community other than his own. The defendant then did likewise. These men were called 'crossers'; they crossed back and forth between the litigants. The principals to the dispute did not ordinarily face each other during the course of the action. After hearing all that each side had to offer in evidence and pleading as to the relevant substantive law, the crossers rendered a decision for damages according to a well-established scale that was known to all. For their footwork and efforts each received a piece of shell currency called a 'moccasin'. Here again we have a court.
>
> On an even more primitive level, if an aggrieved party or his kinsmen must institute and carry through the prosecution without the intervention of a third party, there will still be a 'court' if the proceedings follow the lines of recognized and established order — there will be then at least the compulsion of recognized 'legal' procedure, though the ultimate court may be no more than the 'bar of public opinion'. When vigorous public opinion recognizes and accepts the procedure of the plaintiff as correct and the settlement or punishment meted out as sound, and the wrongdoer in consequence accedes to the settlement because he feels he must yield, then the plaintiff and his supporting public opinion constitute a rudimentary sort of 'court', and the procedure is inescapably 'legal'.
>
> Consider the Eskimo [Inuit] way of handling recidivist homicide. Killing on a single occasion merely leads to feud. (A feud, of course, marks an absence of law inasmuch as the counter-killing is not recognized as privileged by the opposite kin group. The so-called law of blood revenge is a sociological law but not a legal one.) But, among the Eskimos, to kill someone on a second occasion makes the culprit a dangerous public enemy.
>
> Now arises the opportunity for some public-spirited man of initiative to perform a community service. He may undertake to interview, one after the other, all the adult males of the community to see if they agree that the killer had best be executed. If unanimous consent is given, he personally dispatches the murderer at the first opportunity, and no revenge may be taken on him by the murderer's relatives. Cases show that no revenge is taken.

Hoebel goes on to provide this explanation of what makes 'law' different from mere 'custom'.[7]

> The really fundamental *sine qua non* of law in any society — primitive or civilized — is the legitimate use of physical coercion by a socially authorized agent. The law has teeth, teeth that can bite if need be, although they need not necessarily be bared.

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[7] *Id.*, pp 26-27.

> … Thurnwald in his volume on the nature and growth of law emphasizes and re-emphasizes the importance of force in law in such terms as the following: 'The instance of organized force raises the legal order over and against usage and custom . . . recognized force raises it (custom) to law.'[8]
>
> However, force in law has a special meaning. … The essentials of legal coercion are general social acceptance of the application of physical power, in threat or in fact, by a privileged party, for a legitimate cause, in a legitimate way, and at a legitimate time. This distinguishes the sanction of law from that of other social rules.
>
> … In any primitive society the so-called 'private prosecutor' of a private injury is implicitly a public official *pro tempore* … . He is not and cannot be acting solely on his own, his family's, or his clan's behalf and yet enjoy the approval or tacit support of the 'disinterested' remainder of his society. If the rest of the tribal population supports him in opinion, even though not in overt action, it can only mean that the society feels that the behavior of the defendant was wrong in its broadest implications, that is, against the standards of the society as a whole. Thus it is in itself an injury to the society, although the group feeling may not be strong enough to generate overt and specific action by the group as a group and on its own initiative. Yet the private prosecutor remains the representative of the general social interest as well as that which is specifically his own. …
>
> A third explicit feature of law is regularity. Regularity is what law in the legal sense has in common with law in the scientific sense. Regularity, it must be warned, does not mean absolute certainty. There can be no true certainty where human beings enter. Yet there is much regularity, for all society is based on it and regularity is a quality law shares with all other cultural norms. In law, the doctrine of precedent is not the unique possession of the Anglo-American common-law jurist. … [P]rimitive law also builds on precedents, for there, too, new decisions rest on old rules of law or norms of custom, and new decisions which are sound tend to supply the foundations of future action.
>
> *A social norm is legal if its neglect or infraction is regularly met, in threat or in fact, by the application of physical force by an individual or group possessing the socially recognized privilege of so acting.*

[Class ended at this point. Discussion to be resumed next time…]

Reminder to read the introduction and paragraphs 1-15 of the *German Ideology* extract for next time.

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[8] 'Das Moment eines *organizierten* Zwanges hebt die Rechtsordnung heraus gegenüber Brauch und Sitte … der anerkannte Zwang erhebt sie [die Gewohnheit] zum Recht.' Richard Thurnwald, *Die menschliche Gesellschaft*, V: *Werden, Wandel, und Gestaltung des Rechts* (Berlin, 1931-34), pp. 2, 4.

2016-05-16 From the preparatory notes for Class 04 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Round off the discussion from last time: Does property depend on law? Does property depend on enforcement by the state?

Ann E. Davis, Associate Professor of Economics at Marist College in New York state, has recently (2015) published a book called The *Evolution of the Property Relation*. She correctly observes that

> 'the importance of property is the "property relation," rather than the concrete characteristics of the object itself.'

But she goes on to suggest that

> 'property is a tri-partite relationship between the individual, the object, and the state'

— the state being the necessary enforcer.[1] She leaves out the vital element of *social* recognition, so that the property relation in her definition is not a *social relation* (unless one equates society with the state, which is surely unsound).

She also seems unaware that effective enforcement of proprietary entitlements existed long before the state — as Hoebel, Malinowski and others have demonstrated.

Let's turn now to examine the idea of 'wealth' and its connection with 'property'.

Discussion of the following slides to understand the two meanings of 'wealth' and the connection between them:

[see next page]

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[1] *The Evolution of the Property Relation*, Part I Chapter One.

'A man of rare gifts and versatility, *William Petty* (1623-1687), though a physician by profession, simultaneously devoted himself to mathematics, geodesy, music, and ship-building. Born the son of a small craftsman, he died an English peer and a millionaire, having acquired his fortune by taking part in the partition of the lands of Irish rebels.' — I.I. Rubin, *A History of Economic Thought*, page 68.

'A man is actually and truly rich according to what he eateth, drinketh, weareth, or in any other way really and actually enjoyeth. Others are but potentially and imaginatively rich, who though they have power over much, make little use of it, these being rather stewards and exchangers for the other sort than owners for themselves.'

— Sir William Petty, 1662

Marx considered Petty the founder of modern political economy, describing his work as 'masterly'.

'As William Petty phrases it, while labour is the father of material wealth, the earth is its mother.'

(*Capital*, vol 1, chapter 1, section 2.)

Samuel Johnson's definition:

WEALTH. Prosperity; external happiness. Riches; money, or precious goods.

This definition, in two parts, shows the two-fold sense in which the word 'wealth' is ordinarily used:

1) the first of the two meanings refers to wealth in its material aspect as utility;

2) the second refers to the prevailing social means by which people command the first.

That command is by means of property, or socially recognised entitlements to material wealth.

Samuel Johnson (1709-1784)

'After nine years of work, Johnson's *Dictionary of the English Language* was published in 1755; it had a far-reaching impact on Modern English and has been described as "one of the greatest single achievements of scholarship". The Dictionary brought Johnson popularity and success; until the completion of the *Oxford English Dictionary*, 150 years later, Johnson's was viewed as the pre-eminent British dictionary.'

— *Wikipedia*

The objects of the property relation ('objects of property' / 'property') are objects of material wealth. **They can include abstract objects — so-called 'incorporeal' things.**

When we read Marx and Engels and the extracts from *The German Ideology*, we'll encounter the German philosopher **Georg Hegel (1770-1831)**.

Here's a brief biographical note about Hegel.

Georg Hegel (1770-1831)

born and raised in Stuttgart; studied at Tübingen Theological Seminary, 1788-93; private tutor, 1793-1800; taught at the University of Jena, 1801-16; editor of *Bamberger Zeitung*, 1807-8; headmaster of Nürnberg *Gymnasium* 1808-16; Professor of Philosophy at the University of Heidelberg, 1816-18; Professor of Philosophy at the University of Berlin, 1818-31; died in a cholera epidemic.

For a useful discussion of Hegel and the significance of his thought, read Alex Callinicos, *Social Theory*, 2nd edition, chapter 2 (from which the above few biographical details are drawn)

Here is what Hegel had to say about abstract objects, or incorporeal 'things':

Hegel, *Philosophy of Right* (1821) § 43:

"Mental aptitudes, erudition, artistic skill, even things ecclesiastical (like sermons, masses, prayers, consecration of votive objects), inventions and so forth, become subjects of a contract, brought on to a parity, through being bought and sold, with things recognized as things. We may hesitate to call such abilities, attainments, aptitudes, etc., 'things', for while possession of these may be the subject of business dealings and contracts, as if they were things, there is also something inward and mental about it, and for this reason the Understanding may be in perplexity about how to describe such possession in legal terms, because its field of vision is as limited to the dilemma that this is 'either a thing or not a thing' as to the dilemma 'either finite or infinite'. Attainments, erudition, talents, and so forth, are, of course, owned by free mind and are something internal and not external to it, but even so, by expressing them it may embody them in something external and alienate them..., and in this way they are put into the category of 'things'."

By the "Understanding" Hegel meant the first 'moment' of every logical entity, wherein thought starts out limited by the fixed abstractions which it treats as real, but which it then overcomes by negative and positive ('Dialectical' and 'Speculative') reasoning. See Hegel's *Logic* § 79 - § 82.

[Discussion to ensure that there is a basic understanding of the idea of abstract or 'incorporeal' things.]

Did intellectual property exist before the state? Yes, in a rudimentary form it did exist.

Hoebel tells us that this subject first received attention in the 1920s in the writings of **Robert H. Lowie (1883-1957)**. He showed that the legal historians of his day were wrong in their view that primitive people lack the mental sophistication necessary for so abstract a conception as intellectual property.[2] He also pointed out that the prominence among certain peoples of what today would be called patents and copyrights, 'reduces the dogma of a universal primitive communism to a manifest absurdity'.[3]

Among the aboriginal people of the Andaman islands, while there was virtually a 'communism' in cooking utensils, no such latitude applied to the songs composed for the occasion of a tribal gathering.

> A song that has been received with applause may be repeated by request at lesser gatherings, but irrespective of its popularity no one dare sing it except the composer himself. ...
>
> Additional examples of copyright are furnished by the Kai [people of Papua New Guinea]. Among them, as in the Andamans, a poet is the absolute owner of his composition. No one else may sing it without his consent, and usually he exacts a fee for granting it. Similarly, there is ownership of magical formulas, the instructor being entitled to compensation. Certain carvings, too, must not be copied without special leave. Even personal names are in a sense a form of patented property, so that a young man adopting a name already held presents his elder namesake with a gift by way of conciliation.[4]

Lowie went on to provide many other examples from various parts of the world, including in particular the native American 'Indians' of the northern Plains.[5]

In these examples, there seems to be a close connection between the exclusive entitlement and the protection of individual ***status*** in connection with the song, poem, magical formula, carving or personal name. While status itself provides access to material benefits or wealth, we should not exaggerate the parallels with modern property relations.

Of course, in today's world, intellectual productions — musical compositions, songs, poems, writings of all kinds, theatrical performances on screen, technological innovations and the like — are all so vulnerable to being taken and copied by others without the inventor's or composer's permission, and anonymously distributed on a mass scale, that intellectual property is now clearly **dependent on law for its preservation**. Much more so in fact than the vulnerable harvest on Bentham's field.

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[2] Hoebel, op cit, p 60.

[3] Robert H. Lowe, *Primitive Society*. 1920, p 235.

[4] Id., p 236.

[5] See R. H. Lowie, 'Incorporeal Property in Primitive Society', *Yale Law Journal*, Vol. 37, No. 5 (Mar., 1928), pp. 551-563.

Return to the slide above quoting William Petty. Note the distinction between **the objects** that make up material wealth and the means of **command** over those objects — **i.e. socially recognised entitlement to them**. This distinction will become increasingly important as we proceed through the course.

————————————————————————

Assignment for next time: [Four pairs of volunteers.]

Think about the following questions and prepare to answer them in the next class, on the basis of what you have learned so far —

- What is the role of force in creating and protecting property?
- What role does scarcity play in providing the basis for social recognition of entitlements to objects of property?
- What does 'scarcity' mean — what does it depend on?
- Is there a distinction to be made between needs and wants?

Reminder to read the introduction and paragraphs 1-15 of the German Ideology extract for next time.

Further reading: At the end of the class, an extract from **Saggs, *The Babylonians*** handed out.

2016-05-23 From the preparatory notes for Class 05 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

From *Global inequality: a new approach for the age of globalization* by Branko Milanovic, published by Harvard University Press, April 2016:

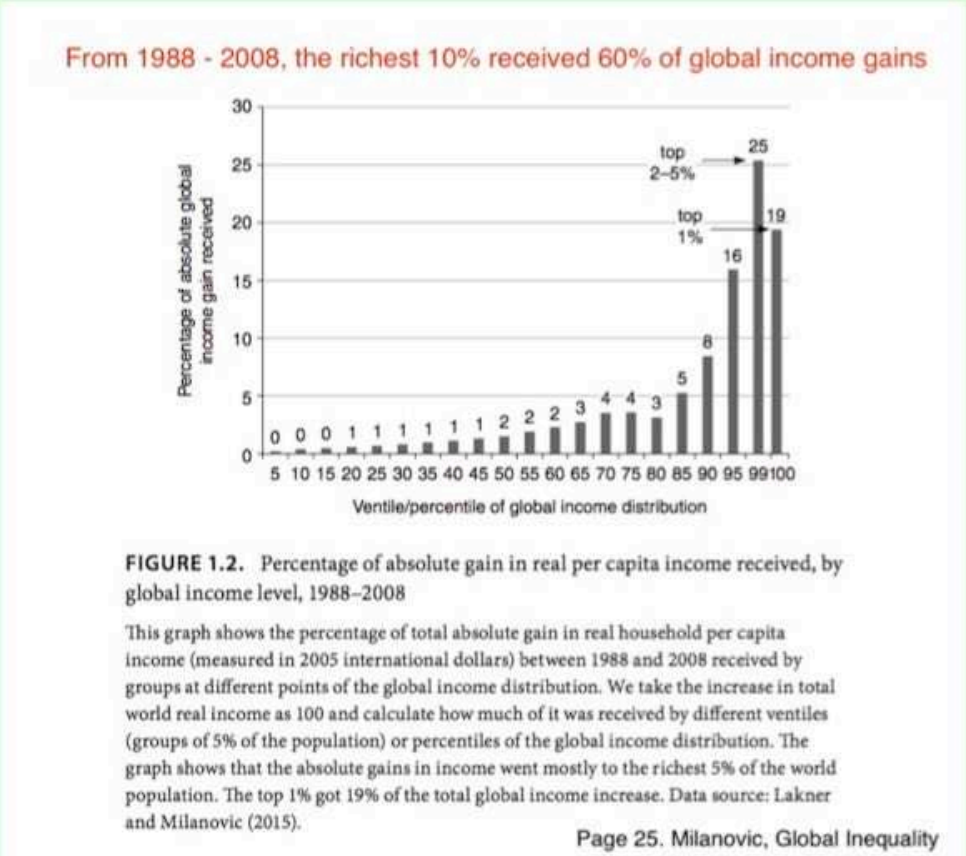

FIGURE 1.2. Percentage of absolute gain in real per capita income received, by global income level, 1988–2008

This graph shows the percentage of total absolute gain in real household per capita income (measured in 2005 international dollars) between 1988 and 2008 received by groups at different points of the global income distribution. We take the increase in total world real income as 100 and calculate how much of it was received by different ventiles (groups of 5% of the population) or percentiles of the global income distribution. The graph shows that the absolute gains in income went mostly to the richest 5% of the world population. The top 1% got 19% of the total global income increase. Data source: Lakner and Milanovic (2015).

Page 25. Milanovic, Global Inequality

Last time, we considered the two meanings of 'wealth' — first, as **objects of utility**; second, as **socially recognised entitlements** to those objects. These two meanings are linked together in the concept of 'property' which we have been exploring so far.

The graph above illustrates the unequal distribution *worldwide* of entitlements to income — more specifically here to income *gains*. As the course proceeds, we shall be analysing how this situation has come about historically; how the social mechanism which reproduces and increases inequality actually works; and what can be done about it.

Next we hear the **report-backs by members of the class** who agreed last time to think about and attempt to answer the following questions (which arise from the material covered in earlier classes):

❖ What is the role of force in creating and protecting property?

❖ What role does scarcity play in providing the basis for social recognition of entitlements to objects of property?

❖ What does 'scarcity' mean — what does it depend on?

❖ Is there a distinction to be made between needs and wants?

Each of these topics is then discussed.

In the light of what we have learned so far, how should 'property' be defined?

This is what the anthropologist **E. Adamson Hoebel** wrote in *The Law of Primitive Man* (p 58):[1]

> Property in its full sense is a web of social relations with respect to the utilization of some object (material or nonmaterial) in which a person or group is tacitly or explicitly recognized as holding quasi-exclusive and limiting demand-rights, privilege-rights, powers, and immunities in relation to that object. Thus there are two essential aspects of property: (1) the object, (2) the web of social relations, which establishes a limiting and defined relationship between persons and the object.
>
> This limiting relationship is traditionally referred to by orthodox lawyers and economists as an exclusive right of use, but modern economists and most legal thinkers today recognize that plenary control over any object of property is relative, and that the so-called exclusive right of control is at best a quasi-exclusive right, always limited by implicit, customary claims and restraints imposed upon the property owner by others. Even when there appear to be no explicit legal limitations upon the use and disposition of a person's object of property this is true.
>
> Even though the individual may create or acquire the object of property through his own efforts, it is society and not the individual which creates the circumstances that make property out of it. For although an individual may be the possessor of some valued object, some *res nullius* that he has picked up, occupied, or created, that object does not become property until the members of the society at large agree, tacitly or explicitly, to bestow the property attribute upon the object by regulating their behavior with respect to it in a self-limiting manner. They recognize a special status in the owner with respect to the object in question.

Discussion.

This passage by Hoebel emphasises the **social recognition** that is fundamental to sustaining property in any system of property. The ingredients of that recognition, and thus the recognition itself, undergo development and change.

[1] Footnotes omitted.

Hoebel's passage quoted above does not deal with the significance of the element of **scarcity**, or the role that has historically been played (and is still played) by **force** in establishing the basis for creating and maintaining proprietary entitlement.

A printout of a one-page note entitled *Outline of the concept of property* handed out in class.* Class members are asked to read the note at home.

We then set out briefly some basic 'theses' relating to the question: 'What is property?'. Some of these we have already covered. Some of them are based on looking ahead to subject-matter of future classes. We shall constantly revisit (and re-discuss where necessary) all of these statements as the course proceeds.

What is property?

Property is not a thing.

Property in a thing is really a relation between people regarding the thing.

Property is a social relation.

Property is a socially recognised exclusive entitlement to material wealth or the means of producing it.

This socially recognised entitlement appears as a customary entitlement before being expressed as a legal entitlement.

The legal relationship (legal recognition of the entitlement) attains relative autonomy from the underlying social relationship.

However, property cannot effectively be legislated away unless the social relation can be legislated away, otherwise it will come back.

The general basis for the social recognition of the entitlement cannot simply be abolished; it has to wither away.

While force plays a part in the establishment and maintenance of property, the general basis of property is not force, but scarcity.

[Through lack of time, it was not possible to begin the discussion of the extracts from *The German Ideology by Marx and Engels*. This was deferred to the next class. Class members are asked to bring their printout of that text (which was handed out on 25 April 2016) to the next class.]

* See next page

‘The evolution of property and how it rules the world’

OUTLINE OF THE CONCEPT OF PROPERTY

The following is a very brief and general outline of the approach taken in this course to understanding the origin and evolution of property:

While things may be the objects of property, property is not a thing. It is a social relation – a relation between people in regard to things.

Property can be defined as a socially recognised exclusive entitlement to material wealth or the means of producing it. ‘Material wealth’ here refers to the means of satisfying needs and wants of all kinds. The resources and implements necessary to produce material wealth have historically also become objects of exclusive entitlement.

The socially recognised entitlement may be an individual entitlement or a collective group entitlement. The nature and extent of the entitlement may be limited or qualified in various ways.

The *recognition* of the entitlement arises from and is constantly reinforced by the interaction of human beings with their natural environment and with each other as they go about producing their subsistence with the means historically at their disposal and the means which they create. From natural roots, property takes shape as custom and gains further relative autonomy as law. At the same time it undergoes change along with changes in that basic interaction, which has both co-operative and competitive features — the latter at least while scarcity and insecurity prevail.

Tracing the evolution of property from hunter-gatherer societies to the advanced capitalist societies of today, we identify the qualitative changes that have occurred in property relations as the means of production have developed and the characteristic mode of production, distribution and exchange has undergone change.

We see in the production of **surplus** the conditions initially for the development of social stratification, for the growing predominance of the power of propertied classes and of relations of exploitation. But we also see in the reliable production of surplus the necessary conditions for overcoming the predominance of property itself.

While force or the threat of force is integral to property, neither its origin nor its persistence is ultimately attributable simply to force. Nor can prevailing property relations simply be abolished, either by law or by force. This is not to discount the potential role of both law and force as instruments of change.

Within this framework we examine critically not only the features of class society — among them maintaining the enslavement or subordination of women as the property or quasi-property of men — but also utopian conceptions of overcoming the power of exploitative property relations in the absence of a solution to the problem of scarcity itself.

2016-05-30 From the preparatory notes for Class 06 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Introduction to the extract from *The German Ideology* by Marx and Engels.

We begin to read and discuss the text in the full class. The intention is to divide into groups next time to continue reading and discussing the text, followed by a plenary session to consider and clarify the points raised. If that works well, we'll continue the pattern.

Begin reading of the *German Ideology* extract [Reached the end of paragraph 9 by mid-point in the class. Reading and discussion will be continued from paragraph 10 next time, and class members are asked to read ahead in preparation.]

Essential points to emphasise as the discussion proceeds:

❖ **Material conditions**, and **the way human beings produce and *re*produce their living** under the prevailing conditions, provide the basis for the way they think about their lives. The way we think is not crudely 'determined' by material conditions, but material conditions limit the real possibilities open to us, and so limit the scope for the contest of serious ideas. It is mainly in this sense that 'conditions determine consciousness' in society. **Production** is central to the **materialist conception** pioneered by Marx and Engels in contrast to the 'German ideology' of Hegel and his followers.

❖ Over long periods of time, human beings change their material conditions by developing their forces of production ('**productive forces**').[1] The level of development of the forces of production provides the foundation for organising the way we produce. The way we produce (that is, our 'mode of production') is central to the organisation of society, and to prevailing social norms. Again, the way we produce is not crudely 'determined' but is rather constrained as to alternative possibilities by the level of development of productive forces.

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[1] Productive forces are forces of motion and forces of intent. The motive or kinetic forces join with the intentional (or intellectual) forces in the formation and use of implements so as to produce from available materials various objects of utility. Materials are extracted from nature, and are refined and compounded, so as themselves to become integral to the productive forces. Both the kinetic and the intellectual forces of production, together with the materials and implements in which they are combined and by means of which they operate, have undergone a drawn-out but now quite phenomenal development. Along with this technological development — at times retarding it, at other times promoting it, but tending ultimately to succumb and adapt to its power — the social relations of production have evolved.

❖ The development of **technology** and the development of the '**division of labour**' in society have historically gone hand in hand. (Marx and Engels introduce us to this, and we shall look at it in much more detail later.)

❖ The development of the forces of production creates and increases the ability of society to produce a **surplus** over and above its immediate needs. This has a two-fold consequence. On the one hand, historically, it has created the possibility of unequal property; the possibility for some to live off the labour of others, and to empower and enrich themselves at society's expense (**exploitation**). This has been the basis for the emergence of the division of society into classes. This has a very long history, and Marx and Engels are introducing us to the way in which this phenomenon has developed and changed. On the other hand, the increasing ability of society to produce a surplus means that the pressure of **scarcity and insecurity** could and should be reduced, and the *possibility* emerges of human beings **sharing equally in abundance**.

[BREAK]

<u>Show Bronowski video</u>

[Episode 2 'Harvest of the Seasons' from the TV series *The Ascent of Man* by Jacob Bronowski (1969)]

Next time, we will critically discuss the video and its implications.

2016-06-06, 13 and 20. From the preparatory notes for Classes 07, 08 and 09 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Class 07:

The class breaks into groups to read and discuss paras 10-20 of the extracts from *The German Ideology*. For next time, the class is asked to read paras 21-28.

A reading consisting of pages 85-95 of Kevin Shillington's *History of Africa* (3rd edition) is handed out.[1] A member of the class volunteers to summarise orally the contents of the reading when it comes to be discussed.

Another member of the class volunteers to summarise orally next time the extract from Saggs, *The Babylonians* distributed previously.

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Class 08:

At the beginning of the class the following passage from *The German Ideology*[2] by Marx and Engels (written 170 years ago) was put on the screen, read, and briefly discussed:

> History is nothing but the succession of the separate generations, each of which uses the materials, the capital funds, the productive forces handed down to it by all preceding generations, and thus, on the one hand, continues the traditional activity in completely changed circumstances and, on the other, modifies the old circumstances with a completely changed activity. This can be speculatively distorted so that later history is made the goal of earlier history ... [but this] is nothing more than an abstraction from later history, from the active influence which earlier history exercises on later history.
>
> The further the separate spheres, which act on one another, extend in the course of this development and the more the original isolation of the separate nationalities is destroyed by the advanced mode of production, by intercourse and by the natural division of labour between various nations arising as a result, the more history becomes world history. Thus, for instance, if in England a machine is invented which deprives countless workers of bread in India and China, and overturns the whole form of existence of these empires, this invention becomes a world-historical fact. Or again, take the case of sugar and coffee, which have proved their world-historical importance in the nineteenth century by the fact that the lack of these products, occasioned by the Napoleonic Continental System,[3] caused the Germans to rise against Napoleon, and thus became the real basis of the glorious Wars of Liberation of 1813. From this it follows that this transformation of history into world history is by no means a mere abstract act on the part of 'self-consciousness', the world spirit, or of any other metaphysical spectre, but a quite material,

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[1] 2012 Shillington, History of Africa (3 ed), pp 85-95.pdf

[2] The text is taken from the *Collected Works of Marx and Engels*, vol 5, pp 50-51.

[3] [Editors' footnote:] The Continental System, or the Continental Blockade, proclaimed by Napoleon I in 1806, after Prussia's defeat, prohibited trade between the countries of the European Continent and Great Britain. This made the import into Europe of a number of products, including sugar and coffee, very difficult. Napoleon's defeat in Russia in 1812 put an end to the Continental System.

> empirically verifiable act, an act the proof of which every individual furnishes as he comes and goes, eats, drinks and clothes himself.
>
> In history up to the present it is certainly likewise an empirical fact that separate individuals have, with the broadening of their activity into world-historical activity, become more and more enslaved under a power alien to them (a pressure which they have conceived of as a dirty trick on the part of the so-called world spirit, etc.), a power which has become more and more enormous and, in the last instance, turns out to be the world market. But it is just as empirically established that, by the overthrow of the existing state of society by the communist revolution (of which more below) and the abolition of private property which is identical with it, this power, which so baffles the German theoreticians, will be dissolved; and that then the liberation of each single individual will be accomplished in the measure in which history becomes wholly transformed into world history.

The class then breaks into groups to continue their paragraph-by-paragraph discussion of the extracts from *The German Ideology* previously distributed.

❖ After the break, report-backs are given to the class by representatives of the groups, leading to a plenary discussion of paras 10-20 of the extracts. Subject-matter discussed included:

* 'productive forces' (see RP note on what this means[4])
* 'relations of production'
* 'division of labour' (who is doing what work)
* conflict of the interests of 'town and country'
* para 13: stages of development of the division of labour and the forms of property
* 'tribal property' (Marx and Engels mix together pre-agricultural and agricultural stages, thus missing the crucial transformation that provides the basis for modern development)
* emergence of slavery (note in this regard the necessity of a reliable surplus in order for slavery to evolve) — what is 'surplus'? : inputs and outputs : use example of maize ('corn') subsistence / surplus
* why do Marx and Engels call this stage 'communal property' (or 'communal private property') and 'state property'?
* para 18: decay of 'communal property' and the power of the (non-slave) 'people' as private property in land evolves

[4] RP note on productive forces: Productive forces are forces of motion and forces of intent. The motive or kinetic forces join with the intentional (or intellectual) forces in the formation and use of implements so as to produce from available materials various objects of utility. Materials themselves are extracted from nature and refined, so as to become part of the productive forces. Both the kinetic and the intellectual forces of production, together with the materials and implements in which they are combined, have undergone a drawn-out but now quite phenomenal development. Along with this technological development — at times retarding it, at other times promoting it, but tending ultimately to succumb and adapt to its power — the social relations of production have evolved.

* para 20: why an 'opposition' between industry and maritime commerce?

❖ Discussion of the Bronowski video watched in Class 06.[5] (This is woven together with the discussion of the extracts from *The German Ideology* as far as possible. Critical responses provided, especially on Bronowski's ideas about the origins of war, while emphasising his main theme, which is the transformative effects of settled and agricultural life, together with the significance of surplus.)

❖ Discussion of the pages from Saggs, *The Babylonians* distributed previously. (Note the natural basis for the development of property in land, and of inequality of property, described in the text. Note also the role of the priests in the formation of the state and in the development of class stratification together with forms of exploitation based on landed property and tributes.)

At the end:

The class is reminded to read paras 21-28 of the extracts from *The German Ideology*.

Pages 136-158 of Chris Harman's *A People's History of the World* (1999 edition) handed out as reading for discussion in a future class.[6]

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Class 09

❖ Discussion of the pages from Shillington, *History of Africa* (3rd edition, page 85-95) handed out previously. [Not completed: to be continued in next class.]

Class breaks into groups to read and discuss paragraphs 21-28 of the extracts from *The German Ideology*.

In each instance, class members volunteer to do a recap the next time.

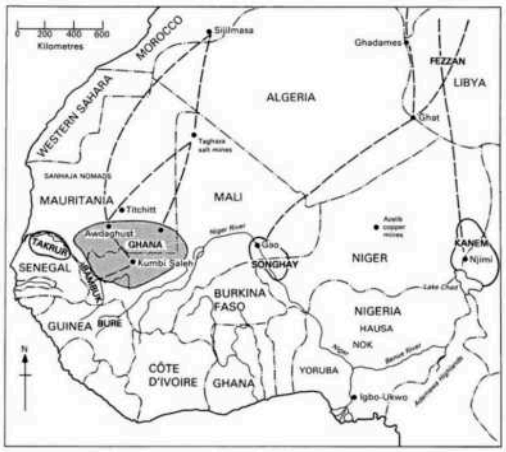
[5] Episode 2 'Harvest of the Seasons' from the TV series *The Ascent of Man* by Jacob Bronowski (1969)]

[6] 1999 Harman, pp 136-158 of People's History.pdf

2016-06-27 From the preparatory notes for Class 10 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Complete the discussion of Shillington, *History of Africa* (3rd edition, pages 85-95) distributed previously. Slides used to illustrate the discussion on this reading:

Kingdom of Ancient Ghana



Map 6.2 The kingdom of Ancient Ghana in the eleventh century (superimposed on modern boundaries)

Camels transporting salt in the Sahara

Salt in various forms

These three questions were distributed by email prior to the class:

> *1. What were some of the reasons for the formation of the [ancient] Ghanaian state in the period 800 - 900 CE?*
>
> *2. Where did the King of the Ghanaian state get his wealth from? How did the king maintain control over the state?*
>
> *3. Why did the Ghanaian state decline?*

Here are some answers to consider:

1. What were some of the reasons for the formation of the [ancient] Ghanaian state in the period 800 - 900 CE?

◆ There was pre-existing development of farming, domestication of sorghum and millet as well as development of iron work technology (for farming and weaponry) in West Africa by the Soninke.

◆ The Soninke, being on the fringe of the desert had obtained horses from the nomads which gave them a military advantage.

◆ Raids by Sanhaja Berber nomads prompted Soninke chiefdoms and farmers to group together for their own defence.

◆ The Soninke were ideally placed to exploit growth in the trade in gold from the Sahara — they were located mid-way between the salt reserves (of the desert) and the gold fields of the upper Senegal river. They could act as 'middle-men' supplying other groups with their surplus grain or passing on salt to the Bambuk gold producers to their South.

2. Where did the King of the Ghanaian state get his wealth from? How did the king maintain control over the state?

◆ The Soninke kept the source of the gold a secret in their dealings with Muslim traders.

◆ Local hereditary chiefs held power in outlying districts on behalf of the king. They had to recognise the king's power by sending him food and produce from hunting. The king held the sons and heir of these chiefs hostage in his royal court to ensure cooperation.

◆ In return the King provided protection to the people of his kingdom from raids by desert nomads. At this time, the king could summon an army of 200,000 men (drawn from local districts). Vassal = a holder of land given power on condition of allegiance.

◆ This army could be used to raid less powerful groups (to the south) and sell those captured as slaves to traders (with was a minor element).

◆ Trade in Gold itself was not taxed, but the king kept all nuggets of gold, leaving just the dust for the trade. Salt and other traded products were taxed.

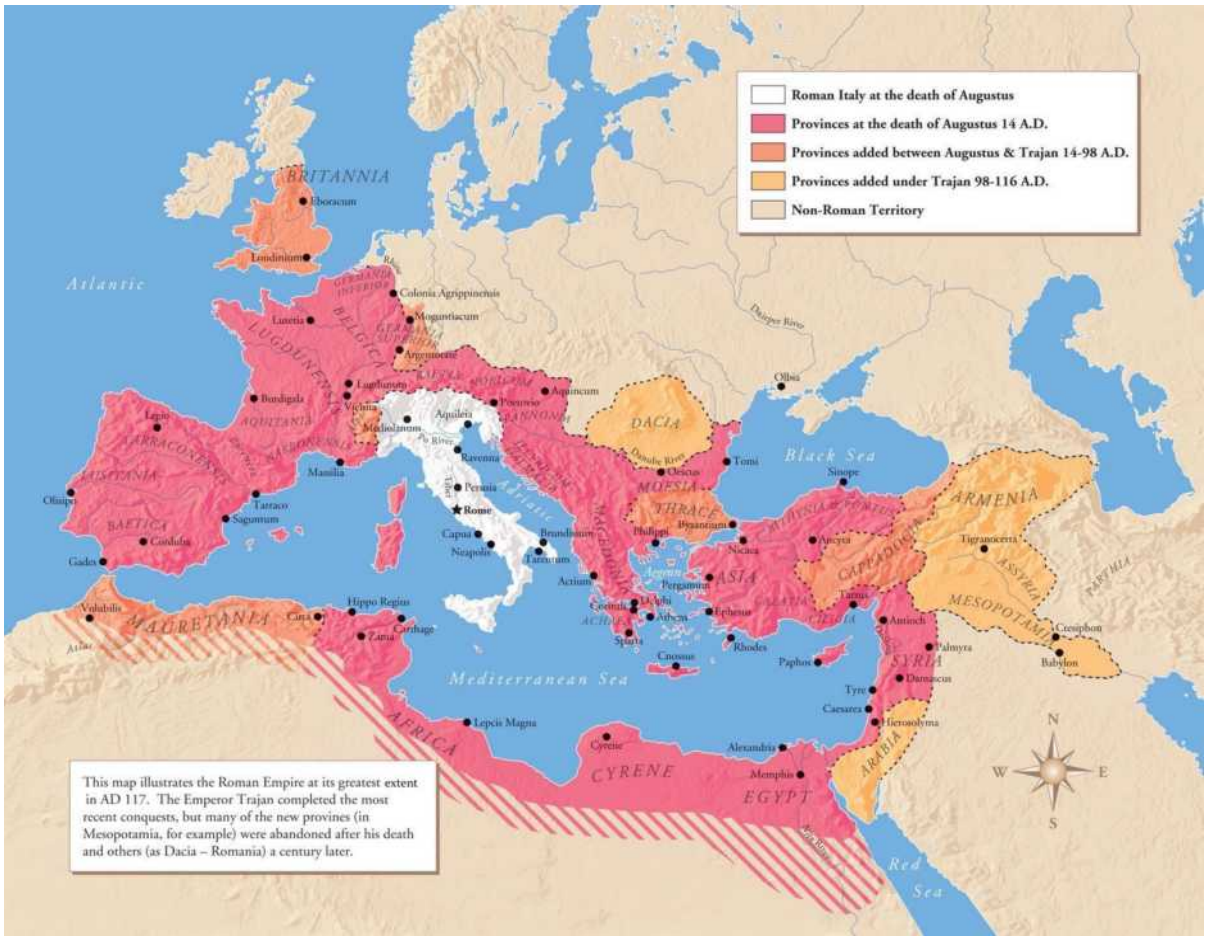
3. Why did the Ghanaian State decline?

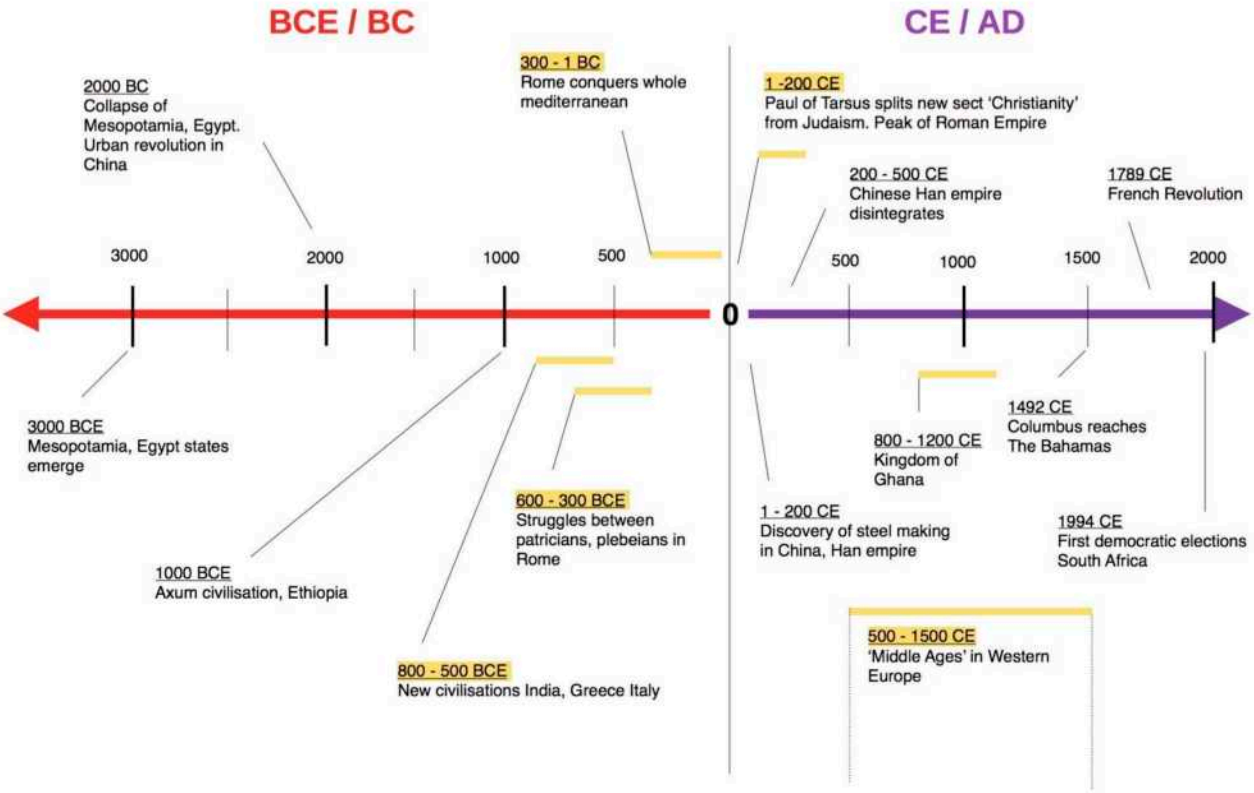
◆ Around 1050 CE, the kingdom had expanded to take over the Islamic Berber town of Awudaghust after which, many people and rulers within the kingdom became Muslims. This was for various reasons relating to wars but likely happened peacefully due to discontent among subjects and adoption of Islam brought literacy...

◆ Conflicts between Soninke and Saharan Berber berbers weakened trade links thus revenues for the king. Increasing tribal competition was also taking place for the gold fields as these began to open up.

◆ There was a deterioration in the environment due to the inability of the land of the Sahel to produce crops to support large settled population (in around 1300 CE) as well as pressure from overgrazing of the Berber nomadic groups. These changes resulted in the dispersal of the Soninke farmers further into the Savannah to the South and West.

Centuries earlier: the extent of the Roman Empire in 117CE:





Discussion of land and slave ownership in ancient Rome and **the Roman Empire**, drawing together the material on ancient slavery, and the difference between this and feudal serfdom.

A member of the class takes us through the following chart (now slightly revised) to recap:

The schema sketched by Marx and Engels in *The German Ideology* (1845)

FORMS OF PROPERTY	TYPE OF SOCIETY / KEY FEATURES	SOCIAL STRUCTURE
TRIBAL PROPERTY	FAMILIES, TRIBES PRE-AGRICULTURAL ➡ AGRICULTURAL SLAVERY IS LATENT IN THE FAMILY	NATURAL DIVISION OF LABOUR (Slaves could be captured in war)
ANCIENT COMMUNAL PROPERTY STATE PRIVATE & COMMUNAL MOVABLE & IMMOVABLE PROPERTY (Ancient communal property declines as immovable private property increases)	CITY = ASSOCIATION OF TRIBES DEVELOPMENT OF SLAVERY	FIRST DIVISION INTO CLASSES CITIZENS and SLAVES DIVISION BETWEEN TOWN & COUNTRY = URBAN/RURAL TENSION and SEPARATION OF INTERESTS E.g. in ROME EMERGENCE OF PROLETARIAT CLASS (WORKING BUT NOT OWNING LAND OR OTHER MEANS OF PRODUCTION) SLAVERY MEANT THAT THE FREE PROLETARIAT NEVER FULLY DEVELOPED
FEUDAL / ESTATE PROPERTY	HIERACHAL STRUCTURE OF LAND OWNERSHIP NOBILITY ARMED RETAINERS SERFS LATER IN THE TOWNS: GUILDS OF MASTER CRAFTSMEN JOURNEYMAN & APPRENTICES GUILDS OF MERCHANTS	EMERGENCE OF ENSERFED SMALL PEASANTRY AS MAIN PRODUCERS, TIED TO THE LAND URBAN 'RABBLE' IN TEMPORARY EMPLOYMENT, NEVER DEVELOPS AS A SETTLED PROLETARIAT

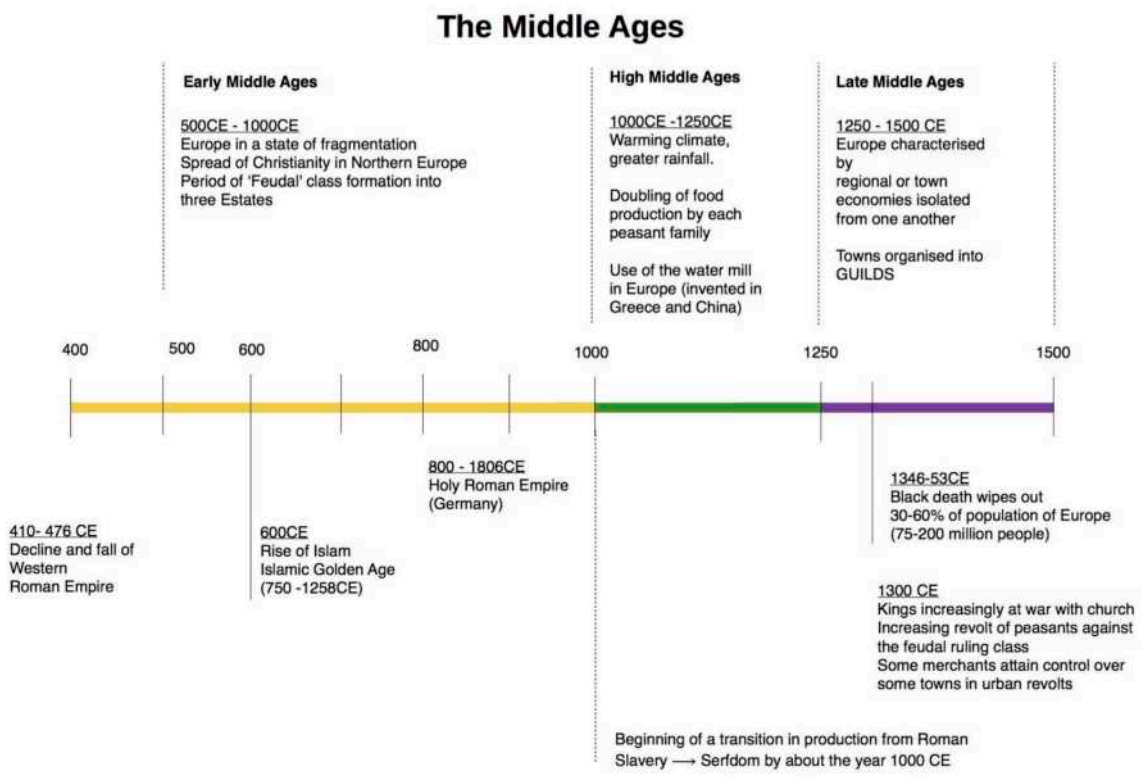
33-minute video lecture by professor of historical theology, Dr Ryan Reeves: **Medieval Society (Ryan Reeves).mp4**
https://www.youtube.com/watch?v=Yh_CZSLMxGo

Class to read paras 29-42 of the extracts from *The German Ideology*.

Rubin on merchant capitalism.pdf distributed (to be used as essential reading in future classes).

2016-07-04 From the preparatory notes for Class 11 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Further explanation and discussion in plenary session of European feudal society in the 'Middle Ages'



What was feudalism and why are we studying it?

We want to know the answer to the following question:

How did Europe develop from being a quite backward, undeveloped collection of territories under the control of the Roman Empire – and after the collapse of the Western Roman Empire, territories almost entirely without towns – into the birth place of an economic and political power that would overwhelm all the ancient civilisations of the world?

Backward Europe became the launching pad for the rise of world capitalism.

As Marx and Engels will explain to us [in the extracts from *The German Ideology* paragraphs 29 -42], the road to the rise of capitalism in Europe lay through a new way of organising society and production known as feudalism. This was completely unintended and unpredictable at the time.

Recall the structure of society within the Roman Empire and how production happened.

Rome was reliant on slave labour. There were the *patricians* (the land owning aristocracy), *plebeians* (workers and traders, though these did not develop into an independent class) and the *slaves (*who did forced labour and were the property of those who owned them).

We saw that there was continuous expansion and consolidation of land ownership in Rome in fewer and fewer hands. ('*Latifundium*' means spacious estate.) Conquered lands were turned over by the state to private ownership by the rich and powerful. War was also the best way to acquire slaves to work the land and mines, to feed the Roman population and to expand the empire. Huge armies were retained by the empire as it expanded and they were loyal to whomever could pay them.

For a combination of structural, social reasons as well as wars, among them the inability to sustain control, production and trade on the basis of slavery, the Western Roman Empire was in a state of collapse by the 5th century CE. Conventionally, it is regarded as ending in 476CE.

When Rome Falls…

The slave market in Europe begins to die out. Trade shrinks generally. Town and cities decline. The mass of the population are peasants who live off the land. In this period of fragmentation and Christianisation, Europe becomes organised into a series of autonomous isolated regions. Those who became very wealthy did so by fighting their way to dominance, taking vast areas of land while incorporating and exploiting the peasants who lived on it.

Throughout this time it was the peasants who did the agricultural producing. The rulers were a military class of land owners — warrior barons or 'lords' (in fact warlords supported by armed knights) — and the most powerful of them would become king.

The Christian church in Rome, headed by the Pope, also expanded into the power vacuum in Western Europe, becoming the owner of extensive lands supporting numerous clergymen, including a hierarchy of bishops and archbishops.

There was constant competition for power between the Church and the secular warlords and kings. The Church claimed on spiritual grounds to be first in rank, but kings often asserted their own claim to religious leadership. In time, the worldly power came to dominate over the religious. The hierarchy of baron and knights developed into a hereditary *nobility* (the original Latin word 'nobilis' meaning to be well-known). Kingship was likewise passed down to heirs.

Although there were conflicts and revolts, this hereditary organisation of society, supported by the armed power of the lords and by the teachings of the Church, was seen as God-given and permanent. The working population paid over the produced surplus through direct labour and as rent and taxes to the nobility and 'tithes' to the Church. Literacy and access to new technologies such as the watermill were confined to the clergy and some of the nobility.

From this we see by the end of the 'Middle Ages' the three officially recognised 'Estates':

1st Estate: Clergy [alongside and often contending for power with the King]

2nd Estate: Nobility [Kings, lords, nobles]

3rd Estate: Peasants and Serfs (95%), including in time the growing population of the towns

Key moments from the video lecture that we watched by the professor of historical theology, Dr Ryan Reeves:

Around the year 1000 we find:

- Changes in climate made Europe generally warmer and technology improved for harnessing horses to plough the soil.

- There was a shift from 2 field strip-system to 3 field system, which increased food production

- Many agricultural techniques already known in China, India, Egypt, Mesopotamia and Southern Spain were imported to Western Europe and adapted.

Feudal Countryside: Serfdom

Military force was used to take the land and compel peasants into serfdom. Serfdom differed from slavery in that serfs were not 'owned' and could hold land granted by the lord. But they were not free: they were 'tied' to that land. In return for protection from the lord, before producing for themselves, serfs had to give a portion of what they produced to the lord. This was done in agricultural produce and later in rent. Importantly, increases in agricultural production meant extra food and other produce could be exchanged with travelling traders or taken to the towns. And some serfs found ways to escape to the town and survive there.

Feudal Towns

Marx and Engels tell us that in feudal Europe 'the towns did not derive ready made [i.e., they were not simply a continuation] from an earlier period, but were formed anew by the serfs who had become free' (para 30). A class of traders developed in the towns, alongside new developments in the division of labour as a result of production carried on by skilled artisans.

Life in the towns of the 'Middle Ages' was very different from the countryside. Harman says:

The traders and artisans were free individuals not directly under the power of any lord. There was a German saying, 'Town air makes you free.' The urban classes were increasingly loath to accept the prerogatives of the lordly class. Traders and artisans who needed extra labour would welcome serfs who had fled bondage on nearby estates. And as the towns grew in size and wealth they acquired the means to defend their independence and freedom, building walls and arming urban militias (p.144).

Increasingly, serfs tried to avoid the stranglehold of their lords by escaping into the towns. Many hoped to learn a craft or trade since as the towns grew, 'by bringing produce to regular markets, the humble bagman could transform himself into a respectable trader, and the respectable trader into a wealthy merchant' Harman p144). Towns were linked to their surrounding rural economy but otherwise almost completely cut off from one another. Within the towns, were to be found the burghers (citizens) who might be clergy or nobles but also craftsmen, artisans, journeymen and their apprentices.

Since towns were so isolated from one another and because the market in the towns was so undeveloped, 'the particular labour of each man was his only property apart from the small capital he brought with him, consisting almost solely of the most necessary tools of his craft' (*German Ideology* extracts para 30).

Each industry, for example, shoe making, furniture making or bread baking was organised into a single union of independent producers, known as a *guild*. Guilds regulated the production of particular crafts, often within families to the exclusion of all others. Their role was to protect and eliminate competition.

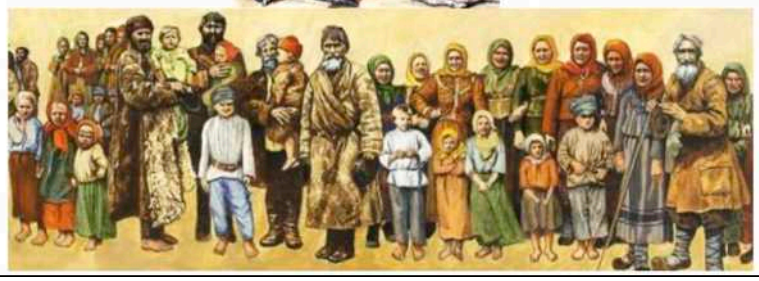
Also in the towns were other workers, entering separately, who were never able to attain to any power, outside of the guilds. They were day-labourers and remained an unorganised **'rabble'**, necessitated by the unreliable need for day-labourers in the towns (*German Ideology* extracts para 33).

These developments in feudal society prepared the basis for the rise of production for purposes of exchange — the basis for the emergence of the modern capitalist system.

Slide presentation accompanying the above notes begins on the next page.

The class then broke into two groups to continue reading and discussing the extracts from *The German Ideology*, paras 29-42.

Feudalism

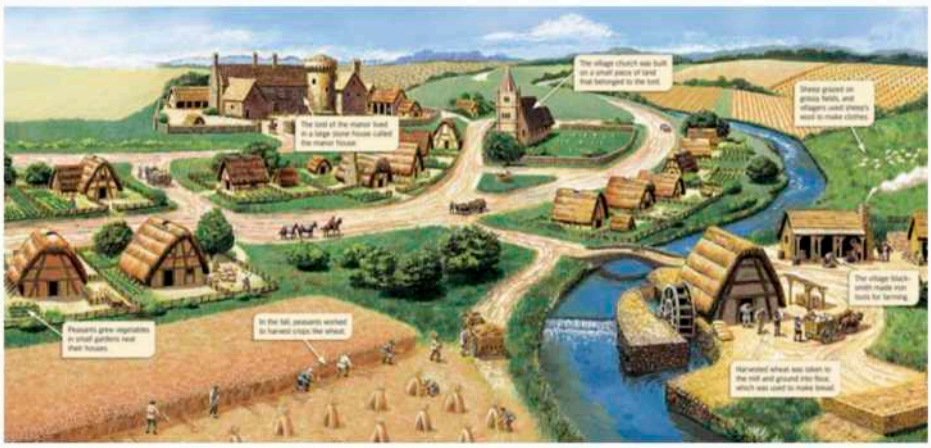


Feudalism

"[A] form of society in which agriculture is the basis of economy and in which political power is monopolised by a class of landowners. The mass of the population consists of dependent peasants subsisting on the produce of their family holdings. The landowners are maintained by the rent paid by the peasants, which might be in the form of food [or other crops e.g. wool] or labour, as in early days, or (by the sixteenth century) in money. In such a society there is room for small handicraft production, exchange of products, internal and overseas trade; but commerce and industry are subordinated to and plundered by the landowners and their State."

(Christopher Hill)

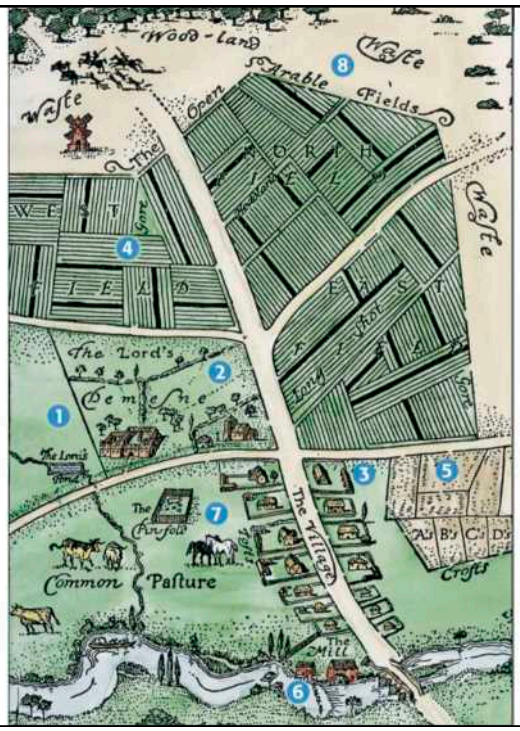
Feudal Countryside



The Medieval Manor

The medieval manor varied in size. The illustration to the right is a plan of a typical English manor.

1. **Manor House**
   The dwelling place of the lord and his family and their servants
2. **Village Church**
   Site of both religious services and public meetings
3. **Peasant Cottages**
   Where the peasants lived
4. **Lord's Demesne**
   Fields owned by the lord and worked by the peasants
5. **Peasant Crofts**
   Gardens that belonged to the peasants
6. **Mill**
   Water-powered mill for grinding grain
7. **Common Pasture**
   Common area for grazing animals
8. **Woodland**
   Forests provided wood for fuel.



Feudal Towns and Cities

Nuremberg Germany. Woodcut from Nuremberg Chronicle in 1493

Peasants talking to their landlord

Classes in the towns

Burghers

The people living in the towns; the citizens. Economically, they were organised in guilds as craftsmen or merchants.

Classes in the towns

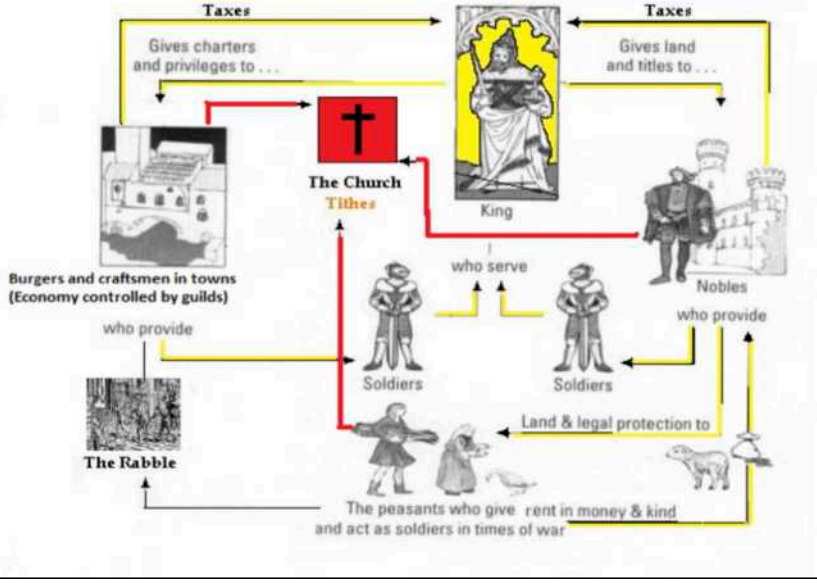
Craft Guilds: Each craft was organised into masters, journeymen and apprentices.

Classes in the towns

Merchant Guilds: Merchants too, were organised into guilds or associations of traders. The guilds of grouped traders gave them power to negotiate with their lord.

Classes in the towns

Rabble: Serfs escaping into the towns, attempting to take advantage of unreliable day-labour remained an unorganised 'rabble'.



2016-07-11 Slides from the PowerPoint presentation on the age of 'merchant capitalism' in Europe

Merchant capitalism

Definition: a merchant is someone who buys and sells goods made by other people in order to make a profit, and/or lends money to make this possible.

Marx describes **merchant capitalism** as having two aspects:

- **Money - dealing capitalism** – profits are made by lending money for interest
- **Commercial capitalism** – profits are made from buying and selling goods

Production or industrial capitalism is different – here profits are made in the production of commodities through exploiting workers.

Capital is wealth that has the potential to create more wealth

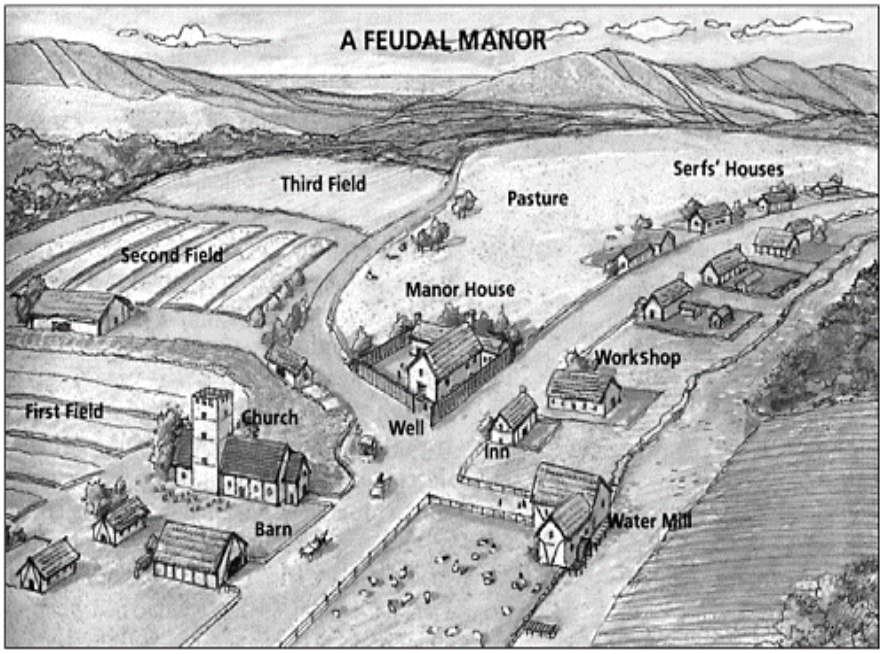
Merchant capitalism has emerged over large parts of the world, over many centuries, and can operate within different modes of production – slavery, feudalism, etc. Merchant capitalism developed in the Islamic world from the 800s and in Europe from 1100s. It lasted into the 1800s.

In Western Europe merchant capitalism gave rise to industrial capitalism as a social and economic system.

Reminder – production and trade under feudalism

Towns: guilds of craftsmen who owned their own tools. Production of hand-made goods was controlled to keep up prices, which were fixed. So guilds controlled a small market for the things they produced. Competition between producers was eliminated.

Countryside: lords owned the land and serfs worked it

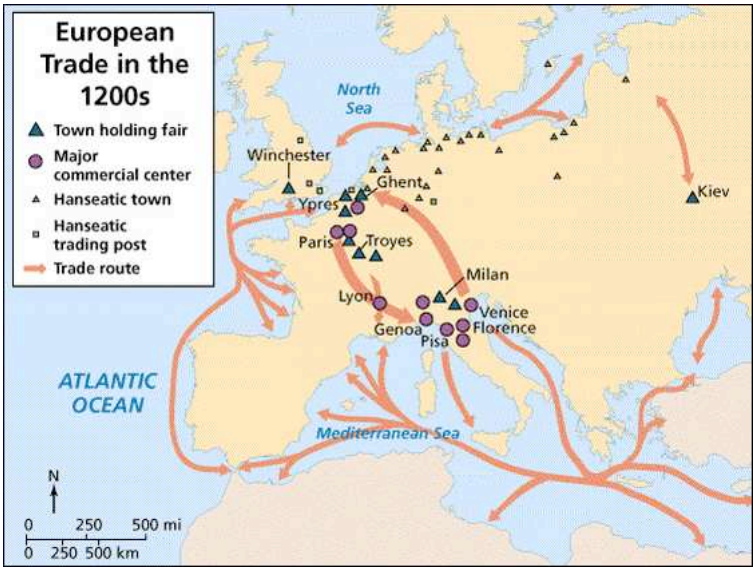


Source: Michael B. Petrovich et al., *People in Time and Place: World Cultures*, Silver, Burdett & Ginn, 1991

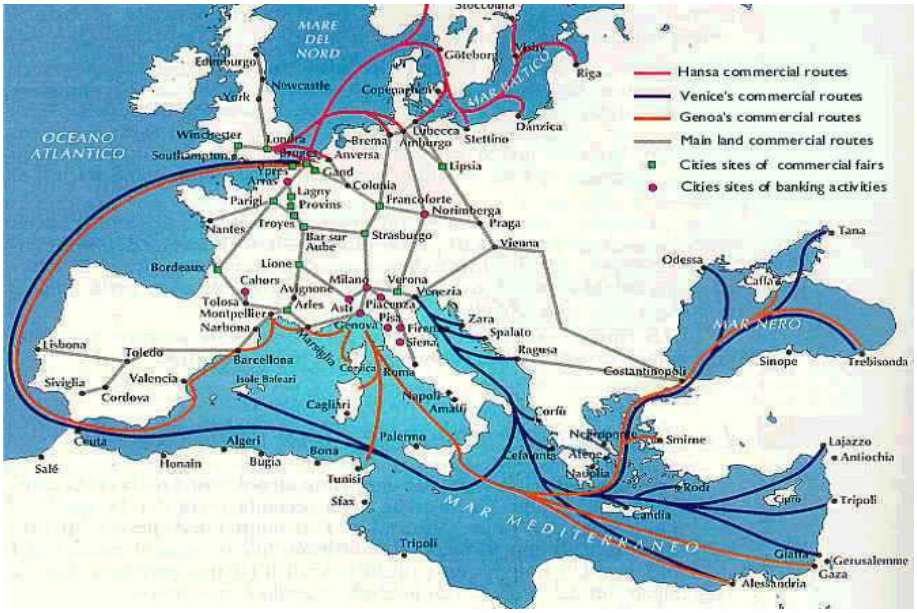
There was some local exchange of goods between towns and country: towns provided finished goods like clothes, shoes, utensils. Land produced food. Most of what serfs produced was used for immediate consumption.

Exchange was quite local – “feeble development of money exchange”. Trade did not go beyond small regions and was limited because of small surpluses produced, if any.

With the development of Merchant Capitalism, trade began to move beyond local regions ….



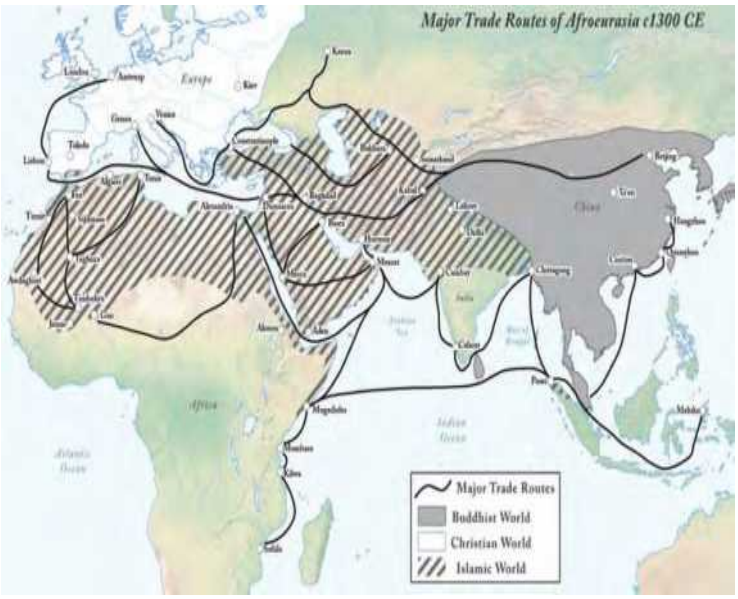
From around 1300 CE there was a rapid expansion of trade between Europe and the East (China and India). The Europeans imported spices, silk and cotton textiles, velvet, perfumes, carpets, dyes, etc). The Italian cities of Venice and Genoa formed the hub. They sent ships to the East for goods, and then sent these on to markets in other parts of Europe. The Black Sea was an important point of exchange for goods moving from the East into Europe.

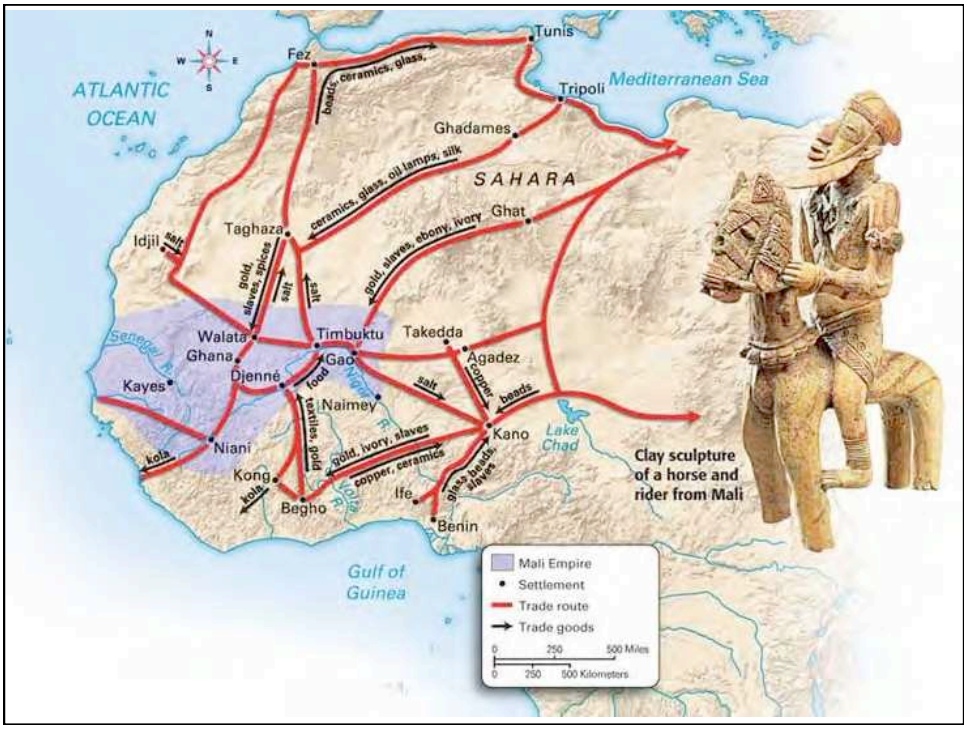

Hansa commercial routes
Venice's commercial routes
Genoa's commercial routes
Main land commercial routes
Cities sites of commercial fairs
Cities sites of banking activities
MARE DEL NORD
OCEANO ATLANTICO
MAR BALTICO
MAR NERO
MAR MEDITERRANEO
Edimburgo
York
Newcastle
Copenaghen
Göteborg
Visby
Riga
Danzica
Stettino
Lubecca
Amburgo
Brema
Anversa
Londra
Bruges
Southampton
Winchester
Ypres
Arras
Gand
Lipsia
Colonia
Francoforte
Norimberga
Praga
Vienna
Lagny
Provins
Parigi
Troyes
Nantes
Bar sur Aube
Strasburgo
Bordeaux
Lione
Cahors
Avignone
Milano
Verona
Venezia
Tolosa
Montpellier
Narbona
Arles
Asti
Piacenza
Pisa
Genova
Firenze
Siena
Zara
Spalato
Ragusa
Marsiglia
Lisbona
Toledo
Valencia
Siviglia
Cordova
Barcellona
Isole Baleari
Corsica
Roma
Napoli
Amalfi
Cagliari
Corfù
Palermo
Ceuta
Salé
Algeri
Bona
Bugia
Tunisi
Sfax
Tripoli
Cefalonia
Atene
Nauplia
Smirne
Rodi
Candia
Cipro
Lajazzo
Antiochia
Tripoli
Giaffa
Gerusalemme
Gaza
Alessandria
Costantinopoli
Sinope
Trebisonda
Odessa
Caffa
Tana

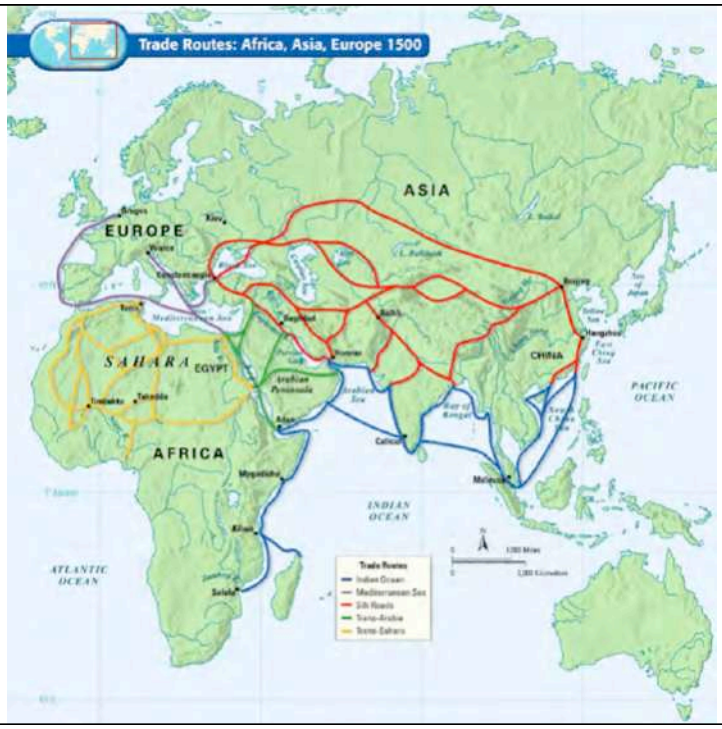

SAAMI
KVENLAND KARELIA
FINNS
NORWAY
SVEALAND
Uppsala
GOTALAND
DENMARK
SCANIA
Hedeby
LIVONIA
KURLAND
Ladoga
Beloozero
Novgorod
RUS' STATES
VOLGA BULGARIA
Bulgar
KIPCHAKS
GERMANY
POLAND
Chernigov
Kiev
KHAZAR KHAGANATE
MAGYARS
PECHENEGS
Sarkel
Atil
CROATIA
Kerch
Tana
Tmutarakan
Samandar
Balanjar
Derbent
OGHUZ
ITALY
Rome
Chersonesos
Constantinople
Tiflis
Baku
BYZANTINE EMPIRE
ABBASID CALIPHATE
SAMANID EMIRATE

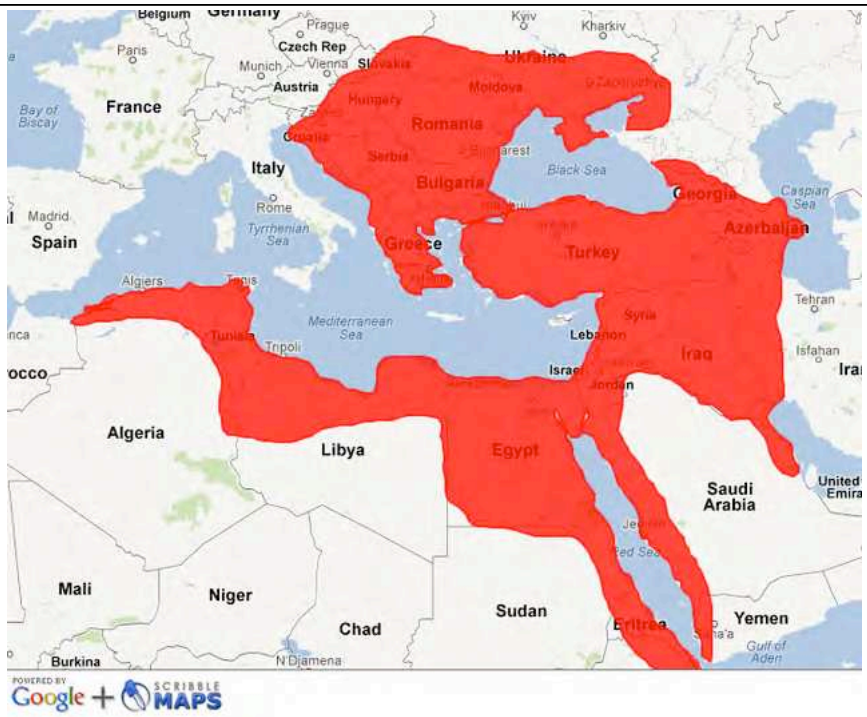
In 1453 an event took place which changed the course of history. The Ottomans conquered Constantinople, which was the capital of the Roman Empire. The name of Constantinople was changed to Istanbul.

This conquest resulted in the collapse of major trade routes through Europe to the East. So another way had to be found to the East.


Major Trade Routes of Afroeurasia c1300 CE
Europe
Africa
Indian Ocean
Atlantic Ocean
Major Trade Routes
Buddhist World
Christian World
Islamic World

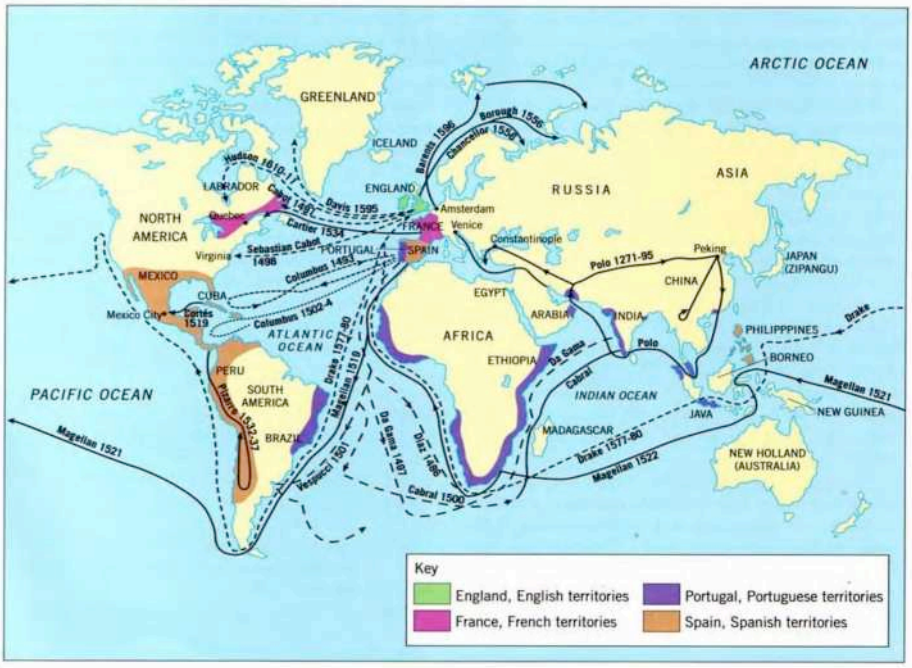

ATLANTIC OCEAN
Mediterranean Sea
SAHARA
Gulf of Guinea
Lake Chad
Tunis
Fez
Tripoli
Ghadames
Ghat
Taghaza
Idjil
Walata
Timbuktu
Takedda
Agadez
Ghana
Gao
Djenné
Kayes
Naimey
Niani
Kano
Kong
Begho
Ife
Benin
ceramics, glass
beads
ceramics, glass, oil lamps, silk
gold, slaves, ebony, ivory
gold, slaves, spices
salt
food
copper
beads
textiles, gold
gold, ivory, slaves
copper, ceramics
glass beads, slaves
kola
Clay sculpture of a horse and rider from Mali
Mali Empire
Settlement
Trade route
Trade goods
0 250 500 Miles
0 250 500 Kilometers


Trade Routes: Africa, Asia, Europe 1500
ASIA
EUROPE
SAHARA
EGYPT
AFRICA
CHINA
PACIFIC OCEAN
INDIAN OCEAN
ATLANTIC OCEAN


Belgium
Germany
Prague
Czech Rep
Paris
Munich
Vienna
Austria
France
Bay of Biscay
Kyiv
Kharkiv
Moldova
Romania
Serbia
Bulgaria
Black Sea
Caspian Sea
Azerbaijan
Italy
Rome
Tyrrhenian Sea
Madrid
Spain
Greece
Turkey
Algiers
Tunis
Tripoli
Mediterranean Sea
Syria
Lebanon
Israel
Jordan
Iraq
Tehran
Isfahan
Algeria
Libya
Egypt
Saudi Arabia
Mali
Niger
Chad
Sudan
Eritrea
Yemen
Gulf of Aden
Burkina
N'Djamena
POWERED BY Google + SCRIBBLE MAPS

Alternative routes to the East were sought through the “voyages of discovery” to the Americas and the East

Map 18.1 World Exploration, 1271–1295; 1486–1611.



The trade routes to the Americas and the East generated vast profits for merchants, who bought goods very cheaply from what became the colonies and sold them for high prices in Europe. Importing of cheap silver from Mexico and Peru allowed for a rapid expansion in the circulation of money in Europe.

The money economy (using **money for exchange**: for example selling surplus agricultural produce for money, and using this money to buy other goods) expanded rapidly.

The immense wealth flowing into Europe strengthened the position of the merchant class, who became a strong support base for the monarchy.

The monarchs supported the merchant bourgeoisie because of the wealth they provided through taxes, customs levies and loans.

The merchant bourgeoisie supported the monarchy because:

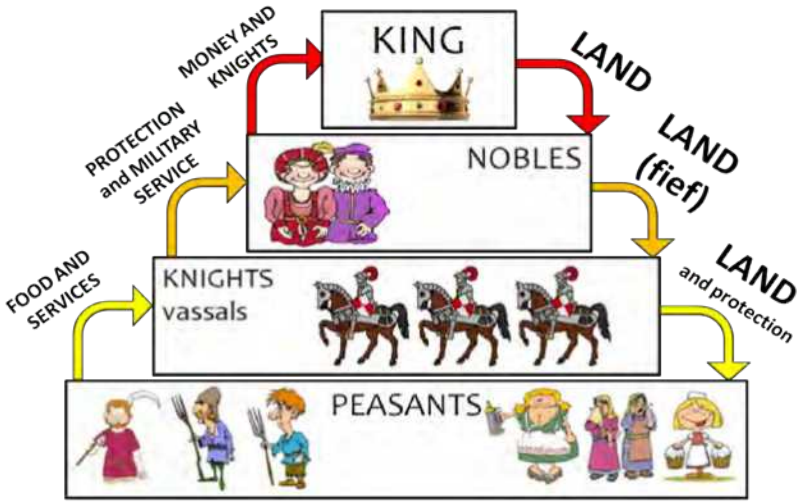
- the monarchs could raise armies and navies to enforce monopolies on trade and fight wars to protect these monopolies. These armies and navies could also protect ships and cargoes against pirates and other warring nations.

- Monarchs supported "voyages of discovery" which led to colonisation.

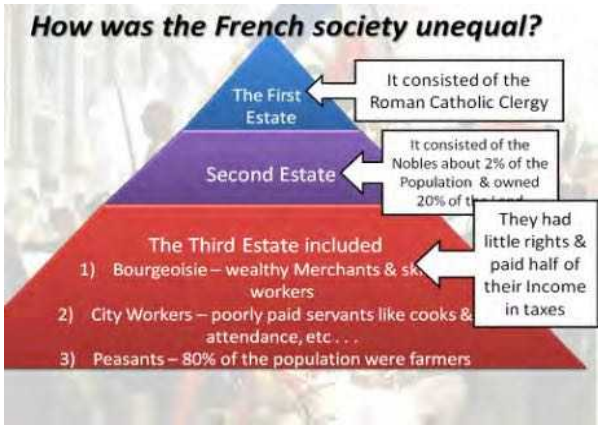
- monarchs also assisted in the creation of joint-stock companies such as the Dutch East India Company to which monarchs granted trade monopolies and outsourced territorial control in the colonies.

The growing strength of the merchant bourgeoisie went hand in hand with the **centralisation of the monarchy.**

A strong monarchy was able to overcome the fragmentation of feudalism and assist in creating greater markets and free movement of goods.



Feudal Pyramid of Power



Consequences of the domination of merchant capital

- **Pauperisation of people on land and towns**. Between early 1500 and late 1600 real wages had fallen by nearly a half. Massive enrichment of merchant bourgeoisie was accompanied by drastic decline in living standards of peasantry, craftsmen and workers.

- Feudal lord's lust for money led those in England and Italy to **replace corvee for money rent**. Serfs became transformed into peasants who rented land for cash. Poor peasants became dispossessed.

- The **enclosure system**, and the seizing of communal grazing lands, pushed poor peasantry into the towns.

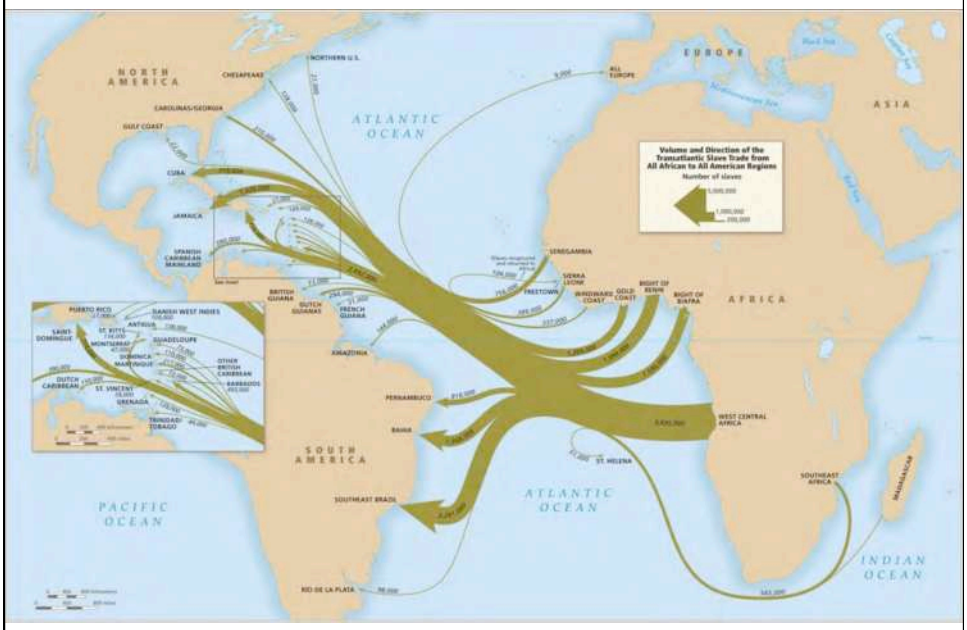
- **Producers (peasants on the land and handicraftsmen in the towns) become separated from the means to produce**. The dispossessed and poor gathered in the town and were subjected to low wages and punishment for "vagabondage". This is the beginning of the modern working class.

- Expansion of the market beyond local towns **increased competition, division of labour and specialisation in production** (with some towns specialising in the production of certain goods, such as cloth, lace, armaments) and this resulted in the **collapse of the guilds**.

- Specialisation in production meant that there was greater need for middlemen or merchants who could buy from one location and sell in another. This led in time to a **change in the relation between craftsman and merchant**, where the merchant began to organise production by putting out work to craftsmen working from home in “cottage industries”, especially in goods intended for export.

- **Emergence of colonisation** and a world economy and the destruction of indigenous production. Colonies were the source of raw materials and also markets for finished goods.

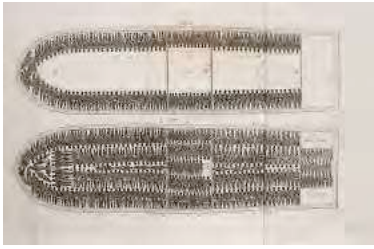
- Significant increase in transatlantic **slave trade**


NORTH AMERICA
CHESAPEAKE
NORTHERN U.S.
CAROLINAS/GEORGIA
GULF COAST
CUBA
JAMAICA
SPANISH CARIBBEAN MAINLAND
ATLANTIC OCEAN
EUROPE
ALL EUROPE
ASIA
Volume and Direction of the Transatlantic Slave Trade from All African to All American Regions
Number of slaves
SENEGAMBIA
SIERRA LEONE
FREETOWN
WINDWARD COAST
GOLD COAST
BIGHT OF BENIN
BIGHT OF BIAFRA
AFRICA
BRITISH GUIANA
DUTCH GUIANAS
FRENCH GUIANA
AMAZONIA
PERNAMBUCO
BAHIA
SOUTHEAST BRAZIL
RIO DE LA PLATA
SOUTH AMERICA
PACIFIC OCEAN
ATLANTIC OCEAN
WEST CENTRAL AFRICA
ST. HELENA
SOUTHEAST AFRICA
MADAGASCAR
INDIAN OCEAN
PUERTO RICO
DANISH WEST INDIES
ANTIGUA
ST. KITTS
MONTSERRAT
SAINT-DOMINGUE
GUADELOUPE
DOMINICA
MARTINIQUE
OTHER BRITISH CARIBBEAN
BARBADOS
DUTCH CARIBBEAN
ST. VINCENT
GRENADA
TRINIDAD/TOBAGO


TRIANGLE TRADE
NORTH
AMERICA
EUROPE
TOBACCO
SUGAR
MANUFACTURED GOODS
AFRICA
SLAVES
SOUTH
AMERICA

Trans-Atlantic Imports by Region
1450-1900

Region	Number of slaves accounted for	%
Brazil	4,000,000	35.4
Spanish Empire	2,500,000	22.1
British West Indies	2,000,000	17.7
French West Indies	1,600,00	14.1
British North America and United States	500,000	4.4
Dutch West Indies	500,000	4.4
Danish West Indies	28,000	0.2
Europe (and Islands)	200,000	1.8
Total	11,328,000	100



"Merchant's capital, when it holds a position of dominance, stands everywhere for a system of robbery, so that its development among the trading nations of old and modern times is always directly connected with plundering, piracy, kidnapping slaves, and colonial conquest; as in Carthage, Rome, and later among the Venetians, Portuguese, Dutch etc." (Capital vol 3, pg. 331)

2016-07-18 From the preparatory notes for Class 13 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

By way of recap:

❖ Discussed reasons why the **Islamic empire** did not provide the historical basis for the rise of capitalism.

❖ Discussed the connection between the rise of the Atlantic **slave trade** and **ideological racism** — recommend the reading of Part five, Chapter 5 in Chris Harman, *A People's History of the World*.

1999 Harman, pp 249-256 of People's History (Slavery and racism).pdf

Class broke into two groups to continue reading and discussing the extracts from *The German Ideology*, paras 43-54.

Returned to plenary session after the break to discuss **themes and concepts from the paragraphs read**, beginning with:

Vagabondage and 'surplus population' in the towns (paras 50-51)

72,000 hanged in reign of Henry VIII of England (= 2.5% of pop 2.8 million: comparable to about 1.25 million in a population the size of SA today).

Thomas More and his communist *Utopia* (1516).

'Natural capital' (paras 45, 48). The concept was explained with reference to more modern sources. It raises the broader question of 'what is capital?' We'll return to this later in the course, when more groundwork for answering the question has been laid.

Those who wish to read ahead in the extracts from The German Ideology were advised to read paras 55-74. However, there are a number of topics arising from paras 43-54 that we need to examine first in more depth…

2016-07-25 From the preparatory notes for Class 14 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

By way of recap:

The class divided into 3 groups. Each group was provided with one question (with a short explanatory introduction), arising from paras 43-54 of *The German Ideology* extracts. The groups spent about 30 minutes working out the answers to their respective questions. We then gathered together again to hear the questions and the answers from the groups. *Here are the questions:*

Group 1: Why the guild system began to break down

We read last week that 'handicraft' production (work with one's hands) particularly the weaving of wool, was done by peasants in the European countryside. Much of the production of goods in the towns and their trade was controlled through the guild system. As the guild system began to break down many serfs found themselves dispossessed of their land, having to become small producers of a 'non-guild type' in the countryside or alternatively, vagabonds. Considering this:

Why might a feudal landlord decide to stop demanding rent in goods or service through unpaid labour and start demanding payment in money?

Group 2: The rise of 'manufactures' and changes in the character of labour

We have read about changes that took place in the working population of Europe as the feudal system declined. We saw that a powerful merchant class began to emerge and production began to be organised in new ways:

What effect did the new organisation of 'manufactures' have on worker-employer relations as compared with the guilds? Did this improve conditions for workers?

Group 3: Merchants, money and exchange

Considering what Marx and Engels tell us in paragraphs 43 to 54 in The German Ideology:

What role did the sea trade, the emergence of colonisation and the slave trade have on local production in Europe?

<u>After the break:</u>

We continued the general discussion of themes and concepts from paras 43-54 of the extracts from *The German Ideology*, as follows:

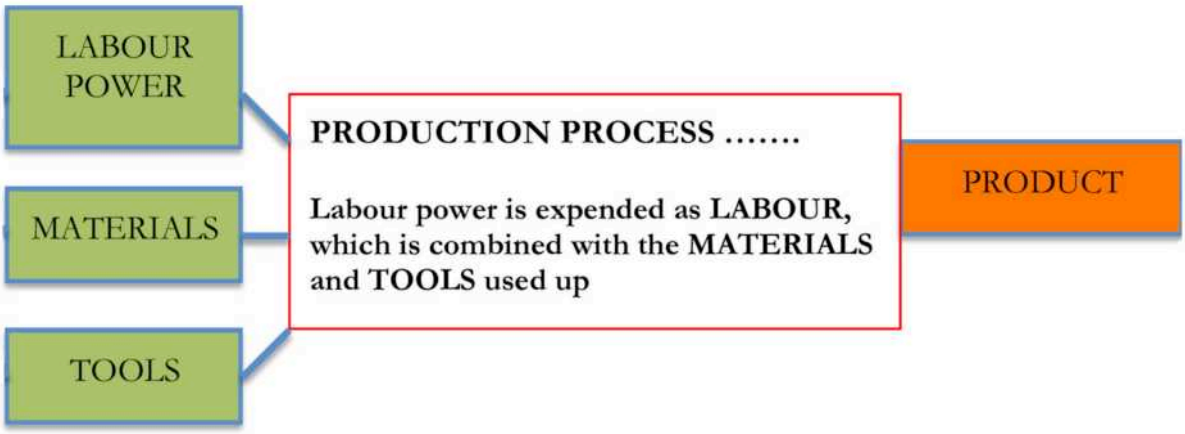
Here is a summary table of topics (which will take several classes to complete). The topics are combined in the table here to show where we are going.

Last time we talked about **'natural capital'** and what it means, and we raised the question whether it is correct to work with a concept of **'capital'** before the emergence of '**capitalism**'. We'll return to that subject after we've dealt with some other themes and concepts. Here is an outline of where we are going in that regard:

Paras 43, 44	**'Manufactures'** — meaning of the term when used by Marx and Engels; — the concepts of '**handicraft**', '**manufacture**', '**machinofacture**', and (additionally today) what we might call 'computer-facture' or '**robofacture**'.
Paras 43, 47 **Paras 44, 45**	**'Division of labour'** — meaning of the term — division between various towns; then e.g. weaving 'splitting up into countless branches'. Development of the division of labour and the further progress of mechanisation depends on **scale of the market**. Division between operations and division between enterprises. **Adam Smith; Allyn Young** - the **technical implications** of the development of the division of labour and the expansion of the market. Later: Discuss also the **social implications** of the development of the division of labour and generalised exchange. **Marx**... **Durkheim**...

Paras 43, 44 **Para 52**	The rise of manufacturing presupposed **concentrations of population** (especially in **towns**) and the **expansion of trade beyond the local population.** **Increased competition between nations:** in the next part of the extracts from *The German Ideology*, Marx and Engels deal with **colonisation** in this context. (We shall leave the discussion of this until paras 55-74 have been read.)
Paras 45, 48 **Para 53**	Return to the discussion of **'capital'** and what it means. 'Natural capital' having provided the initial basis, there is a development in **property relations** from immovable to movable property — linked to the declining power of the landlords and the rising power of the urban bourgeoisie. Simultaneously, a transition from patriarchal relations to monetary relations between employer and worker.
Para 54	Impetus from **gold and silver** (Spanish conquest of central and south America), and sea-trade with East Indies. **MONEY**, its origins, meaning and effects.

Here is a simple diagram of production:



This applies to all the successive stages in the development of the productive forces.

The change from 'handicraft' to 'manufacture'. What does **'handicraft'** mean?

In the case of guild handicrafts, says Rubin, 'each master owned the simple tools and instruments necessary for his trade, and worked personally in his own shop with the help of a small number of assistants and apprentices.'[1] From the technical point of view, **simple tools and instruments, powered by hand**, were the characteristic features of handicraft production.

Today we refer to industrial production generally as 'manufacture'. (It is distinct from 'mining' in that it involves working up materials which have already been extracted from the earth, in order to produce products.) When Marx and Engels refer to **'manufacture'**, however, they are speaking more narrowly of a stage in which the production of goods was still mainly carried on **manually**. (In Latin, *manus* means 'hand'.)

Tim Ingold explains:[2]

> By 'manufacture' Marx is referring to the largely pre-industrial phase of capitalist production, stretching roughly from the middle of the sixteenth century to the end of the eighteenth. The characteristic feature of such manufacture was the assembly, within a single workshop, of a large number of highly specialised, skilled artisans performing complementary tasks within a rigidly prescribed division of labour. These artisans, however, did not co-operate of their own accord, for their association was a result not of relations among themselves but of each having contracted to the same employer who commanded the sum total of their labour-power. ...

In *Capital*, Marx wrote this about the change from handicraft production to 'manufacture':

> [M]anufacture can hardly be distinguished, in its earliest stages, from the handicraft trades of the guilds, except by the greater number of workers simultaneously employed by the same individual capital. It is merely an enlargement of the workshop of the master craftsman of the guilds. At first, then, the difference is purely quantitative. ...[3]

Manufacture, he says, originates in two ways:[4]

> **1. By the assembling together in one workshop, under the control of a single capitalist, of workers belonging to various independent handicrafts, through whose hands a given article must pass on its way to completion**. A carriage, for example, was formerly the product of a great number of independent craftsmen, such as

[1] Rubin's chapter on 'The Age of Merchant Capitalism', distributed previously. See pp. 1-2.

[2] Ingold, Tim. *The Perception of the Environment: Essays on Livelihood, Dwelling and Skill*. Routledge, 2000. P. 309.

[3] *Capital*, vol 1. Penguin ed., 1976. P. 439.

[4] Pp 455-458.

> wheelwrights, harness-makers, tailors, locksmiths, upholsterers, turners, fringe-makers, glaziers, painters, polishers, gilders, etc. In the manufacture of carriages, however, all these different craftsmen are assembled in one building where the unfinished product passes from hand to hand. … At first, the manufacture of carriages appeared as a combination of various independent handicrafts. But it gradually began to signify the splitting-up of carriage production into its various detailed operations, and each single operation crystallized into the exclusive function of a particular worker, the manufacture as a whole being performed by these partial workers in conjunction. In the same way, cloth manufacture, as also a whole series of other manufactures, arose from combining together different handicrafts under the command of a single capitalist.
>
> **2. Manufacture can also arise in exactly the opposite way. One capitalist simultaneously employs in one workshop a number of craftsmen who all do the same work, or the same kind of work, such as making paper, type or needles**. This is co-operation in its simplest form. Each of these craftsmen (with the help, perhaps, of one or two apprentices) makes the entire commodity, and he consequently performs in succession all the operations necessary to produce it; He still works in his old handicraft-like way. But very soon external circumstances cause a different use to be made of the concentration of the workers on one spot and the simultaneousness of their work. An increased quantity of the article has perhaps to be delivered within a given time. The work is therefore divided up. Instead of each man being allowed to perform all the various operations in succession, these operations are changed into disconnected, isolated ones, carried on side by side; each is assigned to a different craftsman, and the whole of them together are performed simultaneously by the co-operators. This accidental division is repeated, develops advantages of its own and gradually ossifies into a systematic division of labour.

And further:[5]

> Since the product of each specialized worker is, at the same time, only a particular stage in the development of a finished article which is the same in each case, each worker, or group of workers, prepares the raw material for another worker or group of workers. The result of the labour of the one is the starting-point for the labour of the other. One worker therefore directly sets the other to work. The labour-time necessary to attain the desired effect in each partial process is learnt by experience, and the mechanism of manufacture, taken as a whole, is based on the assumption that a given result will be obtained in a given time. It is only on this assumption that the various supplementary labour processes can proceed uninterruptedly, simultaneously, and side by side. It is clear that the direct mutual interdependence of the different pieces of work, and therefore of the workers,

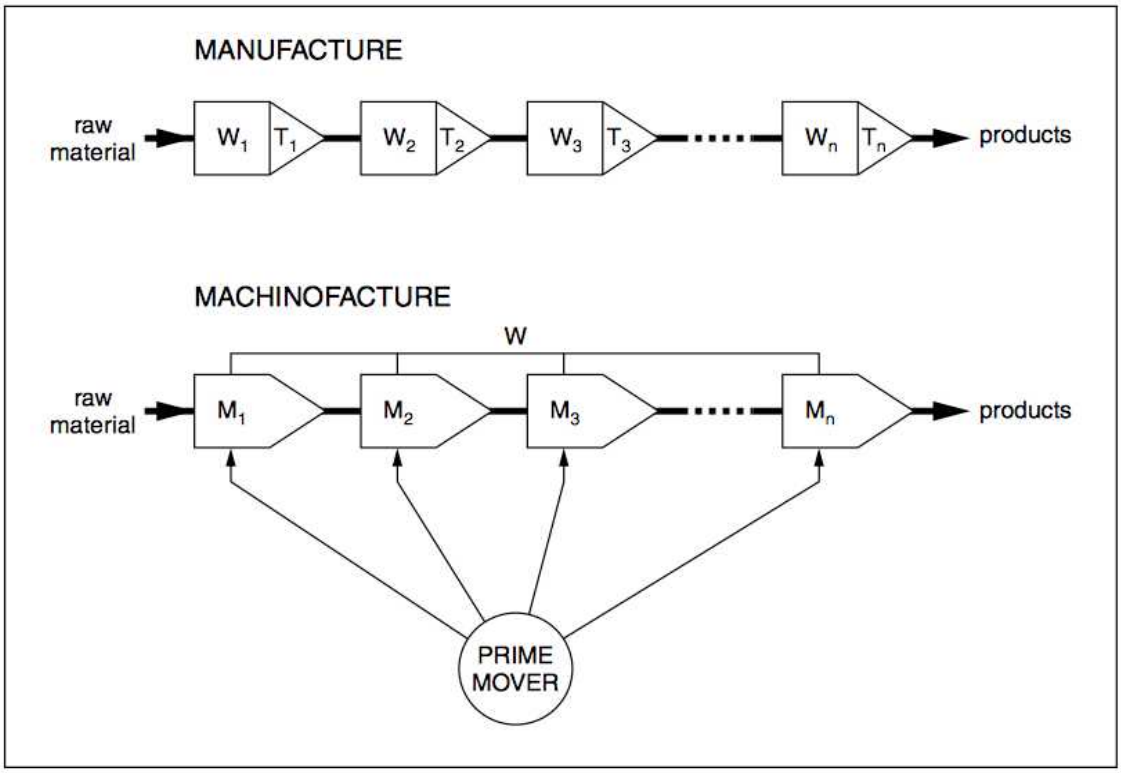
The next stage, in which machinery enters the picture in a decisive way, Marx and Engels call

[5] Pp 464-465.

'machinofacture'. 'Machinofacture' then provides the basis for the rise of 'large-scale industry'.

In **'machinofacture'**, the machinery is driven by steam, electrical and other forms of motive power and the worker increasingly becomes an appendage of the machines. Nevertheless, the machines operates under human direction, and large quantities of labour remain a major ingredient in the production process.

Ingold has provided this diagram to illustrate the difference between 'manufacture' and 'machinofacture':



Later still — and this is occurring now — there is a development from 'machinofacture' to a production process increasingly carried out by robots, i.e. machines that are told what to do by computer programs, without the intervention (or only a minimal intervention) by human beings. This could be called 'computer-facture' or, better still, 'robofacture'.

PowerPoint slides: Assembly line.pptx

(continued on next page)

Machinery and automation —

the production of motor vehicles provides a good illustration of how this has developed over the past hundred years

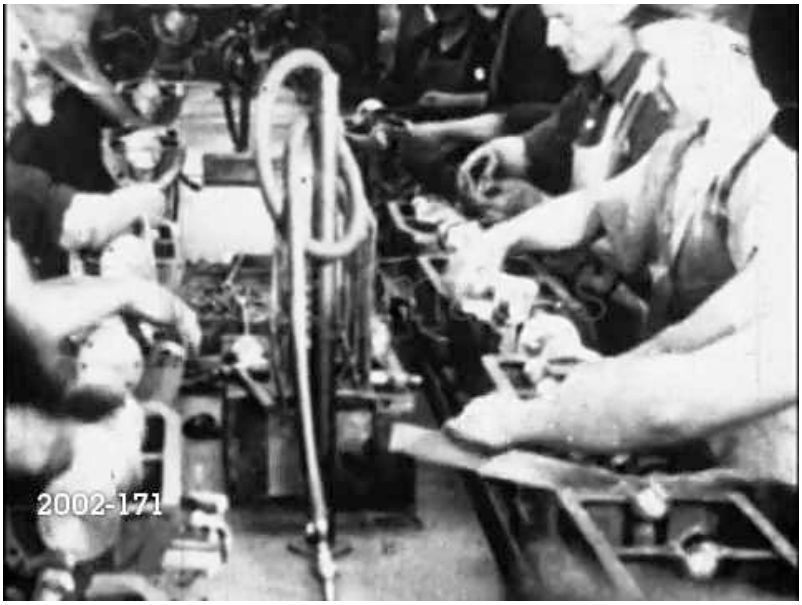
1910 — in a Ford factory, workers are sanding wheel spokes by hand

2

Video clip

Video clip

In the same factory, 1910



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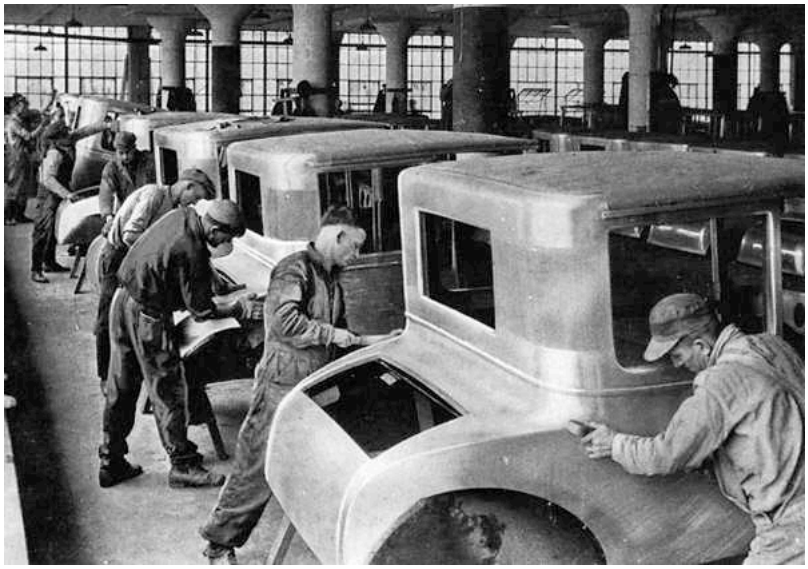


Undated — probably the same period

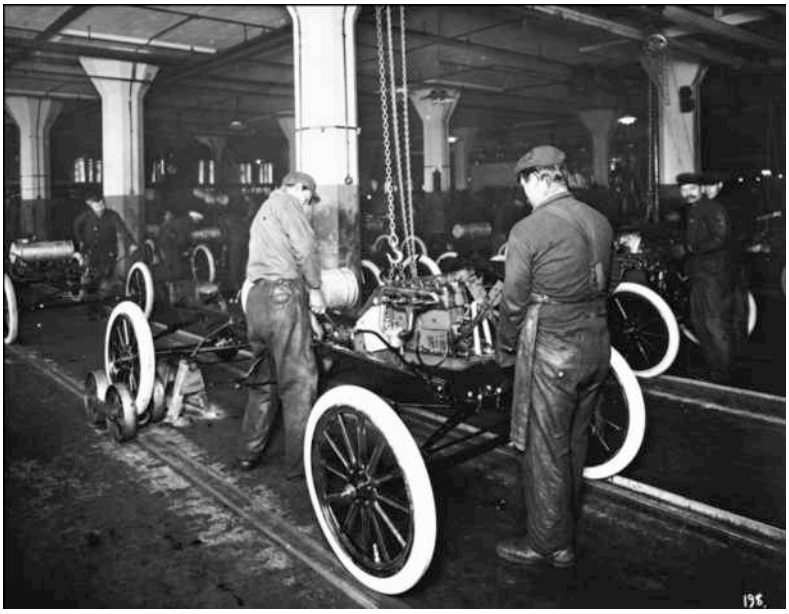
4

Part of the Ford assembly line

1913

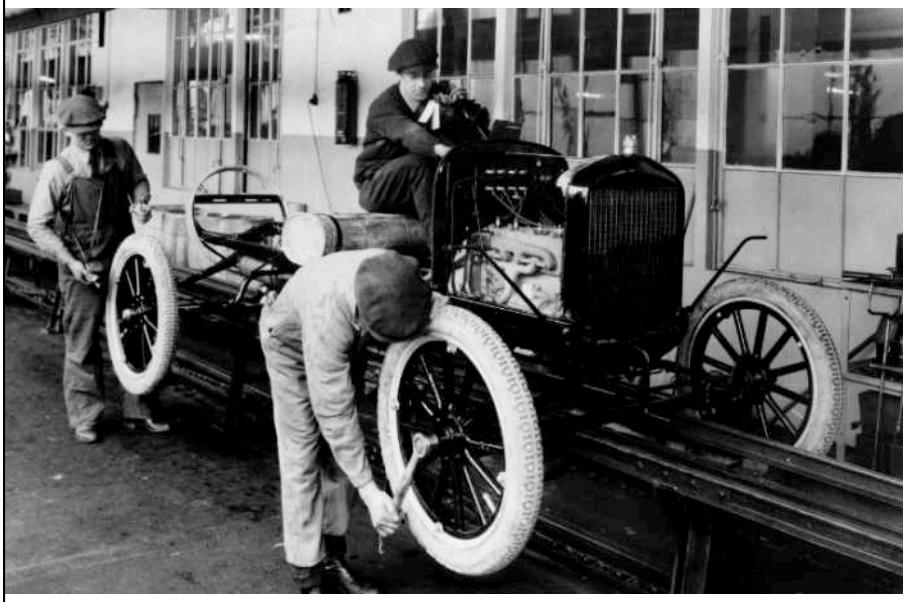
5

Ford introduces the first moving assembly line in 1913



6

1924 — the 10 millionth Model-T Ford



7

Charlie Chaplin — scene from 'Modern Times' 1936

8

Video clip

Tucker engine assembly

1940s

9

General Motors Pontiac chassis assembly line, 1961

10

On to the age of robotics — machinery run by computers…

11

2004

Robots welding Ford Mustangs

12

2008

Automation in Ford Fiesta plant, Germany

13

Some parts of the production process still require the skill and judgment of human beings, but increasingly even these functions are also being automated.

14

Video clip

Hyundai factory in Russia, 2015

15

In a General Motors plant 2016

16

Video clip

Mercedes-Benz C-class factory, East London, South Africa

17

Mercedes-Benz C-class factory, East London, South Africa

18

Mercedes-Benz C-class factory, East London, South Africa

19

This factory is producing plastic parts for motor vehicles. How many workers do you see?

20

Video clip

'Computer-facture' or '<u>robofacture</u>'

The computer revolution had its origins during the Second World War (1939-1945), notably in making the billions of calculations needed to crack coded messages in a short time. Initially computers were massive things, consuming vast amounts of electricity and generating vast amounts of heat. The post-War missile and space race between the USA and the Soviet Union carried computerisation forward. The challenge was to increase computing power while reducing size and energy consumption. Hand-held calculators appeared in the early 1970s. Compact computers began to arrive on corporate desktops in the mid to late 1970s, and the first Apple computers, using microprocessors and designed for hobbyists, were sold in the late 1970s. However, it was only in the early 1980s that the first mass-produced personal computers appear. Along with this, computer-based automation of production began to make significant strides. As we have seen, today robots carry out a range of complex industrial operations with hardly any workers in attendance, and are moving increasingly into service and professional spheres.

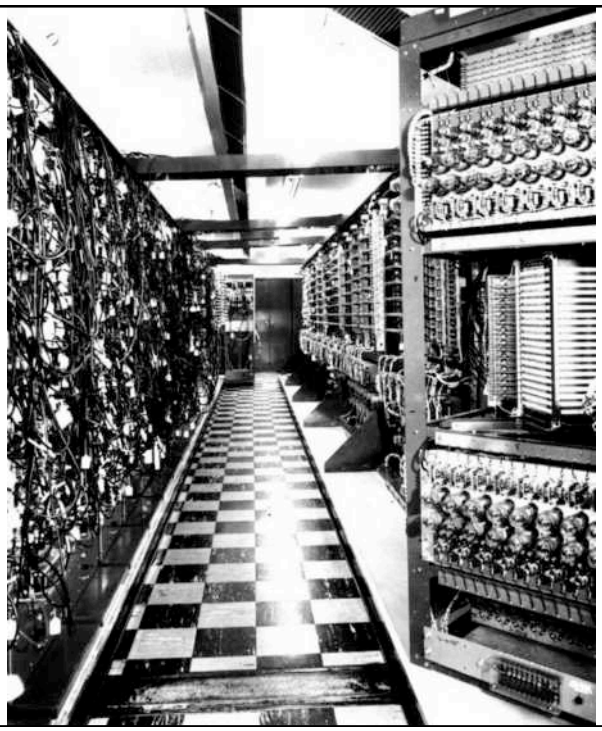
PowerPoint slides: Computers.pptx

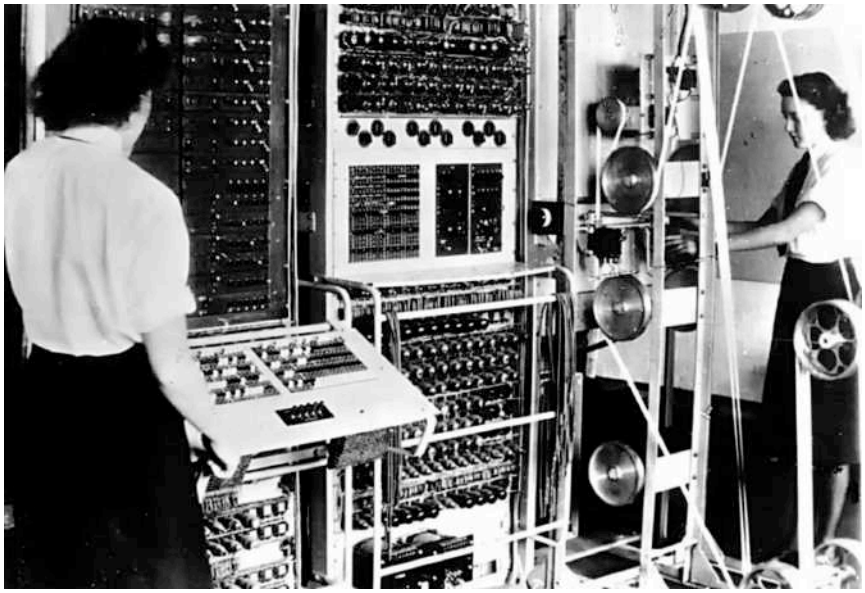
(see next page for details)

We'll be showing a documentary film illustrating modern computerised milk production on a large scale, with very little human labour, in the next session.

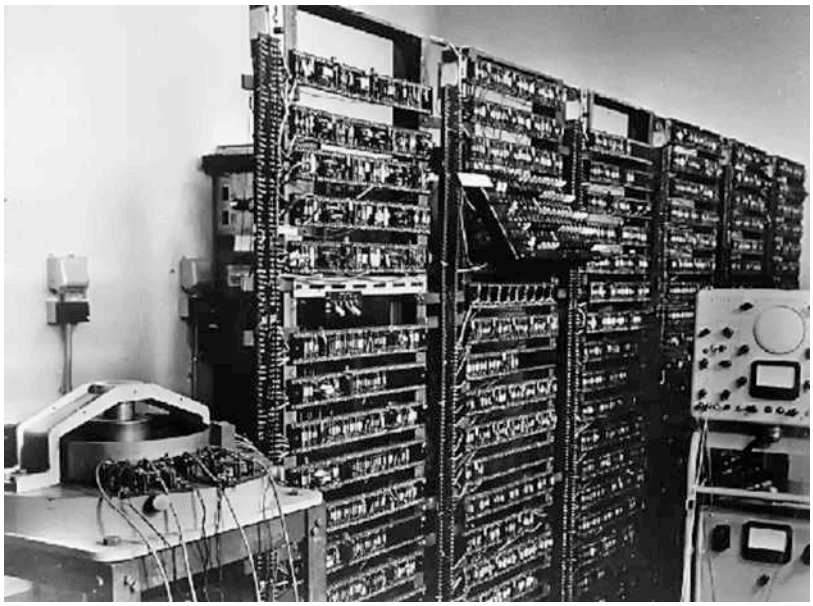
1943

Computer built at MIT to run a flight simulator to train bomber crews

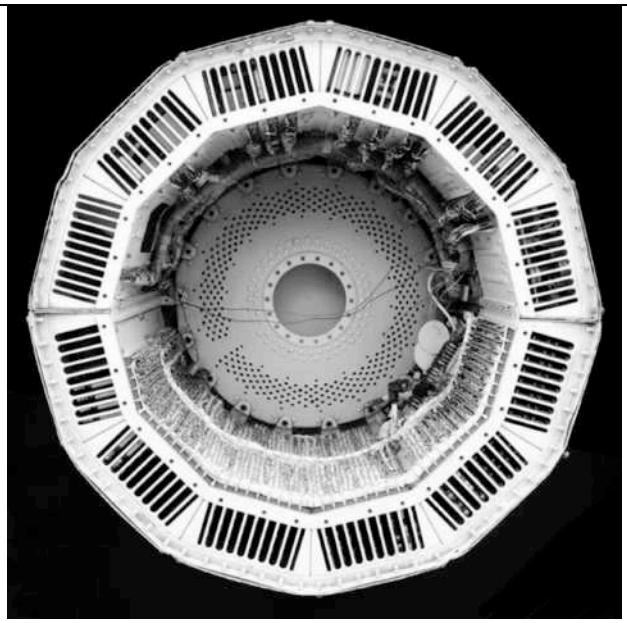




1944 The computer at Bletchley Park, England, for decoding German military messages



1953 Computer at Manchester University, using transistors instead of valves



1961 U.S. Minuteman missile on-board guidance computer

1973 The Wang word-processor and computer using a cassette tape for data storage

1977 The Apple II, which needed a colour TV set to display

1981

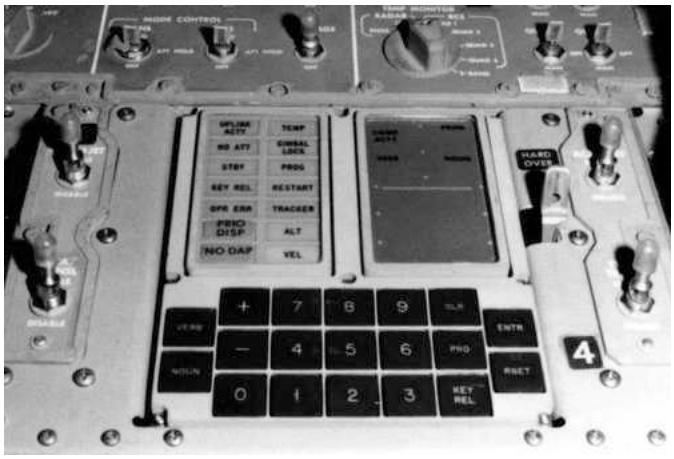
IBM PC

Osborne portable PC

And so on… to the electronic marvels of the present day.

The Apollo 11 spacecraft that achieved the first moon landing in 1969 had a computerised guidance system that represented a big step forward in computing power, with about 2,800 integrated circuits ('microchips').

But compare it (say) with the iPhone 4S (now already out of date).



Apollo's guidance system had a processor speed of 1 MHz. The phone's processor speed is 800 MHz.

It had 4 KB of memory, versus the phone's 16, 32 or 64 GB.

It weighed 32 kg (32,000 grams), versus the phone's 140 grams.

It used 55 watts of power, versus the phone's 1.5 watts.

2016-08-01 From the preparatory notes for Class 15 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

After starting very late, the class began with a short presentation, prepared by Phindile Kunene, posing the question arising from last week's material:

> **What is the contradiction between the increasing use of machines in the production process, as demonstrated through the videos and the shrinking of the labour engaged in production?**

To which she added:

<u>Interpreting my question</u>

- Does the increased use of machines not cause a reduced demand for labour (in the production) process and thereby inducing unemployment and increasing competition for work amongst the working class, which then leads to reduced wages?
- If we answer yes to the above: to what extent does this affect the efficacy of the capitalist system?
- If wealth is concentrated in the hands of a few and we have impoverished masses, does this not spell disaster for the capitalists – who need to sell the commodities that are produced?
- In other words, is the contradiction of the capitalist system principally about "under-consumption"?
- Pruning the branch of a tree that one sits on analogy

<u>Theory of Crisis</u>

- While "under-consumption" is a feature of the capitalist system. It is not unique to it. Pre-capitalist societies did suffer from occasional bouts of scarcity of use values (natural disasters, droughts, wars, primitive productive forces etc)
- "The Epidemic of Over-Production" referred to in the Communist Manifesto
- Unlimited drive to expand production comes into conflict with limited confines of the market economy
- There's increased capacity to produce (theoretically to satisfy all our needs) BUT production is geared at what can be profitably sold (exchange value). That's the logic that drives the system.

- Not simply what is needed (use values)
- Unlimited capacity to produce along with limited consumption of the masses resulting from the class structure of society combine into a sharp contradiction

Explanation not exhaustive

- There are various interpretations of Marx's theory of crisis from Marxian theorists
- It is a little more complicated and more technical than the sketch
- Fierce debates – (mono-causal and those who attribute the crisis to more than just one explanation)
- There is also a long-drawn out debate about whether theory of crisis imply inevitable collapse of capitalism
- Or that it will take more than just crisis for the system to breakdown
- Others argue that breakdown or collapse is not in sight and therefore organising strategies of the working class need to cater for this.

These topics will be the focus of discussion in detail further on in the course.

The class then divided into three groups to read the handout:

Adam Smith, Allyn Young.pdf (on the technical aspect of the division of labour, and how the division of labour — and with it mechanisation — depends on the extent of the market.

The discussion of this text in plenary session was deferred to the next class.

AFTER THE BREAK:

Showing of the 50-minute BBC film: **'Inside the Factory — Milk'**

2016-08-15 From the preparatory notes for Class 16 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

The class began with discussion of the text on the technical aspect of the division of labour that was read in groups last time (Class 15), and some of the issues it raises. Class members were also reminded to raise anything that struck them from watching the milk factory film.

The 'division of labour' (as we've noted before) is a generally accepted but somewhat misleading term. It refers to the division or specialisation of *productive operations*, whereby human labour combines with materials and tools in order to produce something. The division of labour implies an accompanying division of materials and tools.

Marx and Engels told us in para 10 of the extracts from *The German Ideology*:

> How far the productive forces of a nation are developed is shown most manifestly by the degree to which the division of labour has been carried. Each new productive force, insofar as it is not merely a quantitative extension of productive forces already known (for instance the bringing into cultivation of fresh land), causes a further development of the division of labour.

The passages from **Adam Smith** and **Allyn Young**[1] read last week deal with the *technical* aspect of the division of labour, and how the division of labour — and with it mechanisation — depends on the extent of the market. When we get to later paragraphs of *The German Ideology* extracts, we'll concentrate more on the *social* aspects and *social implications* of the division of labour.

The 1972 article by **Robert M. Young**,[2] sent out to you as recommended reading, provides a useful introduction to that aspect.

But for the moment, let's keep focused on the technical side.

There is division of labour *between* productive enterprises, and there is division of labour *within* enterprises.

The beneficial effects on the production of material wealth flowing from the division of labour:

Adam Smith in *The Wealth of Nations* (1776) — although his example of pin-making is justly famous — was not the first to appreciate this. For example the physician Bernard Mandeville, in *The Fable of the Bees* (1714, 1729), had his character Cleomenes say: 'if one will wholly

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[1] *Adam Smith, Allyn Young.pdf*

[2] *1972 Young, Darwinism and division of labour.pdf* This was originally broadcast on the BBC Radio 3 series, 'Are Hierarchies Necessary?' It was subsequently published in *The Listener*, 17 August 1972, pp. 202-5 and in *Science as Culture* no. 9: 110-24, 1990.

apply himself to the making of bows and arrows, whilst another provides food, a third builds huts, a fourth makes garments, and a fifth utensils, they not only become useful to one another, but the callings and employments themselves will in the same number of years receive much greater improvements, than if all had been promiscuously follow'd by every one of the five.' To which Horatio replies: '... the truth of what you say is in nothing so conspicuous, as it is in watch-making, which is come to a higher degree of perfection, than it would have been arrived at yet, if the whole had always remain'd the employment of one person; and I am persuaded, that even the plenty we have of clocks and watches, as well as the exactness and beauty they may be made of, are chiefly owing to the division that has been made of that art into many branches.' [3]

Both Mandeville and Smith argued that the pursuit of private interest through production for exchange leads to public welfare.

But do the beneficial effects 'trickle down' to the general population?

What do you think of this passage in Adam Smith?

> It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people.

He was writing at the dawn of the capitalist era, when production was still carried on largely by 'manufacture' — that is before the age of 'machinofacture'. Was he simply wrong in this passage?

Actually there is a 'trickle down' effect which it would be a mistake simply to ignore.

The 'Nordhaus effect': a form of distribution of social wealth not included in wages — or in profit, interest and ground rent.

Back in 1998 the Yale economist William Nordhaus wrote an interesting article about real income statistics.[4] He was writing mainly about the United States, but his point is a general one. 'Real' income statistics count up the money income of people and adjust it for inflation, that is to say, adjust it for general changes in the value of money (or what money can buy). Nordhaus showed that so-called 'real' income statistics do not capture the increase in real wealth or utility when technology is undergoing significant change.

> "... [M]ost of the goods we consume today [he wrote] were not produced a century ago. We travel in vehicles that were not yet invented that are powered by fuels not yet produced, communicate through devices not yet manufactured, enjoy cool air on the hottest days, are entertained by electronic wizardry that was not dreamed of, and receive medical treatments that were unheard of. If we are to obtain accurate estimates of the growth of real incomes over the last century, we must somehow construct price indexes that account for the vast changes in the quality and range of goods and services that we

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[3] Oxford: Clarendon Press edition 1924, vol 2, p. 284. The archaic capitalisation in the original has been removed.

[4] William D. Nordhaus, *Do Real-Output and Real-Wage Measures Capture Reality? The History of Lighting Suggests Not*. Cowles Foundation Paper No. 957. Cowles Foundation for Research in Economics at Yale University. 1998.

> consume. that somehow compare the services of horse with automobile, of Pony Express with facsimile machine, of carbon paper with photocopier, of dark and lonely nights with nights spent watching television, and of brain surgery with magnetic resonance imaging."

Nordhaus concluded:

> By design, price indexes can capture the small, run-of-the-mill changes in economic activity, but revolutionary jumps in technology are simply ignored by the indexes. What is surprising is how pervasive the range of revolutionary products is.

Nordhaus's original article was mainly about domestic lighting. In a recent lecture, the English free-market libertarian Matt Ridley has summed up similar facts in these words:[5]

> Ask yourself how long you would have to work to provide for yourself an hour of reading light this evening to read a book by.
>
> If you had to start from scratch, let's say you go out into the countryside. You find a sheep. You kill it. You get the fat out of it. You render it down. You make a candle, etc. etc. How long is it going to take you? Quite a long time.
>
> How long do you actually have to work to earn an hour of reading light if you're on the average wage in Britain today? And the answer is about half a second. Back in 1950, you would have had to work for eight seconds on the average wage to acquire that much light. And that's seven and a half seconds of prosperity that you've gained since 1950, as it were, because that's seven and a half seconds in which you can do something else, or you can acquire another good or service. And back in 1880, it would have been 15 minutes to earn that amount of light on the average wage. Back in 1800, you'd have had to work six hours to earn a candle that could burn for an hour. In other words, the average person on the average wage could not afford a candle in 1800.

Very good! But Ridley, trying to persuade his audience that all is for the best in the best of all possible worlds, neither mentions rising social inequality nor discusses the technological potential for transforming lives that is still forced to lie dormant because those who could use it cannot afford to pay for it — cannot afford it not for reasons of individual laziness or lack of talent but because the socio-economic system denies them the necessary opportunity to work and earn.

Cellphones example? Other examples?

Basic attitude to technological progress:

Marx and the electric railway engine (PowerPoint slide)

> "A few months after his arrival in London [in 1849], Karl Marx noticed a working model of an electric railway engine in the window of a Regent Street shop. He became 'flushed and excited', according to a witness — not from the thrill of novelty but because of the economic implications. 'The problem is solved — the consequences are indefinable,' he told his fellow gawpers. 'In the wake of the economic revolution the political must necessarily follow, for the

[5] Lecture given at Oxford University, 14 July 2010.

> latter is only the expression of the former.' It seems unlikely that anyone else in the Regent Street throng had paused to consider the economic and political consequences of this Trojan iron horse; for Marx, it was all that mattered.
>
> — Francis Wheen, *Marx's 'Das Kapital': A Biography*. Atlantic Books, 2006. Pages 22-23.

Lenin's approach to technological advances: A two-page article entitled 'A Great Technical Achievement', written by Lenin in 1913,[6] was distributed as a handout, projected on the screen and read during the class. Remember that this was written more than a hundred years ago, and obviously much has changed. But it shows that Lenin adopted the same approach to technical progress that Marx had adopted. Lenin was in exile from Tsarist Russia, living in Poland at that time. In this article for his party's paper *Pravda* he was writing not about Russia specifically but about the world.

Recall **William Petty, Samuel Johnson** and **the two meanings of wealth** (PowerPoint slides introduced in Class 04).

> 'A man is actually and truly rich according to what he eateth, drinketh, weareth, or in any other way really and actually enjoyeth. Others are but potentially and imaginatively rich, who though they have power over much, make little use of it, these being rather stewards and exchangers for the other sort than owners for themselves.'
>
> — Sir William Petty, 1662

Compare Samuel Johnson's definition of 'wealth':

> 'WEALTH. Prosperity; external happiness. Riches; money, or precious goods.'

We noted then that this definition, in two parts, shows the two-fold sense in which the word 'wealth' is ordinarily used:

1) the first of the two meanings refers to wealth in its material aspect as utility;
2) the second refers to the prevailing social means by which people command the first.

That command is by means of property, or socially recognised entitlements to material wealth.

In fact, two thousand years earlier, the ancient Greek philosopher **Aristotle** (384–322 BCE) had recognised the same distinction and said much the same thing:[7]

> The criterion of 'security' [in relation to ownership] is the ownership of property in such places and under such conditions that the use of it is in our power; and it is 'our own' if it is in our own power to dispose of it or keep it. ... Wealth as a whole consists in using things rather than in owning them; it is really the activity — that is, the use — of property that constitutes wealth.

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[6] From Lenin's *Collected Works*, vol 19, pp 61-62. Published in *Pravda*, 21 April 1913.

[7] *Rhetorica*, Book I.5 (1361[a]). Translation by W. Rhys Roberts.

Importance of maintaining the distinction between **objects of utility** (real material wealth) and **socially recognised entitlements** (proprietary entitlements) to those objects.

The two meanings or aspects of wealth are distinct, but they are **connected**. Marx and Engels are helping us to understand the connection between the two. The system of *property relations* develops historically in conjunction with the development of the *productive forces*. And the development of the *division of labour* is central to both.

BREAK

After the break, the class divided into two groups to read and discuss paras 55-61 of the extracts from *The German Ideology*.

2016-09-19 Compilation from the preparatory notes for Classes 17, 18, 19, 20 and 21 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

After discussion in two groups of paragraphs 62-74 of the extracts from *The German Ideology*, return to discussion of some topics in the full class:

Colonisation: what was the driver?

Protection and free trade

Who would favour free competition and free trade?

What are the benefits of free trade?

Development of large-scale industry.

Continuation of inter-imperialist rivalry and war.

> Illustrations: Hitler's negotiations with Chamberlain over Africa. Churchill on keeping India.

Churchill combined free-trade liberalism with the view that Britain needed India as a captive market.[1] Churchill's India policy was located within his view of a coming struggle of all against all. See Jenkins (*Churchill: A Biography*), who explains in this connection his 'Mussolini' tendencies.[2]

In 1932 Churchill wrote to Lord Linlithgow (who was to become British Viceroy of India from 1936-1943):[3]

> I think we differ principally in this, that you assume that the future is a mere extension of the past whereas I find history full of unexpected turns and retrogressions. The mild and vague Liberalism of the early years of the twentieth century, the surge of fantastic hopes and illusions that followed the armistice of the Great War have already been superseded by a violent reaction against Parliamentary and electioneering procedure and by the establishment of dictatorships real or veiled in almost every country. Moreover the loss of our external connections, the shrinkage in foreign trade and shipping brings the surplus population of Britain within measurable distance of utter ruin. We are entering a period when the struggle for self-preservation is going to present itself with great intenseness to thickly populated industrial countries.
>
> It is unsound reasoning therefore to suppose that England alone among the nations will be willing to part with her control over a great dependency like India. The Dutch will not do it; the French will not do it; the Italians will not do it. As for the Japanese, they are conquering a new empire. All the time you and your friends go on mouthing the bland platitudes of an easy safe triumphant age which has passed away, whereas the tide has turned and you will be engulfed by it.

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[1] See Jenkins, Roy. *Churchill: A Biography*. New ed. Pan, 2002. P. 423.

[2] *Op cit* p. 457.

[3] Quoted by Jenkins, *op cit* p. 457.

> In my view England is now beginning a new period of struggle and fighting for its life, and the crux of it will be not only the retention of India but a much stronger assertion of commercial rights .... Your schemes are twenty years behind the times.

The riposte of Linlithgow is very important:[4]

> You envisage ... an approaching period of red tooth and claw, a struggle for the means to live. I doubt it, Winston! I wonder whether you take sufficient cognizance of two basic changes of tendency. (a) falling birth-rates, (b) enormously enhanced production, actual and potential, both of primary and manufactured products? I think it is difficult to overestimate the significance of (b). ... Forgive me, then, if I say that it is not, it seems to me, so much I who am mouthing the bland platitudes of an age that has passed away, twenty years behind the times, but rather you who are hanging, hairy, from a branch, while you splutter the atavistic shibboleths of an age destined by some to retreat into the forgotten past. In conclusion, let me as one Tory to another, beseech you to see in time the errors of your mind, and to retract them, lest irretrievably you miss the bus.

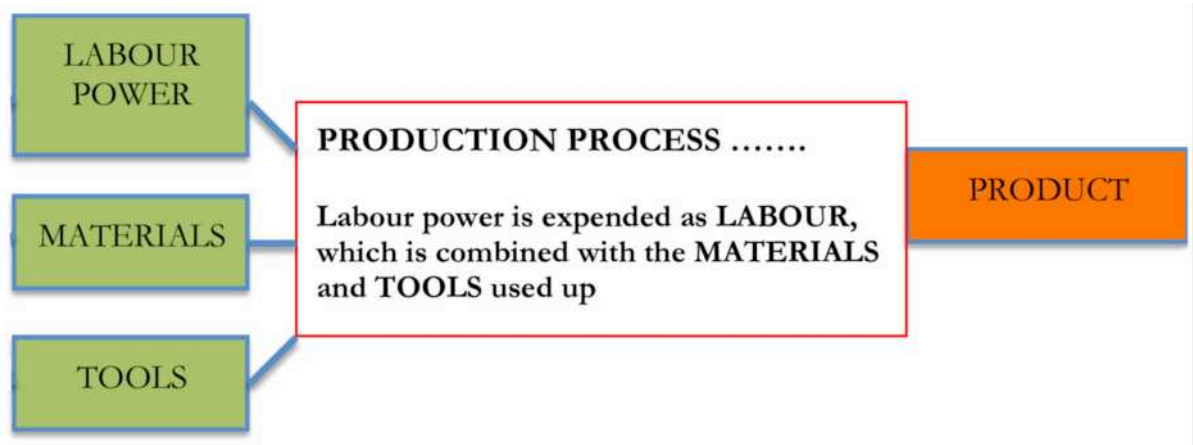
Yet it was Churchill who was equipping himself with the outlook necessary for victory in the coming World War — while remaining hopelessly unprepared for post-War decolonisation. And it was the United States, victorious in the World War, which was in the position to benefit most from the neo-colonial exploitation of the former colonies after the War.

'Concentration of capital' : what does this mean?

Return to the discussion of **what is capital? ... ⬇**

Recap on the two meanings of wealth. Connect this with the definition of property.

Diagram of physical production:



Material inputs, ... physical production process... , material output. So far, the question of ownership (entitlement) does not arise. Now let's bring it in.

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[4] Quoted by Jenkins, *op cit* p. 458.

Who will be entitled to the ownership of the product?

In production for exchange, what happens to the product?

Money as a form of socially recognised entitlement. (We shall discuss money more fully below.)

Surplus: recap on understanding that the social surplus is a physically produced surplus — objects of utility (goods and services)

If there's a surplus, who owns it? Would production for exchange continue without production of surplus?

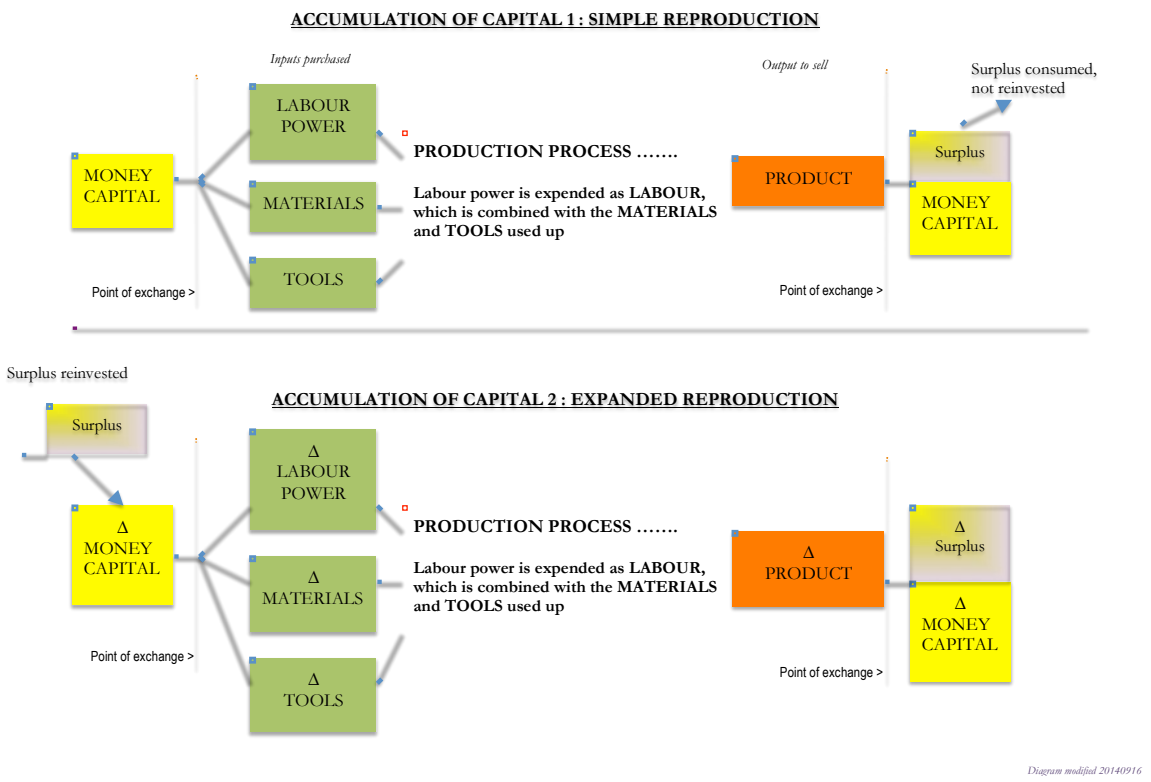
Capital is property capable of participating in surplus. Capital is thus a species or sub-set of **entitlement**.

'Capital' in common parlance. The inputs required for production — but more accurately, the ownership of those inputs. And likewise capital in the sense of 'money capital'.

Capital changes its form, in the sense that the **object of the entitlement** changes. Ownership of the inputs, … , ownership of the output, ownership of the money into which it is converted in exchange.

Does that money remain 'capital'? That depends on whether it is destined to go back into the production of surplus.

Simple reproduction and **Reproduction on an expanded scale**



What is 'capitalism'? Is it simply the same as production for exchange?

No. 'Capitalism' refers to the system of production for exchange at a stage, and in circumstances, where **reinvestment of surplus** has become essential if enterprises are to sustain their competitive position and survive.

The headlong pursuit of growth becomes a fundamental feature of the system, both for enterprises themselves and for the owners of capital in general.

This is the basis on which production for exchange has transformed the world. It is also the basis upon which inequality persists and is constantly regenerated, and which gives rise to the repeated crises of the system.

A 57-minute **BBC film on the Industrial Revolution in Britain** was shown.[5]

A critical discussion on the film follows, emphasising its omission of material on the oppression and degradation of the industrial working class.

Key conditions which made England the country where the industrial revolution took off:

- Coal, and its location.
- Britain's maritime power.
- Political conditions favouring invention and investment in machines and infra-structure, and the expansion of middle-class consumer demand.
- Slave plantations in the Americas supplying materials.
- The availability of a landless proletariat capable of being formed into an industrial working class under harsh exploitative conditions.

The film deals with the first four of these conditions, but omits the fifth.

Who mined the coal that the film begins with?

Handout containing passages from **The Condition of the English Working Class** and related material.

Some **images on the condition of the English industrial working class**.

Discuss the indications nonetheless of a 'Nordhaus' beneficial effect resulting from the economic advances brought by the industrial revolution.

Arising from our reading of paragraphs 71 and 72 of the extracts from the *The German Ideology*, what were Marx and Engels saying about the relationship between **large-scale industry** and **private property**? What did they mean and were they right? Was the problem created in translation?

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[5] 2013 BBC, Industrial Revolution 1.mp4

Refer to **tabulated text with German original and English translation** (handed out).

How Marx and Engels saw the outcome of the historical development which they had analysed:

> **... concentration of capital ... large-scale industry ... polarisation of society between owners and industrial proletariat ... solution envisaged whereby the means of production are taken over by the state and run according to plan (not the market) under the power of the workers, so that the surplus goes to the people.**

Did a workers' revolution succeed in any industrialised country?

Did the workers succeed in taking power anywhere?

Were they able to hold on to power?

Where was state ownership and central planning instituted in place of the market? What happened to it?

Today's global system of production for exchange. Discuss the implications.

Billions of different products: In his 2007 book, *The Origin of Wealth*,[6] Eric Beinhocker has calculated that in a typical tribal society there were several hundred or at most a few thousand different items of utility. But in the exchange economy in New York today there are, by his calculation, billions of distinct articles of utility (goods and services) that have been produced for exchange. What applies to New York applies now to the world.

Robofacture: a post-industrial and increasingly service-based society, from which labour is being eliminated by technology. **Decline of the industrial working class.**

To understand our modern predicament, to guide our activism in these changed conditions, we must beware of simply citing old dogmas based partly on science but partly on utopian wishful thinking. We ourselves must try to avoid wishful thinking — without ceasing to imagine, and imagine passionately, the world that could be.

We have to understand how private property has continued to evolve. We have to understand property in its modern financial form, and how it connects at the base with the way in which products and surplus are produced and appropriated. That is where we are heading in this course.

Back to the diagram of simple and expanded reproduction

The diagram on **Accumulation of Capital: Simple Reproduction and Expanded Reproduction** handed out. It should be brought with you from now on to every class.

Return to the discussion of the meaning of **'capital'**.

In common parlance, 'capital' refers to the inputs required for production, and in particular to the machinery and materials required.

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[6] Random House Business Books, London, 2007, page 9.

However, in a lecture to workers in 1847, published as *Wage Labour and Capital* in 1849,[7] Marx pointed out that capital 'is a social relation of production'. This is surely correct: capital is not the various means of production themselves, not the **objects** as such but the socially-recognised **entitlements** to those objects — and to the products resulting from consuming them in production. It is consequently also the **money**, the units of social accounting and apportionment into which the products are exchanged.

But Marx went on to argue that capital 'is a *bourgeois production relation*, a production relation of bourgeois society.'[8] We suggest that this conception is too narrow. Capital has obviously existed long before capitalism. In the *German Ideology* manuscript, Marx and Engels themselves refer repeatedly to developments in the nature of capital well before capitalism itself.

It surely does make sense to speak of 'capital' before capitalism — so long as we connect the concept to entitlement to the product, or to a share in the product, containing surplus.

It makes little sense to speak of 'natural capital' before the rise of proprietary entitlement. Even 'natural capital' should be understood not as the things to which it commonly refers, but as **a social relation in regard to those things** — as property in (i.e., socially recognised entitlement to) the **products** to which the forces of nature, the naturally provided means of production, contribute.

Today, economists are trying to give a dollar value to the forces of nature, for example to sunshine and wind — which shows how hopelessly they confuse the **material ingredients** of production with the **entitlements** which society (capitalist society) has come to recognise in everything that is produced, and in everything exchangeable. So far, sunshine and wind themselves have managed to escape being turned into objects of property, and objects of exchange.

Capital reaches its highest development in the period of capitalism and indeed becomes the world-dominating form of the property relation. **Today it is particularly in its form as financial entitlement that capital rules the world.** More of that later.

To recap:

> ***Capital is property capable of participating in surplus.*** Capital is thus a species or sub-set of **entitlement**.
>
> 'Capital' has as its **objects** the inputs required for production — but precisely stated it is not the inputs themselves which are 'capital' but the **ownership** of them. And likewise capital in the sense of 'money capital'.
>
> Capital changes its form, in the sense that the **object of the entitlement** changes. Ownership of the inputs, … [production process] … , ownership of the output, ownership of the money into which it is converted in exchange.

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[7] *MECW* vol 9, pp. 212-213. As published in April 1849.

[8] Id., p. 212.

> Does that money remain 'capital'? That depends on whether it is destined to go back into the production of surplus.

Deal with the question raised in a previous class:

> "If I buy an office block, for which I own the land, and I am paid rent by those who use it, can it be considered capital? I.e. is the land, and the office block standing upon it, participating in the creation of surplus?"

Apply the diagram in answering this.

In answering this question, also deal with **interest** and **ground rent** as species of socially-recognised entitlement to surplus. Bear in mind that 'ownership' itself is not a physical ingredient in production. It is not a material input into production — not a 'factor' of production.

The factors of production are consumed (i.e. destroyed) in production and have to be replaced for purposes of **reproduction**. Only after that is there a 'surplus'.

The enterprise may own its own money-capital needed to purchase inputs, the factors of production. If not, the enterprise must turn to a money-lender, an owner of money-capital, such as a bank.

The money-lender's money lent to the enterprise is spent by the enterprise on factors of production. **The money-lender is entitled to repayment with interest even if production by the enterprise fails.** It is the **enterprise** which risks the factors of production. The risk for the money-lender is only that the enterprise itself may ultimately prove unable to meet its payment obligations.

The **interest** paid to the money-lender cannot in general be paid out of that part of the value of the product which must be used to replace the stock of money-capital in the hands of the enterprise. If that were to happen, reproduction would become impossible. Furthermore, the capital sum borrowed could then not be repaid. The interest paid to the money-lender is **a subtraction from the surplus** which accrues in the first instance to the enterprise itself, and which would remain in the hands of the enterprise if the latter had its own money-capital and did not have to borrow.

Therefore interest in general is a charge levied by money-owners on the surplus produced by enterprises in which they (the money-owners) do not directly invest. It is a pure return to ownership of money-capital. But it also follows that, if there was no surplus being produced by enterprises, the sources of interest would dry up.

In the case of rent on **unimproved ground (so-called 'ground rent')**, this is likewise **a pure return to ownership**. Ground may be regarded as a necessary physical input in the sense that (as, for example with the provision of office accommodation as a service) production has to take place somewhere, and also because the land (as in the case of agricultural land) may itself be making a necessary contribution to the ingredients of production regardless of improvements such as ploughing, dams for irrigation, fertilisers and so forth. But note that in the case of nature's own elementary contribution, **nothing has to be replaced out of the product**. Nature does the elementary **reproducing** itself.

The matter is different to the extent that there have been **improvements** to the ground, or to the extent that the ground has to be cleaned and **maintained** in order to be used. The example of the office block can serve as an illustration in this regard.

'Ground rent' — the portion of any rental that the owner can exact from the enterprise in respect simply of **unimproved ground** — is best understood as **a charge levied on the surplus that accrues to the enterprise in the first instance and which would remain with the enterprise itself if it owned the ground**. Thus ground rent is a socially-recognised claim on the social surplus by those who produce nothing. To repeat: it is **a pure return to ownership of land**. But again, if there was no surplus being produced by enterprises, the sources of ground rent would dry up.

The same is happening **indirectly** when interest and ground-rent are paid by **consumers**. For the present, however, let's keep focussed on the enterprise where products and surplus are produced.

MONEY — what it is, how it came into existence and developed.

Show *Open University film clip 1*: **The History of Money (1 Early money)**.

Read the following passages from RP's draft notes on …

The nature of money

'Money of account,' wrote Keynes, 'namely that in which debts and prices and general purchasing power are *expressed*, is the primary concept of a theory of money.'[9] Money, in fact, is any socially recognised means of keeping general account of the respective entitlements of people to the stocks and flows of goods and services among them. It expresses, and so registers—albeit that the register may be writ in water—their property relation in a universal form.

This 'universality' begins, however, within a restricted compass. It is only through an expanding network of *particular* property relations that the *general* nature of any unit of account becomes established. There are, of course, degrees of generality, and there are overlaps and changes in general acceptance. Nevertheless, it is in connection with the essential nature of money as a generally accepted unit of account that its more particular functional characteristics as medium of exchange, store of value and means of payment have evolved. Money in all of its particular forms, whether entering into exchange or held aloof, always retains the general character of a unit of social accounting.

Those who have explained money *as arising out of exchange itself* through the refinement of *barter*, whereby certain commodities (most notably gold and silver) established themselves through general acceptance as money commodities, have tended to confuse a particular phenomenon and *stage* in the development of exchange, and thus in the evolution of money,

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[9] *A Treatise on Money*, CW05, p 3.

with the *nature* of money itself.[10]

The more narrowly bounded the material relations of any group of people, and the more immediate and spontaneous the interactions within the group, the less would that group have need of any *general* means of accounting among its members for their respective entitlements to the common wealth. Thus the productive and distributive relations within a family or clan living simply from the land and receiving their respective shares of the social product and its means of production more or less immediately by tradition or by the adjudication of their patriarch or chief, do not call forth money.

> [It was observed at this point by a member of the class that, for example, the emergence of institutions such as *lobola* shows the existence in early societies of generally recognised units of value (notably cattle) which become significant in the development of money. **More on this later.**]

Likewise in their neighbourly relations, where reciprocal gift-giving and episodic borrowing are the norm, specific obligations may be noted down or simply carried in the common memory until satisfied or avenged, without giving rise to money.

Traditional hospitality to strangers when not at war, part of the implied mutual insurance by which human societies survive, breaks down only gradually as exchange relations become more anonymous and remote, coming to the fore again in times of unpredictable disaster. Even in the most developed society, reciprocal favours not counted in money continue to play an enormous role. Here a rough sense of fairness and honour usually suffices. The generous reciprocity of friends, extending often to each other's relatives and close acquaintances, would usually disdain all thought of reducing that mutuality to money and would be wary of the alienating effects of any detailed keeping of account. Yet money relations do hover in the background, and begin to assert themselves as soon as the elastic communism of friendship is overstretched.

Money has developed in history out of the increasing complexity, regularity and geographic extension of economic dealings within a growing population and with other populations more remote. But its development has been first and foremost that of a unit of account.

The archaeologist Denise Schmandt-Besserat, interpreting ancient evidence from Iraq, Iran, Turkey and the Levant, has famously deduced that writing itself first emerged in Mesopotamia, not from the drawing of pictures, but from abstract symbols used in the keeping of accounts.[11] The earliest form of writing 'consisted of wedges, circles, ovals, and triangles impressed on clay tablets and was anything but pictographic.'[12] These symbols in turn were representations of little clay tokens of different shapes, representing sheep, cattle, metal, garments, and other items of real material wealth.[13]

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[10] Smith, Marx, Menger, Marshall — to mention but a few.

[11] *How Writing Came About*. See esp ch 5 and 6.

[12] Id. [Kindle edition, loc 200 of 3752]

[13] For illustrations of the clay pellets or tokens and the symbols derived from them, see Schmandt-Besserat, "Reckoning Before Writing", *Archaeology*. May/June 1979, Vol. 32, No. 3, p. 22-31; accessible at http://en.finaly.org/index.php/Reckoning_before_writing

The tokens themselves had evolved—probably from about 8,000 BC—'to meet the needs of the economy, at first keeping track of the products of farming, then expanding in the urban age to keep track of goods manufactured in workshops. The development of tokens was tied to the rise of social structures, emerging with rank leadership and coming to a climax with state formation.'[14]

[14] *How Writing Came About*, [Kindle edition, loc 240 of 3752]

Writing in *Science News*,[15] Ivars Peterson provides a succinct summary:

> Archaeological studies of the period show evidence of grain cultivation in fields surrounding villages, the construction of communal silos for storing grain, and a rapid increase in population. In such a setting, individual farmers needed a reliable way to keep track of their goods, especially the amount of grain stored in shared facilities.
>
> It seems they did it by maintaining stocks of baked-clay tokens—one token for each item, different shapes for different types of items. A marble-sized clay sphere stood for a bushel of grain, a cylinder for an animal, an egg-shaped token for a jar of oil. There were as many tokens, or counters, of a certain shape as there were of that item in the farmer's store.
>
> Thus, tokens could be lined up in front of accountants, who doubtless organized them according to types of goods and transactions. They could even be arranged in visual patterns to make estimation and counting easier.
>
> This simple system of data storage persisted practically unchanged for almost 4,000 years, spreading over a large geographic area. Eventually, the growth of villages into cities and the increasing complexity of human activities, especially in southern Mesopotamia, forced a shift to a more versatile means of record keeping. This shift was marked by the appearance of elaborate tokens alongside the well-established system of simple counters. Though similar in size, material, and color and fabricated in much the same way as their plainer cousins, the new tokens bore surface markings and showed a greater variety of shapes.
>
> The elaborate tokens were apparently used for manufactured products—the output of Sumerian workshops. Incised cones and rhomboids probably represented loaves of bread and vessels of beer. Disks and parabolic tokens marked with lines signified different types of fibers, cloths, and finished garments. Incised cylinders and rectangles stood for ropes and mats. Other tokens seem to have represented luxury goods, including perfumes and various kinds of metalwork.
>
> The advent of complex tokens coincided with the emergence of powerful central governments and the construction of monuments and great temples, beginning around 3350 B.C. Art from that period shows the rise of a governing elite and the pooling of community resources for celebrating large festivals. The token system, extended to cover goods and services, played a key role in managing massive building projects and orchestrating large public events.
>
> Temple excavations reveal that the Sumerians often kept sets of tokens in clay globes, or envelopes. Temple clerks marked the envelopes by pressing tokens into the soft clay before sealing and baking them, making visible the number and shape of tokens enclosed. Excavated specimens show circular imprints left by spheres and wedge-shaped imprints left by cones.
>
> Once sealed in their clay cocoons, the tokens were hidden from view. It didn't take long for busy bureaucrats to realize that once the clay envelopes were marked, it was no longer necessary to keep the tokens. In fact, the marks by themselves, impressed on a clay tablet, were sufficient.

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[15] March 8, 2006; accessible at https://www.sciencenews.org/article/counting-writing

> Complex tokens couldn't be stored in clay envelopes as conveniently as simple counters because they often left indecipherable impressions. Instead, perforations allowed such tokens to be strung together, with special clay tags apparently identifying the accounts. In this case, the shortcut that the bureaucrats discovered was to inscribe the incised pattern found on the surface of a complex token directly onto a clay tablet. For example, they could replace an incised ovoid token with a neatly drawn oval with a slash across it.
>
> The result was a practical, convenient data storage system. A small set of clay tablets with neatly aligned signs was much easier to handle than an equivalent collection of loose tokens, and using a stylus for marking clay tablets was a lot faster than making an impression of every token.
>
> Around 3100 B.C., someone had the bright idea that, instead of representing, say, 33 jars of oil by repeating the symbol for one jar 33 times, it would be simpler to precede the symbol for a jar of oil by numerals—special signs expressing numbers. Moreover, the same signs could be used to represent the same quantity of any item.
>
> The signs chosen for this new role were the symbols for the two basic measures of grain. The impressed wedge (cone) came to stand for 1 and the impressed circle (sphere) for 10.
>
> In this way, the token system evolved into a kind of shorthand in which signs representing standard measures of grain, impressed on a clay tablet, came to represent not grain or any other specific commodity, but the concept of pure quantity. It was a revolution in both accounting and human communication. For the first time, there was a reckoning system applicable to any and every item under the sun.

In *Taming the Infinite: the story of mathematics*, Ian Stewart traces the history of all number symbols to this development.[16]

It is in the evolution of the social relations of production, exchange and distribution that money develops, so as to take account of and enable more remote and anonymous dealings. Yet its emergence from units of account, and its service as a store of value, is evident well before any significant development of production for exchange, and without money necessarily serving yet as medium of exchange or means of payment.

Consider the case of the rai stones of the remote Pacific island of Yap

NPR article on 'Island of Stone Money' (handed out).

Michael F. Bryan of the Federal Reserve Bank of Cleveland in the United States, who has researched the matter quite thoroughly and provides more detail in his 2004 article, 'Island Money',[17] emphasises that rai stones were not used for purposes of everyday exchanges. Prices were rather set in terms of baskets of a food crop or cups of syrup. Moreover —

> because Yap historically did not have close cultural ties with any of its trading partners and trade with off-islanders was somewhat infrequent, the stones did not facilitate transactions on these occasions. When transacting with other islands, the Yapese used woven mats (a common exchange medium

[16] Stewart, Ian. *Taming the Infinite: The Story of Mathematics*. Quercus, 2009. P. 14.

[17] Bryan, Michael F. "Island Money." *Federal Reserve Bank of Cleveland,* 1 February 2004.

> throughout the South Pacific), while trade with Westerners often involved an exchange of coconuts.
>
> Even on the island, the indivisibility of the stones necessitated the use of other items as media of exchange for most transactions. Most rai are highly valued: By one account, a stone of "three spans" (about 25 inches across) would have been sufficient in the early twentieth century to purchase 50 baskets of food or a full-sized pig, while a stone the size of a man would have been worth "many villages and plantations." Obviously, these stones do not change hands very frequently, since expenditures of such magnitude are rare. For more ordinary transactions, the Yapese either used pearl shells or resorted to barter.

What are the changes that must necessarily follow from the development of more extended exchange relations, so that one is exchanging objects of material wealth with **strangers who cannot be relied on to pay their debts, and who may not readily be subject to powers of enforcement**?

Discuss in this regard: **The rise of metallic money** as 'universal equivalent' capable of serving as *medium of exchange*, *unit of account*, *means of payment* and *store of value* for purposes of long-distance exchange.

Show *Open University film clip 2:* **The History of Money (2 Metal money).**

In his 1892 work, *The Origin of Metal Currency and Weight Standards*,[18] William Ridgeway showed how in early societies the conventional unit of account and standard of value for purposes of exchange depended upon whether the community lived in temperate or frozen regions.

Where the climate allowed the keeping of herds of domestic animals, it was these — most notably the cow or ox — which provided the social unit for the measurement of wealth. Hence the Roman *pecus* (a single head of cattle) supplied the root for the Latin word *pecunia,* meaning money or wealth in general (i.e., the second meaning of 'wealth' — the socially recognised means of commanding material wealth).

In Homer's poems of ancient Greece, which came before coined money, the cow or ox was the prevailing unit, while the 'Talent' (a certain weight of gold) was initially the equivalent of a cow or ox.

In the Caucasus, the value of metallic money was reckoned according to its cow-equivalent — five roubles equalling one cow.

'We shall likewise find,' writes Ridgeway, 'that when the ancient Irish borrowed a ready made silver unit (the *uncia*) from the Romans, they had to equate this unit to their old barter-unit the cow, just as in modem times [1892] the wild tribes of Annam [in central Vietnam] when borrowing the *bar* of silver from their more civilized neighbours have had to equate it to their native standard, the [water] buffalo; facts in close accord with the well known derivation of Latin *pecunia*, money from *pecus*, English *fee* from *feoh*, which still meant cattle, as does the German *Vieh*, and *rupee* (according to some) from Sanskrit *rupa*,

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[18] Ridgeway, William. *The Origin of Metallic Currency and Weight Standards*. Cambridge University Press, 1892.

also meaning cattle.'[19]

In contrast, in the extreme north 'the rigour of an arctic winter forbids the keeping and rearing of domestic animals, or the cultivation of corn and vegetables. Hence the hunter form of existence remains almost unaltered. The sole or chief wealth of the people consists of the skins of the fur-bearing animals such as the seal, the beaver, the marten, or the fox, or stores of dried fish, which they exchange with traders for a few scant luxuries, or which form their own sustenance and protection against the pitiless frosts and snows. In these regions therefore we find the skins of certain animals serving as units of account, in spite of the difference in value between those of different quality and rarity.'[20]

Precious metals gradually established themselves as universally recognised equivalents. Initially in many places silver served this purpose; then silver and gold; eventually only gold.

In *The Wealth of Nations* (1776), Adam Smith wrote:[21]

> In all countries, ... men seem at last to have been determined by irresistible reasons to give the preference, for this employment, to metals above every other commodity. Metals can not only be kept with as little loss as any other commodity, scarce any thing being less perishable than they are, but they can likewise, without any loss, be divided into any number of parts, as by fusion those parts can easily be reunited again; a quality which no other equally durable commodities possess, and which more than any other quality renders them fit to be the instruments of commerce and circulation. The man who wanted to buy salt, for example, and had nothing but cattle to give in exchange for it, must have been obliged to buy salt to the value of a whole ox, or a whole sheep, at a time. He could seldom buy less than this, because what he was to give for it could seldom be divided without loss; and if he had a mind to buy more, he must, for the same reasons, have been obliged to buy double or triple the quantity, the value, to wit, of two or three oxen, or of two or three sheep. If, on the contrary, instead of sheep or oxen, he had metals to give in exchange for it, he could easily proportion the quantity of the metal to the precise quantity of the commodity which he had immediate occasion for.
>
> Different metals have been made use of by different nations for this purpose. Iron was the common instrument of commerce among the ancient Spartans; copper among the ancient Romans; and gold and silver among all rich and commercial nations.
>
> Those metals seem originally to have been made use of for this purpose in rude bars, without any stamp or coinage. ...
>
> The use of metals in this rude state was attended with two very considerable inconveniencies; first with the trouble of weighing; and, secondly, with that of assaying them [determining their quality]. In the precious metals, where a small difference in the quantity makes a great difference in the value, even the business of weighing, with proper exactness, requires at least very accurate weights and scales. The weighing of gold in particular is an operation of some nicety. In the coarser metals, indeed, where a small error would be of little consequence, less accuracy would, no doubt, be necessary. Yet we should find

[19] *Op. cit.,* p. 4. One of the meanings of *rūpa* is cattle.

[20] *Op. cit.,* p. 21.

[21] Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations* (Glasgow Edition of the Works and Correspondence of Adam Smith). Oxford University Press (Liberty Press reprint), 1981. Vol 1, pp. 38-40.

> it excessively troublesome, if every time a poor man had occasion either to buy or sell a farthing's worth of goods, he was obliged to weigh the farthing. The operation of assaying is still more difficult, still more tedious, and, unless a part of the metal is fairly melted in the crucible, with proper dissolvents, any conclusion that can be drawn from it, is extremely uncertain. Before the institution of coined money, however, unless they went through this tedious and difficult operation, people must always have been liable to the grossest frauds and impositions, and instead of a pound weight of pure silver, or pure copper, might receive in exchange for their goods, an adulterated composition of the coarsest and cheapest materials, which had, however, in their outward appearance, been made to resemble those metals. To prevent such abuses, to facilitate exchanges, and thereby to encourage all sorts of industry and commerce, it had been found necessary, in all countries that have made any considerable advances towards improvement, to affix a public stamp upon certain quantities of such particular metals, as were in those countries commonly made use of to purchase goods. Hence the origin of coined money, and of those public offices called mints … .

H. W. F. Saggs tells us that in about 2000 BC—roughly a thousand years before the emergence of coined money—debts connected with exports and imports could be incurred and settled in Sumer by the use of a silver standard, even when payments were not actually made in silver. Thus, to give a typical example, when Ur-ninmar-ka supplied oil and thirty garments on credit to two merchants so that they could, at their own risk, exchange these for copper at Tilmun in the Persian Gulf, the contract valued the oil and garments at two minas of silver, and provided that the merchants could satisfy the debt to Ur-ninmar-ka in copper at the 'just price' of four minas of copper for each shekel of silver.[22]

The mina was a conventional unit of weight, which was widely used but varied somewhat between ancient Mesopotamia, Persia, Palestine and Greece. Modern sources have not reached consensus in this regard. In Mesopotamia it seems to have been about half a kilogram. It was divisible there into 60 shekels—the Sumerians used a sexagesimal system of numeration alongside a decimal system.[23] From units of weight, minas and shekels developed into units of currency. The Israelites derived their system of weights and coins from the Babylonians, but 50 shekels appear by then to have made up one mina.[24]

Later silver and gold served side by side, with gold being used for larger purchases because of its greater rarity and greater value embodied in an equivalent weight of metal. Attempts were made to maintain both gold and silver as a standard for paper money, but the attempts at 'bimetallism' failed because changing conditions of supply made the exchange rate between them unstable. This showed that money and its value is not fundamentally in the hands of the state.

Discuss the **role of the state in the minting of coins and the debasement of the coinage**.

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[22] Saggs, H.W.F. *The Babylonians: A Survey of the Ancient Civilisation of the Tigris-Euphrates Valley*. 2nd ed. The Folio Society, 1988, 1999. P. 215.

[23] *Id.*, pp. 366-7.

[24] See http://jewishencyclopedia.com/articles/13536-shekel; http://www.jewishvirtuallibrary.org/jsource/History/weightsandmeasures.html.)

William Bernstein writes in *A Splendid Exchange*:

> The basic unit of currency of the premodern world was remarkably constant: a small gold coin weighing approximately four grams — one-eighth of an ounce — and about the size of a present-day American dime, appearing in various times and places as the French livre, Florentine florin, Spanish or Venetian ducat, Portuguese cruzado, dinar of the Muslim world, Byzantine bezant, or late Roman solidus. At the current [2008] price of gold, this corresponds to a modern value of roughly eighty American dollars. The three major exceptions to this rule were the Dutch guilder, which weighed about one-fifth as much, and the English one-pound sovereign and the early Roman aureus, each of which weighed twice as much. The Muslim dirham, Greek drachma, and Roman denarius were silver coins of roughly the same size and weight, each equivalent to the daily wage of a semiskilled worker, with a value ratio of about twelve to one between the gold and silver coins.[25]

Marc Bloch records that, while metallic money was never wholly absent from business transactions in feudal Europe, even among the peasants, and was always used as a standard of exchange, it was by no means invariably used as means of payment. 'Payments were often made in produce; but the produce was normally valued item by item in such a way that the total of these reckonings corresponded with a stipulated price in pounds, shillings and pence.' *Feudal Society*, p. 66.

Return to the point that the fundamental nature of money is as a socially recognised unit of account. This is why money could develop further, from metallic money into paper money and then into electronically stored units of debit and credits.

Show *Open University film clip 3:* **The History of Money (3 Paper money).**

Show *Open University film clip 4:* **The History of Money (4 Controlling money).**

Show *Open University film clip 5:* **The History of Money (5 Money and inflation).**

The Spanish conquest of central and south America, and the resulting inflow of precious metals into Spain, had the paradoxical effect of weakening — not strengthening — capitalist development in Spain itself. The massive enrichment of the Spanish king and ruling class, and the increase of their military power for a period, did not translate into economic development in Spain.

From Neil MacGregor, *A History of the World in 100 Objects*:[26]

> The Spaniards had been drawn to America by the lure of gold, but what made them rich there was silver. They quickly found and exploited silver mines in Aztec Mexico, but it was in Peru, in the 1540s, that they really hit the silver jackpot – at the southern end of the Inca Empire at a mountainous place called Potosí, now in Bolivia, which quickly became known as the Silver Mountain.

[Pause here to show some **images of Potosí**.]

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[25] Bernstein, William J. *A Splendid Exchange: How Trade Shaped the World*. Atlantic Books, 2008. P. 19.

[26] MacGregor, Neil. *A History of the World in 100 Objects*. Allen Lane, 2010. Pp. 517-518.

MacGregor continues:

> Within a few years of the discovery of the Potosí mines, silver from Spanish America began to pour across the Atlantic, growing from a modest 148 kilos a year in the 1520s to nearly three million kilos a year in the 1590s. In the economic history of the world, nothing on this colossal scale, or with such grave consequences, had ever happened before.
>
> The isolated hill of Potosí sits 3,700 metres (12,000 feet) above sea level, on a high, arid and very cold plateau in the Andes – one of the most inaccessible parts of South America. Despite this remoteness, the silver mines required so much labour that by 1610 the population of this village had grown to 150,000, making it a major city by European standards of the day, and an unimaginably rich one. ...[27]

Deal with **the 'mit'a' system of forced labour** under Spanish rule. See https://en.wikipedia.org/wiki/Mit'a

'Without Potosí,' continues MacGregor —

> the history of sixteenth-century Europe would be very different. It was American silver that made the Spanish kings Europe's most powerful rulers and paid for their armies and armadas. It was American silver that allowed the Spanish monarchy to fight the French and the Dutch, the English and the Turks, establishing a pattern of expenditure that was ultimately to prove ruinous. Yet for decades the flow of silver provided rock-solid credit for Spain through the direst crises and bankruptcies: it was assumed that next year there would always be another treasure fleet, and there always was. 'In silver lies the security and strength of my monarchy,' said King Philip IV.
>
> The production of this wealth came at a huge cost in human life. At Potosí young native American men were conscripted and forced to labour in the mines. Conditions were brutal, indeed lethal. In 1585 one eyewitness reported:
>
>> "The only relief they have from their labours is to be told they are dogs, and to be beaten on the pretext of having brought up too little metal, or taken too long, or that what they have brought is earth, or that they have stolen some metal. [...]"
>
> In the freezing high altitude of the mountains, pneumonia was a constant danger, and mercury poisoning frequently killed those involved in the refining process. From around 1600, as the death rate soared among the local Indian communities, tens of thousands of African slaves were brought to Potosí to replace them. They proved more resilient than the local population, but they, too, died in large numbers. ...[28]

At Potosí the silver was minted into coins, the legendary 'pieces-of-eight' (worth eight Spanish *reales*). Also known as the **'Spanish dollar'**, these coins were widely used as the international currency during the ascendancy of Spain. They continued to be legal tender in the United States until 1857.[29]

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[27] *Op. cit.,* p. 518.

[28] *Op. cit.,* pp. 518-519.

[29] Bernstein, William J. *A Splendid Exchange: How Trade Shaped the World.* Atlantic Books, 2008. P. 212.

William Bernstein tells us that '[t]his coin, which flooded the European currency markets in the sixteenth century, was approximately the same size and weight as the Bohemian thaler—from which the word "dollar" derives. (Since eight reales equaled one "dollar," and the coins were too unwieldy for everyday use, they were frequently broken up into eight one-real pieces, hence the term "piece of eight," and the nickname of the quarter-dollar, "two bits.")'

MacGregor says:

> From Potosí the coins were loaded on to llamas for the two-month trek over the Andes to Lima and the Pacific coast. There, Spanish treasure fleets took the silver from Peru up to Panama, where it was carried by land over the isthmus and then across the Atlantic in convoys. ...[30]

The coins were also shipped across the Pacific to Spain's Asian empire, where they penetrated and destabilised the economies of East Asia and Ming China. In Europe,

> the very abundance of silver brought a new set of problems. It increased the money supply – much like governments printing money in modern terms. The consequence was inflation. ... "Ironically, silver coin became a rarity within Spain itself, as it haemorrhaged out to pay for foreign goods while local economic activity declined.
>
> As gold and silver vanished from Spain, its intellectuals grappled with the gulf between the illusion and the reality of wealth, and the moral consequences of the country's unexpected economic troubles. One writer in 1600 describes it like this:
>
>> "The cause of the ruin of Spain is that riches ride on the wind, and have always so ridden in the form of contract deeds, of bills of exchange, of silver and gold, instead of goods that bear fruit and which, because of their greater worth, attract to themselves riches from foreign parts, and so our inhabitants are ruined. We therefore see that the reason for the lack of gold and silver money in Spain is that there is too much of it and Spain is poor because she is rich."

Refer to extracts from *The German Ideology*, paras 54 and 59.

Who in Spain got rich? Who in Spain became poor?

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[30] *Op cit.*, page 519.

2016-09-26 and 2016-10-03 Compilation from the preparatory notes for Classes 22 and 23 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

These two classes cover the basic features of **companies and shareholding**, as well as **the flow of surplus into the financial economy**.

Pages 1-4 of Robert Charles Clark's *Corporate Law* (1986) on the dominance of the corporate form of organisation was provided to the class beforehand as recommended reading. What we call a 'company' is more commonly referred to as a 'corporation' in the United States.

A detailed history of the 'company' or 'corporation' — in ancient Rome, China, the Islamic world and medieval Europe — is beyond the scope of this course.[1] The term was at first loosely applied to what were really elaborated partnerships, usually of tax-farmers, merchants or tradesmen pooling their resources, and usually dependent on the state. Some towns, universities and religious communities were recognised as 'corporations', able to own property separately from their members. An important stage in the development of the corporate form of enterprise was the rise of royal chartered companies in Europe, such as the English East India Company (1600) and the Dutch East India Company (1602), which were granted monopolies in overseas trade, engaging in warfare and pioneering the imposition of colonial rule.

Clark deals essentially with the United States. At the beginning of the 19th century, the typical business enterprise was a sole proprietorship or a partnership in which a few individuals co-owned the assets of the business, sharing directly in its profits and being directly liable for its losses and debts. As the scale of production for exchange (especially industrial production) expanded, and with it the extent and scale of transportation and trade, a more flexible and potentially much bigger form of enterprise was needed:

> ... the large amounts of money capital needed to launch and sustain large business enterprises must be collected and aggregated into usable pools. Business must solicit investors on a mass scale, not merely by private negotiations with a handful of rich people.[2]

Investors were needed who would play no part in the business itself. They could be geographically scattered, and would leave the running of the company to elected directors. Whereas a partnership has to be dissolved or reconstituted whenever a partner leaves or dies, the life of a company continues indefinitely.

A company, as we encounter it today, is an artificial legal person. Although it commonly has members ('shareholders'), a company is a separate person, with its own assets and liabilities separate from those of its members. In principle, this means that the shareholders cannot treat the assets of the company as their own, and creditors cannot pursue the shareholders for payment of the company's debts.

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[1] See e.g. John Micklethwait and Adrian Wooldrige, *The Company: A Short History of a Revolutionary Idea* (2003), chapter 1.

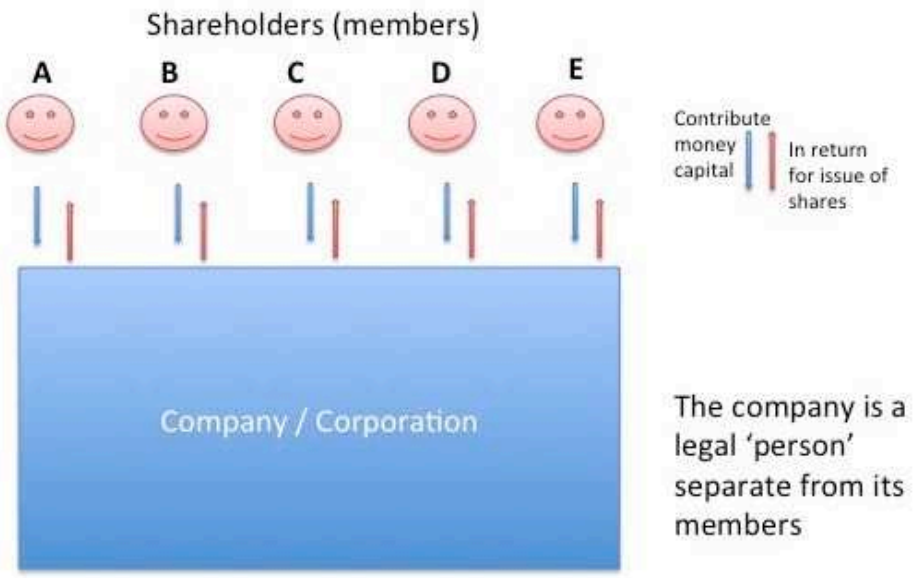
[2] Clark, op cit, p 3.

Shareholders gain from their investment through periodic distributions of profit in the form of dividends, as well as by increases in the market value of their shares if the company succeeds. At the same time they are sheltered from potential losses if the company fails, being limited to the loss of the capital-value that each has invested.

Basic advantages of a company for investors:

1. ***Limited liability for investors.***
2. ***Freedom of shareholders to sell their shares to others (in the case of public companies).***
3. ***Unlimited lifespan.***
4. ***Centralised management by a board of directors, no matter how many investors there are.***

This diagram depicts the basic relationship:



When a company is formed it issues shares to members in return for a capital investment. Later, it may issue more shares to new or existing members in return for more capital. (Sometimes more shares are issued to members in lieu of a dividend, so the company retains the cash — but this is really just a different form of capital investment by the members.)

It is important to note that members (shareholders) may not ordinarily recover their investment from the company itself: they cannot simply decide to return their shares to the company and be paid out. To turn their shares into a cash equivalent, they must find a buyer to take over the shares and pay them out. The share or 'stock' market is the market for the buying and selling of shares. The buyer then takes the place of the seller as member of the company, either directly or through an agent or 'nominee'.

In South Africa, companies are governed by the **Companies Act 71 of 2008.** In terms of section 19(1)(b), a company has 'all of the legal powers and capacity of an individual except

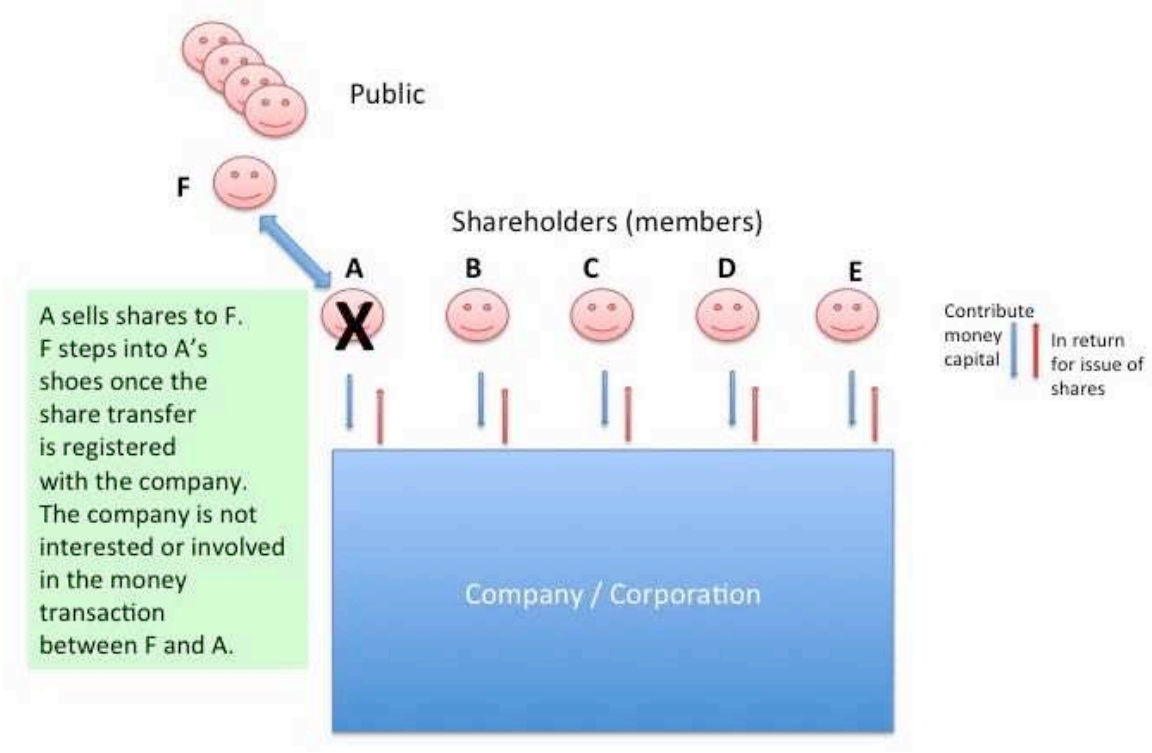
to the extent that a juristic person is incapable of exercising any such power, or having any such capacity', or unless the company's **Memorandum of Incorporation** provides otherwise.[3] (The constitution of a company is called its Memorandum of Incorporation.)

A company (corporation) is thus an artificial legal '**person**', capable of owning its own assets, having its own liabilities, and being able to sue and be sued.

> An '**asset**' is an entitlement, i.e. something owned, or a claim against another.
>
> A '**liability**' is an obligation or debt owed to another.

The Companies Act recognises two types of company incorporated in South Africa: '**profit**' companies and '**non-profit**' companies. We are concerned in this course only with 'profit' companies. The Act also recognises 'external' companies, which are incorporated elsewhere but which operate in South Africa. They are governed to that extent by the Companies Act.

As far as **South African companies** are concerned, there are **four possible types**: (a) a state-owned company; (b) a public company; (c) a private company; and (d) a personal liability company. For present purposes we can leave out state-owned companies and personal liability companies. (The latter are generally incorporated partnerships of professionals, such as doctors or attorneys.)



[3] Section 8(4) of the Constitution of South Africa provides that a juristic person 'is entitled to the rights in the Bill of Rights to the extent required by the nature of the rights and the nature of that juristic person'. The Constitutional Court has held, for example, that the right to property (section 25) applies to juristic persons, as does the right to freedom of expression (section 16) and the right to privacy (section 14, although not to the same extent as natural persons, who are protected not only against unlawful searches and seizures but also in their 'intimate personal sphere'). Juristic persons have long been able to sue for damage to their reputation (as distinct from hurt feelings, which they cannot have) as a result of defamation, whether or not it is proved to have caused actual loss of property, business or prospective gains.

A **private company** is not allowed to offer its shares to the public, and its Memorandum of Incorporation must restrict the transferability of its 'securities' (see below). Thus it is usually suitable for enterprises where the shareholders know each other, and want to keep the business operation to themselves without involving the public other than as customers. Private companies are no longer required to be formally audited. But the potential scale of their business is not restricted.

A **public company** has no such restriction on the offer and sale of its shares. And it must, for example, be regularly audited. To register and get a licence to do business as a bank, or as an insurer, for example, a company must (among other requirements) be a public company.

Under the Companies Act, a 'public company' is simply **a profit company that is not** a state-owned company, a private company nor a personal liability company.

A public company may or may not be listed on the stock exchange. ('Stock' is an old name for shares.) Stock exchanges nowadays are more generally known **securities exchanges**. Thus the JSE changed its name from the 'Johannesburg Stock Exchange' to the 'Johannesburg Securities Exchange'.[4]

The term '**securities**' includes both shares and 'debentures'. When we say that a company is 'listed', this means that securities issued by that company are listed and available for buying and selling on a securities or 'stock' exchange.

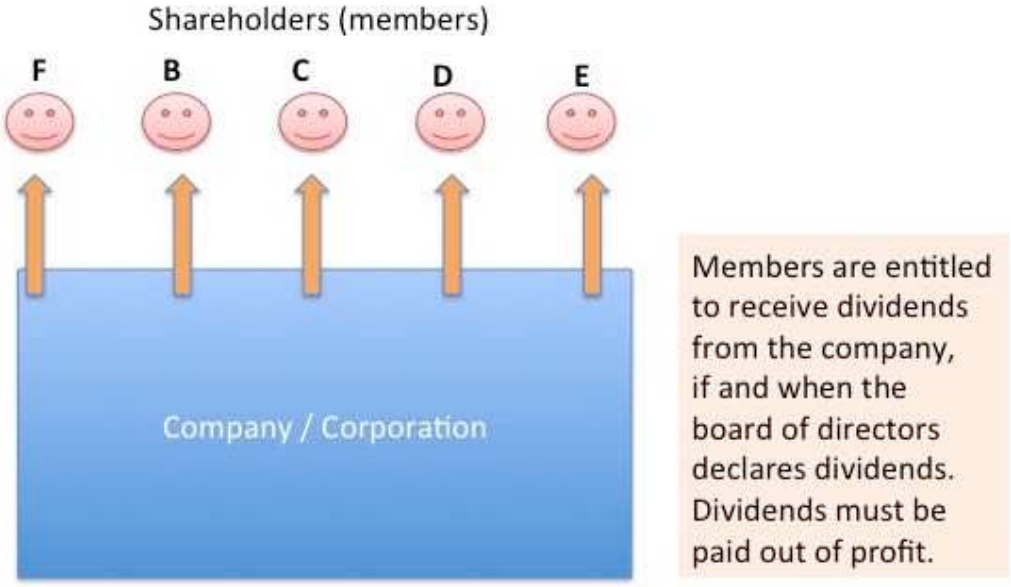
A debenture is a kind of debt instrument which is not precisely defined, but is generally taken to mean an acknowledgement of indebtedness (in other words, an IOU) executed (formally entered into) by the company. A debenture-holder is thus someone who has lent money to the company, irrespective of whether s/he is a shareholder or not. Debentures will vary as to their terms of repayment, interest, and other rights, and may or may not include *security* over the assets of the company. ('Security' means a higher rank or preference in the order of repayment for the particular creditor or class of creditors when the assets have to be sold to pay the company's debts.) Some debentures entitle holders to convert their loan into a subscription for shares. They then cease to be lenders to the company and become shareholders instead. Shareholding in a company means a different kind of risk, and a different kind of possibility for gain, as compared with being a lender to the company.

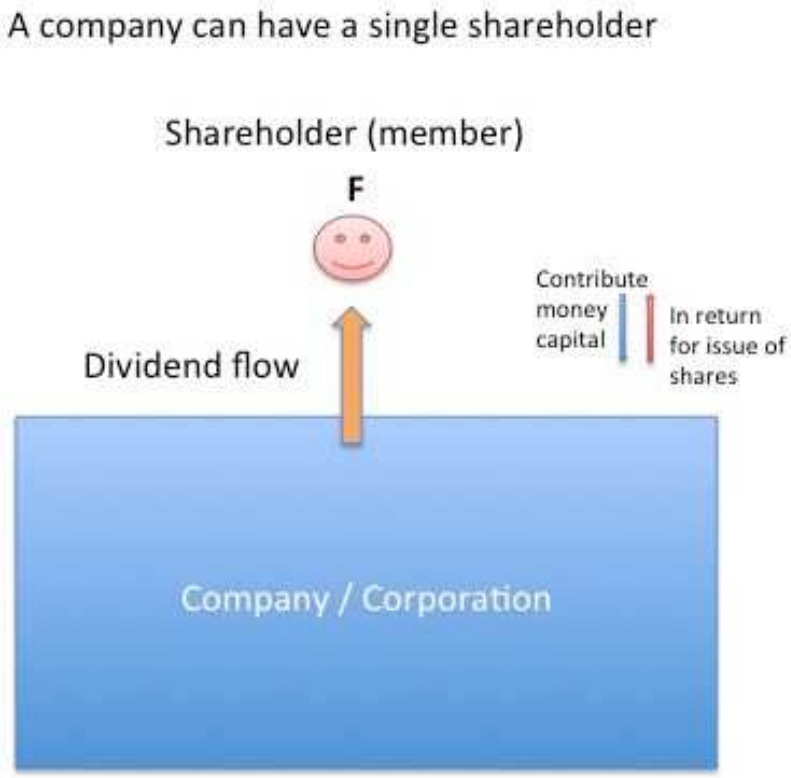
When you read about '**equities**' in textbooks or the financial press, they are generally referring to *shares*. Having 'equity' in a company means having the right to share in profit.

Shares may be of **different 'classes'**, with different rights and obligations attaching to each class. The rights etc within each class must be the same. Typical classes of shares are 'ordinary' and 'preference' shares. A preference shareholder will usually be entitled to receive a dividend before any dividend is paid to ordinary shareholders, and to be repaid first out of any net assets when the company is wound up — i.e. after all liabilities to creditors have been paid. A preference share may be 'redeemable' by the company or non-redeemable, and may be 'convertible' by the shareholder into ordinary shares or not, as the case may be.

[continued on next page]

[4] It is in fact itself a public company, JSE Limited, and the operations of the exchange are regulated by the Securities Services Act, 2004.

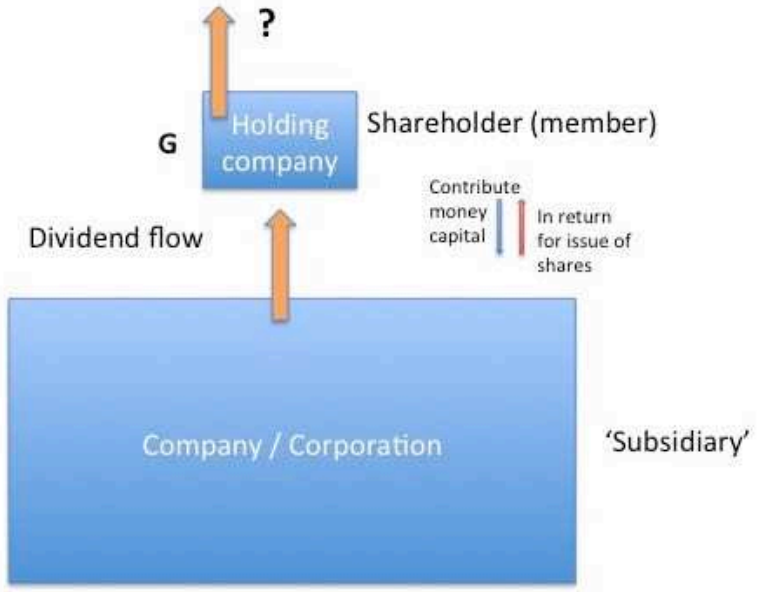


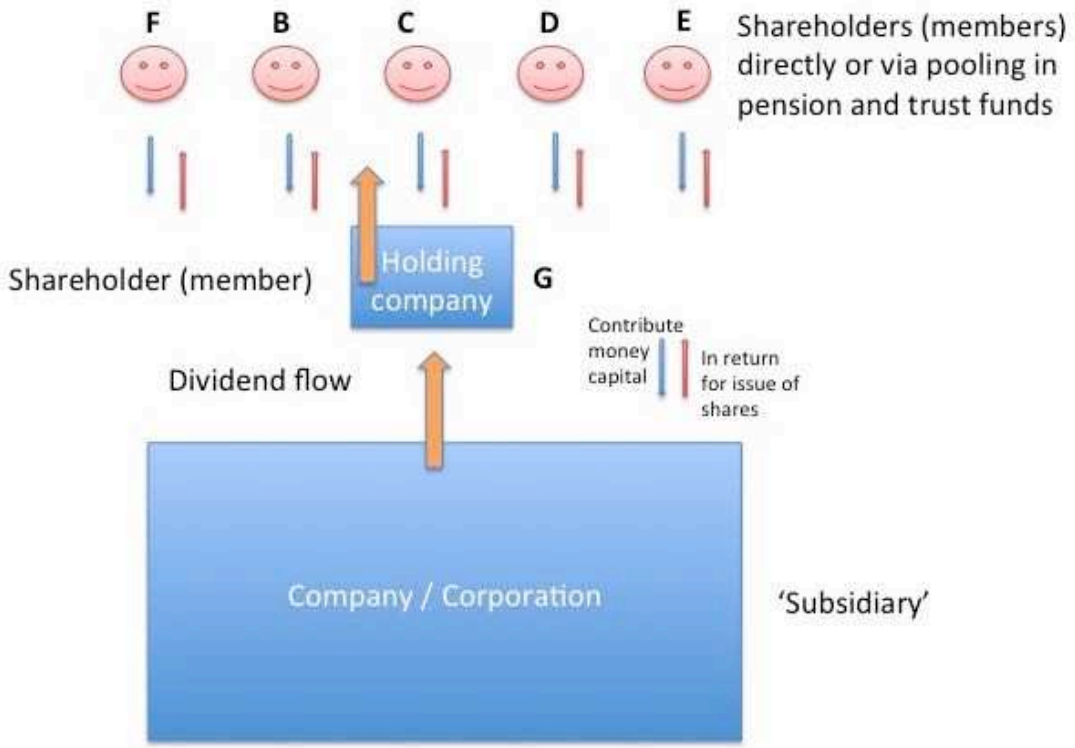


One company can be (and often is) a shareholder in another company — even the sole shareholder. But ultimately there will be human beings entitled to the benefits that are channeled up through hierarchy of companies in a group (either directly as shareholders or via entitlements in pension funds, redeemable units in investment trusts or other forms of financial holdings).

A **company** can own shares (including all the shares) in another company.
This makes it the 'holding company' of the other company

But ultimately human beings hold the interests in the artificial legal 'person' underneath





As an illustration of the global operation of companies, their investments, and their distribution of surplus to their shareholders, let's consider the following report from today's *Cape Times Business Report* (3 October 2016):

A company called **Nepi**[5] is giving its existing investors (shareholders) the choice whether to receive their share of a profit-distribution by way of a cash dividend or by way of additional issued shares.

Nepi readies to hand out new shares to investors

Issue tied to interim dividend

Sandile Mchunu

COMMERCIAL property investor and developer New Europe Property Investments (Nepi) said it was going to issue 2 643 019 new Nepi shares to its shareholders today.

The shares relate to an option the company said shareholders could exercise after realising its half-year results in August.

Shareholder choice

After reporting an increase of 37.61 percent in net operating income to €67.39 million (R1.04 billion) for the six moths to end June at the time, the company declared a dividend of 18.68 euro cents per share. But it said shareholders could either elect to receive the distribution in cash or as an issue of fully paid shares at a ratio between the distribution declared and the reference price.

"The reference price will be determined using a 5 percent discount to the five-day volume weighted average traded price (less distribution) of Nepi shares on the JSE," the group said during the results presentation.

Ian Cruickshanks, the chief economist at the SA Institute of Race Relations, said shareholders had decided to forego the cash dividends and opted instead to reinvest in the company by taking up more shares.

"Shareholders forego short-term dividends sometimes because they want to participate in the future growth of the company. However, they only do that if they believe the company has growth potential. If not they would take the cash and run," Cruickshanks said.

Nepi was founded to acquire, develop and manage regionally dominant retail assets in emerging EU markets with high growth potential.

'Shareholders forego short-term dividends sometimes because they want to participate in future growth.'

The group built an exceptional property portfolio and development pipeline in Romania and Slovakia and is progressing with a retail expansion programme in other target markets.

It said this was consistent with its strategy as it continued to invest in developments that significantly contributed to the growth in distributable earnings a share.

Nepi is pursuing a development pipeline that exceeds €750m (including redevelopments and extensions, estimated at cost), of which €190m was spent by June 30. This is an increase of about €150m compared with last December.

New Europe Prop

Share price, rand — Jun 30 - Sep 30

Close: R155.50

Source: Bloomberg

Book build

Before issuing the share option to investors, the company also raised €195m issuing new ordinary shares this year – €156m was raised in the accelerated book build which closed on July 13. As at June 30, the group had €54m in cash, €20m in listed property securities and an additional undrawn revolving facility of €80m.

Cruickshanks said shareholders who decided to take up shares had made a good investment as the property sector was a good place to invest in currently. "Nepi is attractive because of its exposure to foreign currency," he said.

Nepi shares fell 1.11 percent to close at R155.50 on the JSE on Friday.

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[5] According to the Bloomberg website, 'New Europe Property Investment Plc is a commercial property company incorporated in the Isle of Man. The Company focuses on investments in dominant retail assets and offices in Romania with a strategy bias towards long-term leases.' According to the Nepi website, it is listed on the JSE as well as on stock exchanges in Bucharest and London. The shares are interchangeable between these registers. [The information on Nepi and other companies provided in these notes is for illustrative purposes only, and is not intended as an investment assessment or recommendation of any kind.]

What does Nepi do? The information below appears in the August 2016 Nepi company profile:[6]

Profile

INTEGRATED COMMERCIAL PROPERTY DEVELOPER, INVESTOR AND OPERATOR

NEPI is a leading property investment and development group in the CEE, with a highly effective and skilled internal management team which combines asset management, investment, development, leasing and financial expertise.

BUSINESS STRATEGY

Continued above industry growth in recurring distribution per share by:
- Expanding the investment property portfolio via developing, extending, re-developing and acquiring dominant or potentially dominant retail assets in emerging European markets with high consumption growth potential;
- Generating additional revenue from retail assets via active asset management;
- Active re-positioning of portfolio by disposing of non-core and lower growth assets when opportune, and
- Optimising funding costs, given increase in scale.

PROPERTY PORTFOLIO

Exceptional property portfolio and development pipeline in Romania, Slovakia, Serbia and the Czech Republic, progressing with a retail expansion program in other emerging European retail markets, that generates earnings from long-term, triple net leases in Euro with strong corporate covenants.

LISTINGS

— the Main Board of the Johannesburg Stock Exchange (JSE)
— the regulated market of the Bucharest Stock Exchange (BVB)
— the Alternative Investment Market (AIM) of the London Stock Exchange (LSE)
The shares are transferable among the three registers.
The JSE is the most liquid in terms of share trading of the three stock exchanges where NEPI is listed.

INVESTMENT GRADE RATINGS

Moody's — Baa3 (stable outlook)
Standard & Poors — BBB- (stable outlook)

DISTRIBUTIONS

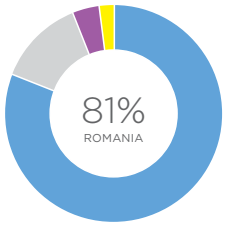
NEPI generally distributes at least 90% of its net rental profits on a semi-annual basis, with a scrip dividend election option.

INVESTMENT PROPERTY OVERVIEW AS AT 30 JUNE 2016

	Number	Weighted GLA '000m²	Weighted Valuation €m	Weighted Passing rent/ERV €m	Occupancy %
TOTAL PROPERTIES	**56**	**1 213**	**2 152**	**161**	
INCOME-PRODUCING	**33**	**902**	**1 928**	**147**	**98.1**
Retail	26	732	1 595	120	98.2
Office	5	142	317	25	97.5
Industrial	2	28	16	2	98.0
DEVELOPMENTS	**5**	**275**	**203**	**13**	
Under construction	2*	73	91	13	
Under permitting and pre-leasing	3**	202	89	–	
Land bank	–	–	23	–	
NON-CORE	**18**	**36**	**21**	**1**	

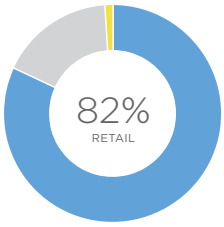
* out of seven properties under construction, five are extensions to existing properties.
** out of the seven properties under permitting and pre-leasing, four are extensions to existing properties.

GEOGRAPHICAL PROFILE
by rental income

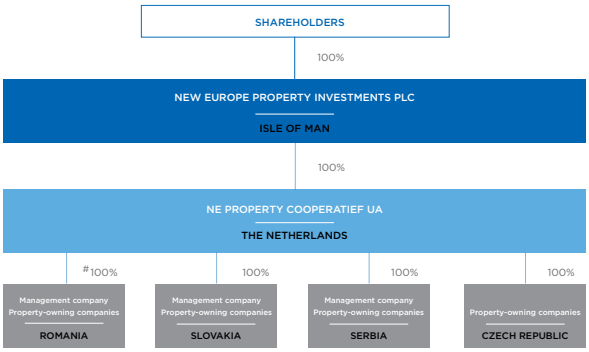


Romania	81%	€119.3 million
Slovakia	13%	€18.7 million
Czech Republic	4%	€5.5 million
Serbia	2%	€3.5 million
	100%	€147.0 million

SECTORAL PROFILE
by rental income



Retail	82%	€119.9 million
Office	17%	€25.3 million
Industrial	1%	€1.8 million
	100%	€147.0 million



#except for 50% interest held in Ploiesti Shopping City and The Office.

Top 5 Shareholders (as at 29 July 2016)	% of issued shares
Fortress Income Fund*	17.64%
Public Investment Corporation**	11.23%
Resilient Property Income Fund***	8.90%
Investec Asset Management Holdings (PTY)	3.28%
Standard Bank Group LTD	3.22%
Total	**44.37%**

*JSE listed fund focused on retail, directly or by investing in listed securities.
** One of the largest investment managers in Africa, managing assets of over €100 billion; it invests funds on behalf of public sector entities.
*** JSE listed REIT focused on retail, directly or by investing in listing securities; it is the founding shareholder of NEPI.

In other words Nepi is applying the capital invested by shareholders, from various parts of the world including South Africa, to the development and management in particular of 'retail assets' (shopping malls and offices) in Eastern Europe.

This is just one illustration of the global interconnections and flows of finance capital, where those living in one part of the world are invested in and receive profits from business activities in another, distant part. In particular where the local scope for profitable investment of surpluses is limited, there is an inbuilt compulsion for those surpluses, turned

[6] Pp 3 and 11.

into money capital, to seek investment opportunities further afield.

Here is a graph showing the recent performance of the Nepi share price.

How would you decide whether to buy, sell or hold on to Nepi shares? You would need to make a forecast of the likely future fall or rise of the share price (a potential capital loss or capital gain), and also take into account the history and prospects of the company's dividend payments to its shareholders. You would have to compare this forecast with forecasts for other potential investments. Investment managers and advisers are doing this constantly across the whole range of potential investments, nationally and globally.

As another illustration of companies and shareholding, let's consider the South Africa-based **Aspen Pharmacare Holdings Limited**. Consider the information provided on the next page, and discuss how you might go about making an evaluation of the company's prospects as a possible destination for the investment of your money-capital — assuming you had any.

[continued on next page]

Business Report 30 September 2016

Aspen to bide its time post-GSK

Confirms disposal of stake

Siseko Njobeni

BRANDED and generic pharmaceutical products group Aspen Pharmacare Holdings was unlikely to look for an investor in the mould of global pharmaceutical group GlaxoSmithKline (GSK), which had disposed of its remaining stake in Aspen, a South African analyst said yesterday.

Aspen, the largest pharmaceutical company listed on the JSE, confirmed yesterday that GSK on Wednesday had offloaded the remaining 6.2 percent interest in the company.

The disposal translates to 28.2 million ordinary shares after GSK sold the shares to institutional investors for R300 a share or R8.47 billion.

Aspen has a market capitalisation of about $10bn (R14bn).

R140 bn

Divesting

GSK started divesting its stake in Aspen in November 2013 when it sold 28.2 million shares for about R7bn.

Last year it sold the same number of shares through institutional investors for R372 a share, raising R10.5bn.

GSK, which had a stake in Aspen since 2009, felt it was the right time to move on but said the decision should not cast Aspen in a negative light.

Shmuel Simpson, a 36ONE Asset Management investment analyst, said yesterday that the move was expected.

Simpson said GSK's decision to dispose of the interest should not reflect badly on Aspen.

"It is more about GSK wanting to redeploy capital elsewhere," he said.

GSK's so-called strategy of simplification entails focusing on core therapeutic areas.

Simpson said the sale should be somewhat of a relief to Aspen shareholders. "It was an overhang for a while."

"The market assumed a placement was coming, it was only a question of when," Simpson said.

He said Aspen was unlikely to look for an investor similar to GSK.

"They have a strong and diverse investor base and do not require a core investor of the likes of GSK," Simpson said.

Aspen said the disposal would not affect the ongoing collaboration and trading relationships between the two companies in South Africa.

David Redfern, GSK's chief strategy officer, would remain a member of the Aspen board of directors, Aspen said.

Relationship

Group chief executive Stephen Saad said the two companies would maintain their relationship.

"We are pleased that Aspen shareholders are relieved of the uncertainty caused by GSK's stated intention to dispose of its interests, which eliminates the overhang caused by this uncertainty," Saad said.

GSK spokeswoman Aoife Pauley said the decision to sell the company's remaining shares in Aspen was part of a desire to focus on core franchises and efficiently manage its balance sheet.

"We have been gradually reducing our holding since 2013 and now was the appropriate time to conclude that process and realise what has been a very successful investment for GSK," Pauley said.

Aspen shares on the JSE were down 1.85 percent at R311 yesterday.

Aspen Pharmacare

Below is a graph of Aspen Pharmacare's share price over 5 years

[continued on next page]

Discovery Limited is an example of a South African holding company with many subsidiaries. This page and the next are taken from Discovery's published financial statements for 2015 (highlighting added):

Directors' report

for the year ended 30 June 2015

The directors present their 16th annual report, which forms part of the consolidated and separate financial statements of Discovery Limited for the year ended 30 June 2015.

Nature of business

Discovery Limited (the Company) is listed on the Johannesburg Stock Exchange and is an integrated financial services organisation specialising in health insurance, life assurance, wellness, investments and savings products, short-term insurance and credit card products. The Company is directly and indirectly the holding company of:

- Discovery Health Proprietary Limited (Discovery Health).
- Discovery Life Limited (Discovery Life).
- Discovery Life Collective Investments Proprietary Limited (Discovery Life Collective Investments).
- Discovery Life Investment Services Proprietary Limited (Discovery Life Investment Services).
- Discovery Life Nominees Proprietary Limited.
- Discovery Third Party Recovery Services Proprietary Limited (DTPRS).
- Discovery Vitality Proprietary Limited (Discovery Vitality).
- Discovery Investment Management Proprietary Limited (dormant).
- Discovery Insure Limited (Discovery Insure).
- Destiny Health Inc. - this company holds Discovery's interests in Destiny Health Management Company LLC, Destiny Health Insurance Company and Destiny Health Administration Company (dormant) (Destiny Health); The Vitality Group Inc. and The Vitality Group LLC (The Vitality Group), which are incorporated in the United States of America.
- Discovery Group Europe Limited, which is incorporated in England and Wales.
- Discovery Offshore Holdings No 2 Limited (dormant), which is incorporated in England and Wales.
- Discovery Holdings Europe Limited - this company holds Discovery's interests in Vitality Life Limited (dormant), Vitality Corporate Services Limited, Vitality Health Insurance Limited and Vitality Health Limited, which are incorporated in England and Wales (VitalityHealth).
- Discovery Partner Markets Asia Private Limited – this company holds Discovery's interests in Discovery Partner Markets Services Private Limited, which are incorporated in Singapore.
- Southern RX Distributors Proprietary Limited.

The subsidiaries are wholly-owned with the exception of Destiny Health Inc. in which the Company has a 99.98% interest and Discovery Holdings Europe Limited in which the Company has a 98.57% interest. The balance of the interest being held by senior management for both subsidiaries.

"Discovery Limited and its subsidiaries" are referred to herein as Discovery or the Group.

In addition to the above subsidiaries, Discovery consolidates unit trusts in which the Group has control in terms of IFRS 10. The consolidated unit trusts include:

- Discovery Balanced Fund
- Discovery Cautious Balanced Fund
- Discovery Diversified Income Fund
- Discovery Dynamic Equity Fund
- Discovery Equity Fund
- Discovery Flexible Property Fund
- Discovery Global Balanced Fund of Funds
- Discovery Global Value Equity Feeder Fund, previously Discovery Global Contrarian Equity Feeder Fund
- Discovery Global Equity Feeder Fund
- Discovery Moderate Balanced Fund
- Discovery Money Market Fund
- Discovery Target Retirement 2010 Fund
- Discovery Target Retirement 2015 Fund
- Discovery Target Retirement 2020 Fund
- Discovery Target Retirement 2025 Fund
- Discovery Target Retirement 2030 Fund
- Discovery Target Retirement 2035 Fund
- Discovery Target Retirement 2040 Fund
- Discovery Target Retirement 2045 Fund
- Discovery Target Retirement 2050 Fund
- Discovery Worldwide Best Ideas Fund

Directors' report

for the year ended 30 June 2015

Review of Results

Profit attributable to ordinary shareholders is R5 480 million, a 69% increase from profits of R3 246 million reported in the prior financial year. The profit for the year ended 30 June 2015 includes a once-off gain for the fair value adjustment on puttable non-controlling interest of R1 661 million. Normalised headline earnings, which excludes this gain and other once-off items, increased by 16.5% to R4 027 million.

Share capital

The share capital of the Company at 30 June 2015 was as follows:

Class of shares	Authorised number of shares	Issued number of shares
Ordinary shares of 0.1 cent per share	1 000 000 000	647 427 946
A preference shares	40 000 000	-
B preference shares	20 000 000	8 000 000
C preference shares	20 000 000	-

Dividends

The following interim dividends were paid during the current financial year:

- Preference share dividend of 465.0 cents per share, paid on 16 March 2015.
- Ordinary share dividend of 85.5 cents per share, paid on 23 March 2015.

The directors are of the view that the Discovery Group is adequately capitalised at this time. On the statutory basis the capital adequacy requirement of Discovery Life was R557 million (2014: R522 million) and was covered 3.9 times (2014: 3.8 times).

B preference share cash dividend declaration:

On 27 August 2015, the directors declared a gross cash dividend of 458.699 cents (389.89415 cents net of dividend withholding tax) per B preference share for period 1 January 2015 to 30 June 2015. The dividend has been declared from income reserves and no secondary tax on companies' credits have been used. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The issued preference share capital at the declaration date is 8 million B preference shares.

The salient dates for the dividend will be as follows:

Last day of trade to receive a dividend	Friday, 11 September 2015
Shares commence trading "ex" dividend	Monday, 14 September 2015
Record date	Friday, 18 September 2015
Payment date	Monday, 21 September 2015

B preference share certificates may not be dematerialised or rematerialised between Monday, 14 September 2015 and Friday, 18 September 2015, both days inclusive.

Ordinary share cash dividend declaration:

Notice is hereby given that the directors have declared a final gross cash dividend of 89.0 cents (75.65 cents net of dividend withholding tax) per ordinary share, out of income reserves for the year ended 30 June 2015. A dividend withholding tax of 15% will be applicable to all shareholders who are not exempt.

The issued ordinary share capital at the declaration date is 647 427 946 ordinary shares.

The next page is taken from Discovery's Audited Results booklet for 2016:

Statement of financial position
at 30 June 2016

R million	Group 2016 Audited	Group 2015 Audited and restated	Group 2014 Audited and restated
ASSETS			
Assets arising from insurance contracts	33 815	28 144	23 044
Property and equipment	1 052	727	666
Intangible assets including deferred acquisition costs	4 584	2 526	2 344
Goodwill	2 447	2 375	2 239
Investment in equity-accounted investees	491	505	551
Financial assets			
– Available-for-sale investments	9 794	9 454	7 578
– Investments at fair value through profit or loss	50 948	40 132	32 753
– Derivatives	590	825	588
– Loans and receivables including insurance receivables	4 891	3 884	3 110
Deferred income tax	824	690	406
Current income tax asset	97	5	46
Reinsurance contracts	410	362	266
Cash and cash equivalents	8 634	6 251	3 650
Total assets	118 577	95 880	77 241
EQUITY			
Capital and reserves			
Ordinary share capital and share premium	8 300	7 488	2 582
Perpetual preference share capital	779	779	779
Other reserves	1 934	2 024	1 501
Retained earnings	19 594	17 065	12 549
	30 607	27 356	17 411
Non-controlling interest	–	–	–
Total equity	30 607	27 356	17 411
LIABILITIES			
Liabilities arising from insurance contracts	44 673	37 236	30 842
Liabilities arising from reinsurance contracts	4 894	3 827	2 247
Financial liabilities			
– Puttable non-controlling interests	–	–	4 494
– Negative reserve funding	4 248	5 437	4 684
– Borrowings at amortised cost	5 400	954	572
– Investment contracts at fair value through profit or loss	13 514	10 059	8 264
– Derivatives	49	7	10
– Trade and other payables	8 563	5 506	3 752
Deferred income tax	6 035	5 077	4 647
Deferred revenue	291	192	157
Employee benefits	169	152	154
Current income tax liability	134	77	7
Total liabilities	87 970	68 524	59 830
Total equity and liabilities	118 577	95 880	77 241

4

The financial sector of the capitalist system has developed substantially over the years so as to draw in the savings of the middle class and working class to add to the funds of the wealthier investors.

Unit trust funds ('collective investment schemes'):

Small investors can nowadays invest in large companies globally without directly holding shares and having to worry about whether and when to buy or sell them. They can do this by buying units in various 'unit trust' or 'collective investment' funds. (In the USA these are called 'mutual' funds). In South Africa these are regulated under the **Collective**

Investment Schemes Control Act 45 of 2002.

Different funds may specialise in different asset classes (equities, bonds, property, etc), or simply track the general performance of the companies listed on various exchanges.

The investor buys the units directly from the fund, and can also redeem the investment at its current market value directly from the fund. This means not having to find a buyer in the market place. It also means that the fund managers (in return for a fee, usually linked to performance) constantly evaluate the underlying holdings of the fund, buying and selling securities according to their own estimation of likely results. Complexity for the small investor is thus reduced to evaluating the likely performance of the fund itself, taking into account its choice of asset class (if relevant) and the track record of the particular fund managers. Investment advisors constantly watch the funds, their managers and their investment choices and performance as if studying race horses, so as to advise their clients how best to gamble — i.e. invest.

Pension funds are another vitally important focus of ownership in the financial system. Increasingly pension funds are the ultimate owners of the shares in major corporations globally. Anyone with a pension entitlement, however small, is an investor in a pension fund, and thus an investor in global capitalism. In South Africa, pension funds are regulated under the **Pension Funds Act 24 of 1956.**

Another important investment vehicle is the 'life' insurance policy — more accurately called a **long-term insurance policy** — issued by an insurance company. The 'policy-holders funds' through which investments are made are kept separate from the insurance company's own funds that render profits to its own shareholders. In part, the premiums paid by people purchasing insurance provide the source of profit to those shareholders, but the premiums are mainly applied to purchasing underlying investments in securities etc, in the policy-holders funds. The returns on these pooled investments provide the eventual payouts to the insured, or to the surviving beneficiaries of the insured. In the case of short-term insurance there may be no payout, because the risk insured against (such as theft or a fire) may never occur. Insurance is both a means of purchasing protection against risk and a matter of individual betting against the pool. It is regulated in South Africa under the **Long-term Insurance Act 52 of 1998** and the **Short-term Insurance Act 53 of 1998**.

Finally let's consider **bank deposits**. For present purposes, to keep matters simple, we'll assume that interest rates are positive (+ rather than -%). To support the payment of interest to depositors, a bank must be able to lend out the deposited funds to borrowers in return for interest paid by them. To make a profit from taking deposits and remain in business, the bank must be able to lend out the funds at a higher rate of interest than the rate it is paying to its depositors. In fact the banks multiply their earnings by lending out funds they do not have. How they are able to do this, and how it is regulated by the Reserve Bank under the 'fractional reserve system' is a fascinating subject which, unfortunately, we do not have time to cover in this course.

We also cannot go into how a depositors' 'run on the bank' in a time of uncertainty can lead to a general financial crisis when the bank cannot recover from its borrowers, or cannot recover immediately, the funds needed to repay the depositors on demand.

Lack of time prevents us more generally from discussing other causes of crisis in the

financial system, and how financial crisis may precipitate a wider crisis in the global system of production for exchange.

Quiz question: who owns the money in your bank account?

Answer: the bank owns it. You have *lent* the money to the bank to do with it what the bank pleases. Assuming you are in credit, the bank is your *debtor* to that extent. (The bank may have other duties, such as making and receiving payments on your behalf, which do not alter the basic debtor-creditor relationship where bank deposits are concerned.)

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Multinational (or 'transnational') corporations

[Lack of time prevented an examination of this topic, which was referred to only in general terms during class. The following illustrative material is included in these notes for future reference.]

To illustrate the scale and global reach of multinational corporations, let's look briefly at the BHP Billiton group. A few extracts from its 2016 annual report will suffice for this purpose:

1.5.1 About us

BHP Billiton is among the world's top producers of major commodities including iron ore, metallurgical coal, copper and uranium. We also have substantial interests in oil, gas and energy coal.

We extract and process minerals, oil and gas from our production operations located primarily in Australia and the Americas.

Our products are sold worldwide, with sales and marketing led through Singapore and Houston, United States. Our global headquarters are in Melbourne, Australia.

We operate under a Dual Listed Company structure with two parent companies (BHP Billiton Ltd and BHP Billiton Plc) operated as a single economic entity. We are run by a unified Board and management.

With a team of more than 65,000 employees and contractors, we prioritise our people's health and safety and strive to create an environment free from fatalities, injuries and occupational illnesses.

Our size and scope allow us to make meaningful contributions to communities and the long-term nature of our operations means we are able to build collaborative community relationships.

We aim to maximise the social and economic benefits of our operations, contribute to economic development and minimise our environmental footprint through innovation, productivity and technology.

Workforce of approximately

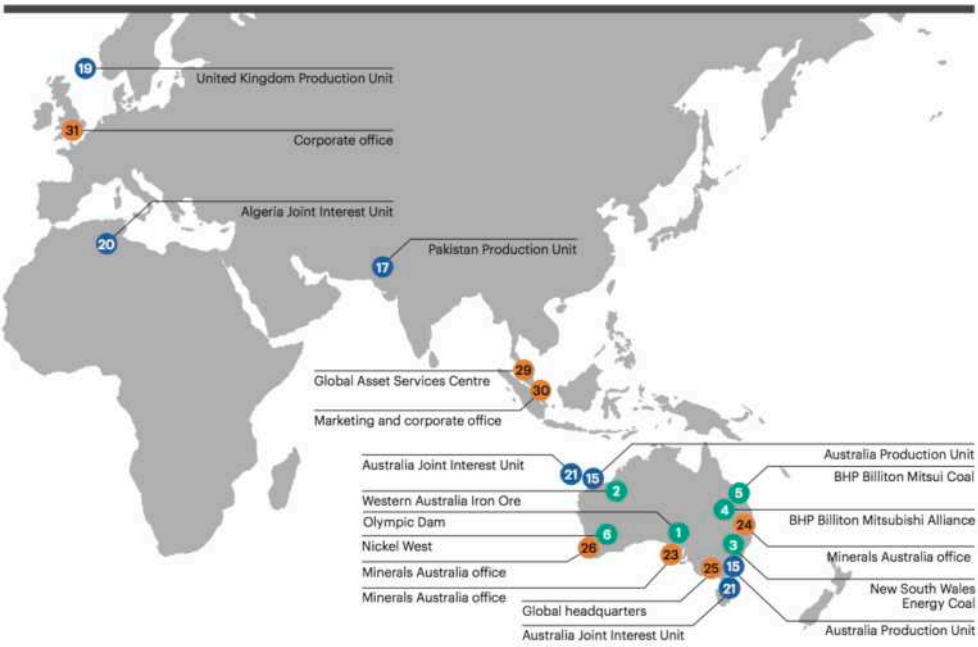
65,000

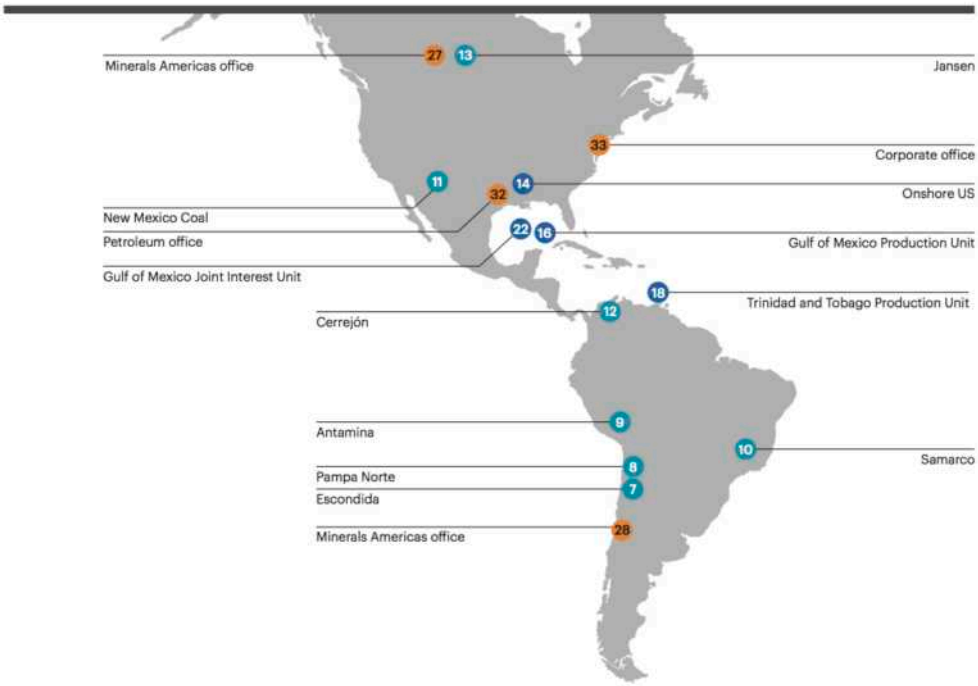
employees and contractors as of 30 June 2016

This is from page 11 of the report (highlighting added).

On pages 14-15 of the report, we are shown the locations of BHP Billiton's operations [see next page]. BHP Billiton sold its mining interests in South Africa to Gencor Ltd and then divested from Gencor in the 1990s. In 2016, in the context of the global commodities slump, a bad bet on shale oil and a costly dam collapse in Brazil that killed 19 people, the previously profitable BHP Billiton reported a loss of US$6.2 billion.

1.5.4 BHP Billiton locations (includes non-operated)





Minerals Australia

Ref	Country	Asset	Description	Ownership
1	Australia	Olympic Dam	Underground copper mine, also producing uranium, gold and silver	100%
2	Australia	Western Australia Iron Ore	Integrated iron ore mines, rail and port operations in the Pilbara region of Western Australia	51–85%
3	Australia	New South Wales Energy Coal	Open-cut energy coal mine and coal preparation plant in New South Wales	100%
4	Australia	BHP Billiton Mitsubishi Alliance	Open-cut and underground metallurgical coal mines in the Queensland Bowen Basin and Hay Point Coal Terminal	50%
5	Australia	BHP Billiton Mitsui Coal	Two open-cut metallurgical coal mines in the Bowen Basin, Central Queensland	80%
6	Australia	Nickel West	Integrated sulphide mining, concentrating, smelting and refining operation in Western Australia	100%

Minerals Americas

Ref	Country	Asset	Description	Ownership
7	Chile	Escondida	Copper producing mine, located in northern Chile	57.5%
8	Chile	Pampa Norte	Consists of the Cerro Colorado and Spence open-cut mines, producing copper cathode in northern Chile	100%
9	Peru	Antamina (1)	Open-cut copper and zinc mine in northern Peru	33.8%
10	Brazil	Samarco (1)	Open-cut iron ore mines, concentrators, pipelines, pelletising facilities and dedicated port	50%
11	US	New Mexico Coal (2)	One energy coal mine in New Mexico	100%
12	Colombia	Cerrejón (1)	Open-cut energy coal mine with integrated rail and port operations	33.3%
13	Canada	Jansen	Our interest in potash is via development projects in the Canadian province of Saskatchewan, where the Jansen Project is our most advanced	100%

Petroleum

Ref	Country	Asset	Description	Ownership
14	US	Onshore US	Onshore shale liquids and gas fields in Arkansas, Louisiana and Texas	<1–100%
15	Australia	Australia Production Unit	Offshore oil fields and gas processing facilities in Western Australia and Victoria	39.99–90%
16	US	Gulf of Mexico Production Unit	Offshore oil and gas fields in the Gulf of Mexico	35–44%
17	Pakistan	Pakistan Production Unit (3)	Onshore oil and gas fields	38.5%
18	Trinidad and Tobago	Trinidad and Tobago Production Unit	Offshore oil and gas fields	45%
19	UK	UK Production Unit (1)	Offshore oil and gas fields	16–31.83%
20	Algeria	Algeria Joint Interest Unit (1)	Onshore oil and gas unit	38%
21	Australia	Australia Joint Interest Unit (1)	Offshore oil and gas fields in Bass Strait and North West Shelf	8.33–50%
22	US	Gulf of Mexico Joint Interest Unit (1)	Offshore oil and gas fields in the Gulf of Mexico	4.95–44%

BHP Billiton principal office locations

Ref	Country	Location	Office
23	Australia	Adelaide	Minerals Australia office
24	Australia	Brisbane	Minerals Australia office
25	Australia	Melbourne	Global headquarters
26	Australia	Perth	Minerals Australia office
27	Canada	Saskatoon	Minerals Americas office
28	Chile	Santiago	Minerals Americas office
29	Malaysia	Kuala Lumpur	Global Asset Services Centre
30	Singapore	Singapore	Marketing and corporate office
31	UK	London	Corporate office
32	US	Houston	Petroleum office
33	US	New York	Corporate office

(1) Non-operated joint venture.
(2) Sale of Navajo Mine completed, however BHP Billiton will continue to manage and operate the mine until the Mine Management Agreement ends on 31 December 2016.
(3) Pakistan Production Unit was divested in FY2016.

Page 282 from the same report (highlighting added) indicates who were the most significant shareholders in BHP Billiton as at 12 August 2016. [See next page.]

Note the footnotes referring to nominee holdings.

7.6 Share ownership

Share capital

The details of the share capital for both BHP Billiton Limited and BHP Billiton Plc are presented in note 15 'Share capital' to the Financial Statements and remain current as at 12 August 2016.

Major shareholders

The tables in section 3.4.23 and the information set out in section 4.18 present information pertaining to the shares in BHP Billiton Limited and BHP Billiton Plc held by Directors and members of the Operations Management Committee (OMC).

Neither BHP Billiton Limited nor BHP Billiton Plc is directly or indirectly controlled by another corporation or by any government. Other than as described in section 7.3.2, no major shareholder possesses voting rights that differ from those attaching to all of BHP Billiton Limited and BHP Billiton Plc's voting securities.

Substantial shareholders in BHP Billiton Limited

As at 12 August 2016, there were no substantial shareholders in BHP Billiton Limited. A substantial shareholder is a person who (together with associates) has a relevant interest in five per cent or more of voting rights conferred by ordinary shares in BHP Billiton Limited. Notifications to BHP Billiton Limited under section 671B of the Corporations Act 2001 indicate that no person (together with their associates) beneficially owned more than five per cent of BHP Billiton Limited's voting securities.

Substantial shareholders in BHP Billiton Plc

The following table shows holdings of three per cent or more of voting rights conferred by BHP Billiton Plc's ordinary shares as notified to BHP Billiton Plc under the UK Disclosure and Transparency Rule 5 as at 30 June 2016.[1]

Title of class	Identity of person or group	Date of last notice			Percentage of total voting rights[2]		
		Date received	Date of change	Number owned	2016	2015	2014
Ordinary shares	Aberdeen Asset Managers Limited	8 October 2015	7 October 2015	103,108,283	4.88%	6.06%	6.34%
Ordinary shares	BlackRock, Inc.	3 December 2009	1 December 2009	213,014,043	10.08%	10.08%	10.08%

(1) No changes in the holdings of three per cent or more of the voting rights in BHP Billiton Plc's shares have been notified to BHP Billiton Plc between 1 July 2016 and 12 August 2016.
(2) The percentages quoted are based on the total voting rights conferred by ordinary shares in BHP Billiton Plc as at 12 August 2016 of 2,112,071,796.

Twenty largest shareholders as at 12 August 2016 (as named on the Register of Shareholders)[1]

BHP Billiton Limited	Number of fully paid shares	% of issued capital
1. HSBC Australia Nominees P/L	639,750,740	19.92
2. JP Morgan Nominees Australia Limited	454,398,834	14.15
3. National Nominees Ltd	206,630,417	6.43
4. Citicorp Nominees Pty Ltd	181,277,380	5.64
5. Citicorp Nominees Pty Limited <Citibank NY ADR DEP A/C>	169,453,030	5.28
6. BNP Paribas NOMS Pty Ltd	66,041,956	2.06
7. Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	30,939,540	0.96
8. BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	23,964,819	0.75
9. Aust Mutual Prov Society	16,542,870	0.52
10. HSBC Custody Nominees (Australia) Limited <NT- Comnwlth Super Corp A/C>	15,084,727	0.47
11. Australian Foundation Invest	13,990,941	0.44
12. Computershare Nominees Cl Ltd <ASX Shareplus Control A/C>	12,262,311	0.38
13. Argo Investments Limited	8,428,904	0.26
14. HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	7,168,329	0.22
15. RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	5,881,948	0.18
16. Navigator Australia Ltd <MLC Investment Sett A/C>	5,166,136	0.16
17. Computershare Trustees Jey Ltd <RE 3000101 A/C>	4,380,484	0.14
18. RBC Investor Services Australia Nominees Pty Limited <BKCUST A/C>	4,353,968	0.14
19. IOOF Investment Management Limited <IPS Super A/C>	3,975,063	0.12
20. Bond Street Custodians Limited	3,846,360	0.12
	1,873,538,757	58.33

BHP Billiton Plc	Number of fully paid shares	% of issued capital
1. PLC Nominees (Proprietary) Limited[2]	331,280,556	15.69
2. Chase Nominees Limited	140,840,217	6.67
3. National City Nominees Limited	106,698,037	5.05
4. State Street Nominees Limited <OM02>	101,159,454	4.79
5. Nortrust Nominees Limited	51,486,322	2.44
6. State Street Nominees Limited <OM04>	50,832,288	2.41
7. Lynchwood Nominees Limited <2006420>	49,136,235	2.33
8. The Bank of New York (Nominees) Limited	47,994,299	2.27
9. State Street Nominees Limited <OD64>	45,798,401	2.17
10. Government Employees Pension Fund – PIC	40,961,160	1.94
11. Vidacos Nominees Limited <13559>	39,864,705	1.89
12. Vidacos Nominees Limited <CLRLUX2>	34,543,044	1.64
13. Industrial Development Corporation of South Africa	33,804,582	1.60
14. HSBC Global Custody Nominee (UK) Limited <357206>	32,425,250	1.54
15. BNY Mellon Nominees Limited <BSDTGUSD>	25,860,615	1.22
16. Nutraco Nominees Limited <492762>	25,165,035	1.19
17. Nutraco Nominees Limited <781221>	24,200,000	1.15
18. Chase Nominees Limited <BBHLEND>	23,374,720	1.11
19. Vidacos Nominees Limited <CLRLUX>	23,369,058	1.11
20. Vidacos Nominees Limited <FGN>	22,289,497	1.06
	1,251,083,475	59.27

(1) Many of the 20 largest shareholders shown for BHP Billiton Limited and BHP Billiton Plc hold shares as a nominee or custodian. In accordance with the reporting requirements, the tables reflect the legal ownership of shares and not the details of the underlying beneficial holders.
(2) The largest holder on the South African register of BHP Billiton Plc is the Strate nominee in which the majority of shares in South Africa (including some of the shareholders included in this list) are held in dematerialised form.

On page 284, BHP Billiton states its group policy on the payment of dividends to shareholders. It provides for 'a minimum 50 per cent payout of Underlying attributable profit at every reporting period'.

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Consider next the extensive and complex **supply chains providing inputs** via the market to major companies. A few years ago, the *Financial Times* reported on a rationalisation being carried out by the diversified manufacturer Siemens with the aim of reducing the number of its suppliers from 113,000 to about 90,000.[7] One of the aims of the exercise was to reduce potential supply disruptions.

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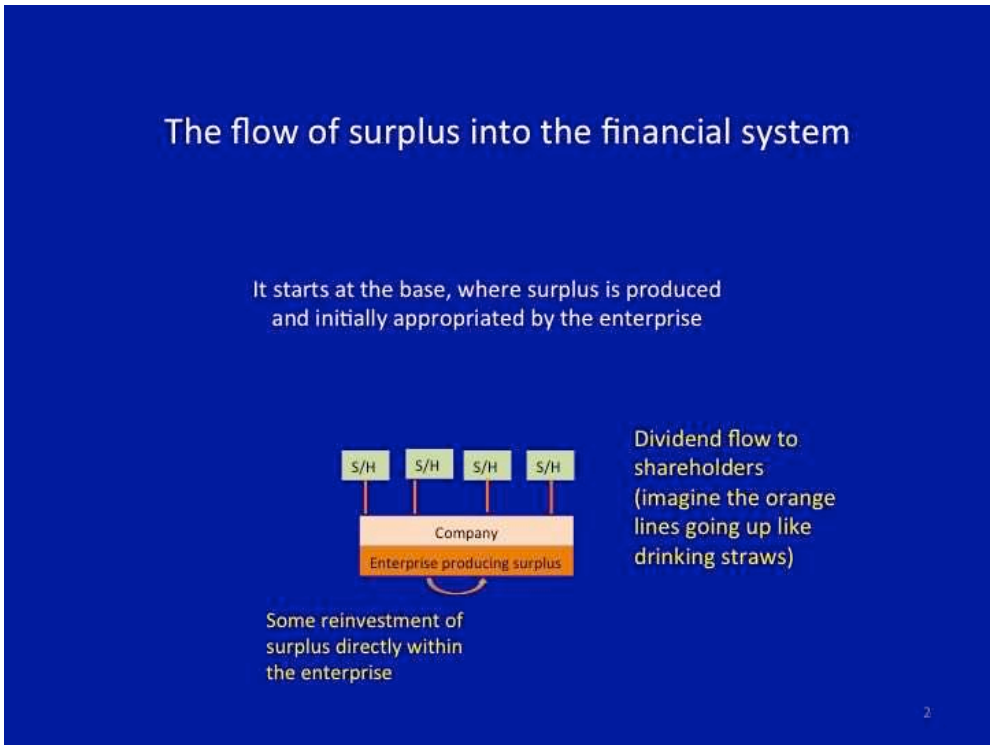
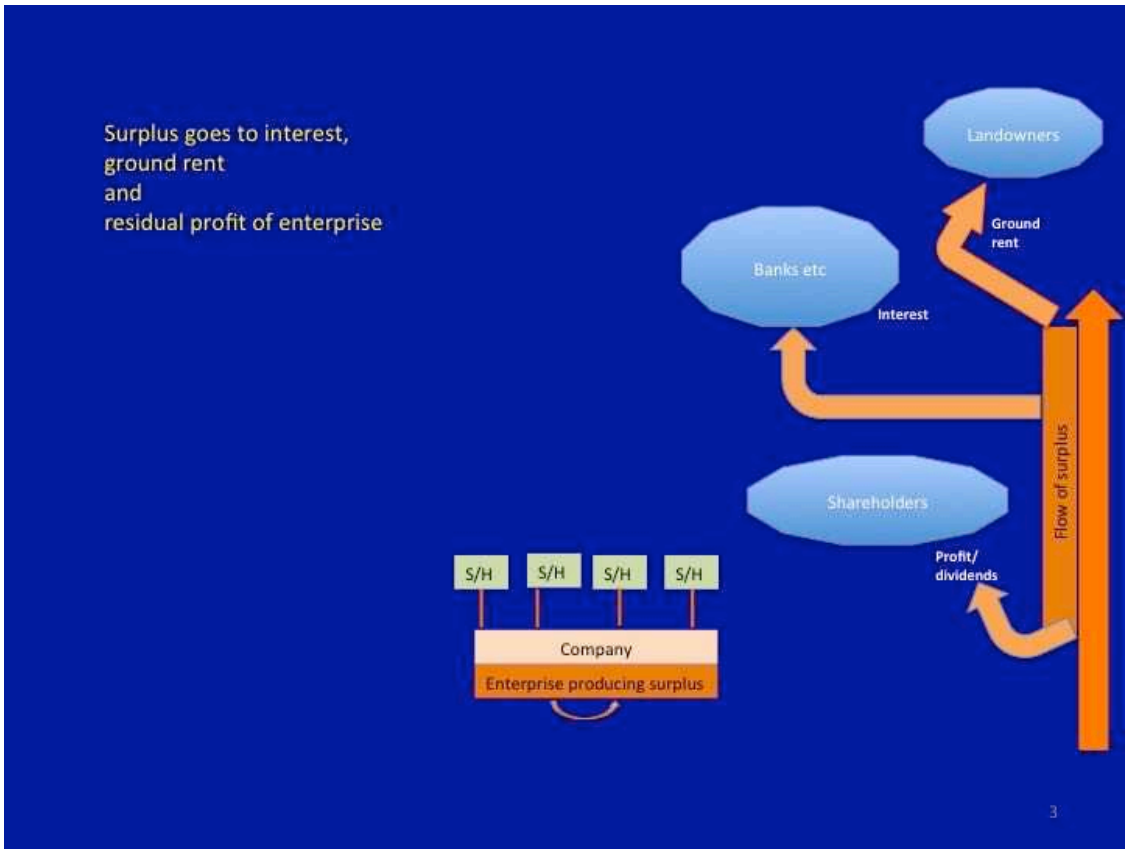
The crucial point to bear in mind — to repeat the analysis made earlier in the course — is that **the material surplus of society is a *produced* surplus**, resulting essentially from the division of labour and combination of the outputs of enterprises engaged in production for exchange. In broad principle, each enterprise receives its allocation of portion of the total social surplus in the price paid to it in the market when it succeeds in selling its goods or services — i.e., in its revenue. Its profit before tax is the difference between its own costs of production (including here ground rent and interest paid) and the revenue it has earned — assuming the revenue is higher. If it persistently makes a loss or no profit it will have to exit the business. Capital invests in production for profit, not production for its own sake.

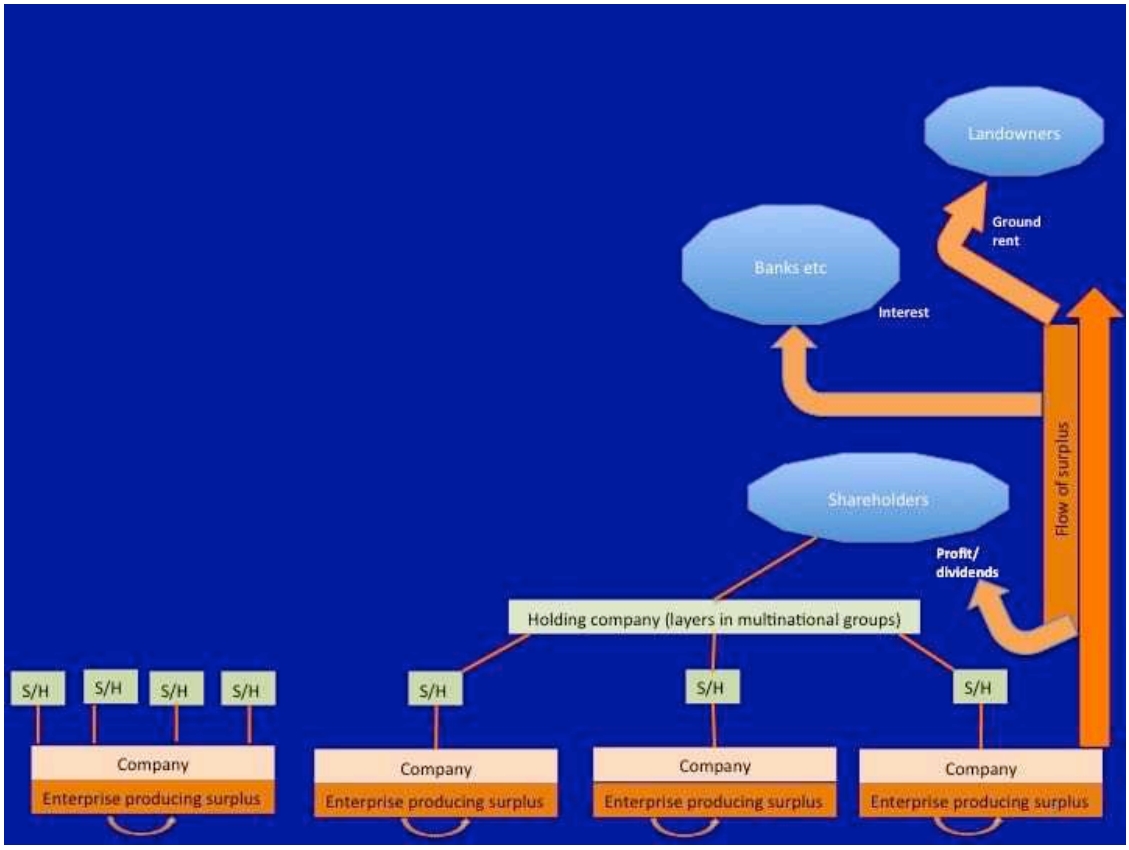
We are now in a position to present by way of a series of **diagrams**, in simplified terms, **the flow of surplus in financial form in the capitalist economy**. To the extent that a money-surplus accruing to an enterprise is not reinvested there, it makes its way into the financial economy before finding a way to come down again as reinvestment in material surplus-production at the base. In the following sequence of diagrams, the orange lines represent the flow of financial surpluses and can be compared with drinking straws drawing those surpluses up to those whose entitlement to them is socially recognised in the prevailing property system. **The predominant form of *property* today is abstract financial entitlements**.

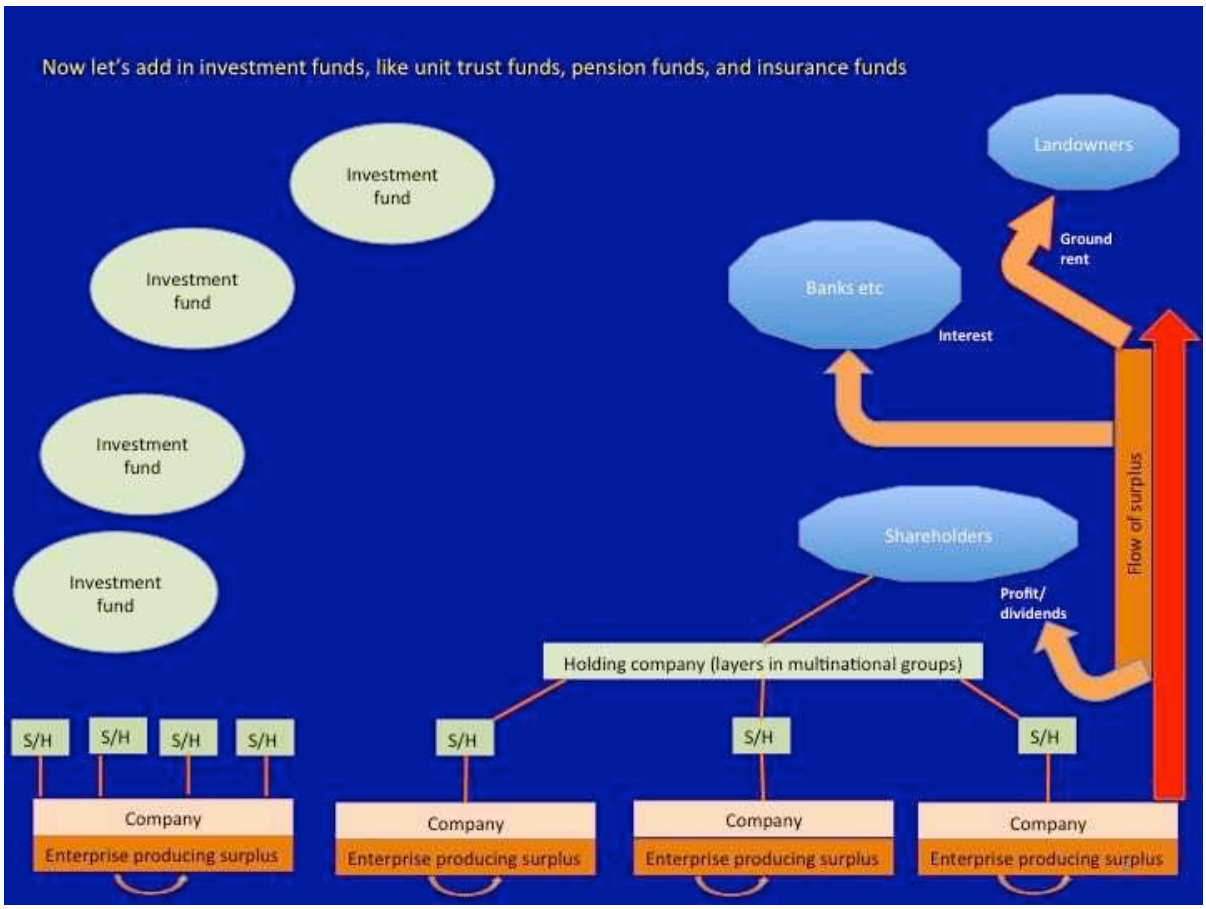


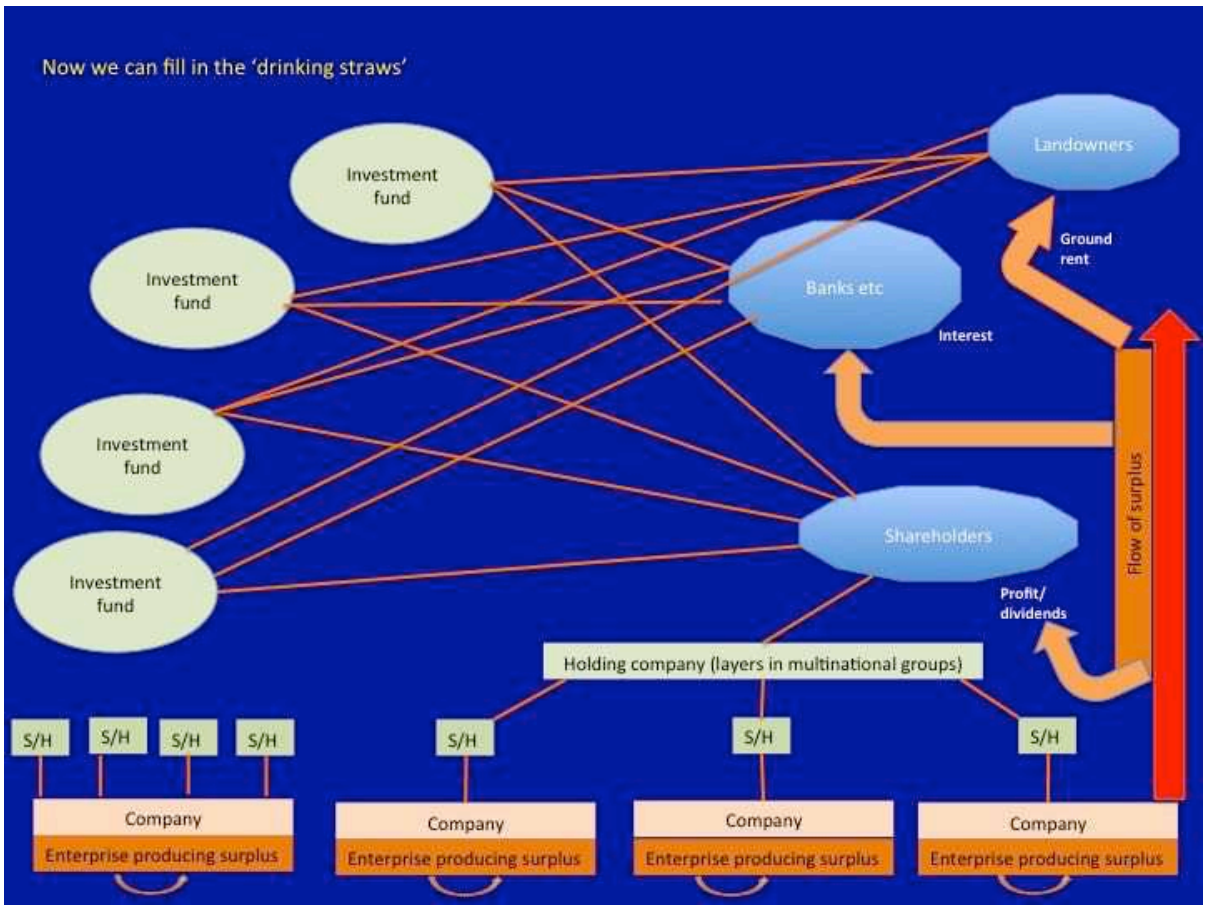
[7] 'A stronger chain of command' by Daniel Schäfer, *Financial Times*, 11 October 2010.

Bear in mind that tax is also paid out of surplus; in these diagrams, however, we shall leave tax aside. Note also that, as we have discussed previously, while each enterprise treats interest and ground rent as part of its own costs of production, from a social point of view they are a charge on the aggregate surplus — a pure return to property.






Now let's add in investment funds, like unit trust funds, pension funds, and insurance funds
Investment fund
Investment fund
Investment fund
Investment fund
Landowners
Ground rent
Banks etc
Interest
Flow of surplus
Shareholders
Profit/ dividends
Holding company (layers in multinational groups)
S/H
S/H
S/H
S/H
S/H
S/H
S/H
Company
Enterprise producing surplus
Company
Enterprise producing surplus
Company
Enterprise producing surplus
Company
Enterprise producing surplus


Now we can fill in the 'drinking straws'
Investment fund
Investment fund
Investment fund
Investment fund
Landowners
Ground rent
Banks etc
Interest
Flow of surplus
Shareholders
Profit/ dividends
Holding company (layers in multinational groups)
S/H
S/H
S/H
S/H
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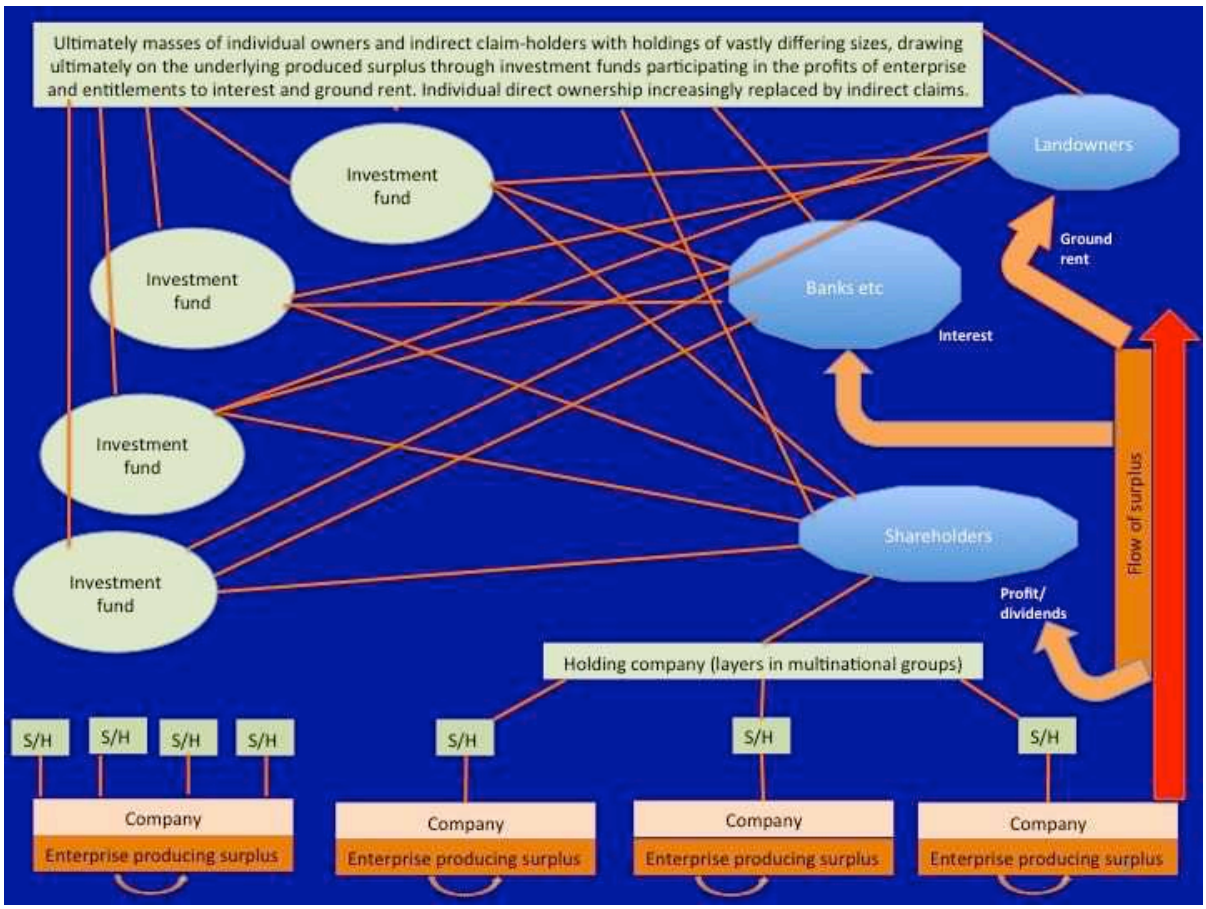
S/H
S/H
Company
Enterprise producing surplus
Company
Enterprise producing surplus
Company
Enterprise producing surplus
Company
Enterprise producing surplus



Remember that the surplus, to the extent that it is not consumed by those who receive it, must find its way back down again into profitable investments in enterprises at the base. Otherwise it will evaporate. The flow back down is not depicted in these slides.

Next time, we'll consider in more detail the nature of abstract proprietary entitlements, and some of their implications in the financial economy.

2016-10-10 From the preparatory notes for Class 24 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Last time we looked at the flow of surplus in monetary form into the financial part of the economy. We now need to look a little more deeply into the nature of abstract entitlements and what goes with them — into assets and liabilities, legal rights and legal obligations. Transactions in the financial sector are really only a more sophisticated and complex development of what goes on in everyday life in a market economy — i.e., an economy characterised by production for exchange. To find our way through the intricate entanglements of high finance, we need to start by understanding a few basic legal concepts that have evolved over the centuries and apply generally in economic life.

Let's begin with the fundamental distinction in law between 'real rights' and 'personal rights'.

Suppose you sell me your book for R200. You own the book. In law, your ownership is a **real right**, valid against the whole world. But you and I have now entered into a contract of sale regarding the book. I now have a **personal right** against you for delivery of the book (more precisely for the transfer of ownership to me) and you have the corresponding **personal obligation** towards me. Conversely, you have a personal right against me for payment of the R200 purchase price and I have the corresponding **personal obligation** to pay.

Note that **ownership** of the book doesn't pass from you to me until the book is **delivered** to me with the intention that ownership be transferred. Once ownership has passed to me, the law will in principle protect my ownership of the book not only against you personally but against the whole world.

In a cash sale, the intention would be that ownership passes together with payment. But there is no reason why you could not agree to give me credit, so I pay only later — i.e. after delivery of the book transferring ownership to me. So then I would have become the owner of the book (have a real right in the book, and bear the risk of loss which goes with that) while you would still have a personal right against me for payment and I would have a personal obligation to make payment when it falls due.

The personal right on each side is an **asset** and the personal obligation on each side is a **liability**. In principle, in a voluntary exchange, the assets and liabilities on each side match, so that when both obligations are discharged both rights are extinguished. In the aggregate of personal rights and obligations, there is nothing net.

But **ownership of the book** — a **real right** valid against the world with no corresponding obligation — is a pure **net asset**.

In *Applied Economics in Banking and Finance*,[1] the Oxford Polytechnic lecturer Ian Partington concisely explained the broader relevance of this difference. (He was writing in 1989 — there is no later edition of his work.)

> The 'output' of the financial system may be thought of as consisting of two kinds. On the one hand the various firms operating within the financial system provide their customers with a variety of services which use their specialist knowledge and skills; the modern operation of the banks is an

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[1] Oxford University Press, 4th edition, 1989.

obvious example of such a provision .... On the other hand the financial firms and institutions within the system are involved in the production of a slightly less obvious form of output, and that is the production of *financial assets* or *claims*. As a result of such direct and indirect financial activity within the financial system, the total of financial claims in existence is very substantial. For example, the market value of UK company securities in 1987 amounted to £ 1,285 billion; company security value was almost four times as great as national income. However, this is only a small fraction of the total financial claims which exist, since it does not include many other forms of financial asset, such as government securities, bank deposits, assets of pension funds, and so on.

2.2 Forms of wealth

Financial assets represent part of the wealth of individuals and institutions which hold such assets. Such wealth is, however, only one constituent of the total wealth of individuals and institutions since wealth can take a real (i.e. physical) form, for example property, stocks of goods, raw materials, land and machines.[2] Therefore if one is asked to add up the value of one's own wealth such things as a house and a motor car would be included as well as the amount of money one has in a bank and also the shares one might own. Thus, for the individual,

wealth = real assets + financial assets

But an individual is also likely to have liabilities (debts) such as a mortgage or a bank loan, and in assessing the individual's *net worth* these liabilities need to be taken into account:

net worth (individual) = real assets + financial assets - liabilities

If one wishes to extend this approach to the whole community the result is quite interesting. It is important to realize that although *financial* assets have a corresponding liability, real assets do not. For example, an individual's mortgage with a bank or building society is that person's financial liability, but for the bank or building society it is represented as an asset in its balance sheet — an asset which is *equal* to the liability of the individual. So for all individuals, groups, and institutions, that is the community,

net worth (community) = real assets + financial assets - financial liabilities

But since, every financial asset is someone else's liability, for the community as a whole, net worth will equal real assets only since financial assets and liabilities cancel each other out. Thus

net worth (community) = real assets

The position is somewhat curious. Financial assets held by the individual will be rightly regarded as part of his wealth (and if financial assets exceed financial liabilities then part of his net worth), but for the community as a whole the financial assets 'wash out' when assets and liabilities are aggregated. This phenomenon has given rise to controversy amongst economists, because although it would appear that financial claims are not part of net worth it would be hard to argue that they do not have any economic significance.

[2] [Our footnote:] By 'physical' wealth Partington means *material wealth* as we have explained it. This includes not only physical objects but intangible real objects such as designs, poems, musical productions etc.

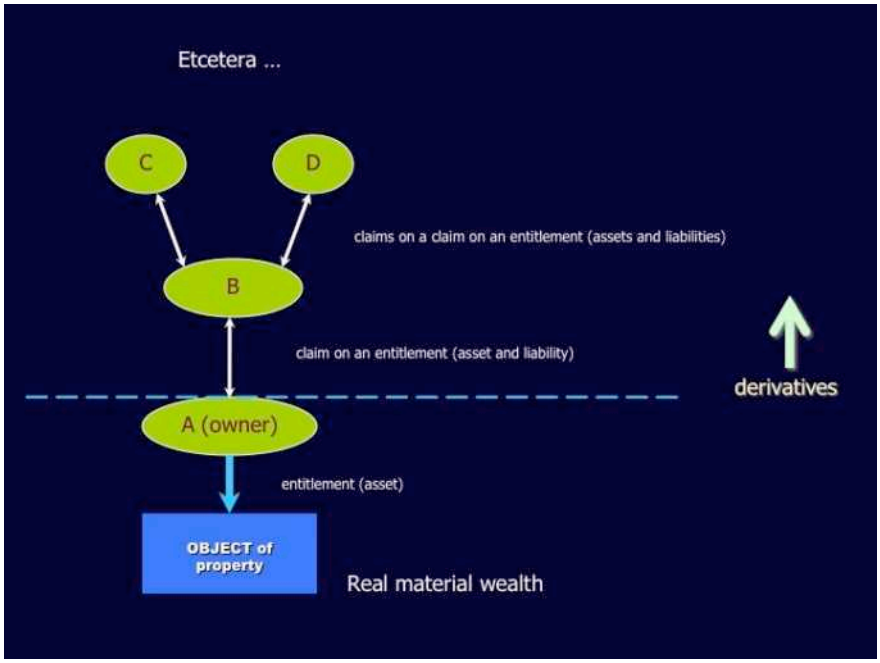
Real and 'derivative' entitlements

We have seen that ownership is a **real right** — a *real* entitlement — and that its object (a book, in our example) is a pure net asset. The general law may impose certain duties on owners, but in principle a real right is not accompanied by a matching liability. The fact that you and I enter into a contract of sale in regard to the book means that we create **personal rights** against each other, and matching **personal obligations** towards each other, in respect of the book. Since transferring ownership of the book is the ultimate object of the contract, these personal rights (with their matching obligations) are in a sense dependent on or derived from the underlying real right of ownership in the book. A personal right whose object is the transfer of a real right is in that sense a 'derivative' entitlement.

But transactions can and do take place in which the object is the transfer, not of a real right, but of **another personal right**. Such transactions are legion in the financial sector. For example, the purchase and sale of a share in a company involves the purchase and sale, and ultimately the transfer, not of any real assets of the company, but of a bundle of personal rights in respect of the company (bound together with certain obligations to the company and its members which need not concern us here). The personal rights and matching obligations created by the purchase-and-sale transaction are thus built on, or derived from, an existing bundle of personal rights (the share) which itself is ultimately a derivative form of entitlement.

Complex constructions of derivative entitlements dependent on other derivative entitlements are constantly being engineered in the financial sector — each of them matched at the outset by a corresponding liability, and none of them therefore adding anything to the underlying **real net assets** of society as a whole. They are, however, quite capable of altering the distribution of society's real assets among individuals, and this of giving rise to systemic effects.

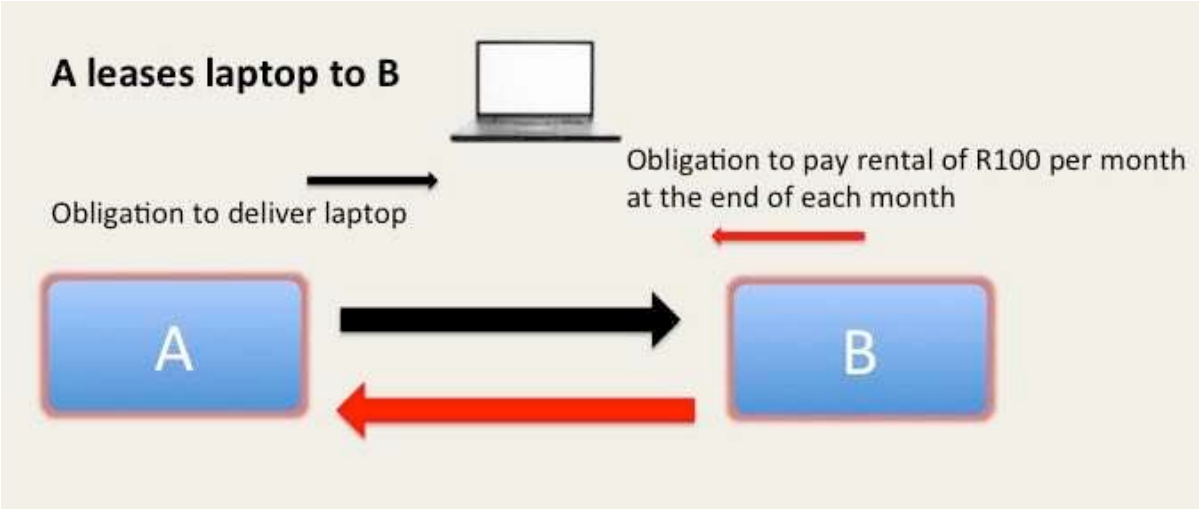
What are technically referred to as 'derivatives' in the financial sector are in fact entitlements (with matching obligations) derived from other derivatives in the true sense. This slide (the last in a sequence of 6 slides) may help explain it:



Cession and transfer of personal rights

Let's now consider what is involved in transactions in which the object is the transfer from one person to another of an existing personal right. Such a transaction is referred to in our law as 'cession' (in English and US law as 'assignment'). We'll take as a hypothetical example the cession of the right to the rental stream in regard to a leased laptop.

Suppose that A has leased his/her laptop to B for a month, for a rental of R100 payable at the end of the period. A now has a personal right or claim against B for payment of the R100 when it falls due, but has the correlative obligation to furnish B with the laptop for the month agreed. Conversely, B has the right to be furnished with the laptop, and the correlative obligation to pay the R100 to A. Each is a creditor in respect of his/her right (or claim) and a debtor in respect of his/her obligation.

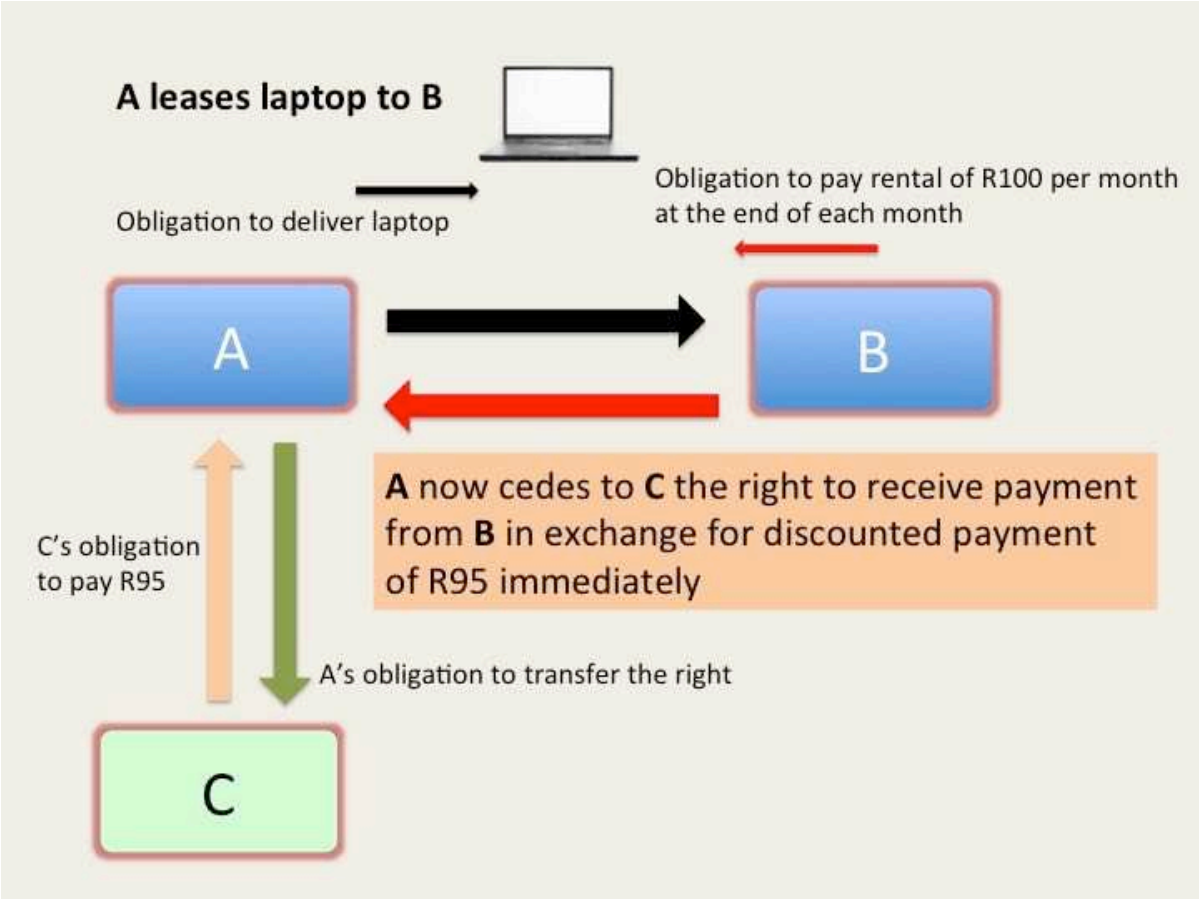


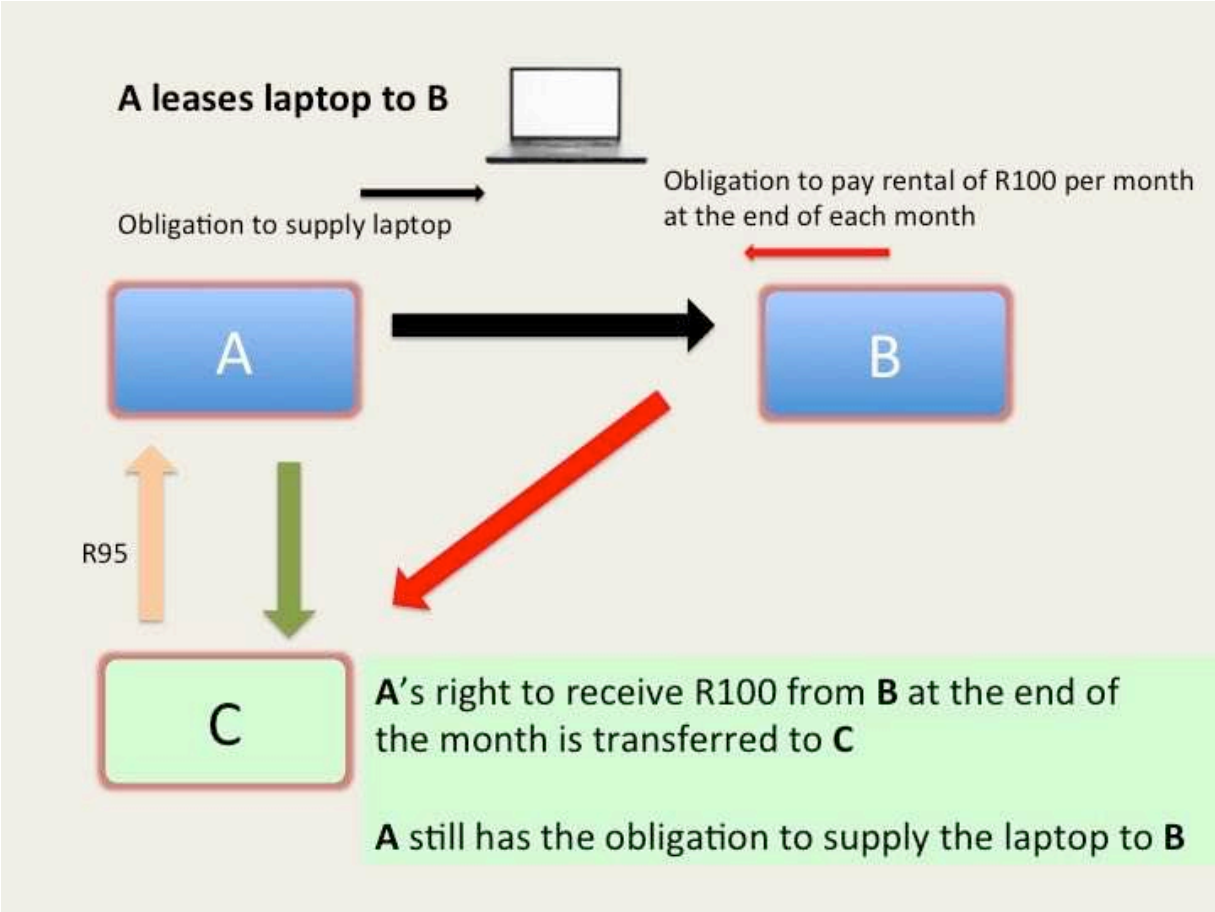
Generally speaking, the law holds that a debtor may not transfer his/her obligation to another person without the creditor's consent, but that a creditor may freely transfer his/her right to another person without the debtor's consent. There are sound practical and policy reasons for this differentiation.

Suppose now that C enters the picture and makes some sort of discounting agreement with A in terms whereof C takes over A's right to claim the R100 rental from B when it falls due, and in exchange agrees to pay A now the sum of R95.

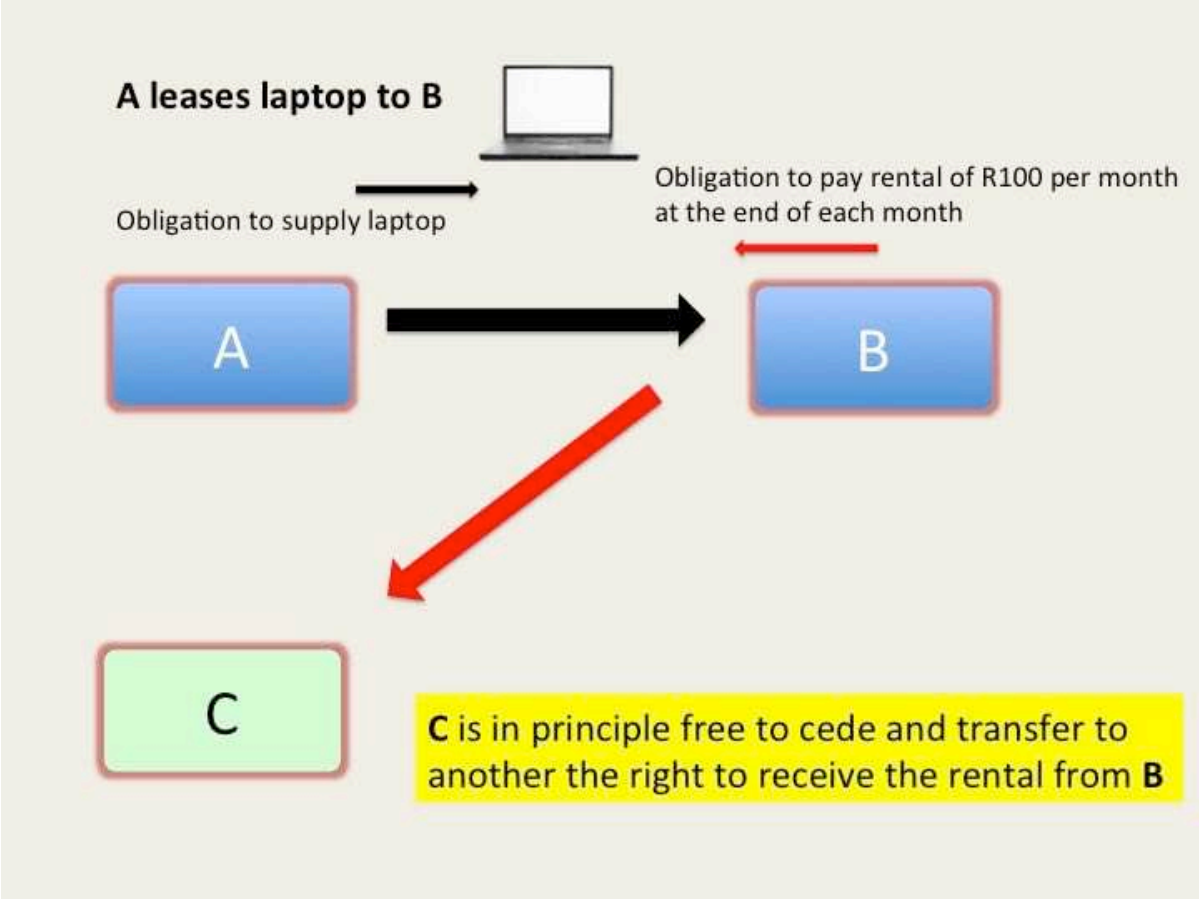
Once notified of the change, B must pay the R100 to C (in whom the right is now vested) when it falls due, but B must continue to look to A to fulfil the obligation of furnishing the laptop.

This is depicted on the next page.


A leases laptop to B
Obligation to deliver laptop
Obligation to pay rental of R100 per month at the end of each month
A
B
A now cedes to C the right to receive payment from B in exchange for discounted payment of R95 immediately
C's obligation to pay R95
A's obligation to transfer the right
C


A leases laptop to B
Obligation to supply laptop
Obligation to pay rental of R100 per month at the end of each month
A
B
R95
C
A's right to receive R100 from B at the end of the month is transferred to C
A still has the obligation to supply the laptop to B

The right transferred from A to C need not end its journey in C's hands. C may cede and transfer it to D, and D to E, and so on.



The right to claim payment has begun to travel in apparent independence from the correlative obligation to furnish the laptop. But that independence, though actual in some respects, is illusory in other respects. The right can never truly part company with its correlative obligation. Except by swindling, the asset cannot escape its correlative liability — and generalised swindling cannot long sustain a system of free exchange. B may (and obviously will) withhold payment of the rental if the laptop is not furnished.

C thus remains dependant on A for the fulfilment of A's obligation to B.

Financial 'paper'

We turn next to consider financial 'paper' — using this in a broad sense to refer to any formal acknowledgement of debt (in other words an 'IOU') coupled with a promise to repay at a particular time and on particular terms as to interest or otherwise, and which may change hands in the market.

For explanatory purposes we use the example of a 'coupon' bond, and a crude illustration showing the interest 'coupons' attached to the declaration of the capital sum owed. The 'coupons' may theoretically be 'cut off' and traded as separate debt instruments or zero-coupon 'bonds' in their own right. This provides an illustration of cession at work in the financial economy.

Explain the difference between such 'bonds' and a mortgage bond — a form of **real security**, whereby the house (for instance) serves as security to the lender for repayment of a home loan, so that upon the debtor's default the house may be sold and its proceeds taken by the lender to the extent needed to satisfy the debt, in preference to the claims of other

creditors.

Various forms of 'security' for the repayment of debts are possible, including 'suretyship', whereby one person guarantees repayment of the debt owed by another in the event of default, and the handing over of other entitlements such as share certificates as pledges for due performance. In the United States the term 'collateral' is used to refer generally to security for the repayment of debt.

Security for the repayment of debt is **entirely different from what is called 'securitisation'**. The latter term refers to the packaging of so-called 'securities' — a term we encountered when we were dealing with companies and shareholding. 'Securities' basically mean shares and debt instruments (IOUs). 'Securitisation' involves packaging or bundling securities together and then subdividing entitlements *to the bundle itself* into smaller units which are then separately sold off. This can be illustrated in class by putting bits of paper of different kinds and colours, representing financial paper, into a brown paper bag. You, as an investor, may not be able easily to verify the true worth of the contents of the bag when you buy units of entitlement to it. We can illustrate this by adding sheets of toilet paper to the package. Securitisation is itself a legitimate and necessary part of the financial system, but is so open to abuse that it needs stringent regulation.

'Junk' bonds and 'subprime' mortgages

This brings us to the subject of 'junk' bonds and 'subprime' mortgages.

A 'junk' bond is one which is rated as riskier than so-called 'investment grade' bonds — i.e. there is a higher risk that the debtor may default, and the rate of interest is therefore usually higher. The 'junk' bond is not necessarily a bad thing if you know it is high-risk when you buy it. It can be a way of channelling funds to high-risk projects which can be very beneficial where they succeed. The problem is that junk bonds are hyped as other than what they are, or are concealed in packages with other securities so you don't know what you are buying.

'Subprime' mortgages, on the other hand, almost inevitably entail deception and fraud. The impoverished borrowers, desperate for a home, are persuaded to take out home-loans that they have little or no prospect of repaying — putting the house itself up as security. The initiators of these loans quickly securitise the mortgages in packages and sell them off to investors while house prices are still rising because of increased demand and the security looks good. They can thus recover their own initial outlays and escape with their winnings before the crash comes.

The 2008 financial sector crisis was triggered by the collapse of the subprime mortgage lending market in the USA. This precipitated a global financial crisis of huge proportions.

The US regulatory body, the Securities and Exchange Commission (SEC), has a very poor record of investigating financial institutions in order to *prevent* fraud on the public. Once frauds have occurred, they move into the spotlight. The allegation of the SEC against the investment bankers Goldman Sachs was that they deliberately constructed a dodgy package of mortgage-backed securities so they could bet against it. This would be like nobbling your own horse so you can go and make a big bet that it will lose the race. On 11 April 2016, the US Department of Justice and other state agencies reached a settlement with Goldman Sachs which required the firm to pay $5.06 billion [R70 billion] in penalties and damages.

Michael Lewis's 2011 book *The Big Short* provides a brilliant picture of the financial manipulations which go on. The movie of the same name is well worth watching.

In *The Big Short*, the heroes are some highly intelligent individuals, inclined to go against the stream, who figured out early on that the subprime mortgage boom was a system-wide, unsustainable Ponzi scheme. They had the courage to defy the trend that kept inflating it along with house prices; and they succeeded in raising the money necessary to bet, and bet big, on the inevitable crash. They were out to enrich themselves rather than rescue others from the coming disaster.

Their betting operation involved buying **credit default swaps** — financial instruments issued in exchange for premiums, supposedly in order to hedge or 'insure' funders against default by homeowners on the subprime mortgages which they had been persuaded to take out at deceptively low initial interest rates and which they could never afford to maintain.

The initial lenders' claims on these unsustainable mortgages were bundled together in opaque parcels (**collateralised debt obligations**, or bonds, issued by financial institutions) and sold to investors — including pension funds and the like — who were deluded into thinking that the contents were sound.

The well-known rating agencies were central in enabling the systematic fraud. Credit default swaps were then issued, albeit in much smaller quantities, to 'insure' against default on the bonds. True insurance, which is regulated, requires the policy-holder to have an insurable interest (a real stake) in the asset insured, in order to distinguish it from mere gambling. Thus one cannot ordinarily take out insurance, for example, on the life or the house of a complete stranger — the general incentive that would otherwise spread to have strangers killed or their houses burned down in order to claim on insurance, is social and legal taboo. Not so in the financial sector, however.

Credit default swaps are pure gambling contracts, at that time fundamentally unregulated, and issued at the stroke of a pen. Many were underwritten by the mega-insurer, AIG, which the taxpayer ultimately had to bail out. By the end of 2007, the total outstanding CDS amounted to $62.2 trillion.[3]

Lewis's heroes in *The Big Short*, in order to win big in their bets against the so-called insurers, had first to persuade the latter to issue this so-called insurance to them in large quantities (although they themselves did not hold and were not at risk on the collateralised debt). Because of the widespread under-estimation of the risk, they were able to obtain these credit default swaps at very low premiums, which they then had to finance during the nerve-wracking period of uncertain length when rising house prices were still defying gravity.

They badly needed the system to crash in order to claim on the insurance. To ensure a payout soon enough after they had built their stake in credit default swaps, they had to go out and reveal in brutal detail, and indeed trumpet as loudly as they could in the marketplace, the unwelcome fact that the subprime mortgages, and the bonds built on them, were bound to fail and fail soon. It seems they had little success in this regard, such was the euphoria of money-making in the financial sector at the time — but the defaults began anyway, and with them came the crash. Although insurers themselves went under, rendering

[3] https://en.wikipedia.org/wiki/Credit_default_swap

many credit default swaps worthless, the gambling heroes of *The Big Short* were astute enough to emerge very wealthy from the catastrophe.

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This completes the 1st part of the course, on the historical evolution of the property relation.

Where are we going from here? A brief outline is given of the remaining classes.

2016-10-24 From the preparatory notes for Class 25 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Supply, Demand & the Price Mechanism

We have spoken about production (which takes place in enterprises) and about the exchange of the products they produce for money (which happens in the market). Now we are going to examine how, in theory at least, products come to be exchanged at the prices they do in the market.

First of all, we are going to look at **the price** that a particular product might fetch in the market **in relation to** two things:

(1) **the quantity of that product producers would be willing to supply at various prices**,

and

(2) **the quantity of that product consumers would be willing to buy (or 'demand') at various prices**.

Consider this: If you were the owner of an enterprise producing shoes — how would you determine the price at which to offer the shoes for sale? What factors would you consider?

* Perhaps you'd look at other similar products in the market;
* You would want to sell all of your goods/stock;
* You would want to cover your costs of production; and
* You would want to make as great a profit as possible. [Discuss why.]

There is a market for every type of product one can think of. Let's consider one textbook example: The market for gasoline (what we call petrol) in the United States.

Let's begin with the supply side in the exchange of petrol for money.

Supply Schedule for Gasoline (petroleum)[1]

Price Per gallon ($)	Quantity Supplied (millions of gallons)
1.00	500
1.20	550
1.40	600
1.60	640
1.80	680
2.00	700
2.20	720

[1] In 2015, the United States had a daily average consumption of about 384.74 million gallons per day (United States Energy Information Administration)

1 gallon = 3.7 litres

These illustrative figures are for the whole market.

In the left-hand column we have a range of prices at which petrol might be supplied. In the other column we have the quantity of petrol that suppliers taken as a whole **would be willing to supply** at each of those prices. (The heading 'Quantity Supplied' might suggest that those quantities would actually be sold at those prices. But, as we shall see shortly, that cannot be taken for granted.)

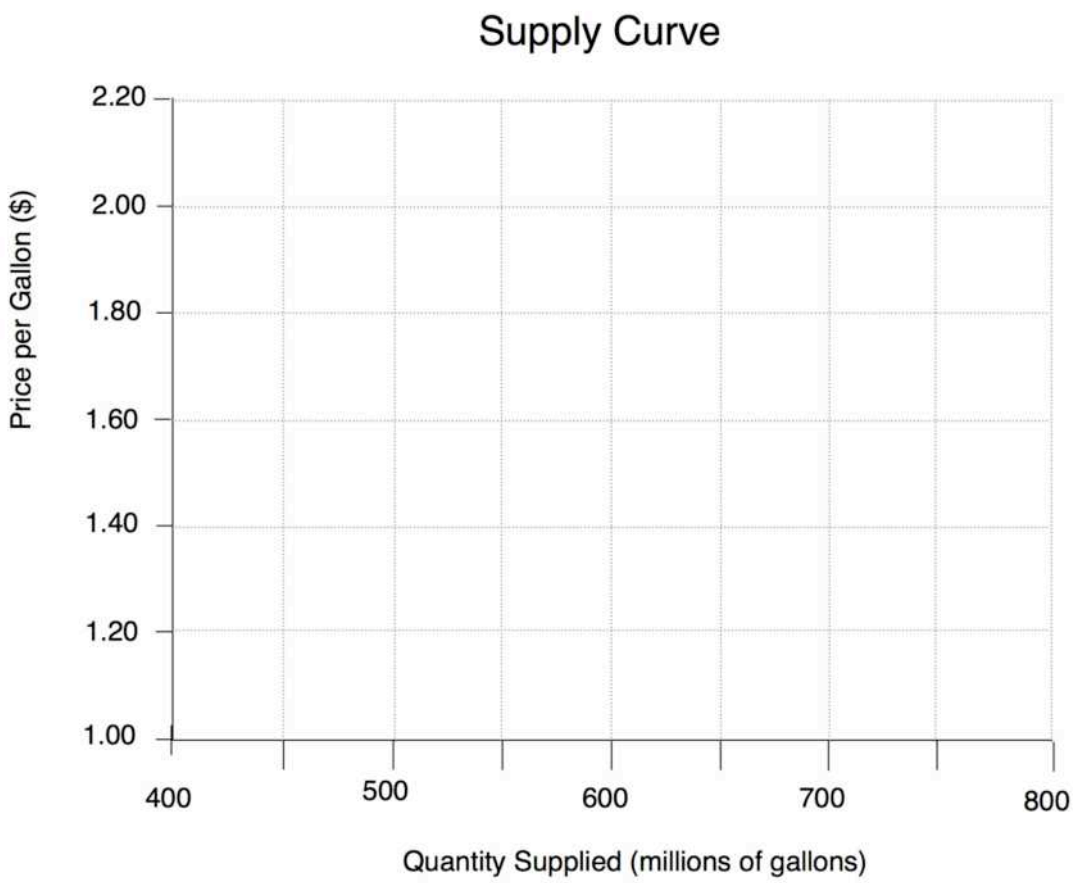
What do you notice about the relationship in the Supply Schedule between the price and 'Quantity Supplied'?

In considering this question, please note that we are only concerned at this point with **the relationship between price and quantity** (and only on the supply side of the exchange of petrol for money). *'Ceteris paribus'* — everything else is assumed to remain **unchanged**. In real life other changes will be happening simultaneously, but if we bring those changes into the picture now we'll confuse the analysis.

Let's present the relationship between the price and quantity figures in the Supply Schedule

as a diagram or picture, by way of points plotted on a graph.

[Hand out the blank Supply Curve graph and explain the axes]



Mark off the points on your graph according to the Supply Schedule.

The 'law of supply':

> The law of supply states that a **higher price** leads to a **higher quantity supplied** and that a lower price leads to a lower quantity supplied.

Do you agree? Why?

Remember that the supply curve is drawn on the assumption that NOTHING changes to affect quantity supplied except the price.

Now let's turn to the demand side in the exchange of petrol for money.

Demand Schedule for Gasoline (petroleum)

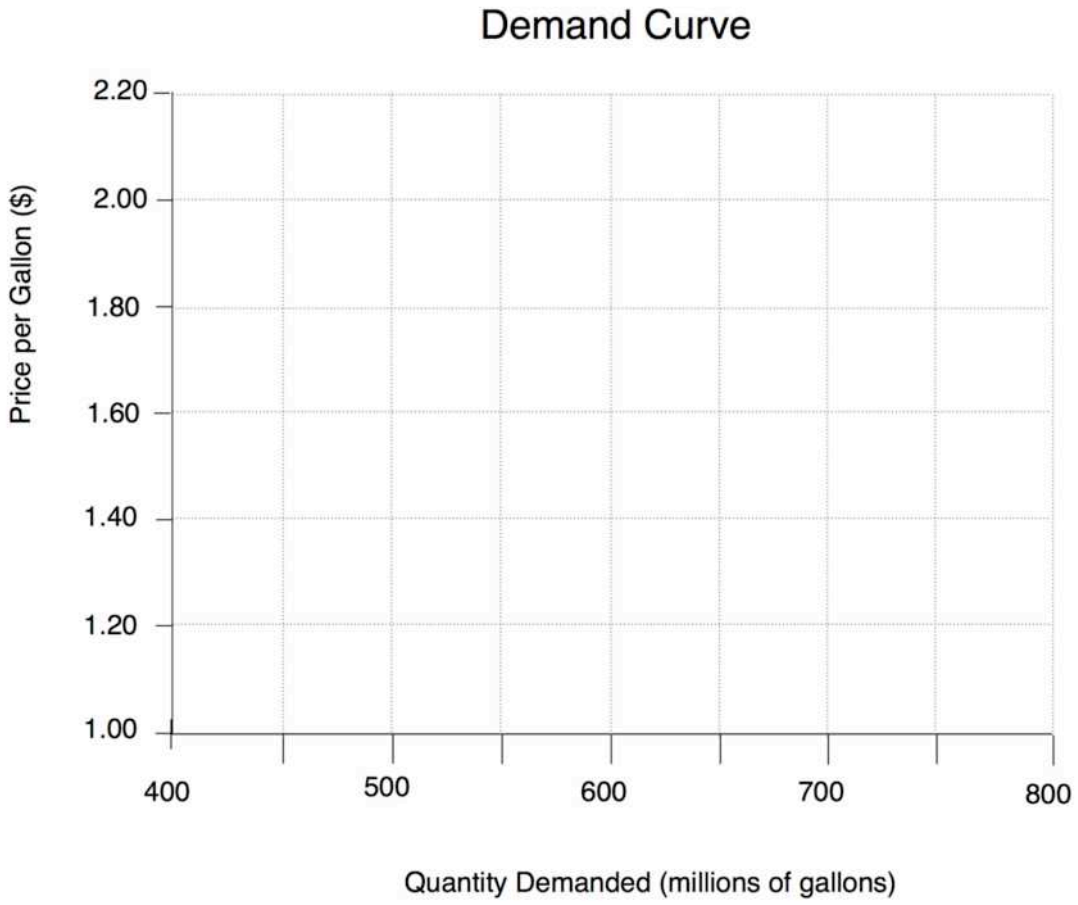
Price Per gallon ($)	Quantity Demanded (millions of gallons)
1.00	800
1.20	700
1.40	600
1.60	550
1.80	500
2.00	460
2.20	420

In the left-hand column we have a range of prices at which petrol might be purchased. In the other column we have the quantity of petrol that customers taken as a whole **would be willing to purchase** at each of those prices. (The heading 'Quantity Demanded' suggests that those quantities would actually be purchased at those prices. But again, that cannot be taken for granted.)

What do you notice about the relationship in the Demand Schedule between the price and 'Quantity Demanded'?

Note again that the *ceteris paribus* assumption (all other things remain unchanged) is applied at this stage of the analysis. This means the only factors that account for the changing relationship are 'quantity' and 'price'.

[Hand out the blank Demand Curve graph and explain the axes]



Mark off the points on your graph according to the Demand Schedule.

The 'law of demand':

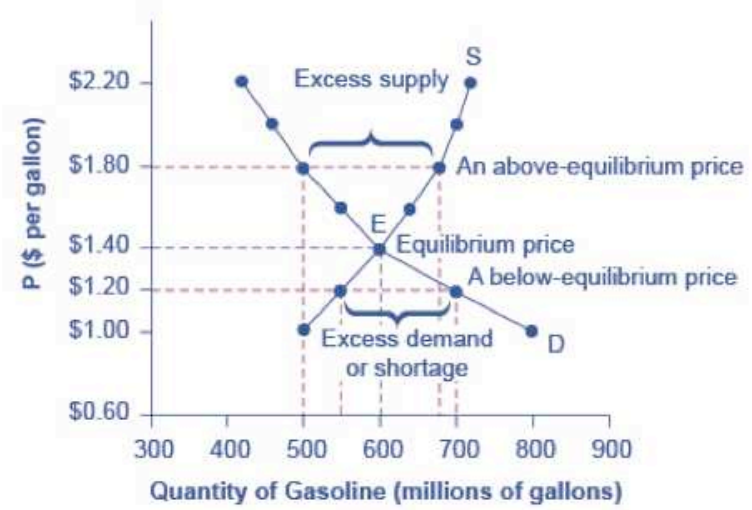
> The law of demand states that a **higher price** leads to a **lower quantity demanded** and that a lower price leads to a higher quantity demanded.

Do you agree? Why?

Equilibrium Price

Ask the class to hold their graph papers up to the light, placing the one over the other so that the axes fit exactly over one another. The point where the two curves intersect is called the 'equilibrium price'. What is the equilibrium price for petrol?

Equilibrium Price



An **equilibrium price** is the notional or 'ideal' price at which there is exactly **enough demand** to ensure all goods supplied in the market will be sold, and **enough supply** to ensure that all demand for such goods is satisfied. On this basis, the market is said to 'clear'.

This state of balance only exists in the theoretical imagination; it never exists in fact. However, depicting the price mechanism in this way helps us to understand the way in which price, supply and demand are constantly adjusting in response to each other.

———

So far we have assumed that nothing changes except quantity and price. Now we will consider one other thing changing — namely the cost of production of a gallon of petrol.

Changes in 'Quantity Supplied' at the same price

Go back to the supply graph and consider the case if the cost of production of petrol were to increase. What do you think will happen to the quantity producers as a whole would be willing to supply at the old prices?

The whole supply curve shifts to the left ← . In other words, a smaller quantity would be supplied at each indicated price. This is because, if it costs more to produce the good, some will find production and sales at the old price unprofitable, while others too will move their

capital to some other branch of production where the rate of profit has not fallen at all, or at least not to the same degree.

What if the cost of production of gasoline were to decrease, which way would the supply curve shift?

The curve would shift to the right →. Producers as a whole would be willing to produce a greater quantity at the old prices, because more profit per gallon could be obtained. In all likelihood, some capital from other branches of production would now move into petrol production because the rate of profit there has risen.

Changes in 'Quantity Demanded' at the same price

This will not be affected directly by changes in the cost of *supply*. But there are various factors which might affect how much is *demanded* at any particular price.

* Eagerness to purchase the good or service.

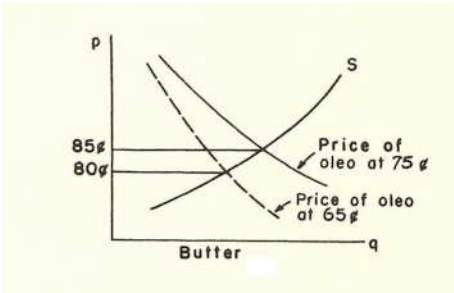
* Ability to purchase — the question whether you have enough money to buy what you want.

* Size of population.

* Ability to obtain the same or similar utility from another product.

When either the supply curve or the demand curve shifts, the effect is that the notional 'equilibrium' point (where the two curves intersect) has also shifted. In other words, there would be a new price-quantity 'equilibrium' — a new point of notional balance between price, supply, and demand.

In his textbook on *Price Theory*,[1] Milton Friedman provided an example of **the effect on the price of butter** consequent upon **a change in the price of margarine** ('oleo'). If the price of margarine goes down, say from 75 cents (US) to 65 cents, some people will switch from butter to margarine. The quantity of butter demanded at the old price will fall. To clear the market for butter, the price of butter would have to fall, say from 85 cents to 80 cents. The shift of the demand curve for butter is shown on the graph, and with it the new point of intersection with the old supply curve.



[1] Friedman, Milton. *Price Theory*. Transaction Publishers, 2007, p. 24.

The graph does not show the further consequences that might follow by way of an adjustment of the butter supply downward in response to the lower price (a shift of the supply curve to the left), and thereafter an adjustment of the butter price upward again in response to the reduced supply, resulting in another new 'equilibrium' point for butter.

Nor does the graph show what might also be going on subsequently in the market for margarine.

Indeed, it is important to bear in mind that because:

(a) capital is able to move from one branch of production to another, and

(b) consumers are constantly allocating and reallocating their spending power between different products,

imagining an 'equilibrium' in any branch of production has to involve assuming that all else is constant **not only in that branch of production but everywhere else that could impact on it as well**.

While the process of adjustment via the price mechanism is vital to understand, we have to bear in mind that, in reality, 'equilibrium' itself never comes about.

———

The class continued with a brief introduction to **competition**, how it is carried on, and its relation to the operation of the price mechanism. This covered:

* Competition between buyers. E.g. Uber during public emergencies, etc.

* Competition between sellers. Rival suppliers, rival products.

* Collusion and market-fixing.

Market power where competition is ineffective:

* dominance over competitors / monopoly;

* captive suppliers or captive customers.

How competition brings about constant adjustments in the equilibrium point, by shifting the supply and demand curves.

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Class 25 then continued with an introduction to the theory of value. The preparatory notes for that have been consolidated with the notes for Class 26 and will be distributed separately.

2016-10-24 & 31 From the preparatory notes for Class 25 (2nd part) and Class 26 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

The 'engine of inequality'

There is a formidable **engine of inequality** at work.

While it is important to study the price mechanism, the way competition operates, and the distortions of the market where competition is ineffective, it would be a mistake to think that those distortions are the *basis* of persistent social inequality.

The argument of this course is that, even if we assume competition and equilibrium pricing, the system automatically has the result that **those who have more get more.**

Our study of the evolution of property has shown how **entitlements to the social surplus** have become concentrated in fewer and fewer hands.

This is a phenomenon of the whole world economy.

Recall **the graph by Branko Milanovic.**[1]

FIGURE 1.2. Percentage of absolute gain in real per capita income received, by global income level, 1988–2008

This graph shows the percentage of total absolute gain in real household per capita income (measured in 2005 international dollars) between 1988 and 2008 received by groups at different points of the global income distribution. We take the increase in total world real income as 100 and calculate how much of it was received by different ventiles (groups of 5% of the population) or percentiles of the global income distribution. The graph shows that the absolute gains in income went mostly to the richest 5% of the world population. The top 1% got 19% of the total global income increase. Data source: Lakner and Milanovic (2015).

Page 25. Milanovic, Global Inequality

And **the similar picture for South Africa.**

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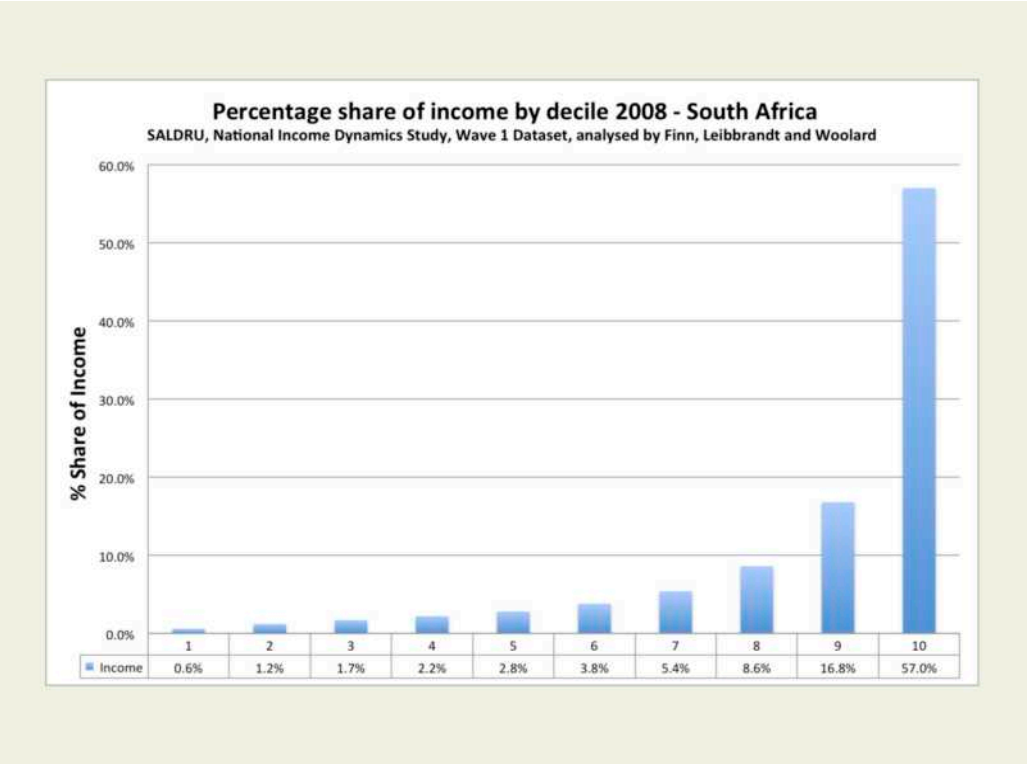
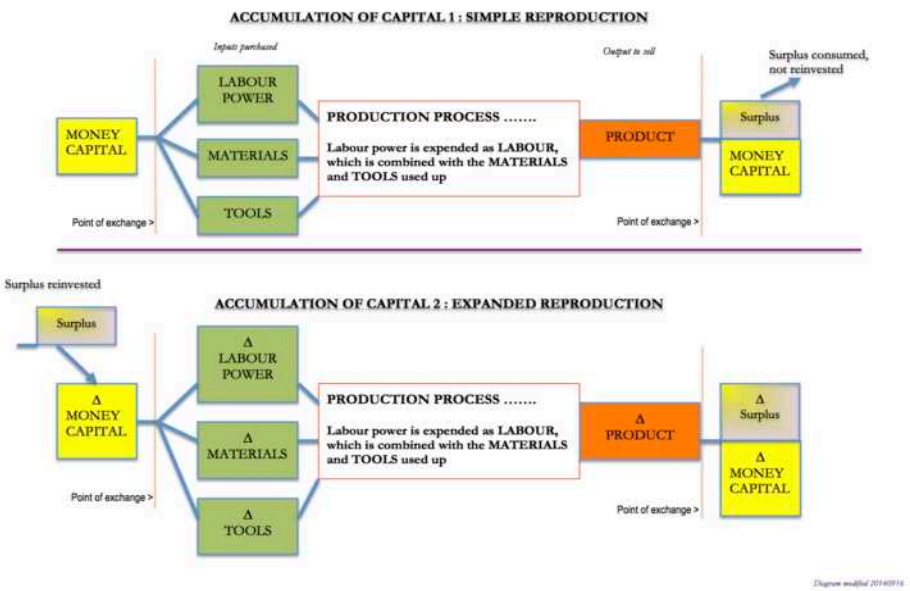
[1] See originally Class 5.



We have seen how the rise of the company (the corporation), and shareholding in place of individual ownership of enterprises, led historically to a much greater development of the financial system.

We have seen how individual entitlements to surplus have become increasingly indirect, and are mainly exercised via the financial system.

However, **the surplus itself is produced at the base**. Recall **the diagram of simple and expanded reproduction**.[2]



[2] This diagram has previously been handed out to the class.

Recall the two meanings of 'wealth' as (1) objects of real material wealth and (2) socially recognised means of command over those objects.

Related to this, the two meanings of 'value' in ordinary language:

(1) Utility (value in use, or 'use-value')

(2) Value in exchange ('exchange value', or value as command over objects of utility).

> *Example: the expression 'value for money'. What does it mean?*
>
> *And what about 'the value of money'?*

The distinction is vital if we are to have any clarity in our analysis. Adam Smith wrote in *The Wealth of Nations*:[3]

> The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called 'value in use'; the other, 'value in exchange'. The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use.

(In other words, the question of real material wealth and the question of entitlements to that wealth must be kept distinct.)

When we use the word 'value' from now on, without further specification, we shall be referring only to value in exchange. To avoid confusion, we'll use the term 'utility' when we want to refer to what Smith, Marx and others have called 'value in use' or 'use-value'.

———

Why do we need a value theory?

Mainly for two reasons:

(1) Because, even if we assume an equilibrium of supply and demand, and therefore an equilibrium price, in the case of every product, we still know nothing about the *relative* equilibrium prices — i.e. the prices of the various products *relative* to each other. We need a theory of the *value* of products in order to understand **the basis for their relative *prices***.

(2) Because, if there is a social surplus, it follows that a component of the *value* of each product sold — and consequently a component of the producer's revenue — will be made up of *'surplus-value'*. We need to know **the effective basis on which, in a market**

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[3] The *Wealth of Nations* (1776), Random House Modern Library edn., 1937, Chapter IV, p. 28. Some 25 years before Smith, the Physiocrat François Quesnay wrote that 'we should not confuse the price of items of exchangeable wealth with their use value, for these two values rarely have any connection with one another.' From his *Encyclopédie* article on 'Men'; translation by Ronald L. Meek, *Economics of Physiocracy: Essays and Translations*. George Allen & Unwin, 1962, p. 90.

economy, society allocates its aggregate surplus by giving a value to each product, and thus allocates and distributes the surplus among the enterprises which have contributed to producing it.[4]

Let's recall that the social surplus is

> **'that part of the total production which [does] not have to be consumed in order to maintain the existing level of production'**.[5]

The social surplus is first allocated at the base of the economy — i.e., allocated to productive enterprises themselves — when the product they have produced (including their contribution to the aggregate surplus product) is exchanged for money in the market. The **return of capital** to the enterprise and the **allocation of surplus-value** to the enterprise is effected simultaneously by means of the **price**.

In our simple model of a single-product CORN economy, with a single input (corn, feeding the producers and providing the seed), and with an annual cycle of production, it was easy to identify and quantify **the surplus product**: net bags of corn.

In a modern economy with a complex division of labour, with billions of different products coming onto the market at different times, **we cannot pin the physical surplus down in the same way**. We can only study it indirectly, by accounting for the **money-value** of all the outputs produced (and sold) during a fixed period of time, and deducting the money-value of all the inputs consumed in production during that time. So we look to *the realm of entitlements* in order to give us some aggregate sense of that quite different thing: *the realm of real material wealth*.

Enterprises keep account of their own **input costs** and **output revenues**. (Revenue means income from sales.)

Enterprises do this:

(a) to be sure they are making a profit not a loss;

(b) to work out what their rate of return (rate of profit) is on capital, so that they can decide whether to continue in that line of business, and even expand it, or rather pack up and invest the capital elsewhere;

and

(c) because the collector of taxes (e.g. SARS) requires proper accounting in order to tax the profit made.

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[4] An enterprise's contribution may be indirect, inasmuch as its product may have made a necessary, integral contribution to a rising social product, even though the quantum of the particular product of the particular enterprise sold into the market may not have increased. (The example of haircuts, discussed elsewhere, would serve to illustrate this.) If the revenues of the enterprise exceed its costs of production, that would indicate that society is awarding it a share in surplus over the period concerned.

[5] Frederic C. Lane, "Economic Consequences of Organized Violence". *The Journal of Economic History*, vol 18 no. 4, December 1958, p. 410.

The difference between the enterprise's **revenue** and its **cost of production** is its gross profit (or loss).

The results of all the different enterprises are then aggregated for general statistical purposes. This can be worked out nationally and also globally if the figures have been recorded.

A so-called 'real' economic result for a period is arrived at by adjusting this aggregate for changes in the value (purchasing power) of money compared with the previous period. But remember the 'Nordhaus' effect, which shows that the money-value statistics can't in fact fully capture the real advances made in the sphere of **utility**, or real material wealth.

We saw previously that **interest** and **ground rent,** as well as **taxes,** are paid out of **surplus**. More specifically, where each enterprise is concerned, they are paid out of the ***gross* profit of enterprise**. What remains is then the ***net* profit of enterprise**.

For present purposes, however, to simplify our analysis, we're going to leave aside the allocation of part of the surplus to interest, ground-rent and tax. We are interested primarily in **the gross value of the surplus product, and how it is allocated initially between the enterprises** which, collectively, have produced it.

The social product is in fact produced collectively, even though, in consequence of the division of labour between enterprises, each enterprise may think it has independently been doing its own thing.

Every exchangeable object of wealth has a **notional price** — the amount of money it is *expected* to fetch if actually exchanged. But one won't know its **actual price** unless and until it is actually exchanged for money. This is because supply and demand are in constant flux, and expectations are constantly having to be corrected.

Our present concern, however, is not with **all** exchangeable objects of wealth. Our concern is with **products — newly produced objects of material wealth — i.e. objects of utility.** These contain the newly produced **material surplus.**

When a product is exchanged for money — when it is sold in the market at a price — it is 'valorised'. That is to say, **its *value* is actualised or '*realised*'** in money**.** In this way, **actually realised prices allocate the social surplus** between enterprises at the moment when each enterprise exchanges its product for money.

———

Adam Smith described the question of the value of commodities in exchange as one which is 'in its own nature extremely abstracted'.[6]

(In common English, a 'commodity' simply means an article produced for exchange. Nowadays, however, the word has also taken on a more specialised meaning, referring only to *primary* products such as coal, coffee, copper, wool, wheat and so on — where the individual article is submerged in a mass of articles of the same kind and quality, so that one ton, bag or bale can readily be substituted for another. But when Adam Smith or Karl Marx

[6] *Op cit.,* Chapter IV, p. 29.

spoke of 'commodities', they meant simply products destined for the market. We will be considering the value of 'commodities' in that sense, and, wherever possible, we'll simply call them 'products' to avoid ambiguity.)

In the history of economic thought, the theory of value has played an important and hotly contested role — because it sets out to explain (and thereafter to condemn or justify) the basis on which the production and appropriation of surplus-value takes place.

We cannot trace the whole history here, but will begin with **the mercantilist theory of profit** which dominated western economic thought for hundreds of years. Recall the period of merchant capitalism which we studied previously. The dominant theory of that period was that profit in the economic system came from buying and selling — **from buying cheap and selling dear**.

What do you think of that? [Divide into groups for 10 minutes to allow discussion of this question]

The Mercantilist theory of wealth and profit:

Buying cheap and selling dear:
the merchants' theory of profit:

From *An Outline of the History of Economic Thought*, by Ernesto Screpanti and Stefano Zamagni, Oxford University Press, 2nd edition, 2005, pp 41-42:

"It is not surprising that the mercantilists looked mainly to exchange as the real source of wealth and profit. In fact, the merchant earns profits, not because he controls the productive process (a control which, at least in the first phase of industrial development, was still in the hands of the craftsman), but rather because of the power he manages to exercise on the market. The merchant's profit originates from the difference between the selling and buying prices of goods. He believes, therefore, that it originates from the trading process. Thus a knowledge of the determinants of market prices is crucial in order to understand the origin and growth of profits. Attention must be mainly focussed on the forces that determine the demand for the goods, and demand is easily linked to utility.

cont...

"In 1588 Bernardo Davanzati made an interesting attempt to construct a utility theory of value. He had been impressed by a passage from the *Natural History* by Plinius in which a story is told of a mouse sold at a very high price during the siege of a city. Davanzati explained the phenomenon by arguing that the value of goods depends on their utility and rarity. It is not absolute utility that counts, but rather utility in regard to the quantity available. The effect of greater scarcity would be to increase the use value of the goods and therefore the price at which they can be sold."

However later, with the development of production for exchange:

"... the idea made ground that prices and profits reflected the conditions of production rather than the forces of demand."

(p 44)

Question:

What circumstances must we assume, if profit is to come generally from buying a thing cheap and selling the same thing dear?

There are two possible sets of circumstances to consider.

Question:

What circumstances must we assume, if profit is to come generally from buying a thing cheap and selling the same thing dear?

- **That the buying takes place in one market and the selling takes place in another market, where the conditions of supply and demand are different**

  This means that the demand is restricted but the supply is unrestricted in the first market, where the merchant buys; and the supply is restricted but the demand is unrestricted in the second market, where the merchant sells.

  The "terms of trade" between the two markets are unequal. The profit comes from the unequal terms of trade.

  This cannot continue when the markets are integrated and competition prevails.

Question (continued):

What circumstances must we assume, if profit is to come generally from buying a thing cheap and selling the same thing dear?

- **That the buying takes place in one market and the selling takes place in another market, where the conditions of supply and demand are different (see previous slide); or**

- **That the buying and selling take place in the same market but at different times, when the conditions of supply and demand are different.**

  This second possibility cannot provide a general explanation, because (assuming competition) the necessary conditions for buying cheap and selling dear can only exist in the same market temporarily and are equally liable to be reversed.

In an integrated competitive market, where production takes place for purposes of exchange, supply adjusts to changes in demand.

Therefore while, episodically, profit can be made from buying cheap and selling dear, this cannot provide a general explanation for the source of profit.

Whatever one gains in exchange, another loses. The (+) and (–) quantities cancel out.

Therefore the source of sustained profit in the system as a whole must be found in production, not in exchange.

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The Physiocrats

The 'Physiocrats' were a bourgeois modernising tendency — a school of thought — of the eighteenth century, located within and close to the aristocratic regime in France.[7] As economic modernisers but political conservatives, the Physiocrats looked both forward and back. They wanted major reforms to be carried out by the *ancien regime*. In this respect at least their project would be swept away in the French Revolution which overthrew the King and the landed aristocracy. But their forward-looking contribution was of great importance. The historian and translator Ronald Meek says that 'the birth of Physiocracy was in fact the birth of the science of economics in the broad general form in which it has come down to us today.'[8]

The Physiocrats were interested in the market — indeed they were pioneers of *laissez-faire* ['let it happen'] and free trade in opposition to the restrictive and protectionist theories of the Mercantilists — but they analysed the market from the point of view of **production**. Their aim was to promote policies which would expand production and, so they believed,

[7] They themselves would have objected to being called 'bourgeois', because they held the *urban* bourgeoisie in some contempt. They were promoting the development of *agricultural* capitalism, and so in that sense were objectively bourgeois. See e.g. Fox-Genovese, Elizabeth. *The Origins of Physiocracy: Economic Revolution and Social Order in Eighteenth-Century France*. Cornell University Press, 1976, pp. 27-30.

[8] Meek, *op cit*., p. 9.

alleviate the plight both of the impoverished small peasantry and of the rising capitalist farmers (the *fermiers*) who hired the land from the landlords.

The term 'physiocracy' comes from the Greek for 'government of nature'.[9] The Physiocrats maintained that nature — more specifically **the land** — was the sole source both of the means of subsistence **and of the surplus produced**. The **landowners** (i.e. the landlords, whose hereditary position they accepted as a natural right) were thus **entitled to receive the entire social surplus**. To be more precise, the Physiocrats recognised also the claims on surplus of the King (through taxes, which they wanted to reduce) and the clergy (through tithes, which they wanted to reduce or eliminate). In essence, however, **the surplus flowed to the landlords in the form of rent**. In the view of the Physiocrats, some of this surplus should be relinquished by the landlords so as to enable the *fermiers* to invest.

As Marx put it, the Physiocrats 'regarded rent as the only surplus, and capitalists and labourers together merely as the paid employees of the landlord'[10] — the landlords being naturally entitled to that position despite producing nothing at all. The French Revolution would reveal the absurdity of that notion of entitlement, also demolishing under the hammer-blow of events the extraordinary assertion of the Physiocrats that the landlords were a *necessary* class because, by using their rentals to buy agricultural and manufactured products, they in fact sustained these branches of production and thus the livelihood of all. Ruling classes have never been short of theorists to justify their exploitation. Or of conservative reformers merely trying to *persuade* the ruling class to give up some of its gains for the greater good of society.

In the Physiocratic conception, since the surplus was derived solely from the land:

> **the farmers** were the 'productive' class (they produced the surplus by working on the land);
>
> **the manufacturers** were the 'sterile' class (they could add nothing to the original surplus provided by nature, whatever quantity of manufactured goods they might produce); and
>
> **the landlords** were the 'distributive' class (who, by their consumption of the surplus product, which they paid for with unearned rent, ensured in effect the return of capital to its starting point, and so kept the annual cycle of production going).

François Quesnay (1694–1774) was the founder and leading light of the Physiocrats. His *Tableau Économique* (economic table), the classic for which he became renowned, was first published in 1758 when he was in his mid sixties. He was a medical doctor in the royal palace of Versailles: physician to Madame de Pompadour, surgeon-in-ordinary to Louis XV, and a martyr to gout.[11]

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[9] https://en.wikipedia.org/wiki/Physiocracy. Fox-Genovese, *op. cit.*, p. 9.

[10] Marx, *Theories of Surplus Value*, Lawrence & Wishart, 1969, vol 2, p. 162.

[11] J. R. McCulloch, 'Sketch of the Life and Writings of Francis Quesnay' in *Treatises and Essays on Subjects Connected with Economical Policy*, Adam and Charles Black, Edinburgh, 1853, p. 432.

Quesnay's father was an impecunious lawyer, and the family had lived as tenant farmers not far from Versailles in the Île-de-France. The boy had worked on the farm until becoming apprenticed to a village surgeon at the age of sixteen. Thereafter, by aptitude and application, he raised himself to prominence in the field of medicine, gained favour in the royal circles, and was rewarded with noble status by the king.

Quesnay studied the ideas of the Confucians which then predominated in China under the Qing (Ch'ing) dynasty. It was a period of relative prosperity in China, in which encouragement to peasant farmers was combined with low taxes.

Quesnay's basic argument went like this:

> [T]he wealth which constitutes the costs of agriculture differs greatly, as regards its employment, from industrial wealth. It is the former which causes revenue to be generated, whereas the product of industrial wealth is confined to goods which are worth only the expenses which they entail. The worker who makes a piece of cloth purchases the raw material and incurs expenses for his needs while he is making it. The payment he receives when he sells it returns him the purchase price and his expenses; the gain which his labour procures for him is confined to the restitution of the expenses he has incurred, and it is through this restitution that he is able to continue getting a living by his labour. The competition of workers who are trying to procure for themselves a similar gain in order to get a living restricts the price of manufactured goods to the level of this gain itself. Thus this gain, or restitution of expenses, is not, like the revenue of landed property, an original form of wealth representing a pure profit. On the contrary, this gain, even when it exceeds the restitution of the expenses, can exist only through the original and ever-renascent wealth which pays for the work of manufacture. Wealth in the form of manufactured goods is procured only through wealth in the form of revenue from landed property, and these goods in themselves constitute only sterile wealth which can be renewed only through the revenue of landed property. A nation subsists only through perpetual consumption and reproduction; the wealth which maintains a nation in being consists only in perpetual reproduction; thus sterile wealth, being simply wealth which is confined to consumption, is destroyed by consumption itself, and is unable, unless it is reproduced through other wealth, to perpetuate the existence of men and the successive existence of their wealth.[12]

Quesnay's conception of the economic linkages and the flows of value depicted in the *Tableau Économique* was, said Marx —[13]

> an attempt to portray the whole production process of capital as a *process of reproduction*, with circulation merely as the form of this reproductive process; and the circulation of money only as a phase in the circulation of capital; at the same time to include in this reproductive process the origin of revenue, the exchange between capital and revenue, the relation between reproductive consumption and final consumption; and to include in the circulation of capital the circulation between consumers and producers (in fact between capital and revenue); and finally to present the circulation between the two

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[12] From Quesnay's *Encyclopédie* article on 'Taxation'. Translation by Meek, *op cit.*, p. 105. Note that 'gain' here does not refer to a net product (or surplus) but to the producer's own living, which is part of the costs of production. Thus manufacturers 'gain' from producing, but no surplus accrues to them in principle.

[13] Karl Marx and Frederick Engels, *Collected Works*, International Publishers, *(MECW)* vol. 31, pp. 239-40.

> great divisions of productive labour — raw material production and manufacture — as phases of this reproduction process; and all this depicted in one *Tableau* which in fact consists of no more than 5 lines which link together 6 points of departure or return — [and this was] in the second third of the eighteenth century, the period when political economy was in its infancy—this was an extremely brilliant conception, incontestably the most brilliant for which political economy had up to then been responsible.

Here is the table from the first edition of the *Tableau Économique*:

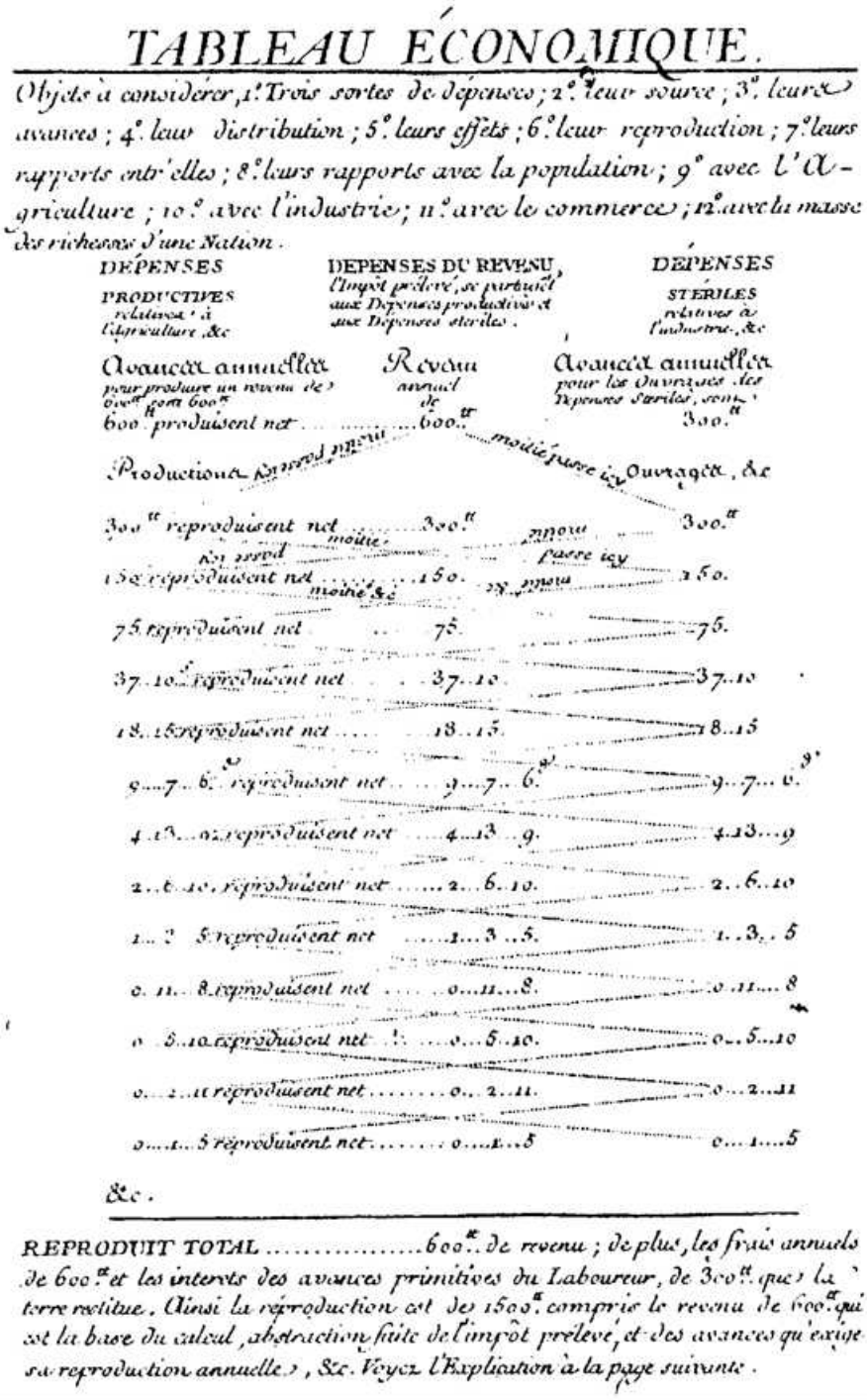


TABLEAU ÉCONOMIQUE.

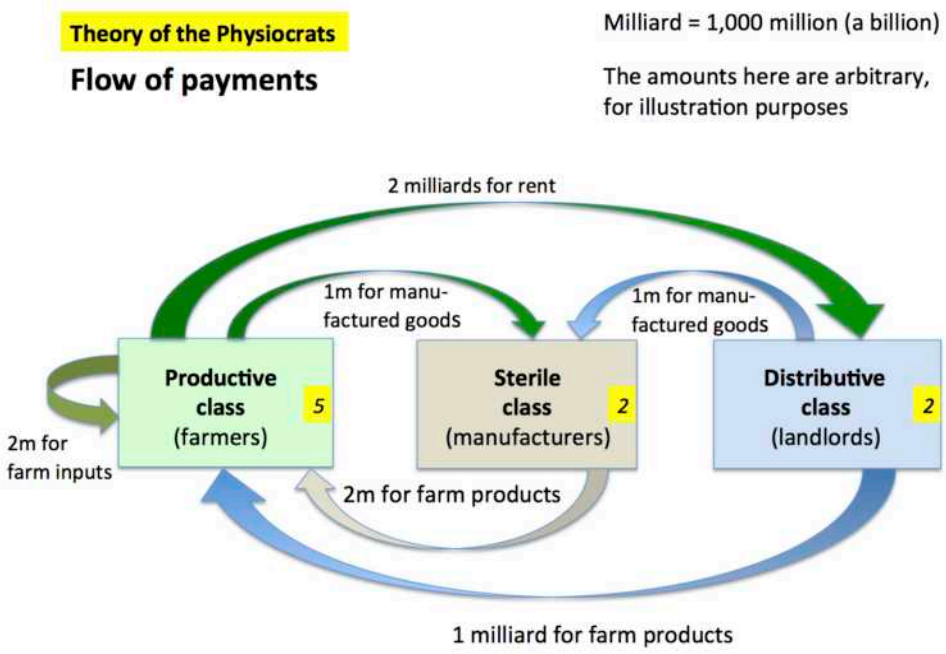
Objets à considérer, 1°. Trois sortes de dépenses; 2°. leur source; 3°. leurs avances; 4°. leur distribution; 5°. leurs effets; 6°. leur reproduction; 7°. leurs rapports entr'elles; 8°. leurs rapports avec la population; 9° avec l'Agriculture; 10°. avec l'industrie; 11°. avec le commerce; 12°. avec la masse des richesses d'une Nation.

DÉPENSES PRODUCTIVES relatives à l'agriculture, &c	DEPENSES DU REVENU, l'impôt prélevé, se partagent aux Dépenses productives & aux Dépenses stériles.	DÉPENSES STÉRILES relatives à l'industrie, &c
Avances annuelles pour produire un revenu de 600 ℔ coûtent 600 ℔	Revenu annuel de 600 ℔	Avances annuelles pour les Ouvrages des Dépenses stériles, sont 300 ℔
600 produisent net	600 ℔	moitié passe icy Ouvrages, &c
Productions 300 ℔ reproduisent net	300 ℔	300 ℔
150 reproduisent net	150.	150.
75 reproduisent net	75.	75.
37..10 reproduisent net	37..10	37..10
18..15 reproduisent net	18..15.	18..15
9...7..6 reproduisent net	9...7..6.	9..7...6.
4..13...9 reproduisent net	4..13..9.	4..13...9
2..6..10 reproduisent net	2..6..10.	2..6..10
1...3..5 reproduisent net	1...3..5.	1..3..5
0..11..8 reproduisent net	0...11...8.	0..11...8
0..5..10 reproduisent net	0...5..10.	0...5...10
0...2..11 reproduisent net	0...2..11.	0...2..11
0...1...5 reproduisent net	0...1...5	0...1...5

&c.

REPRODUIT TOTAL ..... 600 ℔ de revenu; de plus, les frais annuels de 600 ℔ et les interets des avances primitives du Laboureur, de 300 ℔ que la terre restitue. Ainsi la reproduction est de 1500 ℔ compris le revenu de 600 ℔ qui est la base du calcul, abstraction faite de l'impôt prélevé, et des avances qu'exige sa reproduction annuelle, &c. Voyez l'Explication à la page suivante.

We can simplify it by means of the following diagram:



Adapted from the diagram in *An outline of the history of economic thought* (2nd ed., p. 57) by Screpanti and Zamagni

The **basic fallacy** of the Physiocratic conception comes to light when one considers the question of **economic growth** — the very thing they were concerned to promote. If the extent of agricultural land is not increased, an increased agricultural product on a sustained basis can only come from additional investment in raising the productivity of the same land. **And where would that investment come from, if not from surplus? Similarly, how would manufacturing expand except by the investment — in fact the *re*investment — of surplus?** The Physiocratic conception could only account for expanded investment on the assumption that the landlords were relinquishing to the farmers and manufacturers a part of the surplus naturally due to themselves. Since such an assumption was hardly plausible, and since the whole system of production for exchange was expanding spontaneously through reinvestment, the basic Physiocratic dogma could not stand.

However, in Marx's view the Physiocrats were correct in seeing all production of surplus-value, and thus also every development of capital, as resting on the productivity of agricultural labour as its natural foundation:[14]

> If men are not even capable of producing more means of subsistence in a working day, and thus in the narrowest sense more agricultural products, than each worker needs for his own reproduction, if the daily expenditure of the worker's entire labour power is only sufficient to produce the means of subsistence indispensable for his individual needs, there can be no question of any surplus product or surplus-value at all. A level of productivity of agricultural labour which goes beyond the individual needs of the worker is the basis of all society, and in particular the basis of capitalist production, which releases an ever growing part of society from the direct production of

[14] Marx *Capital*, vol 3 (Penguin edition), p. 921.

> means of subsistence, transforming them, as [Sir James] Steuart says,[15] into 'free hands' and making them available for exploitation in other spheres.

Economic development has rested historically on producing an agricultural surplus and applying it to investment in industrial production.

However, is was **a fundamental fallacy** for the Physiocrats to maintain that nature does **not** add to the physical product and the physical surplus when **manufacturing** production takes place. As Marx puts the matter in *Capital*,[16] the physical bodies of commodities

> are combinations of two elements, the material provided by nature, and labour. ... When man engages in production, he can only proceed as nature does herself, i.e. he can only change the form of the materials. **Furthermore, even in this work of modification he is constantly helped by natural forces.** As William Petty says, labour is the father of material wealth, the earth is its mother.

The sentence highlighted in yellow provides the answer to the Physiocrats' idea that manufacturing is 'sterile' when it comes to the production of the social surplus — even on the basis of their own assumption that external nature alone provides the surplus product. But in fact this assumption is mistaken. It is **nature + labour** that generates the product, including the surplus product. But more of that in due course.

'It was an immense step forward,' writes Marx in the *Grundrisse*,[17] 'for Adam Smith to throw out every limiting specification of wealth-creating activity — not only manufacturing, or commercial or agricultural labour, but ... labour in general.' Whereas the Physiocrats had advanced what was essentially a 'land' theory of value — or, if you prefer, a 'land + agricultural labour' theory of value[18] — Adam Smith articulated a value theory based on

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[15] Steuart, *An Inquiry into the Principles of Political Economy*, vol. 1, Dublin, 1770, p. 396.

[16] Marx, *Capital*, vol 1 (Penguin edition), pp. 133-4. Emphasis in bold type added.

[17] Penguin edition, p 104.

[18] It can be argued that the Physiocrats advanced a *'land + agricultural labour'* theory of value insofar as, in their conception, agricultural labour participates uniquely in the production of surplus from the land. However, it is difficult to sustain that argument consistently. To go into the matter fully is beyond the scope of this course — a brief note will have to suffice. First, there is a problem in thinking that the Physiocrats singled out agricultural labour when it came to creating 'value'. Second, it is by no means clear that the Physiocrats regarded labour of any kind as itself *creating* 'value' at all.

As to the first difficulty: Quesnay in fact makes no distinction between agricultural and non-agricultural labour when it comes to contributing 'value' in exchange. The only distinction he makes between agricultural and manufactured products in this regard is that in the case of the former the nation gains not only the 'value' of the labour expended, but 'also the value of the materials produced by the land. Thus ... trade in raw produce is always proportionately much more advantageous' in value terms. (Passage from Quesnay's *Encyclopédie* article on 'Corn', translated in Meek, *op cit.*, pp. 74.) His point is simply that, in the case of manufacturing, there is no addition of materials from nature, but only a further refinement or elaboration of the original materials.

As to the second difficulty: Quesnay insists that *only* the land provides the surplus product (the *produit net*). But, in physical terms, the *net product* can only be what remains of the *gross product* after some of the latter has been *consumed* or set aside for consumption. In that case, how could the land be the sole source of the *net* value product unless it has first been the sole source of the *gross* value product? On this approach, agricultural labour is to be treated simply as a cost of production to be deducted from the gross value product of the land. At the same time, inconsistently, Quesnay treats costs of production as a component of the exchange value of all products. (In the case of manufacturing, it is the sole component, in his view, since no additional surplus can be produced there.)

Thus his value theory seems to vacillate uneasily between two unsatisfactory conceptions: on the one hand, a

productive labour in general.

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Adam Smith was by no means the first to rely on a 'labour' theory of value, but he gave it what has since been regarded as its classical expression. In *The Wealth of Nations* (1776) he began his famous exposition of value theory with these resounding words:

> Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniencies, and amusements of human life. But after the division of labour has once thoroughly taken place, it is but a very small part of these with which a man's own labour can supply him. The far greater part of them he must derive from the labour of other people, and he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase. The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities.
>
> The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which it can impose upon other people. What is bought with money or with goods is purchased by labour, as much as what we acquired by the toil of our own body. That money or those goods indeed save us this toil. They contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity. Labour was the first price, the original purchase-money that was paid for all things. It was not by gold or by silver, but by labour, that all the wealth of the world was originally purchased; and its value to those who possess it, and who want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command.[19]

A person's fortune is greater or less, Smith went on,

> precisely in proportion to ... the quantity either of other men's labour, or, what is the same thing, of the produce of other men's labour, which it enables him to purchase or command. The exchangeable value of everything must always be precisely equal to the extent of this power [to purchase or command] which it conveys to its owner.[20]

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physical substance theory of exchange-value, in which the substance of all exchange-value is at root solely the contribution of the land; and, on the other hand, an *adding-up* or rather *subtraction* theory of exchange-value, in which the *entitlement* of the producer to recover his costs forms one component and the *entitlement* of the land (in the person of the landowner) forms the remainder (the remainder being surplus-value). But before you can have a *remainder*, you must have a *total* — and how does one get to that? Moreover, how does one choose between these mutually contradictory alternatives? Since the fundamental feature of the Physiocratic doctrine is that the land is the sole contributor of surplus-value, it seems better to see their value theory in essence as a land-substance theory. We may note here in passing that Quesnay failed to observe his own earlier admonition to keep the physical product and its utility distinct from its value in exchange (see n 3 above).—RP

[19] Smith, *op cit.,* Chapter V, pp. 30-31.

[20] *Id.*, p. 31. Smith was here referring to 'exchangeable value' which corresponds to 'real' or 'natural' price as he conceived it, and which is not by circumstances raised above or depressed below that mark.

The whole foundation of Smith's conclusion is his premise that, once the division of labour has thoroughly taken place, everyone is obliged to live by the exchange of *labour products*. Yet surely this premise is gravely flawed. It is in reality not labour alone, but rather *external nature and labour together*, which provides the greater part of the 'necessaries, conveniencies and amusements of human life'. Few of these are ever provided by labour alone.

While it is true that we must derive the far greater part of the things we need or want from the labour of other people rather than from our own labour, it does not follow that we must be rich or poor according merely to the quantity of *labour* commanded. In fact a person is rich or poor according to the quantity of *products of nature and of labour* which she or he can command or afford to purchase.

The question necessarily arises: who commands the contribution made by nature to the production of a commodity, and on what basis is it commanded? The answer is surely that the *owner* of the contribution commands the contribution — the basis being the social recognition of the proprietary entitlement.

It is no accident that, in Smith's value theory, *property itself is reduced at first to being a product of labour:*

> Labour was the first price, the original purchase-money that was paid for all things. It was ... by labour, that all the wealth of the world was originally purchased.

Surely not so. Even a study of barter, of the earliest episodic exchanges of surplus products, would not sustain this assertion.[21]

The whole long and often turbulent development of class and caste; of the seizure by conquest of land, implements, crops, herds and people; of tribal and national aggrandisement; of ancient slavery and feudal serfdom; of clearances and other means of primitive accumulation; of the colonisation of continents and peoples — the very stuff of the materialist conception of history — speaks against it. As a theory of the origin of property, and also of the evolution of property, it is demonstrably one-sided and accordingly false.

The 'division of labour', as we have seen, is in reality also a division of the materials upon which labour works, and of the implements with which it works. If there is a division of entitlements to the products of labour, there is presupposed a division of entitlements to the various contributions made by nature to those products. As Marx and Engels put it in *The German Ideology*:[22]

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[21] See David Graeber, *Toward an Anthropological Theory of Value : The False Coin of Our Own Dreams*, Palgrave Macmillan, 2001, pp. 153-154: '[Marcel Mauss] notes that, contrary to the speculations of the likes of Hobbes, or Adam Smith, or modern economists, the first voluntary, contractual relations were not between individuals but between social groups: "clans, tribes and families". ... It has often been noted that when something resembling barter *does* occur in stateless societies it is almost always between strangers, people who would otherwise be enemies.' Cf also Michael Mann, *The Sources of Social Power*, vol 1, Cambridge University Press, 1986, pp. 41-46.

[22] 'The German Ideology', in *MECW*, vol 5, at p. 86.

> The division of labour implies from the outset the division of the *conditions* of labour, of tools and materials, and thus the fragmentation of accumulated capital among different owners, and thus, also, the fragmentation between capital and labour, and the different forms of property itself.

Marx would later rebuke the German Social Democrats for stating in their program of 1875 that 'labour is the source of all wealth'.[23]

> Labour [wrote Marx] is *not the source* of all wealth. *Nature* is just as much the source of use values (and it is surely of such that material wealth consists!) as labour, which itself is only the manifestation of a force of nature, human labour power. The above phrase is to be found in all children's primers and is correct insofar as it is implied that labour is performed with the appurtenant subjects and instruments. But a socialist program cannot allow such bourgeois phrases to pass over in silence the *conditions* that alone give them meaning. And insofar as man from the beginning behaves toward nature, the primary source of all instruments and subjects of labour, as an owner, treats her as belonging to him, his labour becomes the source of use values, therefore also of wealth. The bourgeois have very good grounds for falsely ascribing *supernatural creative power* to labour; since precisely from the fact that labour depends on nature it follows that the man who possesses no other property than his labour power must, in all conditions of society and culture, be the slave of other men who have made themselves the owners of the material conditions of labour. He can only work with their permission, hence live only with their permission.

Therefore, to correct Adam Smith, we would have to say this:

After the division of labour has once thoroughly taken place it is but a very small part of the 'necessaries, conveniencies, and amusements of human life' *which a person's own labour and own command of nature's contribution* can supply to him or her. The greater part, certainly, must be obtained by entering regularly into relations of exchange. It is by means of exchange that the product of *others' labour and of others' command of the contribution of nature* can be obtained.

If we had more time, which we don't, we could pursue the argument and see in detail how Adam Smith himself was driven to depart from his own 'labour-value' theory as soon as he analysed the workings of a society **in which land has been appropriated and 'stock' (implements, machinery etc) accumulated** — in other words a society characterised by **unequal property**. He then began to see exchange-value as made up rather of what are really property-based *distributive shares*. But he failed in the end to present a consistent value theory.

The conception that 'labour-value' — the labour-content of products — is the social substance that constitutes the exchange-value of those products, **comes down to a purely dogmatic assertion**. The premise advanced by Smith for that assertion was mistaken. David Ricardo followed Smith in adhering both to the premise and to the assertion. Marx rejected the premise, yet maintained the assertion; we shall examine in due course whether he was able to support that assertion on other grounds.

Next time: **Marx's theory of value and exploitation.**

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[23] 'Critique of the Gotha Program', in *MECW*, vol 24, p. 81.

2016-11-07 From the preparatory notes for Class 27 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Before turning to **Marx (1818-1883)**, it seems only right to say something about **Hegel (1770-1831)**.

Long before Marx, Hegel had read Adam Smith's *The Wealth Of Nations* and was 'considerably influenced' by it.[1] In turn, Hegel would influence Marx's approach to political economy more fundamentally than is generally understood.[2]

As a student Hegel shared the enthusiasm of his contemporaries for the French Revolution, but later bowed to the historic 'right' of monarchs and of the landowning class which was, he wrote, 'summoned and entitled to its political vocation by birth without the hazards of election'.[3] He was nonetheless alert to the implications of the developing system of production for exchange. He accepted Smith's view of the market as guiding production and distribution as if by an 'invisible hand'.[4] However, he articulated this in his characteristic idealist way: specific needs were different, but they were united abstractly by 'need in general'.[5]

> When men are thus dependent on one another and reciprocally related to one another in their work and the satisfaction of their needs, subjective self-seeking turns into a contribution to the satisfaction of the needs of everyone else. That is to say, by a dialectical advance, subjective self-seeking turns into the mediation of the particular through the universal, with the result that each man in learning, producing, and enjoying on his own account is *eo ipso* [by that very fact] producing and earning for the enjoyment of everyone else. The compulsion which brings this about is rooted in the complex interdependence of each on all, and it now presents itself to each as the universal permanent capital which gives each the opportunity, by the exercise of his education and skill, to draw a share from it and so be assured of his livelihood, while what he thus earns by means of his work maintains and increases the general capital.[6]

Hegel's view of production for exchange appears here as entirely uncritical. Yet elsewhere he laments the vulnerability of the individual to the uncertainties and inequalities of the system as a whole. There was an ever-increasing mass condemned to unhealthy labour, insecurity

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[1] Hyppolite, Jean. *Studies on Marx and Hegel*. Translated by John O'Neill. Heinemann Educational Books, 1969. p. 72. Cf also Taylor, Charles. *Hegel*. Cambridge University Press, 1975, p. 432.

[2] See generally Levine, Norman. *Divergent Paths: Hegel in Marxism and Engelsism. Volume 1: The Hegelian Foundations of Marx's Method*. Lexington Books, 2006, p. 54.

[3] See *Hegel's Philosophy of Right: Translated with notes by T. M. Knox*. Oxford University Press, 1967, §§ 305, 306 and 307. Hegel also liked the fact that the landlords' wealth was 'independent' both of the state and of profit-making. Marx commented mockingly: 'Hegel has accomplished the masterpiece: he has developed peerage by birthright, wealth by inheritance, etc. etc., this support of the throne and society, out of the absolute Idea.' See Marx's *Critique of Hegel's Philosophy of Right*, Cambridge University Press, 1970, translation by Annette Jolin and Joseph O'Malley, p. 75.

[4] Taylor, *op cit*., p 433.

[5] See *Hegel's Philosophy of Right,* §63 (T. M. Knox's translation).

[6] *Id*., §199.

and irremediable poverty.[7] The conflict between rich and poor was replacing that between noble and peasant. Wealth attracted everything to itself, developing one-sidedly while poverty increased. *'To him who hath shall it be given,'*[8] was Hegel's ironic observation.

We should see that Marx, like everyone else and like ourselves today, needed the shoulders of giants to stand on, if he was to see further.[9]

Regarding value theory, Hegel adopted the classical distinction between value-in-use (utility) and exchange-value. Things in use, having different specific utilities, could not on that basis *all* be compared. As we might say today, you can compare apples with apples, but you can't compare apples with pears. For objects of different utility to be compared, said Hegel, they must share a universal characteristic. This universal characteristic is 'value' — the 'genuine substance' or 'essence' of the thing.[10] But what did this value 'substance' or 'essence' consist of?

Work and effort, said Hegel, is the connecting link between subjective and objective,[11] between the individual and the universal.

> The aim [of labour] is the satisfaction of subjective particularity, but the universal asserts itself in the bearing which this satisfaction has on the needs of others and their free arbitrary wills. ... Political economy is the science which starts from this view of needs and labour but then has the task of explaining mass-relationships and mass-movements in their complexity and their qualitative and quantitative character. This is one of the sciences which have arisen out of the conditions of the modern world. Its development affords the interesting spectacle (as in Smith, Say, and Ricardo) of thought working upon the endless mass of details which confront it at the outset and extracting therefrom the simple principles of the thing... .[12]
>
> There are certain universal needs such as food, drink, clothing, &c., and it depends entirely on accidental circumstances how these are satisfied. The fertility of the soil varies from place to place, harvests vary from year to year, one man is industrious, another indolent. But this medley of arbitrariness generates universal characteristics by its own working; and this apparently scattered and thoughtless sphere is upheld by a necessity which automatically enters it. To discover this necessary element here is the object of political economy, a science which is a credit to thought because it finds laws for a mass of accidents. It is an interesting spectacle here to see all chains of activity leading back to the same point; particular spheres of action fall into groups, influence others, and are helped or hindered by others. The most remarkable thing here is this mutual interlocking of particulars, which is what one would least expect because at first sight everything seems to be given over to the

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[7] See Hyppolite, *op cit.*, p 80.

[8] *Id.*

[9] 'If I have seen a little further it is by standing on the shoulders of giants,' wrote Isaac Newton in 1676. If we are to do that, we shall have to make the effort to climb up.

[10] This emerges from the rather different translations given by T. M. Knox and S. W. Dyde of the obscurely worded §63 in Hegel's *The Philosophy of Right* (1821). As to the latter, see Hegel, G.W.F. *Philosophy of Right*. Translated by S. W. Dyde. Batoche Books, 2001.

[11] *Philosophy of Right*, §189. See the translation by S. W. Dyde.

[12] §189. (T. M. Knox's translation.)

> arbitrariness of the individual, and it has a parallel in the solar system which displays to the eye only irregular movements, though its laws may none the less be ascertained.[13]
>
> …
>
> The means of acquiring and preparing the particularised means appropriate to our similarly particularised needs is work. Through work the raw material directly supplied by nature is specifically adapted to these numerous ends by all sorts of different processes. Now this formative change confers value on means and gives them their utility, and hence man in what he consumes is mainly concerned with the products of men. It is the products of human effort which man consumes.[14]
>
> There is hardly any raw material which does not need to be worked on before use. Even air has to be worked for because we have to warm it. Water is perhaps the only exception, because we can drink it as we find it. It is by the sweat of his brow and the toil of his hands that man obtains the means to satisfy his needs.[15]

Following Adam Smith (whose argument in this respect was criticised in the previous class), Hegel maintained that *the products of nature and labour combined* are to be treated essentially as *labour*-products when entering into exchange.

> [T]he business of exchange, whereby separate utilities are exchanged the one for the other, principally through the use of the principal medium of exchange, money, … actualises the value of all commodities.[16]

Thus Hegel advanced his version of the 'labour' conception of exchange value — seeing labour in general as the ethereal social 'substance' or 'essence' of all articles which, despite their particular differences, came to be equated with one another in exchange. Their value did not depend on the proportions in which they were exchanged — rather the opposite. The proportions in which they were exchanged depended on their pre-existing value. Exchange made their intrinsic labour-value 'actual'.

We are now in a position better to understand the argument of Marx.

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As the first chapter of *Capital* shows, Marx proceeded on the basis that when different articles, having different utilities, exchange for one other they must have something in common which is capable of rendering them equal in exchange.[17]

> Exchange-value shows itself primarily as the quantitative ratio, the proportion, in which use-values of one kind are exchanged for use-values of another kind, a ratio continually varying with changes in time and place.

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[13] Addition to §189. (T. M. Knox's translation.)

[14] §196. (T. M. Knox's translation.)

[15] Addition to §196. (T. M. Knox's translation.)

[16] §204. (T. M. Knox's translation.)

[17] The passages which follow are quoted from the Everyman edition of *Capital*, vol 1, translated by Eden and Cedar Paul.

> Exchange-value thus seems to be something fortuitous and purely relative, and an exchange-value immanent in commodities (intrinsic value) would consequently appear to be a contradiction in terms. Let us look into the matter more closely.
>
> A certain commodity, such as a quarter of wheat,[18] can be exchanged for x blacking, y silk, z gold, etc. In a word, it can be exchanged for other commodities in varying proportions. The wheat, therefore, has numerous exchange-values instead of only one. Since, however, x blacking, y silk, z gold, etc., each represents the exchange-value of one quarter of wheat, it follows that x blacking, y silk, z gold, etc., must be mutually interchangeable, must have equal exchange-values. From this we infer: first, that the valid exchange-values of a commodity are equal one to another; and, secondly, that exchange-value must be the mode of expression, the 'phenomenal form', of something contained in the commodity but distinguishable from it.

You may wonder why it is necessary to infer (as Hegel also inferred) that the common element which allows commodities to be compared with and exchanged for each other must be something *'contained'* in them — something *intrinsic* to them — rather than something that *attaches or applies to them* equally when they are exchanged. But let Marx argue his own case further.

> Now let us take two commodities, such as wheat and iron. Whatever the ratio of exchange may be, it can always be represented by an equation in which a given quantity of wheat is equated with some quantity or other of iron. For instance, our equation may read: one quarter of wheat = x cwt.[19] of iron. What does this equation mean? It tells us that in two different things, namely in one quarter of wheat and in x cwt. of iron, there exists in equal quantities something common to both. They are, therefore, equal to a third something, which differs in essence from them both. Each of them, in so far as it is exchange-value, must be reducible to the third.
>
> A simple geometrical illustration will make this clear. When we wish to ascertain the areas of rectilinear figures, and to compare these one with another, we subdivide them into triangles. The area of a triangle is itself determined by reduction to something very different from the visible shape of the triangle, namely to a rectangle whose area is the altitude of the triangle multiplied by half the base. In like manner, the exchange-values of commodities must be reduced to expressions of something quantitative which is common to them all. This common 'something' cannot be a geometrical, physical, chemical, or other natural property of commodities. The material properties of these only concern us, here, in so far as they confer utility, so as to render the commodities use-values. On the other hand, the obvious characteristic of the exchange ratio between commodities is precisely this, that it is an abstraction from their use-values. From that outlook, one use-value is just as good as another, if there be enough of it. … Regarded as use-values, commodities are, above all, of different quality; regarded as exchange-values, they can merely differ in quantity, for from this point of view they have no use-value at all.

Marx is explaining that the common 'something' which makes its appearance as exchange-value is not a *physical* but a *social* 'something'. You may wonder whether it is sound to use

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[18] A quarter = 8 bushels, or 64 gallons (a bushel being equal to 8 gallons).

[19] A hundredweight is approximately 50.8 kg.

the fixed ratios of mathematical constructions — and the necessities which flow logically from that — as a foundation for any comparable 'necessity' in the living, human social sphere.

Where, now, does Marx's view of logical necessity in the realm of exchange-value take him?

> When the use-values of commodities are left out of the reckoning, there remains but one property common to them all, that of being products of labour.

Is this truly the *only* property (i.e. the only characteristic) common to all commodities? Is it proved, or is it just a matter of Marx *selecting* this particular property and *asserting* it as the only one?

> But even the produce of labour [Marx continues] has already undergone a change in our hands. If, by our process of abstraction, we ignore its use-value, we ignore also the material constituents and forms which, render it a use-value. It is no longer, to us, a table, or a house, or yarn, or any other useful thing. All the qualities whereby it affects our senses are annulled. It has ceased to be the product of the work of a joiner, a builder, a spinner; the outcome of some specific kind of productive labour. When the useful character of the labour products vanishes, the useful character of the [kinds of] labour embodied in them vanishes as well. The result is that the various concrete forms of that labour disappear too; they can no longer be distinguished one from another; they are one and all reduced to an identical kind of human labour, abstract human labour.
>
> Let us now consider the residuum of the labour products. Nothing is left of them but the before-mentioned unsubstantial entity, a mere jelly of undifferentiated human labour, this meaning the expenditure of human labour power irrespective of the method of expenditure. All that now matters in the labour products is that human labour power has been expended in producing them, that human labour is stored up in them.[20] As crystals of this social substance common to them all, they are values — commodity values.
>
> ... Ignoring the use-value of the labour products, we arrive at their value in the sense above defined. The common element disclosed in the exchange ratio or exchange-value of the commodities is, in fact, their value. The course of our investigation will show that exchange-value is the necessary phenomenal form of value, the only form in which value can be expressed.

The constraints of time prevent us, in this course, from delving into the question whether or not it is sound for Marx to reduce the different kinds of human labour, the various kinds of skills, to a notion of undifferentiated 'abstract human labour' forming a uniform 'social substance' intrinsic to commodities.

We shall, however, be asking in due course — when we pursue the implications of Marx's analytical construction *on its own terms* — whether or not his 'necessary phenomenal form' of labour-value *ever necessarily appears*.

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[20] The translators mistakenly wrote: 'human labour power is stored up in them'. Cf the Penguin edition of volume 1 of *Capital*, p 128.

For the moment, however, we must let Marx himself add one vital element to his 'labour-value' construction.[21]

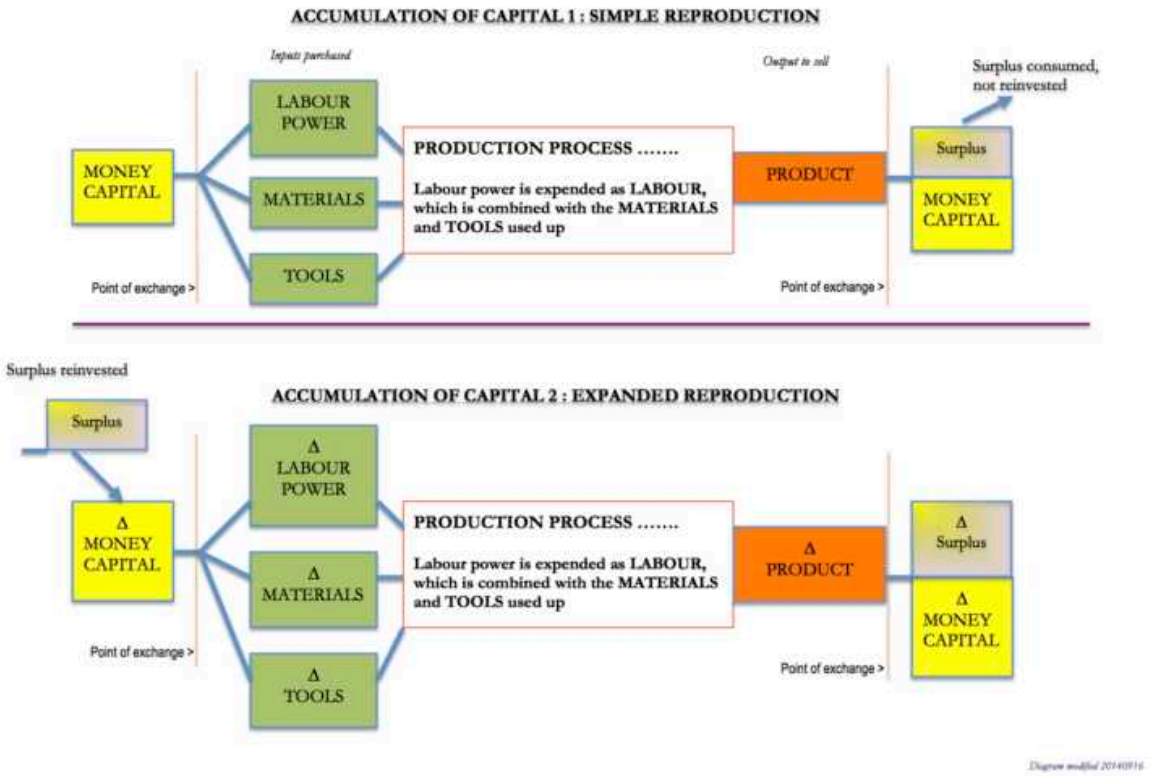
> A use-value or a good [a useful article] has value solely because abstract human labour has been embodied or materialised in it. How are we to measure this value? In terms of the quantity of 'value-creating' substance it contains — the quantity of labour. This is itself measured by its duration; and labour time, in turn, is measured by hours, days, etc. Now, if the value of a commodity be determined by the amount of labour expended during its production, it might seem at the first glance as if the value would be greater in proportion as the worker who made it was lazier or more unskilled, seeing that idleness or lack of skill would increase the time needed for production. But the labour which creates the substance of value is homogeneous human labour, the expenditure of a uniform labour power. The total labour power of society, as embodied in the gross value of all commodities, though comprising numberless individual units of labour power, counts as an undifferentiated mass of human labour power. Each of these individual units of labour power is the same human labour power as all the other units — in so far as it has the characteristics of social average labour power, and functions as such; in so far, that is to say, as in the production of a commodity it uses only the average labour time or the socially necessary labour time. Socially necessary labour time is the labour time requisite for producing a use-value under the extant social and average conditions of production, and with the average degree of skill and intensity of labour. After steam-power looms had got to work in England, only half (or thereabouts) of the previous amount of labour was needed to transform a given quantity of yarn into cloth. The individual hand-loom weaver took just as long to effect this transformation as before the introduction of steam-power into the textile industry, but the product of his one hour's labour under the old conditions represented product of only half an hour's average social labour under the new, and was therefore worth only half as much as before.
>
> What determines the magnitude of value of a use-value is, therefore, the amount of socially necessary labour it contains, or the social labour time requisite for its production.
>
> ... Speaking generally, the greater the productivity of labour — the shorter is the period of labour time needed for the production of an article, the smaller the amount of crystallised labour it contains and the less its value. Conversely, the smaller the productivity of labour — the longer is the period of labour time needed for the production of an article, and the greater its value.

Having these basic conceptions of Marx in mind — and whether we agree with him or not — we are now in a position to grasp his explanation of **how workers are exploited** (i.e. how labour-power is exploited) **in the production process of capitalism**.

First recall again **the diagram of simple and expanded reproduction**:

(See next page)

[21] Note that labour does not *have* value; labour *is* value in Marx's conception. To ask 'what is the value of labour?' would be the same as asking 'what is the value of value?' However, just how much socially necessary labour time is present in an hour of actual labour time of a particular kind would be a valid, if unanswerable, question.



MARX'S KEY CONCEPTS (quoted from *Capital*) are:

Labour power: 'I use the term labour power or capacity for labour, to denote the aggregate of those bodily and mental capabilities existing in a human being, which he exercises whenever he produces a use-value of any kind.'[22]

Labour: 'The use of labour power, is labour. ... The elementary factors of the labour process are: first, purposive activity, or **the labour itself**; secondly, its subject matter [**materials**]; and thirdly, its instruments [**tools**].'[23]

Value: 'What determines the magnitude of value of a use-value is ... the amount of socially necessary labour it contains, or the social labour time requisite for its production. ... "As values, commodities are nothing but particular masses of congealed labour time." '[24]

According to Marx, exploitation is simply **the exploitation of workers**.

Capitalist exploitation is simply the capitalist's appropriation of **the surplus portion of the labour-value contained in the product**.

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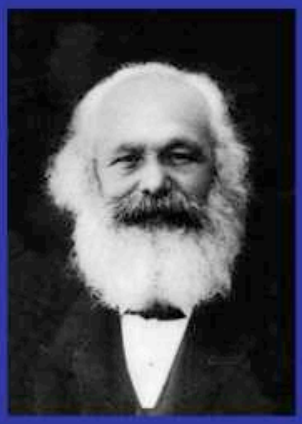
[22] *Capital* vol 1, p 154 (Everyman edition).

[23] *Id.*, pp 169-170. Emphasis in bold type added.

[24] *Id.*, p 8; Marx quotes here his own earlier work, *Zur Kritik der politischen Oekonomie,* 1859.

According to Marx, the value of a commodity is the amount of labour time socially necessary for its production.



Note that Marx treats "value" as a category of production.

The value of a commodity is seen as an absolute quantum, which pre-exists exchange and merely finds expression (its "phenomenal form") in exchange.

According to Marx, the value of a commodity is the amount of labour time socially necessary for its production.

This can be broken down into three parts:

$$c + v + s$$

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$$c + v + s$$

"c" is "constant capital" – the socially necessary labour content of the materials and machinery purchased by the capitalist. This portion of capital-value passes over into the product without expanding. That is why it is called "constant".

"v" is "variable capital" – the socially necessary labour content of the labour power purchased by the capitalist, i.e. the wages paid to the workers. This portion of capital-value is generated by labour in production. Because (considered as an outlay of capital), it is capable of expansion during the process of production, it is called "variable".

"s" is the "surplus value" – the labour time consisting of the additional labour performed by the workers over and above what is needed to pay for "v". PROFIT COMES ENTIRELY FROM "s", i.e. from "unpaid labour".

❖ A competitive economy with **exchanges of equivalent value** is assumed throughout.

❖ **Value** is simply and solely *labour-value*. *Capital*-value is thus *labour*-value in the form of capital.

❖ When the capitalist buys **materials and tools**, the (labour-)value of the materials and tools is paid to their suppliers. This portion of capital-value is called 'constant' capital, or **c,** because its quantum *does not expand* in the process of production.

❖ When the capitalist buys **labour power**, the worker is paid the (labour-)value of labour power as wages. This portion of capital-value is called 'variable' capital, or **v**, because its quantum *expands* or is added to in the process of production.

❖ When production takes place, the value portion **c** is simply transferred to the product unchanged. This is because it consists of the 'dead' labour-value of the past, carried forward from past production.

❖ When production takes place, the value portion **v** is newly produced by living labour, along with surplus value **s**.[25]

[25] You may wonder why, if **c** is automatically transferred to the product, the same does not happen to **v**. Instead **v** has to be newly produced. Marx does not provide an explanation for this inconsistency. He needs it, however, in order to maintain his necessary distinction between *dead labour* and *living labour* in the constitution of the value product.

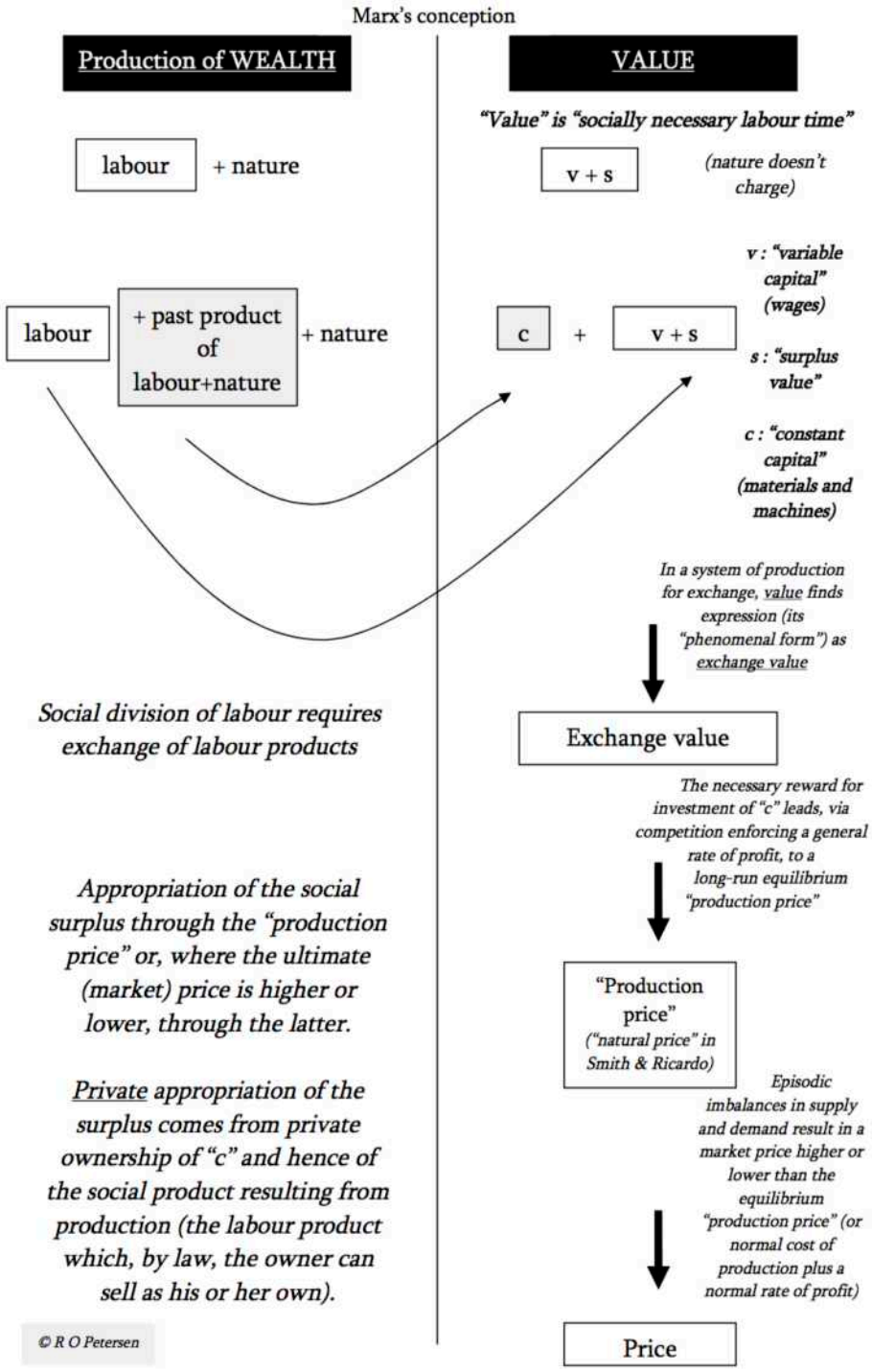
❖ When the product is sold, its total (labour-)value = **c + v + s**. This total is the income or revenue of the capitalist.

❖ In this way **c + v** are returned to their starting point in the hands of the capitalist enterprise, to purchase the inputs of materials, tools and labour power once again. The capitalist's gross profit or surplus value is **s**. The surplus value **s** is simply 'unpaid labour'.

❖ For reasons we have discussed before, surplus value is then shared between *ground rent*, *interest* and the residual *profit of enterprise*.

Let's look now at the two-column diagram that was handed out at the end of the last class. This depicts Marx's conception of how **the value of the physical product (which includes surplus value)** is made up.

(See next page)


Marx's conception
Production of WEALTH
VALUE
"Value" is "socially necessary labour time"
labour
+ nature
v + s
(nature doesn't charge)
v : "variable capital" (wages)
labour
+ past product of labour+nature
+ nature
c
+
v + s
s : "surplus value"
c : "constant capital" (materials and machines)
In a system of production for exchange, value finds expression (its "phenomenal form") as exchange value
Social division of labour requires exchange of labour products
Exchange value
The necessary reward for investment of "c" leads, via competition enforcing a general rate of profit, to a long-run equilibrium "production price"
Appropriation of the social surplus through the "production price" or, where the ultimate (market) price is higher or lower, through the latter.
"Production price" ("natural price" in Smith & Ricardo)
Private appropriation of the surplus comes from private ownership of "c" and hence of the social product resulting from production (the labour product which, by law, the owner can sell as his or her own).
Episodic imbalances in supply and demand result in a market price higher or lower than the equilibrium "production price" (or normal cost of production plus a normal rate of profit)
© R O Petersen
Price

2016-11-14 From the preparatory notes for Class 28 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Refresh by going through the two-column diagram handed out previously.

[Break into groups like last time, and read and discuss the following:]

Critique of Marx's 'labour' theory of value

After studying Marx's *Capital*, and after teaching its essential argument to others for many years, the author/compiler of the following critique came reluctantly to the conclusion that the 'labour' theory of value expounded and relied on by Marx is untenable.

According to this critique, the flaws in his 'labour' conception of value all stem from two fundamental, interconnected errors:

(i) Treating value as a social 'substance' immanent in — i.e. an intrinsic characteristic or property of — articles produced for exchange. This is not a materialist conception; it is rather an idealist, metaphysical conception taken over from Hegel.

(ii) Consequently treating value as a category of — i.e. a concept properly belonging to the sphere of — *production*; in other words that the supposed value 'substance' is something *produced as part of the material product*, and which then has to be distributed. On the contrary, value is a category of *appropriation* — i.e. a concept properly belonging to the sphere of socially recognised *entitlement* to material wealth, including the material wealth produced. (The 'property conception of value' which follows from this will be explained more fully later, after the critique of the 'labour' conception.)

<u>Question 1</u>: Was Marx able to maintain the logical foundation for his 'labour' theory of value which he advanced in the first chapter of *Capital* (in the extracts we read last time)?

Remember how Marx — following Hegel — asserted emphatically that if two different articles of utility have equivalent values in exchange, it *must* mean that they have an *intrinsic* characteristic or property in common, which is present in both of them to the same degree. This common property, he said, can *only* be that they are both products of labour. Their equivalence must mean that they each contain *an equivalent quantity of socially necessary labour time.*

Yet Marx would soon be vigorously denying that commodities actually exchange at their labour-values. Writing to his friend Ludwig Kugelmann on 11 July 1868, he said:[1]

> The vulgar economist has not the slightest idea that the actual, everyday exchange relations and the value magnitudes *cannot be directly identical.* [Emphasis by Marx.]

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[1] See *MECW*, vol 43, p 69. Volume 1 of *Capital* had been published the previous year.

This is irreconcilable with the assertion that Marx had made in the first chapter of *Capital*, which was supposed to convince us that a 'labour'-value theory follows as a matter of logical necessity from the exchange of different commodities as equivalents. In a moment, we'll look into why he had to abandon that assertion. But for now let's observe this:

If it is true that, when two different commodities actually exchange as equivalents, they *must* have a third 'something' in common to the same degree, then Marx has effectively conceded now that the third 'something' *cannot* be labour. Yet he never acknowledged it.

<u>Question 2</u>: Why can't articles ordinarily exchange for each other according to their (imagined) 'labour'-values?

Perhaps because there are constant price fluctuations in *individual* exchanges, whereas the 'labour' conception of value relies on the idea of a *socially necessary* (or average) labour content in each particular kind of article? Unfortunately that explanation doesn't get us very far.

Let's eliminate individual price fluctuations from the analysis. Let's think those fluctuations away, and ask: *Could* particular articles on average be exchanged for other particular articles according to the socially necessary labour time contained in them (i.e., the labour time required respectively for their production)? The answer is *no, they could not*.

Why not? Because the real world of production for exchange makes that impossible.[2]

Suppose that two different commodities each contain 100 units of labour-value (socially necessary labour time):

$$c + v + s = 100$$

Suppose that the rate of surplus value (s/v) is the same for both, but that one has required more machinery & materials and less labour power than the other:

Commodity A: $50 + 25 + 25 = 100$

Commodity B: $60 + 20 + 20 = 100$

[2] The first critic of Marx to draw attention publicly to this problem was the Austrian economist Eugen von Böhm-Bawerk, in *Geschichte und Krìtik der Kapitalzins-Theorien*, 1884.

- The capitalist producing Commodity A has laid out (50+25=) 75 units of value on the materials, machinery and labour power consumed in production. He/she receives an increment of 25 in the form of surplus value for this outlay, or a rate of return on total capital of 33.33%.
- The capitalist producing Commodity B has laid out (60+20=) 80 units of value on the materials, machinery and labour power consumed in production. She/he receives an increment of 20 in the form of surplus value for this outlay, or a rate of return on total capital of only 25%.
- If you had capital to invest, where would you invest it? What would be the result?

Marx was fully aware of the problem outlined in these slides when he put forward his 'labour' theory of value in Volume 1 of *Capital* (1867) — the only volume published in his lifetime. He noted that experience gave rise to an 'apparent' contradiction to his law of value, but he side-stepped the problem, saying only that for its solution 'a great many intermediate terms are needed'.[3] That 'solution' was not revealed during his lifetime but only much later, in 1894, when Engels published volume 3 of *Capital* compiled from Marx's notebooks that were already in existence in 1867.

The 'solution' involves accepting that competition in the market distributes 'surplus value' among capitalists according to a 'general rate of profit'.

The general rate of profit is known in mainstream economics today as 'normal profit' which is contained in any notional long-run competitive equilibrium price. Marx was right in regarding the idea of a general rate of profit as an essential analytical tool. If we assume competitive conditions and the mobility of capital between the different branches of production, then notionally the long-run rate of profit between the different branches will tend to be evened out.

The solution of Marx to the 'transformation problem' boils down to this:

> **When it comes to establishing the relative proportions in which commodities exchange, the market recognises, on the basis of the mechanism of supply and demand, the competing claims of capital to the social product and (together with it) to the social surplus.**

[3] See Everyman edition p. 317 (cf Penguin edition p. 421).

In recognising these claims, the market is 'transforming' the underlying labour values contained in the various capitals into price.

However, this 'solution' cannot avoid the fact that the actual ratios in which commodities exchange with each other, even in notional conditions of general equilibrium, will not correspond to the ratio of the labour time socially necessary for their respective production.

Moreover, the 'transformation' problem only arises because we have imagined in the first place that 'value' is simply labour-value ('socially necessary labour time'). Drop that assertion (it is nothing more than an assertion) and the so-called 'transformation' problem is also gone.

Contrary to what some of Marx's opponents argued, the existence of the 'transformation problem' is not in itself enough to refute the labour theory of value conclusively. This is because, in Marx's 'solution' to the problem —

(i) it is still labour-value that is being allocated as surplus-value among the competing owners of capital; and

(ii) capital itself, in Marx's conception, consists of labour-value, so that it is invested labour-value (**c + v**) — 'dead' and 'living' labour-value — that is the basis of the owner's claim to the labour-value surplus (**s**).

The conception has an internal consistency in this respect — because it is able to go round in circles without a hitch. But that is not a proof of the validity of the *assumptions* from which the internally consistent deductions flow.

The 'transformation' problem makes the assertion of a *labour* theory of value all the more implausible, as well as tortuous to apply, in real life.

It has already been suggested that the basic idea of a value 'substance' is mistaken. In any event, the notion of 'labour' as the substance of value suffers from dogmatic one-sidedness, taking one ingredient or factor of production as the exclusive source of value. One could imagine a corresponding 'transformation' problem, and a corresponding 'solution', if one were to try to apply the Physiocrats' one-sided *land* theory of value in order to get to exchange-value and prices.

The labour theory of value treats labour as the only *socially relevant* factor of production when it comes to exchange. This is because (and Marx took this over from Ricardo)[4] *nature doesn't charge*. It couldn't be denied that nature's contribution, along with that of current and past labour, is a vital material ingredient.[5] But it is treated by the labour-value theory as *irrelevant to the value relation*. Everything is reduced to labour in that analysis. However, this skips over the vital point. While it is true that nature itself supplies its bounty free of charge, the socially relevant point is that *appropriated nature does charge*. The owners of the earth and its spontaneous production are able to exact a *proprietary* reward for supplying it. Likewise the owners of the past product of labour and nature combined, who supply the machines and the materials which have resulted from past production.

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[4] See *Capital*, vol. 1, Penguin edition, p. 510, n24.

[5] See Marx's critique of the German 'Gotha' program of 1875, quoted during Class 26.

If Marx is compelled to recognise that the system in fact allocates surplus value according to *ownership* of the inputs, why not rather go directly to an analysis of society's recognition of *ownership and its competing claims on the social product*? Does society's recognition of *ownership* in fact rest on a recognition of labour contributed? Surely not. That was the liberal fantasy of Adam Smith, which we criticised in Class 26.

At root, Marx's argument is that society — whether it likes it or not, and whether conscious of it or not — is compelled in fact to recognise the claims of ownership on the surplus *in accordance with his law of labour-value*. In other words, he argues, it flows necessarily from the dependence of society on its *labour*.

After the publication of Volume I of *Capital*, Marx's friend Ludwig Kugelmann told him that in the opinion of many readers, Marx had not proved the concept of value.[6] In the letter of 11 July 1868, referred to previously, Marx responded angrily:

> [E]ven if there were no chapter on 'value' at all in my book the analysis I give of the real relations would contain the proof and demonstration of the real value relation. ... Every child knows that a nation which ceased to work, I will not say for a year, but even for a few weeks, would perish. Every child knows too, that the masses of products corresponding to the different needs require different and quantitatively determined masses of the total labour of society. That this necessity of the distribution of social labour in definite proportions cannot possibly be done away with by a particular form of social production but can only change the form in which it appears, is self-evident. No natural laws can be done away with. What can change, in historically different circumstances, is only the form in which these laws operate. And the form in which this proportional distribution of labour operates, in a state of society where the interconnection of social labour is manifested in the private exchange of the individual products of labour, is precisely the exchange value of these products.
>
> ... What is reasonable and necessary by nature asserts itself only as a blindly operating average.

But is this right? Assuming competitive conditions, what the market recognises unconsciously, and on the average, is not the socially-necessary labour embodied in the product but *the socially necessary expenditure of the owner on the proprietary inputs of labour-power, materials and implements consumed in the production of the product*. In so doing, the market also unconsciously allocates the net surplus product (more precisely the surplus product expressed as value) *pro rata* to such necessary expenditure on the proprietary inputs.

In this recognition of social necessity the prevailing efficiency with which particular labour is extracted from particular labour-power is assumed. Thus the market, to the extent that it recognises any particular expenditure on labour-power as socially necessary, also brings about the necessary distribution of social labour. There is no need to resort to idealist metaphysics over this.

Question 3: From the need recognised by Marx to 'transform' labour-value into prices which distribute profit *pro rata* to the total capital laid out, a further question arises within

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[6] See I. I. Rubin, *Essays on Marx's Theory of Value,* Black & Red, 1972, p. 77.

the framework of his own conception. **If socially necessary labour time is indeed the hidden 'substance' of value, as he claimed, when would 'exchange-value' actually be equal to 'socially necessary labour time'?**

The answer is: only where the **composition of capital** in an enterprise (the ratio between 'constant' and 'variable' capital — i.e. between **c** and **v**) is ***average***. Only in such a case would exchange-value conform notionally to **c+v+s**. But where in reality would that situation be found? You could never know by looking at an enterprise whether or not its composition of capital equates to the social average, or what that average might be. Moreover, as a mathematician could tell us, **there need not be any actual enterprise with an average composition of capital**.[7]

So what is left of Marx's claim — again following the idealist Hegel — that exchange-value is the 'phenomenal form', or form of *actual appearance*, of the supposedly intrinsic labour-value?

In truth, this imagined substance remains hidden and we have only Marx's say-so to support the notion that labour-value exists and that labour-value is what ultimately determines everything.

<u>Question 4</u>: Inasmuch as Marx rests his entire value theory on a concept of 'socially necessary labour time', making exchange-value dependent on that underlying 'something', is he able in fact to explain 'socially necessary labour time' *without making it dependent on the market*?

So far we've been assuming (as Marx suggests) that 'socially necessary labour time' is real, and that its existence precedes exchange. But now let's examine this foundational concept further.

When, as Marx explains it, is labour time to be considered 'socially necessary', so that it determines the value of a commodity? In volume 1 of *Capital* he wrote:[8]

> The rule that no more than the socially necessary labour time shall be expended in the production of a commodity would **seem**, in commodity production as a general rule, to be established by the force of competition; for, to put the matter simply, each individual producer must sell the commodity at its market price. In manufacture, **however**, the turning out of a given quantity of product in a given amount of labour time is a technical law of the process of production itself. [Emphasis added.]

So far so good. Having regard to the fact that a commodity must ordinarily be produced before it can be exchanged, the technical conditions of production will, in notional conditions of competitive equilibrium, determine the necessary labour content of each individual commodity. In each branch of production there will be at any particular time a prevailing set of technical conditions and a prevailing productivity of labour, so that, given

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[7] For example, if A=3 units, B=7 units and C=8 units, their average value is 6 units.

[8] Everyman edition, p. 364.

any particular quantity to be produced, the labour time socially necessary for the production of each individual commodity in that branch of production will indeed exist prior to exchange.[9]

But this is not enough to invest each of the commodities with any definite, 'necessary' quantity of 'social labour time', even on average. How many of the individual commodities is it 'socially necessary' to produce in each different branch? In fact, the proportions in which the aggregate of 'social labour' is 'necessarily' distributed *between* the different branches of production are not determinable *a priori*, or prior to exchange. **The mechanism of exchange is what determines 'social necessity' in this essential respect.** *'Socially necessary labour time' is thus crucially dependent on determinations in the market*; exchange value cannot logically be derived from a pre-existing 'value' consisting of 'socially necessary labour time' existing independently of exchange. The idea that value is an intrinsic labour 'substance' merely finding expression in exchange has no leg to stand on.

Marx was a genius, and an extraordinarily thorough one. He was quite aware of this problem, and he tried to address it. But careful scrutiny shows that his attempt failed. Dealing with the distinction between the division of labour within the workshop or factory and the division of labour within society, Marx wrote:[10]

> Whereas in manufacture the iron law of proportionality subjects particular masses of workers to particular functions, chance and caprice have free play in the distribution of the producers of commodities and their means of production among the various branches of industry in society. It is true that the different spheres of production are continually endeavouring to arrive at an equilibrium, inasmuch as, on the one hand, every producer of commodities must produce a use-value, that is to say must satisfy a particular social want (the extent of these wants differing quantitatively, but the various wants being interconnected by an invisible tie to form a natural system); **whereas, on the other hand, the law of the value of commodities determines how much of the totality of available labour time can be devoted to the production of any particular kind of commodity**. But this persistent tendency of the different spheres of production to establish an equilibrium among themselves, only enters into operation as a reaction against the persistent disturbance of that equilibrium. **The rule** which, as far as the division of labour within the workshop is concerned, operates *a priori* and purposively, **operates, in the case of the division of labour in society, only in an *a posteriori* manner** as a natural necessity (immanent, dumb, **disclosed** in the rise and fall of the barometer of market prices) **overriding** the unregulated and capricious activities of the producers of commodities. [Emphasis in bold type added.]

This argument is surely misconceived. The totality of **'available'** labour-time in a society is by no means the same as the totality of labour-time that the system of production for exchange deems **'socially necessary'**. The argument is also self-contradictory. How can 'the law of the value of commodities' — i.e., their 'socially necessary' labour content — **determine** how much of the totality of available labour time can be devoted to the production of any particular kind of commodity, when it has just been acknowledged that the

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[9] For the sake of argument we are assuming here, in favour of Marx, that 'labour time', no matter what different kinds of labour it entails, can be homogenised (reduced to uniformity) in the abstract. In reality this, too, is untenable.

[10] *Capital*, vol 1. Everyman edition, pp. 375-6. Emphasis added.

distribution of the producers of commodities and their means of production among the various branches of industry **results** from the competitive co-ordination of chance and caprice?

Truly the tendency towards equilibrium (or various equilibria) of supply and demand overrides and thus regulates in the aggregate what are, in their individual manifestations, the unregulated and capricious activities of the individual producers (and consumers). But all this does not get us a jot closer to proving that market prices are an *a posteriori* manifestation of a previously existing 'something' which is labour-value. Fully considered, the acknowledgement that the **determination** is in this crucial respect **the result of competition** demolishes the theory that value is an intrinsic labour 'substance' — and makes the labour conception of value unsatisfactory as an explanation of the proportions in which commodities ever actually exchange.

And it consequently also limps when it comes to explaining **exploitation**, which was its essential aim. Yes, labour-power is indeed exploited in the system of production for exchange, but how exactly is it exploited and is that the only exploited factor of production?

In short, is there a more satisfactory way of approaching value theory and of understanding the capitalist mechanism of exploitation?

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Next: **The property conception of value in more detail** [hand out draft chapter by RP]. Provide a short explanation of its origins.

[see next page for draft chapter]

The 'property' conception of value — an introduction

Adam Smith described the question of the value of commodities in exchange as one which is 'in its own nature extremely abstracted'.[1] If we are to keep our bearings in these foggy realms, we need to keep in mind that the objects, whether tangible or intangible,[2] that enter into relations of exchange are objects of *property*. When production takes place for purposes of exchange, it is objects of *property* that are produced for exchange.[3]

We are accustomed to thinking of property itself as a *thing*, but this is a mental shorthand apt to lead to error. Things are or may be *objects* of property; property itself is a *social relation*.

Property may be defined as a socially recognised exclusive entitlement to material wealth or to the means of producing it. From deep natural roots, human property relations have developed historically, both in their prevailing forms of exclusivity[4] and in their content, and they continue to develop now. When considering the economic value relations of the present day we are in fact considering how property relations find expression, and are continually regenerated and reformed, through relations of exchange and relations of production for purposes of exchange.

Objects of material wealth include anything of utility, whether satisfying a need or a want or

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[1] *The Wealth of Nations* (1776), Random House Modern Library edn., 1937, p. 29.

[2] 'Mental aptitudes, erudition, artistic skill, even things ecclesiastical (like sermons, masses, prayers, consecration of votive objects), inventions and so forth, become subjects of a contract, brought on to a parity, through being bought and sold, with things recognized as things. We may hesitate to call such abilities, attainments, aptitudes, &c., "things", for while possession of these may be the subject of business dealings and contracts, as if they were things, there is also something inward and mental about it, and for this reason the Understanding may be in perplexity about how to describe such possession in legal terms, because its field of vision is as limited to the dilemma that this is 'either a thing or not a thing' as to the dilemma "either finite or infinite". Attainments, erudition, talents, and so forth, are, of course, owned by free mind and are something internal and not external to it, but even so, by expressing them it may embody them in something external and alienate them..., and in this way they are put into the category of "things".' G.W.F. Hegel, *Philosophy of Right* (1821) §43 (translation by T.M. Knox, Oxford University Press, 1967.). By the 'Understanding' Hegel meant the first 'moment' of every logical entity, wherein thought starts out limited by the fixed abstractions which it treats as real, but which it then overcomes by negative and positive ('Dialectical' and 'Speculative') reasoning. See Hegel's *Logic* §79 - §82.

[3] 'The division of labour, ... which ... is based on the natural division of labour in the family and the separation of society into individual families opposed to one another, simultaneously implies the distribution, and indeed the unequal distribution, both quantitative and qualitative, of labour and its products, hence property. ... Division of labour and private property are, after all, identical expressions: in the one the same thing is affirmed with reference to activity as is affirmed in the other with reference to the product of the activity.' Karl Marx and Frederick Engels, 'The German Ideology', *MECW* 5, 46. They identify the slavery latent in the family, though still very crude, as 'the first form of property', entailing the power of disposing of the labour-power of others. Important though this insight is, they err here in treating products one-sidedly as products of *labour*, and in treating *property* as identical with labour-products. We shall return to this issue in due course.

[4] Exclusivity is a core characteristic of property — even though (1) the exclusivity may be that of a group within which complex status and other relations affect individual access to the communal proprietary object, and (2) the exclusivity is subject, as is invariably the case, to conditions and qualifications in relation to those outside its bounds.

providing a means of generating the satisfaction of a need or a want.[5] As beauty is in the eye of the beholder, so utility is in the experience and expectation of the user. What is wealth, asks Marx in his notebooks of 1857-58, 'if not the universality of the individual's needs, capacities, enjoyments, productive forces, etc., produced in universal exchange?'[6] Wealth resides in the developing interrelationship between objects and the subject who uses them — the human individual, a social being, actively caught up in a process of becoming.

The utility of an object to its user is essentially a matter of subjective evaluation — at least, when more than the satisfaction of the most vital needs is involved.[7] Any general hierarchy in this regard will at best be approximate. While individual evaluations are socially influenced, sometimes to a very high degree, utility to the user cannot be quantified objectively, and the different utilities of different objects to different people cannot directly be compared.

We shall consider later whether and, if so, how utility enters into the evaluation of different objects of property when they come to be exchanged. For the moment, it is enough to say that if an exclusive entitlement to a useful object, or the possibility of such an entitlement, is socially recognised, the object takes on the social character of being an object of property: it is *owned*, or is capable of being owned. Not every object of utility is capable of being owned; some things, such as the air we ordinarily breathe, have not so far been made amenable to any exclusive entitlement.

Objects of property are of two kinds: first, those *naturally occurring* without human intervention, but capable of being appropriated; secondly those which, by deliberate human exertion applied to the resources of nature, are capable of being appropriated as they are *produced*.

The real ingredients of any *produced* output — that is to say, the material *input* factors — themselves consist essentially of two kinds. On the one hand there is the contribution made by human exertion, or *labour*, both physical and mental. On the other hand, there is the contribution made by *external nature*. Where raw materials have been extracted and

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[5] 'A man is actually and truly rich according to what he eateth, drinketh, weareth, or in any other way really and actually enjoyeth,' wrote Sir William Petty (*A Treatise of Taxes & Contributions*, 1662, Ch. 15.) 'Wealth in itself is nothing but the Maintenance, Conveniencies, and Superfluities of Life,' wrote Richard Cantillon (*Essay on the Nature of Trade in General*, circa 1730, Transaction Publishers edn., 2001, p. 5. Translation from the French by Henry Higgs.) In Adam Smith, a nation's wealth comprises the 'necessaries and conveniences of life' which it consumes together with the means of providing them, whether by production or purchase. (*The Wealth of Nations*, op cit, p. lvii. Cf *The Theory of Moral Sentiments* (1759), Penguin edn., 2009, pp. 62-63.)

[6] *MECW* 28, p. 411. Marx's expression is *'die im universellen Austausch erzeugte'*. The Penguin *Grundrisse* translation of this expression (1973, p. 488) — 'created through universal exchange' — is not quite satisfactory and could mislead.

[7] '[O]ur first and greatest need is clearly the provision of food to keep us alive. … Our second need is shelter, and our third clothing of various kinds.' Plato, *Republic*, Penguin edn., 1955, pp. 102-3.

prepared for use in further production,[8] these too may be boiled down conceptually to the past contributions of labour and nature combined. Likewise where an implement or a machine (a complex tool) is introduced, it has had its genesis in an earlier combination of human exertion and resources of the earth. We commonly identify the input factors of immediate production by a *threefold* classification — *materials*, *tools* and *labour* — but in the last analysis the real input factors in any output are reducible historically to two.

Confusion in economic value theory tends to arise whenever we fail to distinguish adequately the real input factors or ingredients of production, as well as the real outputs from production, from their *proprietary* — that is to say, their *social* — characteristics.

Note that property — proprietary entitlement — has had no part to play in the basic *material* (i.e. real) analysis of production so far. The influence of property upon the course of production as a *social* process is a different matter, and we shall examine that further on. But the fact that I may 'own' my capacity to labour (my labour-power), or that someone else may own it, does not make of that *ownership* a real material ingredient in production. Likewise, the fact that land, water, minerals and the regenerating fruits of the earth are susceptible of ownership does not make the fact of their *ownership* a factor of production in any ultimately *real* or irreducible, as distinct from *social*, sense. And the earth's gravitation and atmosphere, the sun's rays, the winds that blow, the rains that fall, the great waterways and the bounty of the sea, all make their vital contribution without being owned.[9]

But if property is irrelevant in identifying *the real ingredients of production*, the matter is quite the contrary when it comes to *exchange*. When people exchange one produced item for another, they are exchanging *objects of property* — they are exchanging what they *own* — and the proportions established between these objects in exchange are *socially*, not naturally, established. The same applies when appropriated pieces of nature's providence are entered into exchange: as real ingredients in production or consumption they are simply natural ingredients, but when participating in exchange they do so as objects of property.

Exchange, in bringing rewards to the owners of produced outputs, serves to draw objects of property into production again as material inputs in an on-going process of production for future exchange and future reward. It is nonetheless a fundamental error in value theory to confuse the real material ingredients of production with the *property* in those ingredients and their results. Economic value has no existence as a *substance* derived objectively from any of the physical ingredients in production, including human labour. As a concept,

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[8] '[B]y material I mean the substratum out of which any work is made; thus wool is the material of the weaver, bronze of the statuary.' Aristotle, *The Politics*, quoted from Monroe (ed), *Early Economic Thought: Selections from Economic Literature Prior to Adam Smith*, Harvard University Press, 1951, p. 13.

[9] In Germany, says Marx, the invention of the windmill 'called forth a pretty squabble between the nobility, the priests and the Emperor as to which of the three was the "owner" of the wind.' *Capital*, vol. 1, Penguin p. 496 n8.

properly understood, value is *not* (like labour) a category of *production* but is a category of *appropriation*. In other words, value is essentially an allocative and distributive category, and only by derivation a productive category.

Units of value, expressed as money-values in a society characterised by production for exchange, are in effect units of apportionment of socially recognised entitlements to the totality of real material wealth and the means of producing it. As both the recognition of entitlements and the material objects of that recognition undergo constant and often dramatic change, value itself is dynamic, never static. If we artificially render it static, if we freeze it conceptually for purposes of clarification and analysis, if we extend long chains of causal reasoning from assumed values, we must never lose sight of the tenuous, highly conditional basis on which we have proceeded.

The expression 'value' in our analysis corresponds with what economists have called 'exchange-value' (or 'value in exchange') as distinct from 'use-value'. The distinction is a vital one. For the latter concept, however, it is preferable wherever possible to use the term 'utility', and leave 'value' out of it so as to avoid confusion.[10] And where value in connection with exchange is concerned, it is better to avoid the term 'exchange-value' because that may imply that value arises simply in exchange (which it does not), or that it is confined within exchange (which it is not), or that it is a circulating substance making its appearance in exchange (which again it is not). More on that in due course.

Here, to start with, is a definition of value:

> *Value is the reciprocation to be expected from our fellow human beings in exchange for giving up what we own.*

Value is born from *property* (the property relation) and is quantified with reference to any object of property by way of an *expectation* of what that object will fetch in exchange for another object or objects of property. Any subjective expectation in that regard will be more or less objective in the social sense depending on how widely it is shared. When the expectation is submitted to the judgment of actual exchange — the judgment of the market — that judgment may be more or less objective in the social sense, depending upon how effectively it stamps itself upon future expectations in regard to that and other similar or related objects. Value, therefore, is different in concept and is by no means necessarily identical in fact to any actually realised price.

Anything which affects the expectation of what will be realised in actual exchange affects

[10] This includes avoiding any implication that the usefulness of a thing is capable of being quantified by some objective standard.

value. Since this expectation can be affected without any actual exchanges taking place, it follows that actually realised prices are not by any means the only occurrences which act upon the value of objects of property capable of entering into exchange. Nevertheless actually realised prices, if sufficiently generalised, render supreme judgment on values while executing that judgment at the same time.

Like property generally, *value* is a social relation between people in respect of things. Since exchange relations are reciprocal relations established between proprietors in regard to objects of property, it seems sensible to say that, in a society in which objects of property are almost all potentially available for exchange, and in which production takes place mainly as the production of objects of property for purposes of exchange, *value is the property relation in a universalised, abstract form*.

Thanks to the global evolution of relations of production for exchange — thanks, in other words, to the domination of society everywhere by the world market — value is today the property relation in world-dominating form. It is the predominant form in which property relations — and with that, those who have become endowed with socially recognised entitlements to the objects of material wealth on the most colossal scale — now rule the world. An exploration of the value form of the property relation and its tendencies of development should therefore be a central preoccupation for anyone wanting to understand and, if possible, to change the world.

In contrast to the '*property*' conception of value, the '*labour*' conception of value (the 'labour theory of value' or 'theory of labour-value') holds not simply that value is a social relation but that labour is the substance of value, and that 'socially necessary labour time' is at any moment, in relation to any commodity, an absolute quantum or criterion, which merely makes its appearance as exchange-value when the commodity is exchanged. Marx called exchange value the 'phenomenal form' of value but, as will be discussed in more detail, was unable in the further course of his analysis to show that his exchange value, supposedly manifesting neither more nor less than the socially necessary labour congealed in a commodity, ever necessarily appears. I consider the 'labour' conception of value to be idealist and metaphysical, and propose to demonstrate that it is, on its own internal logic, inconsistent, self-contradictory and unsustainable. That will be a subject of later chapters.

In the 'property' conception of value nevertheless, while value has no absolute substance, it is not the mere expression or outcome of exchange. Value as a social relation does have a relative autonomy from exchange. It is not simply reducible to a realised price. Moreover — and this will be the most crucial outcome of the theoretical value analysis once it is carried through — production for exchange based on unequal prior appropriation, if left to its own spontaneous devices, necessarily results in further and yet more unequal appropriation of

the social product.

The 'property' conception is radically opposed to the neoclassical economic theories which uncritically assume the endowments preceding and underlying every exchange, which reduce value to the sum of individual exchanges, which falsely claim that a competitive market eliminates profit, and which contrive thereby to conjure away exploitation and rationalise inequality. By means of the 'property' conception, drawing upon insights of Marx but without his 'labour-value' theory, *the engine of inequality* — the continual process by which, automatically and invisibly, *those who have more get more* — can be simply and clearly explained.

Proprietary entitlements, or claims to entitlement, have their roots outside the market, both in various forms of primary appropriation (so-called 'primitive accumulation') and — mainly — in the production of new objects of material wealth. It is nevertheless the case that in a society characterised by production for exchange the claims on material wealth are continually affirmed or denied, repudiated or re-established in and through relations of exchange (the market). The market thus remains the central regulator of the system, irrespective of the layers of regulation that may be overlaid upon it.

'Value' (to repeat the point) is not a category of production, but a category of appropriation — expressing social recognition of the appropriation first and foremost of produced material wealth. Through the generalisation of exchange relations, non-produced material wealth, having itself been appropriated, likewise takes on the general value form.

Production for exchange involves the creation of new objects of utility by the productive consumption of pre-existing ones: raw materials, tools and labour-power. Having appropriated these means of production, i.e. these inputs (including the labour-power), prior to the act of production, the owner of the producing enterprise has a socially recognised entitlement to the outputs, to the products of the production process. The owner brings each such product to market not as a labour-product, but as a proprietary offering bound up with a reciprocal proprietary claim.

Therefore we cannot say that new *value* is created by production — until we have first said that new *property* is created by production. And, while one will value this newly created property in anticipation of exchange — and while that valuation will take on real social force to the extent that the expectation is generalised — this remains in fact subject to confirmation, enhancement or repudiation in the market.

The 'labour' conception of the value of commodities errs fundamentally in reducing the proprietary claims in essence to the socially recognised labour content of the products —

when these are products in fact of labour plus external nature. The proprietary entitlements or claims resulting from production are in fact predicated from the outset upon the previously-established property relations.[11] These have included the private appropriation of the contribution of external nature, as well as the accumulated instruments of production that have resulted from the earlier production of labour and nature combined: i.e., both land and stock in Adam Smith's expression.[12]

David Ricardo, defending Smith against certain criticisms by Jean-Baptiste Say, wrote this:[13]

> M. Say accuses Dr. Smith of having overlooked the value which is given to commodities by natural agents, and by machinery, because he considered that the value of all things was derived from the labour of man; but it does not appear to me that this charge is made out; for Adam Smith nowhere undervalues the services which these natural agents and machinery perform for us, but he very justly distinguishes the nature of the value which they add to commodities — they are serviceable to us, by increasing the abundance of productions, by making men richer, by adding to value in use; but as they perform their work gratuitously, as nothing is paid for the use of air, of heat, and of water, the assistance which they afford to us, adds nothing to value in exchange.

Marx, commenting on this passage in *Capital*,[14] endorses it insofar as it is directed against Say, but criticises it for losing sight of the embodied labour-value (as he sees it) which machinery gives up to the product in the course of production. Marx raises no objection whatever to Ricardo's argument[15] (which he himself adopted) that the contribution of natural agents adds nothing to value in exchange, because nature's contribution contains no labour. But that is not a satisfactory standpoint. While, obviously, external nature itself does not charge for its contribution, *appropriated external nature does charge*. For so long as and to the extent that this charge is socially recognised, it enters into the value of products. It is not the utility of nature's contribution which itself supplies value in exchange, but the ability of the proprietor of that contribution to charge for it — thereby laying a reciprocal claim to portion of society's material product.

Let us make for the moment the theoretical assumption made for purposes of analysis by the classical economists (and indeed by Marx), of a competitive economy in which supply and

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[11] Screpanti and Zamagni observe in *An Outline of the History of Economic Thought*, 2nd edn., 2005, p. 296, that in a debate over the possibility of rational economic planning in the early 1930s, the free-marketeer von Hayek re-proposed an article written by von Mises in 1920, the gist of which was 'that exchange relationships among goods, and therefore the formation of their prices, presuppose that ownership rights on the goods have previously been established.'

[12] Smith, *Wealth of Nations*, op cit, p. 47.

[13] *On the Principles of Political Economy and Taxation*, in *The Works and Correspondence of David Ricardo* (edited by Sraffa, with the collaboration of Dobb), Liberty Fund edn., 2004, Vol 1, pp. 286-7.

[14] Vol 1 (1867), Penguin edn., 1976, p. 510, n24.

[15] Cf also John Locke, *Second Treatise of Government*, Chapter V, para 43.

demand are in equilibrium in and between all branches of production. The implication of this is that there is only average or so-called 'normal' profit. What later economists have called 'pure profit' (i.e. profit over and above the notional long-run competitive equilibrium norm) can thus for the moment be left out of account. We can then go on to say the following:

What the competitive market recognises unconsciously and on the average as the value of an object produced for purposes of exchange is not the socially-necessary labour embodied in the product but the socially necessary expenditure of the owner of the product on the proprietary inputs of labour-power, materials and tools consumed in its production. In so doing, the market also unconsciously allocates the net surplus product (more precisely the surplus product expressed as value) pro rata to such necessary expenditure on the proprietary inputs.

In this recognition of social necessity the prevailing efficiency with which particular labour is extracted from particular labour-power is assumed. Thus the competitive market, to the extent that it recognises any particular expenditure on *labour-power* as socially necessary, also brings about the necessary distribution of social *labour*. There is no need to resort to idealist metaphysics over this.

This approach provides a complete answer to Marx's argument in his famous letter to Ludwig Kugelmann[16] that, since in all forms of society social labour must necessarily be distributed among the various branches of social production, the distribution of labour in a society whose division of labour is organised through exchange must necessarily occur on the basis of labour-value finding expression in exchange. The conclusion simply does not follow from the premise.

The same approach and analysis applies to the way in which exchange brings about the distribution of *all* the inputs into production. Once we see them all (including labour-power) as *proprietary* inputs, the mystery is cleared up.

Nevertheless, it would be quite wrong to suggest that value, expressing socially-recognised relative entitlements to the appropriation of material wealth, derives simply or essentially from the market, and thus supposedly from free exchange. On the contrary: each proprietary claim is antecedent to exchange, both logically and historically. The prevailing property relations — including both property in the inputs into production and property in the outputs from production — precede and form the basis for each successive act of exchange. This applies irrespective of whether we assume a competitive equilibrium or not.

[16] 11 July 1868, *Marx Engels Selected Correspondence*, Progress Publishers, 3rd edn., p. 196; *MECW* 43, p. 68.

On a historical basis, and by a historical process, the reciprocation to be expected from our fellow human beings for giving up what we own is formed and re-formed. Thus value precedes and is then corrected by the realised price in each successive exchange. The historical foundation is taken up and to one degree or another reconstituted through exchange.

In the market (to repeat the elementary point) it is objects of property, appropriated items of utility, which are exchanged. But whether a particular object of property ultimately realises the value it was assumed or expected to have, whether it achieves the expected reciprocation and thus the extent to which the entitlement bound up with it survives as a general claim on social wealth, is determined in and by the market.

'Value' is thus in constant tension between its retrospective objectivity and its prospective subjectivity — between what it has been and what it may become. The relations of exchange bring together the objective and subjective aspects of value as a process. On this basis, and to this extent, marginal theory (in the sense of equalisation for purposes of exchange at the point where, in each instance, marginal differences coincide) can be synthesised with a property conception of value, without succumbing to 'vulgar economy'.[17]

While exchange cannot create value in general any more than it can create products or use-values in general, it can certainly destroy — or otherwise alter, positively or negatively — the value assumed to be embodied in anything, and so reapportion claims on the totality of social wealth. By its recognition or repudiation of claims, or by adjusting the extent of different claims, upon social wealth it may decisively affect both the production and the distribution of that wealth.

Does value circulate? It follows from the 'property' conception that value does not simply 'circulate', as if it were a constant substance embodied successively in commodities and then in money, and so passed on via exchange by the substitution of the successive owners of the money passing from hand to hand. If value does in a sense 'circulate' in this way, that is to say as money itself circulates,[18] then this circulation is subject not only to the constant interruptions between acts of exchange, but also to the successive reconstitutions of value itself (the value of money relative to commodities and the value of commodities relative to each other in terms of money) both in anticipation of and in every act of exchange. It is only this continual reconstitution that can give value any reality as a social substance.[19]

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[17] Not so, however, the neoclassical 'marginal productivity of factors' theory of distribution and reward — the subject of a later chapter.

[18] 'Properly speaking, money only circulates the titles of ownership.' Note by Marx, *MECW* 29, p. 426.

[19] The South African utopian 'left' make a fundamental error in viewing capital-value generally as some kind of substance that can, as it were, be kept in a bottle, lifted out of the complex of real global exchanges, and simply applied locally as they see fit. Marx, while treating value as a social substance, never regarded it as having any

From the standpoint of the 'property' conception of value, it is important to observe that value does not circulate through the production process. The production process is the vital, central process in which labour combines with materials and tools to produce the product. In modern society — capitalist society — in which production takes place for purposes of exchange, the production process intervenes between and separates what are basically two distinct markets. One is the market (actually a number of markets) for the inputs of the enterprise; the other is the market for its output. In the production process capital-inputs (items of property, including labour-power, that have been acquired for value in exchange) are consumed and so destroyed and, with their physical destruction, their value is destroyed. In the same production process commodity-outputs (items of property having value in anticipation of exchange) are freshly created, and with their creation, value is created. This creation itself is merely provisional, as already noted, depending for its realisation upon its quantitative endorsement in actual exchange. Since value is not a substance, since old property and property-value is destroyed while new property and property-value is created, there is no pass-through of value from inputs to outputs.

Marx, while maintaining to the contrary that existing value (labour-value in his conception) endures through and is merely augmented by new labour added during the production process, had this to say when dealing with the consequent problem of 'realisation' of value in exchange:

> No longer does the capitalist enter into the circulation process merely as an exchanger; he does so now as a *producer* confronting the other exchangers as *consumers*. They are to exchange money to obtain his commodity for their consumption, while he exchanges his product in order to obtain their money. If this process miscarries—and the very separation [of producers and consumers] entails the possibility of miscarriage in the individual case—the money of the capitalist has been transformed into a worthless product; not only has it not gained any new value, it has lost its original value.
>
> But whether this is so or not, the devaluation of capital constitutes a moment of its valorisation process. This is already inherent in the simple fact that the product of the process in its immediate form is not *value*, but must first re-enter circulation to be realised as such. Hence, if capital is reproduced as value and new value by means of the production process, it is simultaneously posited as *non-value*, something still to be *valorised by means of exchange*.[20]

Marx was forced to give metaphysical expression to the real process by his need to maintain the idea of value as a social *substance* (the product of 'socially necessary labour time') whose

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static existence. He brilliantly explained why capital 'can be understood only as motion, not as a thing at rest.' (*Capital*, Vol. 2, Progress Publishers edn., 1971, pp. 108-9; Penguin edn., 1978, p. 185.) Bring it to a halt and it evaporates. We shall return to this aspect when examining free trade and protectionism.

[20] *MECW* 29, p 330 (cf *Grundrisse*, Penguin edn, 1973, p. 403) — italics in the original.

general circulation is subject to 'miscarriage in the individual case'.[21] Thus we are treated to a notion of value which is nevertheless not value 'in its immediate form'; which exists but 'is simultaneously posited as *non-value'* in the interval between production and the anticipated exchange. In contrast, the property conception of value is able in principle to account for the real contradictions in the ongoing social process of production, valorisation and circulation without having to resort to idealism.

Obviously the purchase and productive consumption of proprietary inputs by any enterprise would be brought to a halt unless there were adequate grounds for it to expect that the value to be created by the process of production and realised by the exchange of the resulting proprietary outputs would exceed the value necessarily destroyed. The nature of capitalist enterprise is to take proprietary risk by undertaking production in expectation of proprietary reward.

Many students of economics are now routinely taught that 'entrepreneurship' is itself a factor of production — a fourth 'factor' to be added to the recognised inputs of materials, implements and labour (more correctly, labour-power). This doctrine is part of the attempt of official society to maintain that there is in fact no engine of inequality; that in a competitive market everyone gets out what he or she puts in; and that profit neither comes from the exploitation of labour nor goes as a reward to property as such. Mark Blaug, a renowned main-stream historian of economic theory, has shown in detail in his discussion of the theory of profit,[22] why entrepreneurship cannot rationally be regarded as a distinct factor of production. To the extent that it involves organisational or managerial talents that could be bought by a corporation, its cost should simply be treated as part of the purchase of labour-power.[23] To the extent that it commands reward beyond this, its reward derives from pure profit in the output and is not explicable as an input-cost.

'Pure' profit — profit over and above the 'normal' profit returned to property in the form of capital-value that is consumed to produce products exchanged under notional conditions of long-run competitive equilibrium — depends essentially on market power in the sale of the product. To analyse entrepreneurial reward simply as a reward for the taking of exceptional risk in the productive consumption of capital would not be inconsistent with a 'property' conception of value, but it would nevertheless remain one-sided and metaphysical. Society has no way of rewarding, and does not directly reward, the taking of risk. Much risk-taking,

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[21] Marx recognised nevertheless that the valorisation of the product and the realisation of that value by means of exchange was 'external' to the process of production; it existed independently alongside the latter, while the existence of each was a precondition of the other. (Id.). 'Miscarriages' could thus readily take on the proportions of crisis. (See further *MECW* 28, pp. 330 et seq; also Harvey, *A Companion to Marx's* Capital*, Vol 2*, Verso, 2013, Ch. 1.)

[22] *Economic Theory In Retrospect,* 5th edn., Cambridge University Press, 1996, pp. 439-447.

[23] Cf also Aspromourgos, *On the Origins of Classical Economics: Distribution and Value from William Petty to Adam Smith*, Routledge, 1996, p. 154.

indeed, is met by society not with reward but with loss or punishment. Entrepreneurs take super-normal risk in the productive consumption of their capital in order to have a super-normal command of profit in the sale of the output.

The 'property' conception of value is fully consistent with, and may even assist in providing, a proper explanation of entrepreneurial reward. However, this conception of value must stand or fall by its ability consistently to account for average or 'normal' profit itself as a social allocation of surplus pro rata to the property-value necessarily consumed in the hands of the enterprise in producing its particular part of the aggregate social product.

2016-11-21 & 28 From the preparatory notes for Class 29 and Class 30 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

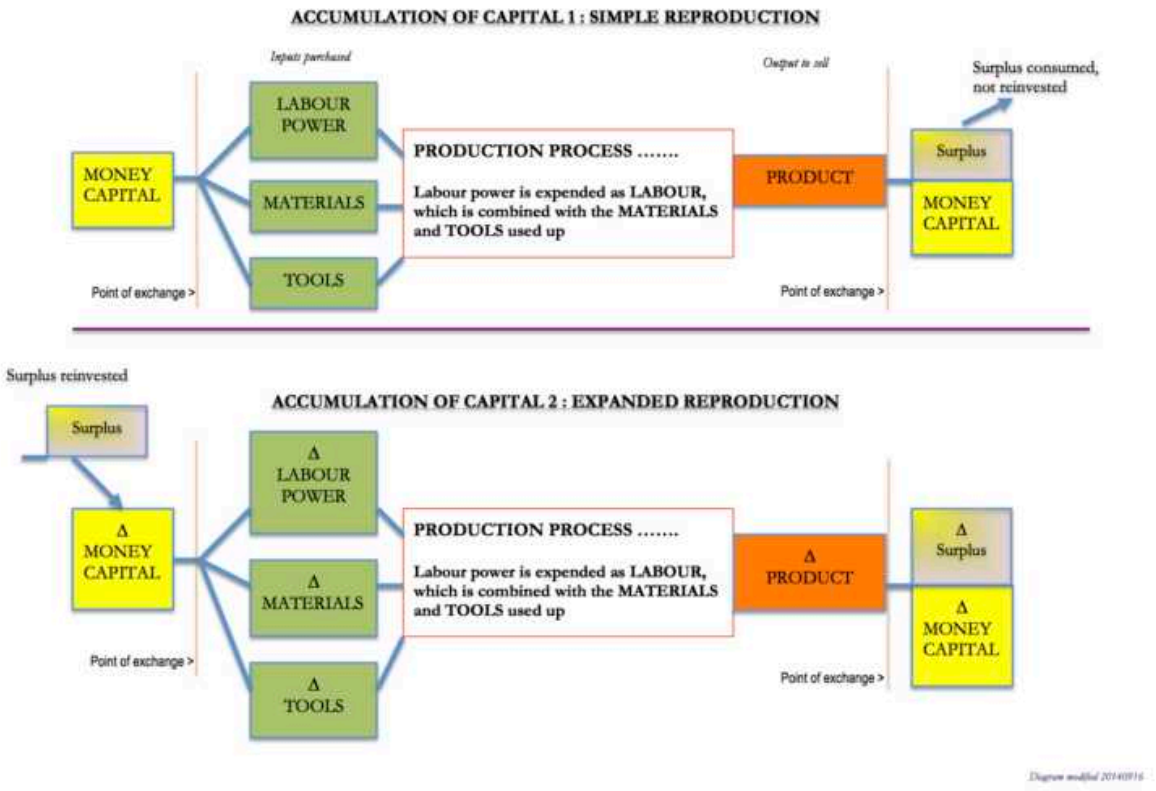
The material prepared for discussion last week (see the notes for Class 28) could not all be covered in the available time. Therefore, in Class 29, the discussion continued where it left off.

In the second part of Class 29, the property conception of value was introduced, and discussion on it begun. That discussion continued in Class 30. These notes therefore combine Classes 29 and 30.

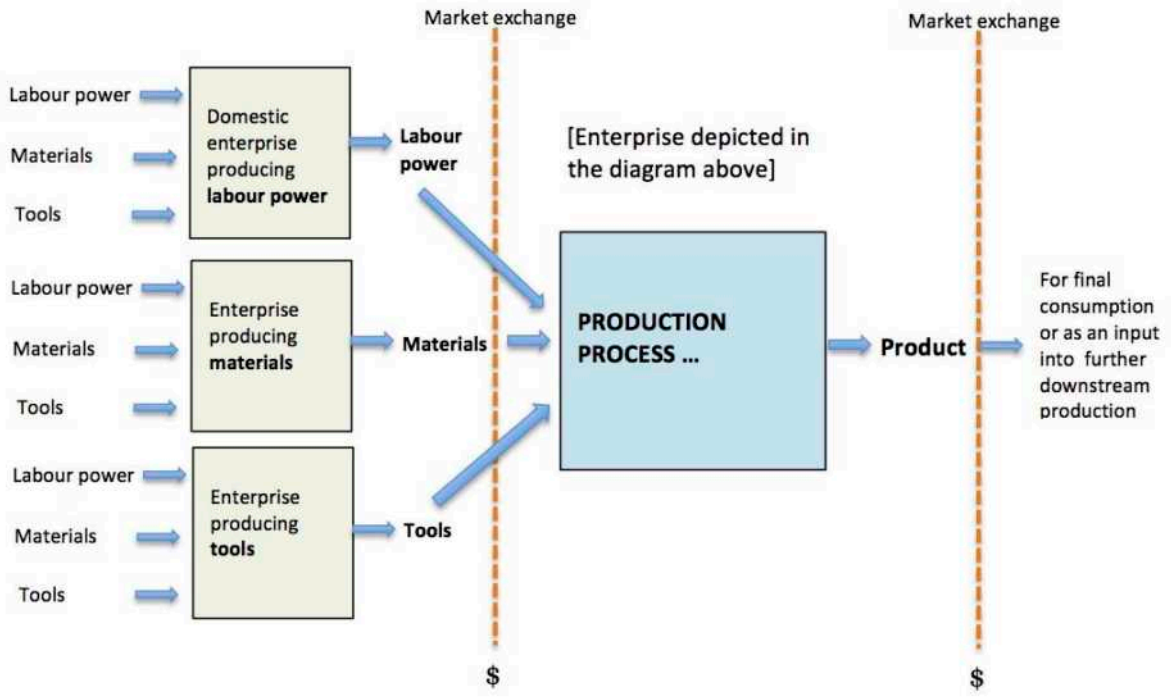
The property conception of value (continued)

If we abandon the notion that value is a category of *production*, and see it rather as a category of *appropriation*, we escape the contradictions of Marx's value theory and yet retain his crucial insight: that the social surplus is generated only *in production* (*not* in the act of exchange) and that the capitalist enterprise receives its share of surplus value when its product (which has contributed necessarily to the produced social surplus) is exchanged for money in the market.

We introduced the following diagram previously and have revisited it several times. Inspired by Marx, it can take us beyond Marx. It serves to illustrate the 'property' conception of value in explaining the generation of surplus and the appropriation of surplus value.



During the class, an extended diagram was drawn on the board to depict in a simplified form the production of inputs by enterprises (firms) upstream. In principle, this can be extended indefinitely further upstream.[1]



Each firm's contribution to the ongoing production of the *aggregate* social surplus in material form is socially *valued* at the relevant *point of exchange* in which the firm participates as a seller of its product. 'Surplus-value' should thus be understood as the monetary expression or equivalent of the total social surplus, continuously produced, that is apportioned between the firms contributing to its production, at each point of exchange. Each firm's 'surplus value' is thus the monetary entitlement to share in the aggregate social surplus that is allocated to it via the operation of the market system. The allocation and appropriation of surplus value take place simultaneously, and form an invisible component of the firm's total revenue through sales.

Marx set himself an extremely difficult challenge: to account for surplus value and identify where it comes from, while assuming that every exchange is an exchange of equivalent values. We shall make the same assumption. This means that effective competition is assumed, and any explanation of profit in general on the basis of particular firms' market power is ruled out of the basic analysis.[2]

When, after wrestling with the problem, Marx saw that the input **'labour power'** must be distinguished from its consumption in production, i.e. **must be distinguished from 'labour'**, he contributed what is perhaps the most important single insight in the whole history of political economy. The problem is that he confined his insight too narrowly,

[1] In one respect at least this general statement needs qualification. The input of labour power into *domestic enterprises producing labour power* is self-produced, except to the extent that domestic labour is obtained from the employment of servants in exchange for wages.

[2] We have seen previously that profit in an integrated market system *as a whole* cannot be explained by mercantilist reasoning — i.e., buying cheap then selling dear.

because he was too narrowly intent on theorising workers' exploitation and the basis for workers' revolution — which he saw as the immediate solution to the whole problem facing society, the route to the 'abolition' of private property.

If we broaden Marx's insight, it is obvious that likewise the input of (say) coal must be distinguished from its consumption that generates heat — and so on. Marx saw crucially that the value of the inputs is less than the value of their output when productively consumed. The product, **including the enterprise's contribution to the physical social surplus**, is created in the production process — a process that lies between two acts of exchange. This insight needs to be applied not only to labour power but to *all* the inputs. The social surplus comes from the productive consumption of *all* the inputs, whether provided by nature, by labour, or by the past contribution of labour and nature combined.

The market (assuming competitive conditions) carries out the allocation of the produced surplus *pro rata* to the capital necessarily consumed. Marx had to recognise this — hence his tortuous 'transformation' of supposed 'labour'-values into an allocation of surplus according, in the last analysis, to *property*-value necessarily consumed.

There is an important consequence for the theory of exploitation, which was not recognised by Marx. It is not only *workers* who are exploited in capitalist production when their *labour* contributes to generating a surplus which they do not receive. *All* the inputs are 'exploited' or — to put it another way — *the rest of us are also being exploited together with the workers*, in the sense that what should be a common heritage and benefit of humanity is being privately appropriated by the owners.[3] This appropriation is highly unequal — and increasingly so. Understanding the property relation and its evolution is fundamental in this regard.

'To him who hath shall it be given.' THOSE WHO HAVE MORE AUTOMATICALLY GET MORE. That is the capitalist system.

Go further into the property conception of value using the draft chapter by RP.

Discuss

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VIDEO: The Tax-free Tour[4]

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This completes the 2nd part of the course, on the 'engine of inequality'.

For lack of time, the following topics which we had intended to cover during part 2 of the course had to be left out altogether, or mentioned only briefly:

Critique of neoclassical value theory.

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[3] Marx recognised this in his vision of socialism and his critique of inequality in general, but it is missing from his theory of exploitation which is based on the idea that labour alone produces value and hence surplus-value in capitalist society.

[4] 2013 film by *vpro*.

Explanation of why competition does not eliminate profit: effective competition tends to adjust profit to normal profit — i.e. it is above-normal and below-normal profit that competition tends to eliminate.

Marginal utility theory: why ‘utility’, while central to price formation, does not provide the basis for a theory of value or a theory of surplus-appropriation.

Entrepreneurial reward.

2016-12-05 From the preparatory notes for Class 31 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

This is the final part of the course. After considering the evolution of property and the 'engine of inequality', we turn to consider: **What can be done?**

Our attempt to organise an additional two classes on a Saturday was unsuccessful. The consequence is that we have only today's class to deal with this entire topic.

ROUGH NOTES ONLY:

Brief introduction to crisis theory

Inequality / effective demand / Marx

Lack of time prevented showing a video of a lecture by David Harvey on the many ways and many points in the circuit of capital at which crises may be triggered.

Lack of time prevented the intended discussion of credit, debt, and the banking system (including how banks create money and how this is regulated).

Lack of time also prevented us from considering the approach of Keynes to capitalist crisis: to identify what Keynesian policies are, where they have had partial success, and where their fundamental inadequacy is revealed.

Essentially, systemic crisis is the outcome of systemic inequality. Property creates the crisis and society escapes it only by the (partial and repeated) destruction of the property barrier. Marx's views on the origins of crisis were essentially correct — and in fact they do not depend on a 'labour' theory of value.

A hundred and fifty years ago, in a notebook later published as part of *Capital* vol 3, Marx jotted down what he called 'Three cardinal facts of capitalist production'. The far-sightedness of this conception is amazing:[1]

> (1) Concentration of means of production in few hands, whereby they cease to appear as the property of immediate labourers and turn into social production capacities. Even if they are initially the private property of capitalists. These are the trustees of bourgeois society, but they pocket all the proceeds of this trusteeship.
>
> (2) Organisation of labour itself into social labour: through co-operation, division of labour, and the uniting of labour with the natural sciences. In these two senses, the capitalist mode of production abolishes private property and private labour, even though in contradictory forms.
>
> (3) Creation of the world market. The stupendous productivity developing under the capitalist mode of production relative to population, and the increase, if not in the same proportion, of capital-values (not just of their

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[1] Progress Publishers edition, p. 266.

> material substance), which grow much more rapidly than the population, contradict the basis, which constantly narrows in relation to the expanding wealth, and for which all this immense productiveness works. They also contradict the conditions under which this swelling capital augments its value. Hence the crises.

Part of the contradiction is the replacement of human labour by automation, which in the past has tended to be offset in the long run by new job creation as the system expands. Today, with the ongoing revolution in technology, this process of job replacement by computers and robots is advancing ever more rapidly. Many of the new jobs created are at lower wages than those destroyed, and we may well have reached a tipping point where the elimination of labour from production becomes generalised except in the case of relatively few, highly-skilled functions. That will itself greatly aggravate the systemic crisis of capitalism: galloping technology coupled with further rising inequality and social decay.

Today, globally, there is an uninvested cash pile equal to US$50 trillion — three times the annual output of the United States — which can neither be consumed by those who own most of it nor productively invested, because the social product (including the social surplus) is so unequally distributed as to strangle effective demand.

[See next page]

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Sunday Times 2016-10-23 BusinessTimes | 11

Global cash triple the size of US economy

LISA ABRAMOWICZ

IF you want to get a sense of just how insecure investors are feeling, consider this: investors worldwide are holding more than $50-trillion (about R702-trillion) in cash.

That's according to BlackRock president Rob Kapito, who mentioned the startling statistic in an earnings call on Tuesday. He noted that up to 60% of clients' holdings are now sitting in cash, according to BlackRock research. "Depending upon changes in interest rates and changes in equity volatility, a lot of that money can come into motion," he added.

BlackRock knows a lot about big sums of money. The New York firm now manages more than $5-trillion, an amount that's bigger than the Japanese economy. But it's hard to comprehend a concept like $50-trillion, even for the world's biggest asset manager.

That's almost three times the annual economic output of the US, the world's biggest economy. It's more than twice as much as the balance sheets of all the biggest central banks combined. If even a fraction of this cash starts to move into stocks, bonds or other assets, it could have a significant effect.

The existence of this huge buffer is already making a big mark. It explains why the market hasn't dropped meaningfully, despite some considerable jitters, and why asset prices may continue to rise well beyond levels that seem rational.

Billions of dollars are just waiting for a chance to pounce on anything that looks remotely like an opportunity. US distressed debt managers have a record $56-billion to invest, according to research firm Preqin. But there just aren't enough bad loans and bonds for them to buy, as Bloomberg's Jodi Xu Klein wrote in an article this week.

Fund managers surveyed by Bank of America Merrill Lynch have been building their cash cushions to levels that haven't been higher since November 2001, Bloomberg's Sid Verma and Luke Kawa wrote this week.

Why are investors hoarding so much money? BlackRock CEO Larry Fink weighed in on the question on Tuesday: "I don't believe the people are sitting there because they're just worried about the next event. A lot of people just don't feel like investing has been that fair to them."

INVESTING NOT FAIR: BlackRock CEO Larry Fink

Unlike complicated securities or balance sheets, cash is perceived as safe. It gives investors the ability to move quickly to take advantage of opportunities that come up. But it provides absolutely no extra income, nor the delight of purchasing property that owners enjoy living in or investing in a business that supplies desired or needed goods and services. And if inflation ever kicks in, this money will essentially lose value.

> Depending upon rate changes and equity volatility, a lot of money can come into motion

Perhaps no extra income is better than the less-than-nothing promised by government bonds in Europe and Japan. But cash is an unsustainable proposition for pensions, retirees, insurance companies and many others who expect to earn some sort of return on their assets. This money is poised to rush in at the mere hint of a prolonged sell-off, which means it will act as a buffer against just such a thing. — *Bloomberg*

This explains why global interest rates have been tending towards zero or indeed sub-zero percentages (where you have to pay the bank to hold your deposit), and also why stock-market equity price-earnings ratios have become so high (it costs much more than in the past to buy a share relative to the dividend earnings which that share can be expected to yield). This is a form of inflation: too much money chasing too few returns. It encourages asset-price bubbles and subsequent collapses. It is symptomatic of the deep-running global crisis resulting from growing inequality.

Yet those with political power everywhere are preoccupied with economic tinkering that simply does not get to grips with the central problem of the property relation. Their aim at all costs is to preserve private property, either enhancing its power or adopting policies to ameliorate that power while making as few inroads upon it as can be contrived.

What can sensibly be done?

We did not have time to complete reading the extracts from *The German Ideology*, and so we have not considered and discussed the theory of *alienation* (the negative aspect of the division of labour) advanced by Marx and Engels. In brief, they proposed to overcome the contradictions of capitalism by abolishing production for exchange, and by replacing the organising mechanism of the market with the co-operative efforts in production and distribution of 'directly associated labour'.

Large-scale industry and the rise of the industrial working class had, in their opinion, brought society to a point of development where such a change was both necessary and possible. Private property in the sense of private ownership of the means of production, distribution and exchange could be abolished.

We have touched previously on the inadequacy — indeed the naivety — of this conception, now rendered obvious by the advances in the global division of labour, by its unparalleled complexity and productivity, by the rise of automated processes and by the decline of large-scale industry accompanied by the declining power of the industrial working class.

We have not had time in this course to study the Russian Revolution, why it succeeded at first and why eventually it failed. The centrally planned economy of the Soviet Union had substantial successes while it was a matter of developing infrastructure and heavy industry, and in the period 1928-1984 it achieved higher rates of growth than the USA, Britain, Germany and Japan.[2] But then, lacking the discipline of the market and stifled by bureaucracy, it fell increasingly behind. It is enough for present purposes to quote the late Angus Maddison, a reliable economic historian, on the economic conditions prevailing before the collapse of the Soviet Union in 1991:[3]

> Capital-[to-]output ratios were higher than in capitalist countries. Materials and energy were used wastefully as they were supplied below cost. Shortages created a chronic tendency to hoard inventories. The ratio of energy consumption to GDP was much higher than in western Europe. The steel consumption/GDP ratio was four times as high as in the United States. Transfer of technology from the west was hindered by trade restrictions, lack

[2] Samuelson and Nordhaus, *Economics*, 12th ed., McGraw-Hill, 1985, pp 775-6.

[3] *Contours of the World Economy 1–2030 AD*, Oxford University Press 2007, pp 341-2.

> of foreign direct investment, and restricted access to foreign investors, technicians and scholars. Work incentives were poor, malingering on the job was commonplace. The quality of consumer goods was poor. Retail outlets and service industries were few. Prices bore little relation to cost. Bread, butter, and housing were heavily subsidized. Consumers wasted time queuing, bartering, or sometimes bribing their way to the goods and services they wanted. There was an active black market, and special shops for the nomenklatura [the privileged bureaucrats of the state]. There was increasing cynicism, frustration, alcoholism, and a decline in life expectation.

It was not the intention of the Russian Revolution to close itself off from the world — on the contrary — but it ended up doing just that. Its vast expanse — one fifth of the land surface of the globe — and all its eventual military power did not save it in the end from the competition of the world market. Marx and Engels wrote in the *Communist Manifesto* more than 160 years ago that cheap goods are the 'heavy artillery' with which the bourgeoisie 'batters down all Chinese walls'. So it was and so it will be — until we find an effective road to the *world* transformation of the property system that rules us all.

We have lacked time to deal, as we had hoped, with the history in many countries of the rise and collapse of anarchist experiments in directly associated labour and co-operative production.

We have lacked time to do more than touch on the issues of free trade and protectionism — issues which are now ever more sharply in focus as the current national-state reaction to globalisation takes hold, whether in the form of 'Brexit' or Trump, or in the form of capitulation to nationalism by many intellectuals of the 'Marxist' left. The standpoint developed in this course has been that the national state, together with private property, has become the central barrier to progress, and that resort to national-state competition has historically been and remains a path leading to destruction and war.

Our focus as we reach the end of this course must be on the possibility of an increasing social appropriation of the *global* surplus.

The global surplus is a produced surplus, capable of constant renewal or substitution, that is —

* greater than ever in history;
* generated with the aid of technologically advanced productive forces;
* having the potential, if progressively applied, to solve all the most pressing problems of humanity.

But the surplus is disproportionately held and commanded, in financial form, by a tiny minority of society incapable of applying it progressively because existing property relations stand in the way. This minority transcends the national state, but uses the national state as an instrument in their competition to preserve and expand their proprietary gains and social power. The best of them, it is true, devote a very large part of their entitlement to philanthropic projects — but generosity by a new aristocracy lording it over the rest of us cannot offer a way out. We have to address the problem of property relations in a far more fundamental way.

In addressing the problem of globalisation we need to distinguish as clearly as we can between the competitive 'race to the bottom' and the race to the top. The race to the bottom is inevitably destructive — of livelihoods, conditions of life and work, natural resources and the natural environment. The race to the top, on the other hand, bound up with the competitive invention and use of new technology, lays the *technical* foundations for humanity to overcome the problems of poverty and deprivation, and opens the way towards a sharing economy. Its potentially destructive implications are capable of being prevented, or compensated for and controlled. Ultimately, technology carries with it the progressive elimination of the *need* to work — in place of toil, the possibility of recreational-productive activity fulfilling the needs and potential of free human beings.

Main components of a sustainable program

To the extent that state ownership and central planning offered, on a democratic basis, a general approach to a solution in the past (it was clearly the program of Marx and Engels for their conceived transition to socialism), it cannot provide a way out now. This does not mean that targeted nationalisations have no role: they do, but each case must be approached on its own merits and not as a general prescription. The problems with the attempt of the state to manage enterprises are legion.

To facilitate the ongoing race to the top, capital has to be able to move; but in order to overcome and prevent the race to the bottom, capital must not be able to escape to jurisdictions free of the elements which we are about to outline. These are only the broadest brush-strokes of a general approach.

If we think away for a minute the problem posed by competition between national economies, and think only of competition between freely moving capitals within a single global framework, then we can envisage three parallel general ingredients which would mutually and positively, interact. Part of the task will be to figure out how much of this could be carried out nationally in the course of transitional measures, especially if national government is used effectively as a platform for global advocacy to persuade others to join in.

ONE: At the level of the production and exchange of goods and services:

Greater rules-based regulation of the enterprise itself, in regard to minimum wages, working conditions, health and safety, environmental protection, etc. The establishment and promotion of public enterprises, but only where efficiencies or welfare objectives warrant the investment. No discouragement of private enterprise; encouragement of public-private development partnerships where appropriate. Effective enforcement of the rules. Freedom generally for consumers to obtain what they want from private or public providers as they choose. Expropriation of productive enterprises only where specifically warranted for public purposes, and then normally only for value in exchange. Promotion of transparency and objectivity, and de-emphasis of bureaucratic discretion, in the regulatory functions and in the disposal of public favours and funds.

TWO: Appropriation of the produced surplus:

Greatly increased taxation of this surplus, although with considerable flexibility to incentivise research, development and innovation at the enterprise level. The appropriate

mix between taxation at the enterprise level and progressive individual taxation (including the taxation of inherited wealth) is an open question. Historically it has been possible for production for exchange to flourish despite very high levels of direct taxation (as well as high wages) — so long as capital could not escape under competitive pressure to lower-tax (or lower-wage) regimes.

THREE. Distribution of the appropriated surplus:

(a) For publicly-funded infrastructure, health, education, roads, transport, police etc.

(b) For welfare provision, to the extent not rendered unnecessary in time by (c) below;

(c) For payment of a **'social dividend'** of an equal amount to or in favour of every individual by right of birth. Not a welfare payment as we currently think of that, and not means-tested, this would explicitly be dependent directly on the available surplus divided by the qualifying population. It would support and increase effective demand, while spontaneously reshaping demand so as to call forth greater production of what ordinary people need and want. It could and would rise or fall. Everyone would have a personal and collective stake in production as well as consumption. It would tend to increase in real value as the real surplus increases with technological advancement, and as population growth is curbed. Social-moral pressures against over-population and against incompetence or laziness on the part of employed workers would be strengthened, without authoritarian controls. As the social dividend grows relative to population, the supply of labour-power relative to demand could fall, raising wages of those remaining in employment as an additional source of income. Tax-relief incentives for work-sharing at the enterprise level could begin to be worked out, without threatening the living standards of the employed workers as they do now. Initially, or in different regions where necessary, there could be health-, education-, food- or other dedicated vouchers combined with a cash component for free spending. Ultimately, full individual freedom in the saving and investment or spending of the social dividend should be possible. There could also, especially during a transitional period, and depending on the country concerned, be an obligation of public service for those of the able-bodied population receiving the social dividend within a certain age range.

There would be much difficulty in the detail. Our object here is merely to formulate a coherent general scheme of policy, which could be positively contrasted with the prevailing, failing dogmas, and which could become a focus of effective advocacy and struggle for change. How much of this can be achieved in any particular state, or any combination of states, is a matter for argument and struggle.

The whole approach, however, is predicated on the idea that humankind now possesses the technology and other forces of production which make it possible progressively to eliminate poverty, inequality and insecurity. The obstacle is essentially social and political, not technical. Property, having increasingly 'disappeared' into abstract property in the form of financial entitlements, is now at last in a condition where — with the necessary political and social changes — it can be laid hold of at the general level and can begin to change from being the predominant, blindly ruling social relation of history, to an increasingly subordinate relation that eventually, substantially, withers into insignificance.

Global financialisation — the predominance of proprietary entitlement in financial form — while it initially presents formidable obstacles, and accelerates the process of unequal accumulation, will actually end up making it easier for society to move in on the surplus and subordinate production increasingly to social aims. In that sense it represents objectively the invasion into capitalism of the socialist society of the future. We need to keep that in mind as we struggle against its regressive effects.

DISCUSSION

April 2016
Reading material for Part 1 of the course:
The Evolution of Property

Note by RP:

Two young German intellectuals, Karl Marx (then 26 years old) and Frederick Engels (then 23) first met in Paris in August 1844. Both were active in radical democratic journalism and politics. They found that their views on philosophy, history, economy and society were very similar and they became lifelong friends and collaborators. In Brussels, from 1845, they worked together on a book, titled *The German Ideology*, intended to set out their 'materialist conception of history' in contrast with ideas which had come to the fore in German philosophy under the influence of the great idealist philosopher Georg Hegel, who had died in 1831.

The manuscript was never completed, being abandoned after two years to 'the gnawing criticism of the mice' (as Marx later remarked). Much of it is still rough; several pages are missing; and I have changed the order of some passages in the extracts that follow. It was first published as a whole in 1932. It appears in English in the *Collected Works* of Marx and Engels, volume 5.

These extracts from *The German Ideology* have been selected because of the clarity with which the authors explain their basic understanding of the historical development in Europe of different forms of society in conjunction with different forms of property and ways of producing. (When Marx and Engels talk about 'men' they are using the conventional language of the time to refer to human beings generally.)

You are asked to read these extracts in preparation for critical discussions on these topics during the first part of the course. Also included here are passages looking to the future, some of which at least may strike you as unrealistic. Those will be examined more fully during Part 3 of the course, when we consider how social inequality can in fact be overcome.

If, at any stage, you wish to suggest any additional reading material—whether it supplements or contrasts with the material selected—please feel free to do so.

Extracts from *The German Ideology*

by Karl Marx and Frederick Engels

1. ... The Young Hegelians are in agreement with the Old Hegelians in their belief in the rule of religion, of concepts, of a universal principle in the existing world. Only, the one party attacks this dominion as usurpation. while the other extols it as legitimate.

2. Since the Young Hegelians consider conceptions, thoughts, ideas, in fact all the products of consciousness, to which they attribute an independent existence, as the real chains of men (just as the Old Hegelians declared them the true bonds of human society) it is evident that the Young Hegelians have to fight only against these illusions of consciousness. Since, according to their fantasy, the relationships of men, all their doings, their chains and their limitations are products of their consciousness, the Young Hegelians logically put to men the moral postulate of exchanging their present consciousness for human, critical or egoistic consciousness, and thus of removing their limitations.

3. This demand to change consciousness amounts to a demand to interpret reality in another way, i.e. to recognise it by means of another interpretation. The Young-Hegelian ideologists, in spite of their allegedly "world-shattering" statements, are the staunchest conservatives. The most recent of them have found the correct expression for their activity when they declare they are only fighting against "phrases." They forget, however, that to these phrases they themselves are only opposing other phrases, and that they are in no way combating the real existing world when they are merely combating the phrases of this world. ...

4. It has not occurred to any one of these philosophers to inquire into the connection of German philosophy with German reality, the relation of their criticism to their own material surroundings.

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5. The premises from which we begin are not arbitrary ones, not dogmas, but real premises from which abstraction can only be made in the imagination. They are the real individuals, their activity and the material conditions under which they live, both those which they find already existing and those produced by their activity. These premises can thus be verified in a purely empirical way.

6. The first premise of all human history is, of course, the existence of living human individuals. Thus the first fact to be established is the physical organisation of these individuals and their consequent relation to the rest of nature. ... The writing of history must always set out from these natural bases and their modification in the course of history through the action of men.

7. Men can be distinguished from animals by consciousness, by religion or anything else you like. They themselves begin to distinguish themselves from animals as soon as they begin to produce their means of subsistence, a step which is conditioned by their physical organisation. By producing their means of subsistence men are indirectly producing their actual material life.

8. The way in which men produce their means of subsistence depends first of all on the nature of the actual means of subsistence they find in existence and have to reproduce.

9. This mode of production must not be considered simply as being the production of the

physical existence of the individuals. Rather it is a definite form of activity of these individuals, a definite form of expressing their life, a definite *mode of life* on their part. As individuals express their life, so they are. What they are, therefore, coincides with their production, both with *what* they produce and with *how* they produce. Hence what individuals are depends on the material conditions of their production. ...

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10. The relations of different nations among themselves depend upon the extent to which each has developed its productive forces, the division of labour and internal intercourse [i.e., commerce or trade]. This statement is generally recognised. But not only the relation of one nation to others, but also the whole internal structure of the nation itself depends on the stage of development reached by its production and its internal and external intercourse. How far the productive forces of a nation are developed is shown most manifestly by the degree to which the division of labour has been carried. Each new productive force, insofar as it is not merely a quantitative extension of productive forces already known (for instance the bringing into cultivation of fresh land), causes a further development of the division of labour.

11. The division of labour inside a nation leads at first to the separation of industrial and commercial from agricultural labour, and hence to the separation of town and country and to the conflict of their interests. Its further development leads to the separation of commercial from industrial labour.

12. At the same time through the division of labour inside these various branches there develop various divisions among the individuals co-operating in definite kinds of labour. The relative position of these individual groups is determined by the methods employed in agriculture, industry and commerce (patriarchalism, slavery, estates, classes). These same conditions are to be seen (given a more developed intercourse) in the relations of different nations to one another.

13. The various stages of development in the division of labour are just so many different forms of property, i.e. the existing stage in the division of labour determines also the relations of individuals to one another with reference to the material, instrument, and product of labour.

14. The first form of property is tribal property [*Stammeigentum*]. It corresponds to the undeveloped stage of production, at which a people lives by hunting and fishing, by the rearing of beasts or, at most, by agriculture. In the latter case it presupposes a great mass of uncultivated stretches of land.

15. The division of labour is at this stage still very elementary and is confined to a further extension of the natural division of labour existing in the family. The social structure is, therefore, limited to an extension of the family; patriarchal chieftains, below them the members of the tribe, finally slaves. The slavery latent in the family only develops gradually with the increase of population, the growth of wants, and with the extension of external relations, both of war and of barter.

16. The second form is the ancient communal and state property which proceeds especially from the union of several tribes into a *city* by agreement or by conquest, and which is still accompanied by slavery. Beside communal property we already find movable, and later also immovable, private property developing, but as an abnormal form subordinate to communal property.

17. The citizens hold power over their labouring slaves only in their community, and on this account alone they are bound to the form of communal property. It constitutes the communal private property of the active citizens who, in relation to their slaves, are compelled to remain in this spontaneously derived form of association.

18. For this reason the whole structure of society based on this communal property, and with it the power of the people, decays in the same measure in which immovable private property evolves.

19. The division of labour is already more developed. We already find the opposition

of town and country; later the opposition between those states which represent town interests and those which represent country interests, and inside the towns themselves the opposition between industry and maritime commerce. The class relation between citizens and slaves is now completely developed.

20. With the development of private property, we find here for the first time the same conditions which we shall find again, only on a more extensive scale, with modern private property. On the one hand, the concentration of private property, which began very early in Rome (as the Licinian agrarian law proves[1]) and proceeded very rapidly from the time of the civil wars and especially under the emperors; on the other hand, coupled with this, the transformation of the plebeian small peasantry into a proletariat, which, however, owing to its intermediate position between propertied citizens and slaves, never achieved an independent development.

21. The third form is feudal or estate property. If antiquity started out from the *town* and its small territory, the Middle Ages started out from the *country*. This different starting-point was determined by the sparseness of the population at that time, which was scattered over a large area and which received no large increases from the conquerors.

22. In contrast to Greece and Rome, feudal development at the outset, therefore, begins over a much wider territory, prepared by the Roman conquests and the spread of agriculture at first associated with them. The last centuries of the declining Roman Empire and its conquest by the barbarians destroyed a number of productive forces; agriculture had declined, industry had decayed for want of a market, trade had died out or been violently interrupted, the rural and urban population had decreased. These conditions and the mode of organisation of the conquest determined by them, together with the influence of the Germanic military constitution, led to the development of feudal property.

23. Like tribal and communal property, it [feudal property] is also based on a community; but the directly producing class standing over against it is not, as in the case of the ancient community, the slaves, but the enserfed small peasantry.

24. As soon as feudalism is fully developed, there also arises antagonism to the towns. The hierarchical structure of land ownership, and the armed bodies of retainers associated with it, gave the nobility power over the serfs. This feudal organisation was, just as much as the ancient communal property, an association against a subjugated producing class; but the form of association and the relation to the direct producers were different because of the different conditions of production.

25. This feudal system of land ownership had its counterpart in the towns in the shape of corporative property, the feudal organisation of trades. Here property consisted chiefly in the labour of each individual. The necessity for associating against the association of the robber nobility, the need for communal covered markets in an age when the industrialist was at the same time a merchant, 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*. The gradually accumulated small capital of individual craftsmen and their stable numbers, as against the growing population, evolved the relation of journeyman and apprentice, which brought into being in the towns a hierarchy similar to that in the country.

26. Thus property during the feudal epoch primarily consisted on the one hand of landed property with serf labour chained to it, and on the other of the personal labour of the individual who with his small capital commands the

[1] *Note by RP:* The Roman popular tribunes Licinius and Sextus proposed a law which was passed in 367 B.C., limiting to 500 *iugera* (about 125 hectares) the amount of common land (*ager publicus*) that could be privately held. This occurred in the context of struggles between the plebeians (ordinary working citizens) and the patrician land-owning aristocracy. Ultimately, it was not effective in preventing the acquisition of vast private estates (*latifundia*) by the patricians.

labour of journeymen. The organisation of both was determined by the restricted conditions of production—the small-scale and primitive cultivation of the land, and the craft type of industry.

27. There was little division of labour in the heyday of feudalism. Each country bore in itself the antithesis of town and country; the division into estates was certainly strongly marked; but apart from the differentiation of princes, nobility, clergy and peasants in the country, and masters, journeymen, apprentices and soon also the rabble of casual labourers in the towns, no division of importance took place. In agriculture it was rendered difficult by the strip-system, beside which the cottage industry of the peasants themselves emerged. In industry there was no division of labour in the individual trades and very little between them. The separation of industry and commerce was found already in existence in older towns; in the newer it only developed later, when the towns entered into mutual relations.

28. The grouping of larger territories into feudal kingdoms was a necessity for the landed nobility as for the towns. The organisation of the ruling class, the nobility, had, therefore, everywhere a monarch at its head.

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29. The contradiction between town and country begins with the transition from barbarism to civilisation, from tribe to state, from locality to nation, and runs through the whole history of civilisation to the present day ... .

30. In the towns which, in the Middle Ages, did not derive ready-made from an earlier period but were formed anew by the serfs who had become free, the particular labour of each man was his only property apart from the small capital he brought with him, consisting almost solely of the most necessary tools of his craft.

31. The competition of serfs constantly escaping into the town, the constant war of the country against the towns and thus the necessity of an organised municipal military force, the bond of common ownership in a particular kind of labour, the necessity of common buildings for the sale of their wares at a time when craftsmen were also traders, and the consequent exclusion of the unauthorised from these buildings, the conflict among the interests of the various crafts, the necessity of protecting their laboriously acquired skill, and the feudal organisation of the whole of the country: these were the causes of the union of the workers of each craft in guilds. ...

32. The flight of the serfs into the towns went on without interruption right through the Middle Ages. These serfs, persecuted by their lords in the country, came separately into the towns, where they found an organised community, against which they were powerless and in which they had to subject themselves to the station assigned to them by the demand for their labour and the interest of their organised urban competitors.

33. These workers, entering separately, were never able to attain to any power, since, if their labour was of the guild type which had to be learned, the guild-masters bent them to their will and organised them according to their interest; or if their labour was not such as had to be learned, and therefore not of the guild type, they were day-labourers, never managed to organise, but remained an unorganised rabble. The need for day-labourers in the towns created the rabble.

34. These towns were true “unions”, called forth by the direct need of providing for the protection of property, and of multiplying the means of production and defence of the separate members. The rabble of these towns was devoid of any power, composed as it was of individuals strange to one another who had entered separately, and who stood unorganised over against an organised power, armed for war, and jealously watching over them.

35. The journeymen and apprentices were organised in each craft as it best suited the interest of the masters. The patriarchal relations existing between them and their masters gave the latter a double power—on the one hand because of the direct influence they exerted on the whole

life of the journeymen, and on the other because, for the journeymen who worked with the same master, it was a real bond which held them together against the journeymen of other masters and separated them from these. And finally, the journeymen were bound to the existing order even by their interest in becoming masters themselves.

36. While, therefore, the rabble at least carried out revolts against the whole municipal order, revolts which remained completely ineffective because of its powerlessness, the journeymen never got further than small acts of insubordination within separate guilds, such as belong to the very nature of the guild-system. The great risings of the Middle Ages all radiated from the country, but equally remained totally ineffective because of the isolation and consequent crudity of the peasants.

37. Capital in these towns was a naturally evolved capital, consisting of a house, the tools of the craft, and the natural, hereditary customers; and not being realisable, on account of the backwardness of intercourse and the lack of circulation, it had to be handed down from father to son. Unlike modern capital, which can be assessed in money and which may be indifferently invested in this thing or that, this capital was directly connected with the particular work of the owner, inseparable from it and to this extent estate capital.

38. In the towns, the division of labour between the individual guilds was as yet very little developed and, in the guilds themselves, it did not exist at all between the individual workers. Every workman had to be versed in a whole round of tasks, had to be able to make everything that was to be made with his tools. The limited intercourse and the weak ties between the individual towns, the lack of population and the narrow needs did not allow of a more advanced division of labour, and therefore every man who wished to become a master had to be proficient in the whole of his craft. Medieval craftsmen therefore had an interest in their special work and in proficiency in it, which was capable of rising to a limited artistic sense. For this very reason, however, every medieval craftsman was completely absorbed in his work, to which he had a complacent servile relationship, and in which he was involved to a far greater extent than the modern worker, whose work is a matter of indifference to him.

39. The next extension of the division of labour was the separation of production and intercourse [commerce], the formation of a special class of merchants; a separation which, in the towns bequeathed by a former period, had been handed down (among other things with the Jews) and which very soon appeared in the newly formed ones. With this there was given the possibility of commercial communications transcending the immediate neighbourhood, a possibility the realisation of which depended on the existing means of communication, the state of public safety in the countryside, which was determined by political conditions (during the whole of the Middle Ages, as is well known, the merchants travelled in armed caravans), and on the cruder or more advanced needs (determined by the stage of culture attained) of the region accessible to intercourse.

40. With intercourse vested in a particular class, with the extension of trade through the merchants beyond the immediate surroundings of the town, there immediately appears a reciprocal action between production and intercourse. The towns enter into relations with one another, new tools are brought from one town into the other, and the separation between production and intercourse soon calls forth a new division of production between the individual towns, each of which is soon exploiting a predominant branch of industry. The local restrictions of earlier times begin gradually to be broken down.

41. It depends purely on the extension of intercourse whether the productive forces evolved in a locality, especially inventions, are lost for later development or not. As long as there exists no intercourse transcending the immediate neighbourhood, every invention must be made separately in each locality, and mere chances such as irruptions of barbaric peoples, even ordinary wars, are sufficient to cause a country with advanced productive forces and needs to have to start right over again from the beginning. In

primitive history every invention had to be made daily anew and in each locality independently.

42. That even with a relatively very extensive commerce, highly developed productive forces are not safe from complete destruction, is proved by the Phoenicians, whose inventions were for the most part lost for a long time to come through the ousting of this nation from commerce, its conquest by Alexander and its consequent decline. Likewise, for instance, glass staining in the Middle Ages. Only when intercourse has become world intercourse and has as its basis large-scale industry, when all nations are drawn into the competitive struggle, is the permanence of the acquired productive forces assured.

43. The immediate consequence of the division of labour between the various towns was the rise of manufactures, branches of production which had outgrown the guild-system.

44. Intercourse with foreign nations was the historical premise for the first flourishing of manufactures, in Italy and later in Flanders. In other countries, England and France for example, manufactures were at first confined to the home market. Besides the premises already mentioned manufactures presuppose an already advanced concentration of population, particularly in the countryside, and of capital, which began to accumulate in the hands of individuals, partly in the guilds in spite of the guild regulations, partly among the merchants.

45. The kind of labour which from the first presupposed machines, even of the crudest sort, soon showed itself the most capable of development. Weaving, earlier carried on in the country by the peasants as a secondary occupation to procure their clothing, was the first labour to receive an impetus and a further development through the extension of intercourse. Weaving was the first and remained the principal manufacture. The rising demand for clothing materials consequent on the growth of population, the growing accumulation and mobilisation of natural capital through accelerated circulation, and the demand for luxuries called forth by this and favoured generally by the gradual extension of intercourse, gave weaving a quantitative and qualitative stimulus, which wrenched it out of the form of production hitherto existing.

46. Alongside the peasants weaving for their own use, who continued and still continue, with this sort of work, there emerged a new class of weavers in the towns, whose fabrics were destined for the whole home market and usually for foreign markets too.

47. Weaving, an occupation demanding in most cases little skill and soon splitting up into countless branches, by its whole nature resisted the trammels of the guild. Weaving was, therefore, carried on mostly in villages and market centres, without guild organisation, which gradually became towns, and indeed the most flourishing towns in each land.

48. With guild-free manufacture, property relations also quickly changed. The first advance beyond naturally derived estate capital was provided by the rise of merchants, whose capital was from the beginning movable, capital in the modern sense as far as one can speak of it, given the circumstances of those times. The second advance came with manufacture, which again mobilised a mass of natural capital, and altogether increased the mass of movable capital as against that of natural capital.

49. At the same time, manufacture became a refuge of the peasants from the guilds which excluded them or paid them badly just as earlier the guild-towns had served the peasants as a refuge from the landlords.

50. Simultaneously with the beginning of manufactures there was a period of vagabondage caused by the abolition of the feudal bodies of retainers, the disbanding of the armies consisting of a motley crowd that served the kings against their vassals, the improvement of agriculture, and the transformation of large strips of tillage into pasture land. From this alone it is clear that this vagabondage is strictly connected with the disintegration of the feudal system. As early as the thirteenth century we find isolated epochs of

this kind, but only at the end of the fifteenth and beginning of the sixteenth does this vagabondage make a general and permanent appearance.

51. These vagabonds, who were so numerous that, for instance, Henry VIII of England[2] had 72,000 of them hanged, were only prevailed upon to work with the greatest difficulty and through the most extreme necessity, and then only after long resistance. The rapid rise of manufactures, particularly in England, absorbed them gradually.

52. With the advent of manufacture the various nations entered into competitive relations, a commercial struggle, which was fought out in wars, protective duties and prohibitions, whereas earlier the nations, insofar as they were connected at all, had carried on an inoffensive exchange with each other. Trade had from now on a political significance.

53. With the advent of manufacture the relations between worker and employer changed. In the guilds the patriarchal relations between journeyman and master continued to exist; in manufacture their place was taken by the monetary relations between worker and capitalist—relations which in the countryside and in small towns retained a patriarchal tinge, but in the larger, the real manufacturing towns, quite early lost almost all patriarchal complexion.

54. Manufacture and the movement of production in general received an enormous impetus through the extension of intercourse which came with the discovery of America and the sea-route to the East Indies. The new products imported thence, particularly the masses of gold and silver which came into circulation, had totally changed the position of the classes towards one another, dealing a hard blow to feudal landed property and to the workers; the expeditions of adventurers, colonisation, and above all the extension of markets into a world market, which had now become possible and was daily becoming more and more a fact, called forth a new phase of historical development, into which in general we need not here enter further.

55. Through the colonisation of the newly discovered countries the commercial struggle of the nations against one another was given new fuel and accordingly greater extension and animosity.

56. The expansion of commerce and manufacture accelerated the accumulation of movable capital, while in the guilds, which were not stimulated to extend their production, natural capital remained stationary or even declined.

57. Commerce and manufacture created the big bourgeoisie; in the guilds was concentrated the petty bourgeoisie, which no longer was dominant in the towns as formerly, but had to bow to the might of the great merchants and manufacturers. Hence the decline of the guilds, as soon as they came into contact with manufacture.

58. The relations between nations in their intercourse took on two different forms in the epoch of which we have been speaking. At first the small quantity of gold and silver in circulation occasioned the ban on the export of these metals; and industry, made necessary by the need for employing the growing urban population and for the most part imported from abroad, could not do without privileges which could be granted not only, of course, against home competition, but chiefly against foreign. The local guild privilege was in these original prohibitions extended over the whole nation. Customs duties originated from the tributes which the feudal lords extracted from merchants passing through their territories as protection money against robbery, tributes later imposed likewise by the towns, and which, with the rise of the modern states, were the Treasury's most obvious means of raising money.

59. The appearance of American gold and silver on the European markets, the gradual

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[2] *Note by RP:* Henry VIII reigned from 1509 until his death in 1547. Thomas More's book *Utopia* (1516) advanced a communist answer to the increase in vagabondage resulting from the enclosure of common land by the rising class of capitalist farmers. More was Henry's Lord Chancellor from 1529-1532, but was beheaded in 1535 for refusing to recognise the King (in place of the Pope) as head of the English Church.

development of industry, the rapid expansion of trade and the consequent rise of the non-guild bourgeoisie and the increasing importance of money, gave these measures another significance. The state, which was daily less and less able to do without money, now retained the ban on the export of gold and silver out of fiscal considerations; the bourgeois, for whom these quantities of money which were hurled on to the market became the chief object of speculative buying, were thoroughly content with this; privileges established earlier became a source of income for the government and were sold for money; in the customs legislation there appeared export duties which, since they only hampered industry, had a purely fiscal aim.

60. The second period began in the middle of the seventeenth century and lasted almost to the end of the eighteenth. Commerce and navigation had expanded more rapidly than manufacture, which played a secondary role; the colonies were becoming considerable consumers; and after long struggles the various nations shared out the opening world market among themselves. This period begins with the Navigation Laws and colonial monopolies. The competition of the nations among themselves was excluded as far as possible by tariffs, prohibitions and treaties; and in the last resort the competitive struggle was carried on and decided by wars (especially naval wars). The mightiest maritime nation, the English, retained preponderance in commerce and manufacture. Here, already, we find concentration in one country.

61. Manufacture was all the time sheltered by protective duties in the home market, by monopolies in the colonial market, and abroad as much as possible by differential duties. The working-up of home-produced material was encouraged (wool and linen in England, silk in France), the export of home-produced raw material forbidden (wool in England), and the [working-up] of imported raw material neglected or suppressed (cotton in England).

62. The nation dominant in maritime trade and colonial power naturally secured for itself also the greatest quantitative and qualitative expansion of manufacture. Manufacture could not be carried on without protection, since, if the slightest change takes place in other countries, it can lose its market and be ruined; under reasonably favourable conditions it may easily be introduced into a country, but for this very reason can easily be destroyed. At the same time through the mode in which it is carried on, particularly in the eighteenth century in the countryside, it is to such an extent interwoven with the conditions of life of a great mass of individuals, that no country dare jeopardise their existence by permitting free competition. Consequently, insofar as manufacture manages to export, it depends entirely on the extension or restriction of commerce, and exercises a relatively very small reaction [on the latter]. Hence its secondary [role] and the influence of [the merchants] in the eighteenth century. It was the merchants and especially the ship-owners who more than anybody else pressed for state protection and monopolies; the manufacturers also demanded and indeed received protection, but all the time were inferior in political importance to the merchants.

63. The commercial towns, particularly the maritime towns, became to some extent civilised and acquired the outlook of the big bourgeoisie, but in the factory towns an extreme petty-bourgeois outlook persisted ... The eighteenth century was the century of trade. ...

64. The movement of capital, although considerably accelerated, still remained, however, relatively slow. The splitting-up of the world market into separate parts, each of which was exploited by a particular nation, the prevention of competition between the different nations, the clumsiness of production and the fact that finance was only evolving from its early stages, greatly impeded circulation. The consequence of this was a haggling, mean and niggardly spirit which still clung to all merchants and to the whole mode of carrying on trade. Compared with the manufacturers, and above all with the craftsmen, they were certainly big bourgeois; compared with the merchants and industrialists of the next period

they remain petty bourgeois. Cf. Adam Smith[3].

65. This period is also characterised by the cessation of the bans on the export of gold and silver and the beginning of money trade, banks, national debts, paper money, speculation in stocks and shares, stock-jobbing in all articles and the development of finance in general. Again capital lost a great part of the natural character which had still clung to it.

66. The concentration of trade and manufacture in one country, England, developing irresistibly in the seventeenth century, gradually created for this country a relative world market, and thus a demand for the manufactured products of this country which could no longer be met by the industrial productive forces hitherto existing.

67. This demand, outgrowing the productive forces, was the motive power which, by producing large-scale industry—the application of elemental forces to industrial ends, machinery and the most extensive division of labour—called into existence the third period of private property since the Middle Ages.

68. There already existed in England the other preconditions of this new phase: freedom of competition inside the nation, the development of theoretical mechanics, etc. (indeed, mechanics, perfected by Newton, was altogether the most popular science in France and England in the eighteenth century). (Free competition inside the nation itself had everywhere to be won by a revolution—1640 and 1688 in England, 1789 in France.)

69. Competition soon compelled every country that wished to retain its historical role to protect its manufactures by renewed customs regulations (the old duties were no longer any good against large-scale industry) and soon after to introduce large-scale industry under protective duties. In spite of these protective measures large-scale industry universalised competition (it is practical free trade; the protective duty is only a palliative, a measure of defence within free trade), established means of communication and the modern world market, subordinated trade to itself, transformed all capital into industrial capital, and thus produced the rapid circulation (development of the financial system) and the centralisation of capital.

70. By universal competition it forced all individuals to strain their energy to the utmost. It destroyed as far as possible ideology, religion, morality, etc., and, where it could not do this, made them into a palpable lie. It produced world history for the first time, insofar as it made all civilised nations and every individual member of them dependent for the satisfaction of their wants on the whole world, thus destroying the former natural exclusiveness of separate nations. It made natural science subservient to capital and took from the division of labour the last semblance of its natural character. It altogether destroyed the natural character, as far as this is possible with regard to labour, and resolved all natural relations into money relations.

71. In the place of naturally grown towns it created the modern, large industrial cities which have sprung up overnight. It destroyed the crafts and all earlier stages of industry wherever it gained mastery. It completed the victory of the town over the country. Its [basis] is the automatic system. It produced a mass of productive forces, for which private property became just as much a fetter as the guild had been for manufacture and the small, rural workshop for the developing handicrafts.

72. These productive forces receive under the system of private property a one-sided development only, and for the majority they become destructive forces; moreover, a great many of these forces can find no application at all within the system of private property.

73. Generally speaking, large-scale industry created everywhere the same relations between the classes of society, and thus destroyed the peculiar features of the various nationalities. And finally, while the bourgeoisie of each nation still retained separate national interests, large-scale industry

[3] Adam Smith (1723-1790), *An Inquiry into the Nature and Causes of the Wealth of Nations* (published in 1776).

created a class which in all nations has the same interest and for which nationality is already dead; a class which is really rid of all the old world and at the same time stands pitted against it. ...

74. ... The countries in which large-scale industry is developed act in a similar manner upon the more or less non-industrial countries, insofar as the latter are swept by world intercourse into the universal competitive struggle.

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75. In large-scale industry and competition the whole mass of conditions of existence, limitations, biases of individuals, are fused together into the two simplest forms: private property and labour. With money every form of intercourse, and intercourse itself, becomes fortuitous for the individuals. Thus money implies that all intercourse up till now was only intercourse of individuals under particular conditions, not of individuals as individuals. These conditions are reduced to two: accumulated labour or private property, and actual labour. ...

76. ... [T]he productive forces appear as a world for themselves, quite independent of and divorced from the individuals, alongside the individuals; the reason for this is that the individuals, whose forces they are, exist split up and in opposition to one another, whilst, on the other hand, these forces are only real forces in the intercourse and association of these individuals.

77. Thus, on the one hand, we have a totality of productive forces, which have, as it were, taken on a material form and are for the individuals themselves no longer the forces of the individuals but of private property, and hence of the individuals only insofar as they are owners of private property. Never, in any earlier period, have the productive forces taken on a form so indifferent to the intercourse of individuals as individuals, because their intercourse itself was still a restricted one. On the other hand, standing against these productive forces, we have the majority of the individuals from whom these forces have been wrested away, and who, robbed thus of all real life-content, have become abstract individuals, who are, however, by this very fact put into a position to enter into relation with one another *as individuals*.

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78. Whilst in ordinary life every shopkeeper is very well able to distinguish between what somebody professes to be and what he really is, our historiography has not yet won this trivial insight. It takes every epoch at its word and believes that everything it says and imagines about itself is true.

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79. ... Empirical observation must in each separate instance bring out ... without any mystification and speculation, the connection of the social and political structure with production. The social structure and the state are continually evolving out of the life-process of definite individuals, but of individuals, not as they may appear in their own or other people's imagination, but as they really are; i.e. as they operate, produce materially, and hence as they work under definite material limits, presuppositions and conditions independent of their will.

80. The production of ideas, of conceptions, of consciousness, is at first directly interwoven with the material activity and the material intercourse of men, the language of real life. Conceiving, thinking, the mental intercourse of men, appear at this stage as the direct efflux of their material behaviour. The same applies to mental production as expressed in the language of politics, laws, morality, religion, metaphysics, etc., of a people. Men are the producers of their conceptions, ideas, etc.—real, active men, as they are conditioned by a definite development of their productive forces and of the intercourse corresponding to these, up to its furthest forms. Consciousness [*das Bewusstsein*] can never be anything else than conscious being [*das bewusste Sein*], and the being of men is their actual life-process. ....

81. In direct contrast to German philosophy which descends from heaven to earth, here we ascend from earth to heaven. That is to say, we do

not set out from what men say, imagine, conceive, nor from men as narrated, thought of, imagined, conceived, in order to arrive at men in the flesh. We set out from real, active men, and on the basis of their real life-process we demonstrate the development of the ideological reflexes and echoes of this life-process. ... Life is not determined by consciousness, but consciousness by life.

82. ... As soon as this active life-process is described, history ceases to be a collection of dead facts as it is with the empiricists (themselves still abstract), or an imagined activity of imagined subjects, as with the idealists.

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83. ... [W]e must begin by stating the first premise of all human existence and, therefore, of all history, the premise, namely, that men must be in a position to live in order to be able to "make history." But life involves before everything else eating and drinking, a habitation, clothing and many other things. The first historical act is thus the production of the means to satisfy these needs, the production of material life itself. And indeed this is an historical act, a fundamental condition of all history, which today, as thousands of years ago, must daily and hourly be fulfilled merely in order to sustain human life. ... Therefore in any interpretation of history one has first of all to observe this fundamental fact in all its significance and all its implications and to accord it its due importance. ...

84. The production of life, both of one's own in labour and of fresh life in procreation, ... appears as a double relationship: on the one hand as a natural, on the other as a social relationship. By social we understand the co-operation of several individuals, no matter under what conditions, in what manner and to what end. It follows from this that a certain mode of production, or industrial stage, is always combined with a certain mode of co-operation, or social stage, and this mode of co-operation is itself a "productive force." Further, that the multitude of productive forces accessible to men determines the nature of society, hence, that the "history of humanity" must always be studied and treated in relation to the history of industry and exchange. ...

85. The division of labour, ... which ... is based on the natural division of labour in the family and the separation of society into individual families opposed to one another, simultaneously implies the *distribution*, and indeed the *unequal* distribution, both quantitative and qualitative, of labour and its products, hence property: the nucleus, the first form, of which lies in the family, where wife and children are the slaves of the husband. This latent slavery in the family, though still very crude, is the first form of property, but even at this stage it corresponds perfectly to the definition of modern economists who call it the power of disposing of the labour-power of others.

86. Division of labour and private property are, after all, identical expressions: in the one the same thing is affirmed with reference to activity as is affirmed in the other with reference to the product of the activity.

87. Further, the division of labour implies the contradiction between the interest of the separate individual or the individual family and the common interest of all individuals who have intercourse with one another. And indeed, this common interest does not exist merely in the imagination, as the "general interest," but first of all in reality, as the mutual interdependence of the individuals among whom the labour is divided.

88. Out of this very contradiction between the particular and the common interests, the common interest assumes an independent form as the *state*, which is divorced from the real individual and collective interests, and at the same time as an illusory community, always based, however, on the real ties existing in every family conglomeration and tribal conglomeration—such as flesh and blood, language, division of labour on a larger scale, and other interests—and especially, as we shall show later, on the classes, already implied by the division of labour, which in every such mass of men separate out, and one of which dominates all the others. ...

89. And finally, the division of labour offers us the first example of how, as long as man remains in natural society, that is, as long as a cleavage exists between the particular and the common interest, as long, therefore, as activity is not voluntarily, but naturally, divided, man's own deed becomes an alien power opposed to him, which enslaves him instead of being controlled by him. For as soon as the distribution of labour comes into being, each man has a particular, exclusive sphere of activity, which is forced upon him and from which he cannot escape. He is a hunter, a fisherman, a herdsman, or a critical critic, and must remain so if he does not want to lose his means of livelihood; while in communist society, where nobody has one exclusive sphere of activity but each can become accomplished in any branch he wishes, society regulates the general production and thus makes it possible for me to do one thing today and another tomorrow, to hunt in the morning, fish in the afternoon, rear cattle in the evening, criticise after dinner, just as I have a mind, without ever becoming hunter, fisherman, herdsman or critic.

90. This fixation of social activity, this consolidation of what we ourselves produce into an objective power above us, growing out of our control, thwarting our expectations, bringing to naught our calculations, is one of the chief factors in historical development up till now. The social power, i.e., the multiplied productive force, which arises through the co-operation of different individuals as it is determined by the division of labour, appears to these individuals, since their co-operation is not voluntary but has come about naturally, not as their own united power, but as an alien force existing outside them, of the origin and goal of which they are ignorant, which they thus cannot control, which on the contrary passes through a peculiar series of phases and stages independent of the will and the action of man, nay even being the prime governor of these.

91. How otherwise could for instance property have had a history at all, have taken on different forms, and landed property, for example, according to the different premises given, have proceeded in France from parcellation to centralisation in the hands of a few, in England from centralisation in the hands of a few to parcellation, as is actually the case today? Or how does it happen that trade, which after all is nothing more than the exchange of products of various individuals and countries, rules the whole world through the relation of supply and demand—a relation which, as an English economist says, hovers over the earth like the fate of the ancients, and with invisible hand allots fortune and misfortune to men, sets up empires and overthrows empires, causes nations to rise and to disappear—whereas with the abolition of the basis, private property, with the communistic regulation of production (and, implicit in this, the destruction of the alien relation [*Fremdheit*] between men and their own product), the power of the relation of supply and demand is dissolved into nothing, and men once more gain control of exchange, production and the way they behave to one another?

92. This "estrangement" [*"Entfremdung"*] (to use a term which will be comprehensible to the philosophers) can, of course, only be abolished given two practical premises. In order to become an "unendurable" power, i.e., a power against which men make a revolution, it must necessarily have rendered the great mass of humanity "propertyless", and moreover in contradiction to an existing world of wealth and culture; both these premises presuppose a great increase in productive power, a high degree of its development.

93. And, on the other hand, this development of productive forces (which at the same time implies the actual empirical existence of men in their *world-historical*, instead of local, being) is an absolutely necessary practical premise, because without it privation, want is merely made general, and with *want* the struggle for necessities would begin again, and all the old filthy business would necessarily be restored; and furthermore, because only with this *universal* development of productive forces is a universal intercourse between men established, which on the one side produces in all nations simultaneously the phenomenon of the "propertyless" mass (universal *competition*), making each nation dependent on the revolutions of the others,

and finally puts *world-historical*, empirically universal individuals in place of local ones.

94. Without this, 1) communism could only exist as a local phenomenon; 2) the forces of intercourse themselves could not have developed as universal, hence unendurable powers: they would have remained home-bred "conditions" surrounded by superstition; and 3) each extension of intercourse would abolish local communism. Empirically, communism is only possible as the act of the dominant peoples "all at once" and simultaneously, which presupposes the universal development of productive forces and the world intercourse bound up with them. ...

95. Communism is for us not a *state of affairs* which is to be established, an *ideal* to which reality [will] have to adjust itself. We call communism the *real* movement which abolishes the present state of things. The conditions of this movement result from the now existing premise.

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96. Nothing is more common than the notion that in history up till now it has only been a question of *taking*. The barbarians *take* the Roman Empire, and this fact of taking is made to explain the transition from the old world to the feudal system.

97. In this taking by barbarians, however, the question is whether the nation which is conquered has evolved industrial productive forces, as is the case with modern peoples, or whether its productive forces are based for the most part merely on their concentration and on the community. Taking is further determined by the object taken. A banker's fortune, consisting of paper, cannot be taken at all without the taker's submitting to the conditions of production and intercourse of the country taken. Similarly the total industrial capital of a modern industrial country.

98. And finally, everywhere there is very soon an end to taking, and when there is nothing more to take, you have to set about producing. From this necessity of producing, which very soon asserts itself, it follows that the form of community adopted by the settling conquerors must correspond to the stage of development of the productive forces they find in existence; or, if this is not the case from the start, it must change according to the productive forces.

99. This, too, explains the fact, which people profess to have noticed everywhere in the period following the migration of the peoples, namely that the servant was master, and that the conquerors very soon took over language, culture and manners from the conquered.

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100. ... Only within the community has each individual the means of cultivating his gifts in all directions; hence personal freedom becomes possible only within the community. In the previous substitutes for the community, in the state, etc., personal freedom has existed only for the individuals who developed under the conditions of the ruling class, and only insofar as they were individuals of this class.

101. The illusory community in which individuals have up till now combined always took on an independent existence in relation to them, and since it was the combination of one class over against another, it was at the same time for the oppressed class not only a completely illusory community, but a new fetter as well. In the real community the individuals obtain their freedom in and through their association.

102. Individuals have always proceeded from themselves, but of course from themselves within their given historical conditions and relations, not from the "pure" individual in the sense of the ideologists. But in the course of historical development, and precisely through the fact that within the division of labour social relations inevitably take on an independent existence, there appears a cleavage in the life of each individual, insofar as it is personal and insofar as it is determined by some branch of labour and the conditions pertaining to it. ...

103. ... The form of intercourse determined by

the existing productive forces at all previous historical stages, and in its turn determining these, is civil society. ... [T]his *civil society* is the true focus and theatre of all history, and how absurd is the conception of history held hitherto, which neglects the real relations and confines itself to spectacular historical events. ...

104. History is nothing but the succession of the separate generations, each of which uses the materials, the capital funds, the productive forces handed down to it by all preceding generations, and thus, on the one hand, continues the traditional activity in completely changed circumstances and, on the other, modifies the old circumstances with a completely changed activity.

105. This can be speculatively distorted so that later history is made the goal of earlier history ... [W]hat is designated [by the idealist philosophers] with the words "destiny", "goal", "germ" or "idea" of earlier history is nothing more than an abstraction from later history, from the active influence which earlier history exercises on later history.

106. The further the separate spheres, which act on one another, extend in the course of this development and the more the original isolation of the separate nationalities is destroyed by the advanced mode of production, by intercourse and by the natural division of labour between various nations arising as a result, the more history becomes world history.

107. Thus, for instance, if in England a machine is invented which deprives countless workers of bread in India and China, and overturns the whole form of existence of these empires, this invention becomes a world-historical fact. Or again, take the case of sugar and coffee, which have proved their world-historical importance in the nineteenth century by the fact that the lack of these products, occasioned by the Napoleonic Continental System, caused the Germans to rise against Napoleon, and thus became the real basis of the glorious Wars of Liberation of 1813.

108. From this it follows that this transformation of history into world history is by no means a mere abstract act on the part of "self-consciousness", the world spirit, or of any other metaphysical spectre, but a quite material, empirically verifiable act, an act the proof of which every individual furnishes as he comes and goes, eats, drinks and clothes himself.

109. In history up to the present it is certainly likewise an empirical fact that separate individuals have, with the broadening of their activity into world-historical activity, become more and more enslaved under a power alien to them, ... a power which has become more and more enormous and, in the last instance, turns out to be the world market.

110. But it is just as empirically established that, by the overthrow of the existing state of society by the communist revolution (of which more below) and the abolition of private property which is identical with it, this power ... will be dissolved; and that then the liberation of each single individual will be accomplished in the measure in which history becomes wholly transformed into world history. ...

111. Only this will liberate the separate individuals from the various national and local barriers, bring them into practical connection with the production (including intellectual production) of the whole world and make it possible for them to acquire the capacity to enjoy this all-sided production of the whole earth ...