

# The Origins of Capitalist Exploitation

Marta Harnecker

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*The Origins of Capitalist Exploitation*

Marta Harnecker

Centro de Investigaciones “Memoria Popular Latinoamericana” [MEPLA]

“Latin American People’s Memory” Research Center

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## TABLE OF CONTENTS

INTRODUCTION .....	8
PART I: VALUE IN SIMPLE EXCHANGE SECTION.....	9
1. FEATURES OF AN EXCHANGE- BASED ECONOMY.....	9
1) Commodities.....	10
2) Simple commodity exchange .....	10
3) Commodities: use value and exchange value .....	11
a) The role that the price of products play in the economy .....	12
4) What determines the price of a product?.....	13
a. Quality and durability.....	13
b. Utility.....	13
c. Supply and Demand.....	14
d. Cost of Production .....	15
e. Calculating the cost of production .....	15
2. SOCIALLY NECESSARY LABOR TIME .....	18
a) Common characteristic: expenditure of labor power .....	22
b) Average social conditions .....	22
c) Superfluous work doesn't produce value.....	22
d) Socially necessary labor time and value .....	23
e) Required labor time varies over time.....	24
PART II: SURPLUS VALUE IN THE CAPITALIST ECONOMY .....	25
1. THE ORIGINS OF SURPLUS VALUE OR PROFITS.....	25
a) The impossibility of obtaining surplus value by means of exchange .....	26
b) A commodity that produces more value when used .....	26
c) Elements to consider regarding the value of labor power .....	27
2. WHEN WAS LABOR POWER FIRST TRANSFORMED INTO A COMMODITY?.....	30
3. THE CREATION OF SURPLUS VALUE .....	31
a) Means of production to do not create value, they transfer value.....	31
b) Wear and tear on the instruments of labor .....	32
c) Dead labor and living labor.....	33
d) The capitalist does not pay for labor, they pay for labor power .....	33
e) The concept of surplus value explains capitalist exploitation .....	36
4. CAPITAL AS A FACTOR IN PRODUCTION.....	38
a) The concept of capital .....	38
b) Constant capital and variable capital.....	39
c) The rate of exploitation.....	40
5. ABSOLUTE SURPLUS VALUE AND RELATIVE SURPLUS VALUE .....	41
1) Absolute surplus value.....	41
a) Extending the work day.....	41
b) Intensification of labor .....	42
2) Super profits .....	43
3) Relative surplus value.....	44
a) Reduction of necessary or paid work time.....	44
SUMMARY OF THE TEXT .....	47
BIBLIOGRAPHY .....	48

PEDAGOGICAL TEXTS .....	48
CLASSIC TEXTS.....	48
TEXTS FOR FURTHER STUDY.....	48
STUDY QUESTIONS.....	49



*This text incorporates much of Booklet No.2 from the original series Cuadernos de Educación Popular (Booklets for Popular Education), which was titled “What is socialism?” and was written by Marta Harnecker in collaboration with Gabriela Uribe. This series was published in Chile during the Popular Unity government, and was reprinted in various countries and languages. The text has been revised, some errors have been corrected, and supplementary examples and text boxes have been added, in order to make it easier to comprehend some of the complex ideas it tackles.*

*I am grateful for the encouragement and suggestions I have received from many comrades, particularly from students in the Department of History at the Catholic University in Valparaíso, Chile; Loreto Serra and Ignacio Ponce, during the final stages of the drafting of this text; and Manuel Riesco, who motivated me to clarify and expand on some points in the final version. They have all contributed to improving the text with their valuable observations and suggestions. I am also grateful to Pedro Landsberger who read over the final version of this text.*

*There is a video available of a talk based on this material, which has been split up into several segments of approximately 10 minutes each, followed by a few questions. The aim of this is to promote workgroup discussion about the issues tackled there. You can view these and other educational audiovisual materials at [www.videosmeplaen.wordpress.com](http://www.videosmeplaen.wordpress.com).*

*For more information contact the Research Centre “Memoria Popular Latinoamericana” (MEPLA), Calle 13, No 504, Vedado, Habana, Cuba, phone: 833 3975 or 834 2158, email: [mepla@enet.cu](mailto:mepla@enet.cu) or Marta Harnecker: [mharnecker@gmail.com](mailto:mharnecker@gmail.com).*

*Marta Harnecker*

*July 13, 2012*

## INTRODUCTION

1. In this Booklet for Popular Education<sup>1</sup> we hope to study the fundamental mechanism that explains why, under capitalism, you have a small group of people who possess a lot of wealth and enjoy an easy life, while a significant portion of workers find themselves in a very difficult situation.
2. We stated in the previous Booklet<sup>2</sup> that discovering the true causes of capitalist exploitation is not an easy task. A German scientist named Karl Marx carried out this work in the 19th Century. This researcher wrote several volumes on the topic in his masterpiece: *Capital*.
3. Drawing from Marx's contributions, workers and peoples from around the world have been able to learn about these causes and prepare themselves better for fighting against this inhumane and perverse system. This text is based on his ideas.
4. What we will present here is not easy to understand. The topic has many nuances. Unfortunately, many educational presentations over-simplify things, leading readers to not truly understand the essential aspects of Marx's arguments. For that reason, we have decided to proceed step by step, from the simplest to the most complex issues. We will do so by first asking questions and then going on to answer them. It would be a good idea if the people collectively studying this material paused after each question and tried to answer them before moving on to the next one. On the other hand, we want to point out that there are topics that we will not be able to tackle in this Booklet, but that will be addressed in future Booklets.<sup>3</sup>

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1. This Booklet contains most of the topics covered in CEP No. 2 "Capitalist Exploitation" (1971), published in Chile by Editora Nacional Quimantú; in Venezuela by Editorial Primero de Mayo (1972); in Mexico by Universidad Autónoma de Puebla (1972), Universidad Autónoma de Sinaloa (1978), and Editorial Nuevos Horizontes (1972); and in Spain by Ediciones De La Torre (no date of publication) and Akal Editor (1979). Part of the introduction has been taken out because these ideas are now covered in CEP No.1 "Understanding Capitalism: some basic concepts" published in Cuba by MEPLA (2012). Part three of the original (Capitalist accumulation, unemployment and monopolies) will now be part of a future Booklet.

2 CEP No. 1 "Explotados y explotadores" [available online in Spanish](#)

3. This Notebook will not cover themes such as fixed capital and circulating capital, financial capital, commercial capital, interest rates, reproduction of capital, and land rent, among others.



5. With this effort, we hope to contribute to the extremely important task of ideologically preparing the popular sectors and revolutionary militants for the battles they will have to face in attempting to build an alternative to capitalism, one that is truly democratic, just, and based on solidarity.

## **PART I: VALUE IN SIMPLE EXCHANGE SECTION**

### **1. FEATURES OF AN EXCHANGE- BASED ECONOMY**

▪ *Do you know of any community that lives off what it produces, without having to resort to the market?*

6. In Latin America there continues to exist groups of people, primarily indigenous people living in isolated places, who obtain almost everything they need to survive from their own labor: they make the bread they eat with the wheat they harvest; they wear clothes made from fabric they have woven from wool from their animals; they build their homes out of wood from the forest and clay available in the areas they live in; they get around by foot or in vehicles pulled by animals, etc.

7. But in towns or cities this isn't the case. In order to meet their needs, people have to go to the market to buy a series of goods that they do not produce themselves, such as food, clothing, and other things. These goods have been produced by the labor of many other people.

8. In big cities, there is a great division of labor; each person that works carries out a specific activity: metalworker, baker, garment worker, construction worker, teacher, doctor, public sector worker, etc. Workers in one sector or branch of production depend on workers in other sectors of production. The more developed the division of labor, the more the interdependence between the different sectors of production.

9. Therefore, we must distinguish between a technical division of labor that occurs within a factory due to the technical nature of the labor process, and the social division of labor, which refers to how labor is divided within society as a whole, with production being specialized into various branches and sectors.<sup>4</sup>

10. With specialization crossing international borders, we can also speak about an international division of labor: the countries of the Global south are generally the producers of raw materials,

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4. When we referred to the socialization of productive forces in Booklet No.1, the concept of social division of labor was implicit within it.

while the countries of the Global north produce finished goods. This specialization means that today, the more developed countries dedicate themselves exclusively to high-tech industries, while low-tech enterprises are set up in less developed countries.

▪ *So, how does the relationship between different units of production play out? Do textile factories sell the fabric they produce directly to the industries that manufacture shirts?*

11. No. Textile factories have no direct relationship with shirt manufacturing plants. For these centers of production to enter into a relationship, the owners of the textile factories have to sell their fabric in the market, and the owners of the shirt manufacturing plants have to buy the fabric they need to make shirts in the market. Since we are dealing with centers of production that are isolated from each other because they belong to different owners, they have to turn to the market in order to enter into a relationship. That is, they have to put their products up for sale and wait for them to be bought by an interested party.

#### 1) COMMODITIES

12. We can see then, that when the means of production are privately owned, the only way to bring various isolated centers of production into a relationship with each other is through the exchange of products in the market.

Products that are exchanged in the market are called **commodities**.

#### 2) SIMPLE COMMODITY EXCHANGE

13. Commodities can be exchanged in a variety of manners. Let's begin by analyzing the simplest form, that is, an exchange between people who own their own means of production, are self-employed, and sell the products of their labor in the market.

14. An example of this is a farmer who owns a piece of land and works it in order to obtain a certain amount of wheat. He takes his produce to the market and sells it in order to obtain a certain amount of money (price) so that he can buy the goods he needs, for example, a chair, which is produced by a carpenter in his workshop. This type of exchange is called simple commodity exchange.

**Simple commodity exchange** refers to the buying and selling, in the market, of commodities that have been produced by the labor of individuals who own their own means of production.

### 3) COMMODITIES: USE VALUE AND EXCHANGE VALUE

15. Simple commodity exchange is based on the reality that buyers turn to the market to buy products that they need to live: food, clothing, utensils, etc. The producers of each of these commodities take them to the market because they know they have a particular usefulness for buyers. No producer makes goods without first thinking of what use those goods have for others.

16. Therefore, for a good to become a commodity, that is, for it to be worthwhile taking it to the market, it has to have a certain usefulness for the person who will buy it: it has to be a **useful object, or said differently, it has to have use value**. If the object does not satisfy any human need, nobody will want to buy it. For example, no one would buy non-recyclable trash.

All goods and services that satisfy a human need can be said to have **use value**.

17. Lastly, we should point out that it is not enough for an object for it to be considered a commodity. Air and water in the sea, for example, are both useful objects, but they are not commodities because they are not sold in the market. For the same reason, a coat that a mother knits for her child is also not a commodity, nor is a toy that a father builds in his home with a piece of wood a commodity. The food a woman cooks at home for her family isn't a commodity, neither are the different goods that small-scale farmers produce in their gardens for family consumption. Only products that are exchanged in the market can be called commodities.

18. The usefulness of a commodity bears some relationship to the quality of the good, but every useful thing, like iron or paper, can be considered from two points of view: from the point of view of quality, and from the point of view of quantity. That's why a commodity doesn't just contain **use value**. Its fundamental character, which distinguishes it from other use values referred to above, is that it can be exchanged in the market for another commodity because it has what is called exchange value.

**Exchange value** refers to the rate at which a specific commodity is exchanged for another in the market.

19. To summarize, a commodity is any good or service that can be exchanged for another in the market. The concrete rate at which it can be exchanged represents its exchange value, or its price when expressed in monetary terms.

**Price** refers to the exchange value of a good when expressed in monetary terms.

20. To help better explain what we are talking about, from here on in we will refer to price.

a) *The role that the price of products play in the economy*

▪ *What happens when a carpenter goes to town to sell the chairs he has crafted with his own hands? At what price should he sell them?*

21. The carpenter, like all individual owners, wants to sell his chairs at the highest possible price so that with the money he makes, he can buy more products for his own subsistence.

▪ *But can the carpenter satisfy his desires and sell his chairs at the highest possible price?*

22. No, he cannot. Although he appears to be the “absolute owner” of his commodities, satisfying his desire does not depend on him alone. The buyer is also an owner who has money that she can use as she pleases, and is motivated to buy cheaply. Furthermore, next to our seller there are other sellers hawking the same commodities. Sometimes only a few buyers may come by, meaning that none of the sellers shift all their stock.

23. That’s how the battle between sellers to win over buyers begins. Each one attempts to sell at a cheaper price than their competitors, thereby pushing prices down. The market therefore becomes the stage for a constant struggle of competition between sellers, and between sellers and buyers. Only then does the commodity owner comprehend the limits of their power and the close relationship that exists between their business and all other individually-owned businesses.

24. Before going to the market, the owner was completely oblivious to all this. Only the market, through the price it assigns to each commodity, can instruct the individual commodity producer regarding the place their shop has in the social economy system.

25. This dynamic between individual commodity owners is reproduced on a broader scale between companies.

26. Let’s consider, for example, a furniture factory that makes chairs. If the price of chairs goes up substantially, it means that the number of chairs being produced is less than what is needed. If the price goes down, it means too many chairs have been produced. In other words, the system of organization based on exchange has arrived at an allocation of labor that does not correspond with the needs of people. Immediately, the producers of chairs will take these market indicators into account. If there is a lot of demand, the production of chairs will increase; if there’s little demand, production will be restricted. That’s how **shifts in prices direct and regulate an exchange economy**, independent of human will or desire.

27. Nevertheless, even though prices established in the market are the result of a reciprocal action and the struggle among commodity owner-producers, **they are set independently of their will**. Just like the laws of nature, prices impose themselves.

4) WHAT DETERMINES THE PRICE OF A PRODUCT?

▪ *We've seen the important role that prices play in an exchange economy, but what are prices based on? How are they set?*

28. If I go into a shop and ask for a pair of shoes, the seller will smile and offer me not one pair but a variety of pairs that differ in style and quality, each for sale at a different price.

29. If the seller asks \$100 for one pair of shoes and only \$80 for another, naturally I will want to find out the reason for the difference in price.

30. How will the seller respond?

31. She will perhaps say that the first pair is of better quality or is currently in style.

*a. Quality and durability*

▪ *Can prices be set according to the quality and durability of a product?*

32. At first glance it would appear so.

33. It's true that a pair of quality shoes can last for a couple of years while the other pair might last less time. Isn't that the reason the first pair costs more?

34. Let's study this explanation further. Let's compare the price of a pair of shoes to that of another commodity, for example, a plate.

35. A plate costs a lot less than a pair of shoes. Let's say it is four times cheaper. Can we deduce from this that the plate will last less time than the pair of shoes? Of course not. A plate, particularly if it's metal, can last decades, while a pair of shoes rarely lasts more than a few seasons.

36. The amount of time a commodity will last for is therefore not the decisive factor in determining its price.

*b. Utility*

▪ *Does price therefore depend on the usefulness of the product?*

37. This is also an inadequate explanation. Bread is infinitely cheaper than a diamond, and yet people need bread a lot more than they need diamonds.

38. Moreover, we all know that some of the things we most need are very cheap; some are even free like air, river water, etc.

39. On the other hand, notions of usefulness and necessity are relative and vary a lot.

40. Let's say, for example, that two people enter a store to buy pants: one of them is a poor student who has worn her pants out so much that she has had to borrow a friend's pair of pants to go to the store; on the other hand, the other person is a well paid civil servant who owns a complete wardrobe of clothes and wants to buy a new pair of elegant pants for theater outings and socializing. Let's also say they both pick the same pair of pants. Who needs the pants more? Clearly, the student, but for the seller of the pants, this product has only one price.

### *c. Supply and Demand*

▪ *Maybe prices are set by supply and demand? Don't fruits and vegetables cost more out of season?*

41. Nobody can deny that when there's more demand than supply, prices go up. But it's one thing to say that the relationship between supply and demand has an influence on prices, and quite another to say that prices are fundamentally determined by this factor. If this were the case, the prices of two commodities that have a similar proportion of supply and demand would be the same.

42. If, for example, there is 1000 kilos of sugar in the market when buyers are only asking for 500, and, on the other hand, there are 100 sewing machines in the market but only 50 buyers, we could say that supply is double what demand is for both sugar and sewing machines. If the price was determined by supply and demand then a kilo of sugar and a sewing machine should be sold at the same price. But this is not the case. A sewing machine costs a lot more than a kilo of sugar.

43. The law of supply and demand can explain why a pound of sugar was more expensive yesterday than today, and why sewing machines have gone up in price over the last few weeks; but this law cannot explain why the price of a sewing machine is so much greater than the price of sugar.

44. The law of supply and demand can modify the prices of commodities, but it doesn't determine the rate at which a certain commodity is exchanged for others in the market.

45. Furthermore, there are limits on how much prices can vary due to the influence of supply and demand.

46. For example, if the price of a particular product rises too much due to insufficient supply, there could be a reaction by consumers and producers. In the case of the former, many of those who previously demanded this product could stop asking for it: we know that when meat gets too expensive, working class families stop eating it and essentially live off bread; similarly, for many years now, a part of the population has chosen to eat margarine instead of butter because they cannot afford the high price of butter. In the case of the latter, if certain commodities are abundant in the market and the price goes down a lot, the production of these commodities is no longer advantageous for them, and producers stop making it. This inevitably leads to a reduction in supply, and we all know that when supply is less than demand, prices go up again.

47. So far we have seen that prices cannot be definitively explained by quality, usefulness, or supply and demand.

*d. Cost of Production*

▪ *What then determines the price of commodities?*

48. If we ask the carpenter selling chairs to reduce their price, what will he say? That the price cannot be reduced anymore because it costs him more money to produce the chair than the amount we are offering.

▪ *Can price therefore be explained by the cost of production of any given commodity?*

49. To answer this question, let's look at a concrete example: a dressmaker that makes dresses at home in order to sell them.

*e. Calculating the cost of production*

▪ *How would you calculate the cost of production of her dresses?*

50. She needs to spend money on buying fabric, thread, buttons; she also needs to spend money on rent for the place where she works, on electricity; and she also needs money to replace the sewing machine, which wears out with use. Let's make up a figure and say the sewing machine costs \$500, and can no longer be used after sewing 500 dresses. The dressmaker will have to take this into account by adding \$1 to the price of each dress in order to be able to replace the machine once it is worn out.

▪ *So, is the price of a product determined by the sum of its costs?*

51. No, because if that was the case, the labor that the dressmaker put into the dress would not be reimbursed, and she would starve to death. If the dressmaker takes a whole day to make a dress, and uses up a certain amount of energy in the process, she needs, as a minimum, to receive in exchange for her work enough money to buy the commodities she doesn't produce but requires in order to replace the energy she has used up: milk, meat, eggs, bread, as well as any other items essential for survival.

52. In order to live, she has to sell the products of her labor (dresses) and in turn be able to obtain the products she needs to replace the energy she has used up; products that are the result of the labor of other people. The price of the dress therefore has to take into account all the elements shown in the following graphic:

**Elements that must be accounted for when calculating the price of a dress**

\$60 – Cloth		
\$ 5 – Buttons	_____	Raw materials
\$ 5 – Thread		
		<b>Means of Production</b>
\$ 1 – Wear and tear on sewing machine		
\$ 1 – Electricity		
\$ 1 – Water	_____	Instruments of labor
\$ 2 – Rent		
\$65 – Energy expended by dressmaker	_____	<b>Labor power</b>
<b>COST = \$140</b>		



53. Remember that, as we pointed out in Booklet No.1, we must always **distinguish between labor and labor power**. We said: “Imagine a steam locomotive that carries 20 carriages for 100 kilometers. We could refer to this as the **labor** done by the locomotive. To be able to carry out this labor, the locomotive uses up a certain amount of energy that comes from the coal-fed steam oven. To keep pulling the carriages, it needs to be fed: it needs coal in order to keep producing steam. As such, we should not confuse the labor that a locomotive carries out with the **energy it uses to carry out this labor**. The same is true for human beings.”

54. Moreover, this simple example doesn't take into account other elements that must be calculated as part of the cost of a product within developed capitalism. We saw in Booklet No.1 that when working out the price of a product, we also have to take into account the cost of packaging and delivery, and the cost of advertising done in order to sell the product.

▪ *But returning to our example: can we therefore say that price is determined by the cost of production of the objects used in the labor process?*

55. This would be the case if all dressmakers that produce dresses worked in the same conditions. Later on we will see that this is not the case<sup>5</sup>. However, what happens when we look at the other elements that the dressmaker must buy to produce the dress: the fabric, the sewing machine, the buttons, etc.?

56. In this case, if we analyze each one, starting with the fabric, we have to take into account those same elements we considered above: the means of production (in this case the wool, the wear and tear on the loom, rent paid on the workspace, etc.) and a certain amount of labor (in this case, that of the weaver).

57. If we want to know the price of wool, once again we have to take into account the same elements, that is, the means of production and a certain amount of labor, all the way until we finally see that this “chain” ends with the work the shepherd does.

58. The same is true in terms of all the other elements that must be considered when looking at the cost of production of the dress. If we look at the sewing machine, for example, at the end of the chain we will find the labor of the miner employed by the mine owner to dig up the iron.

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5. The individual cost of production can vary yet the price or exchange value is the same for all dresses.

59. Therefore, we see that when calculating the cost of commodities according to the cost of production, what we are really doing is **measuring the amount of labor that has been incorporated into the commodities** (which is measured in terms of labor power utilized). This includes both the labor that has previously gone into making the means of production, and the labor of the actual producer.

60. We have seen above how the price of a commodity can vary depending on supply and demand, along with how the relationship between supply and demand cannot explain the level around which prices go up or down. Instead, we now see that it's **the amount of labor incorporated into the commodity** that determines the level prices revolve around.

## 2. SOCIALLY NECESSARY LABOR TIME

▪ *But what labor are we referring to? Are we referring to the labor of specific persons, about the concrete labor they have carried out?*

61. We ask this question because most attempts to pedagogically explain the concept of value do so in such a way that it would seem like each of you, if you were an artisan, could simply calculate the value of your products by working out how much work you put into producing them.

62. If the value of a commodity was simply measured by the number of hours of labor spent on it, then “the more idle and unskillful the laborer, the more valuable would his commodity be, because more time would be required in its production.”<sup>6</sup>

63. However, what determines exchange value, that is, the price of a product, isn't the labor of an individual, but, as Marx said, **social labor**.

64. Let's see what happens in the case of three weavers when it takes each one of them a different amount of time to make a pair of socks, but all spend \$2 per pair of socks on means of production and the value of one hour of their work is \$4.

**Chart: Labor time in the making of a pair of socks**

Weavers	Cost of means of	Hours of work	Cost of one	Total	Mathematical formula
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6. Karl Marx (1887) *Capital*, Volume I, [available online as PDF](#) p. 28.

	production transferred onto product	per pair of socks	hour of work	cost	
1	\$2	6	\$4	\$26	$2 + (6 \times 4) = \$26$
2	\$2	4	\$4	\$18	$2 + (4 \times 4) = \$18$
3	\$2	2	\$4	\$10	$2 + (4 \times 2) = \$10$

65. One weaver makes a pair of socks in six hours. Another weaver makes the same pair of socks in four hours, and a third weaver in three hours. These differences are due, on the one hand, to the type of loom and quality of the wool each of them uses, and, on the other hand, to their abilities and their level of work intensity.

66. Once the socks are made, the weavers go to the market to sell them. If we estimate the value of the means of production that is incorporated into the socks (wool, clothespins, rent, etc.) to be \$2, will the slowest weaver be able to sell their socks at a price that would allow them to recover the cost of their labor time, and their expenses in terms of means of production? To do so, they would have to be able to sell their socks for at least \$26. But if they were able to sell at this price, then the other weavers who produce socks more cheaply would try to sell their socks at the same price. The end result of this would be that the majority of weavers would be selling their commodities above their value. This would attract others to also produce socks. The production of socks would outstrip demand, and the price of socks would end up falling.

67. The value of socks isn't determined by the amount of time spent by the best weaver on producing them, nor by the amount of time it takes the worst weaver to complete a pair of socks. It is determined by the **average labor time** required for the production of socks, looked at from the point of view of **society as a whole**. This is what is referred to as **socially necessary labor time**. That is why Marx talks about social labor. "A commodity has a value, because it is a crystallization of social labour .... The greatness of its value.... depends upon the greater or less amount of that social substance contained in it."<sup>7</sup>

68. The socially necessary labor time for the production of socks depends on the number of weavers in society, their capacity to work, and the quantity of commodities they put on the market.

69. Let's look at a more complicated example to illustrate what we mean by socially necessary labor time.

70. Suppose that in a society there are 110 weavers who sell socks: 20 of them sell 20 socks each, and it takes them two hours to produce each pair of socks; 30 sell 10 pairs each, and it takes them 4 work hours per pair; and another 60 sell five pairs each, having dedicated six hours of work per pair of socks.

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7. Karl Marx (1898), *Value, price and profit*, [available online as pdf](#), p.14.

71. How can we work out the socially necessary labor time for a pair of socks in this scenario?

72. In order for all of the socks to be sold, we will suppose that supply is equivalent to demand:

20 weavers supply 20 pairs of socks = a total of 400 pairs

30 weavers supply 10 pairs of socks = a total of 300 pairs

60 weavers supply 5 pairs of socks = a total of 300 pairs

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Total: 1,000 pairs

73. There are 1,000 pairs of socks on the market. Let's now calculate the amount of labor time spent on production by the weavers as a whole:

400 pairs at two hours per pair = 800 hours

300 pairs at four hours per pair = 1,200 hours

300 pairs at six hours per pair = 1,800 hours

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Total: 3,800 hours

74. In sum, the production of a thousand pairs of socks that society requires took 3,800 hours of labor time, which averages out at 3.8 hours per pair (3,800 divided by 1,000). This time of 3.8 hours (or 3 hours and 48 minutes) is the socially necessary labor time for producing a pair of socks.

75. As we can see, this average labor time does not correspond with any of the concrete labor times it took the weavers to make a pair of socks (2, 4, or 6 hours in each case).

**Chart: Socially necessary labor time required in a society**

Number of Weavers	Number of socks per weaver	Total production	Labor time per pair of socks	Total hours of labor
20	20	400	2 hours	800
30	10	300	4 hours	1200
60	5	300	6 hours	1800
Total 110		1000		3800

1 pair of socks = 3 hours and 48 minutes. As you can see, the average time doesn't correspond with any of the time periods of work carried out by the weavers (2, 4 or 6 hours).

a) *Common characteristic: expenditure of labor power*

- *So what do all these work projects share in common?*

76. The common characteristic among all of them is **the expenditure of human labor power**.

77. One of Marx's<sup>8</sup> great discoveries was that the value of a thing is not determined by the concrete labor of each worker, but instead is determined by general, social human labor<sup>9</sup>, or abstract labor, that is, by use of labor power.<sup>10</sup>

b) *Average social conditions*

78. Value can be measured by the amount of socially necessary labor time, that is, by the amount of time it takes to produce an object, depending on the average social technology, the average ability of workers, and the average social conditions of production, among them the average natural conditions. A worker in a mineral-poor mine will not produce the same amount as a worker in a mineral-rich mine.

79. Let's look at another example that Marx used to illustrate the preceding point: "When, in England, the power-loom came to compete with the hand-loom, only half the former time of labor was wanted to convert a given amount of yarn into a yard of cotton or cloth. The poor hand-loom weaver now worked seventeen or eighteen hours daily, instead of the nine or ten hours he had worked before. Still the product of twenty hours of his labor represented now only ten social hours of labor, or ten hours of labor socially necessary for the conversion of a certain amount of yarn into textile stuffs. His product of twenty hours had, therefore, no more value than his former product of ten hours."<sup>11</sup>

c) *Superfluous work doesn't produce value*

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8. "...I was the first to point out and to examine critically this twofold nature of the labor contained in commodities.... this point is the pivot on which a clear comprehension of political economy turns..." Marx (1887) *Capital*, p.29.

9. Marx spoke of abstract human labor or homogenous human labor. See *Capital*, Volume 1, p.27.

10. "Tailoring and weaving, though qualitatively different productive activities, are each a productive expenditure of human brains, nerves, and muscles, and in this sense are human labor. They are but two different modes of expending human labor power." Marx, *Capital*, p.31.

11. Marx, *Value, price and profit* p.15

▪ *But, do you think that all labor performed in society under the aforementioned conditions can be considered to be socially necessary labor?*

80. Not necessarily, because often, more is produced than what society needs. This is something that many small farmers located on the outskirts of big capitalist cities have personally experienced. On many occasions, they have arrived at the market but have been unable to sell all their products because farmers as a whole have produced more than what the public needed. For example, only 50 people wanted to buy a head of lettuce each, and there were 100 heads of lettuce available on the market: therefore 50 heads of lettuce remained unsold. This means that the time it took to produce those 50 heads of lettuce was **superfluous** labor time.

81. Marx explained this problem in his book *Capital* in the following way: “... suppose that every piece of linen in the market contains no more labor-time than is socially necessary. In spite of this, all these pieces taken as a whole, may have had superfluous labor-time spent upon them. **If the market cannot stomach the whole quantity at the normal price...** this proves that **too great a portion of the total labor** of the community has been expended in the form of weaving.”<sup>12</sup>

82. We should never forget that for labor to be transformed into value, it can not be superfluous labor.

*d) Socially necessary labor time and value*

**Socially necessary labor time** refers to the amount of labor time required to produce an object under average social conditions of production (average technology, average skills, average work conditions and average natural conditions), while always keeping in mind society’s need for the product.

83. Now we can define the concept of value more precisely.

**Value** refers to the general or abstract human labor contained within a commodity. This is measured by the socially necessary labor time required to produce it.

**The law of value** refers to the law that governs the exchange of commodities

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12. Marx *Capital*. Volume 1 p.72 . Emphasis added.

84. What's interesting here isn't the numerical result produced by a mathematical formula; rather it is the idea underlying this formula: that all commodities or products have human labor incorporated into them.

*e) Required labor time varies over time*

85. Moreover, we have to keep in mind that all of the aspects that fall under the definition of labor time will vary depending on the development that humanity experiences over time, and will therefore lead to a change in socially necessary labor time. Let's see what Marx has to say about this: "The quantity of labor necessary for the production of a commodity changes continuously with the changes in the productive powers of the labor employed. The greater the productive powers of labor the more produce is finished in a given time of labor; and the smaller the productive powers of labor, the less produce is finished in the same time. If, for example, in the progress of population it should become necessary to cultivate less fertile soils, the same amount of produce would be only attainable by a greater amount of labor spent, and the value of agricultural produce would consequently rise. On the other hand, if, with the modern means of production, a single spinner converts into yarn, during one working day, many thousand times the amount of cotton which he could have spun during the same time with the spinning wheel, it is evident that every single pound of cotton will absorb many thousand times less of spinning labor than it did before, and consequently, the value added by spinning to every single pound of cotton will be a thousand times less than before. The value of yarn will sink accordingly."<sup>13</sup>

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13. Marx, *Value, price and profit*,



## PART II: SURPLUS VALUE IN THE CAPITALIST ECONOMY

### 1. THE ORIGINS OF SURPLUS VALUE OR PROFITS

86. Up to this point we have talked about what we've called "simple commodity exchange" between individual producers who own the products they produce and exchange these goods in the market. In the following section, we will begin to discuss the specific characteristics of exchange in a capitalist society.

87. We said that small independent producers go to the market to exchange their commodities for others of the same value. These are commodities that they do not produce but need to survive. This however is not the case for the capitalist business owner.

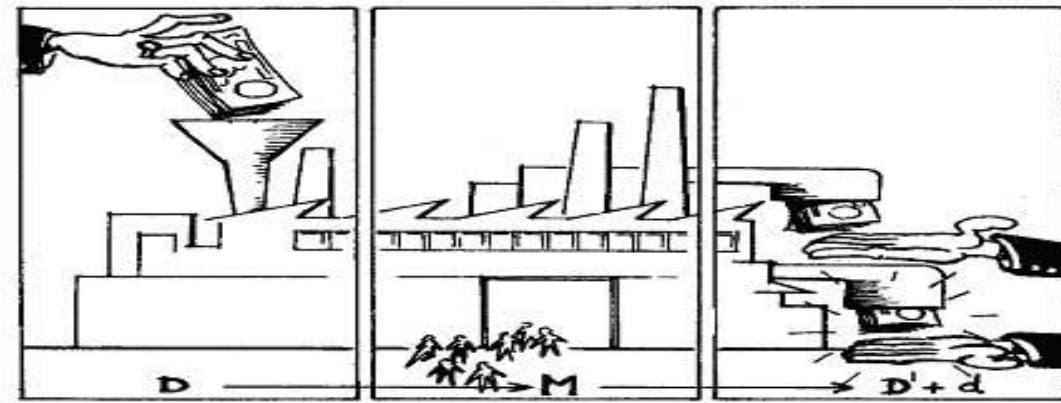
88. Walk into a store in any capitalist city and try to negotiate prices with the seller. The first argument that the seller will make won't be the same argument your tailor gives you: "woven cloth is expensive," "I have to make a living," etc. The seller will say: "I don't make much from the sale of this item" and finally, the seller will give you the ultimate argument: "I can't sell this at cost, I have to make some money." We see here that the purpose for exchanging commodities itself has been modified. Capitalists aim to make a **greater** sum of money from the sale of their products compared to what they spent on producing them. If they are not able to obtain a larger return, then production ceases to make sense for them.

89. If the aim in simple commodity exchange was to sell commodities (C) in order to obtain money (M) to purchase other commodities of the same value (C), then capitalist exchange is about having money (M) in order to purchase commodities (C) that can be sold to obtain **more money** (M+m).

90. As such, the formula for simple commodity exchange would be: C - M - C



. Meanwhile, the formula for capitalist exchange would be:  $M - C - M+m$ . Capitalists accumulate an amount of money ( $M$ ) that allows them to buy commodities ( $C$ ), namely means of production and labor power, which when put to work allows them to obtain more money ( $M+m$ ) than they initially invested in buying those commodities.



a) *The impossibility of obtaining surplus value by means of exchange*

92. The first question to ask then is:

▪ *How do capitalists obtain this greater sum of money? Does it come from selling their commodities at very high prices, that is, from selling their commodities at a price above its value?*

93. Under normal social conditions, the process of exchange (when they sell their products) cannot explain the profits that capitalists obtain, because the law that governs the market ensures that products are sold at their value, that is, in accordance with the labor incorporated into them.<sup>14</sup>

94. If capitalists were a group that only sold and never had to buy, this could perhaps explain their profits. But the reality is different: capitalists, while selling their products, have to buy other products in order to be able to produce. They have to buy raw materials and instruments of labor from other capitalists that produce them. So if these capitalists also increase their prices, there will be a kind of compensation or leveling out among all capitalists in society. What they made as sellers, they would lose as buyers.

b) *A commodity that produces more value when used*

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14. When there is free competition. A different situation occurs when monopolies control the market, as we will see in a subsequent Popular Education Notebook.

▪ *What then explains how capitalists are able to obtain a certain profit margin when selling products at a price in accordance with its value?*

95. This problem can only be resolved if among the commodities that capitalists buy to produce there is a **special commodity** that contains the **unique quality of producing more value when used by capitalists** than what they paid for it in the market.

▪ *What are the commodities that capitalists buy in order to produce?*

96. Capitalists buy raw materials, instruments of labor (and other means to carry out their work), and labor power.

▪ *Of all these commodities, which do you think produces value when used?*

97. If, as we saw earlier, the source of value is human labor, then the special commodity has to be **human labor power**. It is the **only commodity that is able to create value**, and therefore, is the only commodity able to produce more value. But before examining how this works, let's look at how the value of labor power is worked out.

*c) Elements to consider regarding the value of labor power*

98. As with all commodities, labor power is sold at a determined price: this price is the wage capitalists pay their workers. The price of labor power, like the price of any commodity, revolves around its value.

99. If the value of a commodity depends on the socially necessary labor time to produce it, we must ask ourselves how can we calculate the socially necessary time to produce labor power.

100. We previously saw that the dressmaker feels tired after a day's work, and wants to rest, eat, and sleep because, by working, she has expended physical and mental energy, that is, labor power. The same occurs when laborers, working for a capitalist, work for the time stipulated in their contract.

101. To recuperate the energy used up each day, workers have to eat, sleep, and be able to keep warm, among other things. They need to access a certain amount of consumer goods: food, clothing, housing, furniture, etc. The sum value of these goods makes up a part of the value of labor power.

102. However, labor power needs to be constantly available on the market. To ensure this, it is necessary to assure its reproduction. This means workers need to have children so that there is never

a lack of new workers. The worker also needs to have sufficient means by which to support their family. If a worker has a wife and five children but his salary is only enough to buy what he needs to maintain himself, it's clear that he won't spend it all on himself, but will instead share it with his whole family and will therefore not be able to recuperate the energy he used up. He will grow weak and will not be able to continue working. Therefore, the maintenance of a workers' family must be factored in as part of the value of labor power. A salary that covers the existence and reproduction of workers has been referred to as a "minimum wage", and its amount is normally set according to the cost of what is generally called the "family basket" of goods and services.

103. Furthermore, workers have needs that correspond to their level of culture and the general level of development of their country. They need, for example, to be able to buy books, have a television, a telephone, means for transportation, etc. The value of these goods must also be considered when calculating the value of labor power.

104. This last category of needs partly explains the variation in salaries between different countries.<sup>15</sup> A person that works in Europe or in the United States earns a lot more than someone working in Latin America.

105. This is precisely the reason why capitalists from those countries tend to shift enterprises that require a lot of labor to the Third World, where labor power is much cheaper.

106. An example of this are the low-wage factories (*maquiladoras*) that big transnational corporations have set up in Latin American countries to produce small components that are just a part of the process in manufacturing a product, for example, computer chips.

107. Highly developed countries are characterized by the presence of predominately high-tech corporations and a scarcity of labor power.

108. Lastly, in the case of specialized workers, we need to take into account the value of the goods workers consume during the time they spent studying to learn their skills (food, clothing, lodging, books, educational materials, etc.). This explains why specialized workers receive higher salaries.

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15. We say partly, because there are also other factors that help explain these differences such as the level of organisation of the working class and their struggles, the ongoing impacts of colonialism, etc.

109. To summarize: in order to determine the value of labor power we have to add up the value of all the goods that the worker must consume to be able to **recuperate the energy**, both physical and mental, **they used up in the labor process**.

110. In other words, we must take into account the socially necessary labor time required to produce these goods.

111. Among these goods we must consider those related to:

- a) The basic necessities of the worker and their family,
- b) Cultural necessities,
- c) Skills level or level of specialization.

The **value of labor power** is equal to the value of all the goods that are necessary for its maintenance and reproduction in a given society. That is, it is equal to the socially necessary labor time required to produce these consumer goods.

112. When labor supply is equal to demand, the capitalist is forced to pay a wage that is roughly equal to the value of labor power. We say they are forced to because their natural tendency is to reduce their wages costs in order to obtain more profits from the production process.

113. However, the basic laws of the market, which ensure that the price of commodities fluctuate around their value, forces capitalists to pay workers, on average, a salary that corresponds with its value. If the capitalist lowers the workers' salary below the minimum, the workers' performance and the quality of their work suffers immediately, because a malnourished worker, tired from having slept poorly, cannot perform as well as the worker who arrives at the factory rested and having recuperated his or her energy.

114. We must clarify that for pedagogical reasons, and to make it easier to understand this issue, we are not taking into account here the effects of variations in the supply and demand of labor power, nor workers' struggles to win higher wages. These are factors that can push the market price of labor power above or below its value.

115. I do however want to briefly mention that in many Latin American countries workers are commonly paid less than the value of their labor power. This is because there exists a high level of unemployment: the number of workers looking for employment is always much greater than the number of job openings offered on the market; as such, there is more supply of labor power than

demand for it. If workers don't accept the lower salary that the capitalist offers, which is often a meager wage, they run the risk of remaining unemployed.

## 2. WHEN WAS LABOR POWER FIRST TRANSFORMED INTO A COMMODITY?

116. Up to this point we have talked about labor power, but when in history was labor power first transformed into a commodity?

117. Labor power was not a commodity during slavery or during the feudal mode of production: slaves and serfs were forced to work for other people and did not sell their labor power. In the first case, what was sold was the enslaved person; persons as a whole belonged to their owner. In the second case, there was a particular relationship of dependency that forced serfs to hand over a certain portion of their labor to the landowner. Wage laborers however, do not belong to any owner and are not tied to a piece of land; if they want to, they can abandon their workplace and find another one that offers better conditions.

▪ *What are the necessary conditions required for labor power to become a commodity, that is, why do workers sell their labor power on the market for a wage?*

118. **First**, the existence of a worker that is not forced to work for a determined boss, that can move “freely” from one place to another offering their labor power. Both the slave and the peasant tied to a piece of land were not able to sell their labor power; they were not free to offer it on the labor market.

119. **Second**, the existence of a worker that does not own his or her own means of production.

120. Here we must point out that what we are saying is that they do not own the means of production **that, at that particular historical moment, society uses** to produce a particular object and that, therefore, they cannot operate as a small independent worker or “self-employed” worker, as they are often referred to.

121. Let's illustrate this assertion with an example, that of a small-scale shoemaker who makes shoes. He owns some simple means of production (sewing machine, knife for cutting leather, leather, etc.), but with these means of production he cannot compete against a modern shoe factory.

122. It takes the shoemaker three days to make a pair of shoes, while modern shoe factories can produce 20 pairs in one day. This greater productivity, due to the use of more technologically advanced means of production, leads to a reduction in the cost of shoes, but our shoemaker cannot lower their prices, because otherwise he would be producing at a loss.

123. Sooner or later, he is forced to leave his trade and enlist in the large army of wage laborers that work for capitalists, because they are the owners of the instruments of labor, and of the means of production more generally, which the worker requires in order to be able to work.

124. If they do not sign up to become a factory worker, they will have to limit themselves to repairing shoes from here on out.

125. Consider for example, what is happening to the beautiful hammocks that were once produced by indigenous people with manual looms in many countries across Latin America. It is increasingly difficult to find them. Mechanical looms and Chinese products, sold at rock bottom prices, have made that kind of production unsustainable, unless the state acts to protect it.

126. Summarizing what's been said up to now, under capitalism, the worker and the capitalist meet in the market as commodity owners. The worker possesses labor power-commodity, and the capitalist possesses a certain sum of money. The capitalist buys labor power for a particular sum (wage) that corresponds to the value of labor power.

### **3. THE CREATION OF SURPLUS VALUE**

127. However as we know, capitalists do not only buy labor power in the market, they also buy the means of production (instruments of labor, raw materials, work premises, etc.), and with both of these they produce a series of commodities that are sold in the market at a particular price in order to obtain more money than they invested in their initial purchases.

128. Let's recall that the value of a commodity is related to the amount of labor incorporated into it, and if a commodity acquires more value it is because more labor has been incorporated into it. For example, an embroidered shirt is worth more than a shirt without embroidery because the first shirt has more work incorporated into it than the second. The embroidery is the result of more labor hours having been invested in its production.

*a) Means of production do not create value, they transfer value*

▪ *But, using a very simple example, could we say that the shirt only incorporates the labor of the dressmaker? Isn't the fabric also the result of previous labor?*

129. Indeed, and when the dressmaker produces a shirt, it's as if she is resuscitating the labor that another worker previously did to produce the fabric.

▪ *And what happens to the instruments of labor?*

130. As was the case with the raw materials, these instruments of labor and other means of productions, as well as every thing that is produced out of them, are the result of past labor that has been incorporated into them: the sewing machine, the building they are operating out of, the electricity they use, all these things have involved the labor of workers from different sectors of production.

▪ *But, in the case of the instruments of production, does the same phenomenon that occurs with raw materials apply when the dressmaker transforms the fabric into a shirt?*

131. To answer this question, let's look at what happens to the fabric and the sewing machine.

132. In terms of the fabric, it is transformed from fabric into part of the new product: the shirt. The case of the sewing machine however is different: the machine does not disappear; rather, at the end of the production process, we have shirts on the one hand and on the other, we still have the sewing machines.

*b) Wear and tear on the instruments of labor*

▪ *Can we however say that the sewing machine is in the same condition as it was before producing the shirts?*

133. If we didn't pay close attention, we would think that this was the case. Yet in fact, the sewing machine has suffered wear and tear, and over time it will need to be repaired, certain pieces will have to be replaced, or it will have to simply be discarded. This also occurs to all other instruments of labor.

▪ *How can we calculate wear and tear?*

134. Let's suppose that a loom lasts about 10 years. This means that each year it loses a tenth of its value. As such, each year labor power transfers that amount of value to the commodity. Let's pretend that the loom is worth \$10,000; if so, then a tenth would be equivalent to \$1,000. Now, if this loom is used to produce 5,000 meters of fabric each year, each meter will incorporate 20 cents ( $1,000 / 5,000 = \$0.20$ ), equivalent to the quantity of value that the worker transfers to the commodity. As we can see, the labor of the worker transfers, bit by bit, the value of the instruments of labor, rather than all at once as was the case with raw materials.



**Example of the transfer of value of a loom**

Value of Loom	Use life (years)	Annual transfer of value	Meters of cloth produced in a year	Transfer of value per meter	Mathematical formula
\$10 000	10	\$1000	5000 meters	20 cents	$1000/5000 = 0,20$

135. The means of production by themselves do not create any value in the production process. The value incorporated within them can only be transferred to the product by labor power that, when using the means of production, produces at the same time new value.

*c) Dead labor and living labor*

136. Marx used the term **dead labor** to refer to the work incorporated into raw materials and instruments of labor, and the term **living labor** to refer to actual, concrete labor incorporated into the product by the worker during the production process. Living labor revives dead labor.

137. In any production process, it is the living labor of workers that adds value. From this labor comes the only value that is created in each production process. This occurs both in small independent production and capitalist production.

138. But let's return to the comparison between independent producers and wage laborers. The former can stop working when the value they have incorporated into the commodities is enough to exchange for the commodities they need to live, that is, to reproduce their labor power.

Alternatively, they can continue laboring if they want to have more money to buy their child a birthday present. However, wage laborers cannot stop working once they have produced value equivalent to their labor power because they have committed themselves to an eight-hour shift in exchange for a wage.

*d) The capitalist does not pay for labor, they pay for labor power*

▪ *But what happens during those eight hours of work?*

139. If workers limited themselves to producing the equivalent of the value of their labor power and the value of the means of production that they transfer to the product, that is, if they limited themselves to recovering what the capitalist spent on labor power and means of production, what would be the point of capitalists maintaining a production process, since they would receive no

benefit from all this? Why would they bother setting up a factory and hiring people to work for him?

140. The capitalist enters into business because, after paying all their costs (means of production and labor power), they are able to obtain a certain amount of profit.

141. What happens in those eight hours is that the workers can't stop working once they have produced a value equivalent to what the capitalist has invested in labor power and means of production. They must continue working in order to abide by their contract with the capitalist, and by working, they produce more products (more meters of fabric, for example), meaning they keep producing more value. However, since these products belong to the capitalists and not the workers, it is the capitalists who benefits.

142. To summarize, capitalists and wage laborers meet in the labor market. Workers offers up their labor power as a commodity. The capitalist buys it for a particular price (wage) in order to put it to work during a certain period of time each day. By putting it to work, this labor power creates value over and above what is needed to cover its own value as labor power. This additional value belongs to the capitalists, not the workers.

143. Herein lies the great injustice of capitalism: it is the capitalists, and not the workers who produce the goods, who benefit from the fruits of workers' labor, because as owners of the means of production they own what is produced using them.

144. Now we have all the elements needed to respond to the question that was left unanswered in Booklet No. 1. There we asked: when a capitalist pays a worker their wage, are they paying for the workers' labor, or for something else?

145. The boss isn't paying for labor, that is, the activities carried out by the worker that leads to the creation of a certain number of products. Instead, they are paying for the energy used to work, or labor power. That is why, when using this energy, they are able to obtain more value than what they invested in buying it.

146. Let's suppose a capitalist has bought labor power at its value: for example \$50 for an eight-hour workday. Suppose that in working for the capitalist, workers produce value equivalent to \$10 each work hour. In five hours, workers will have created a quantity of value equivalent to the value of their labor power (\$50), and at the same time transferred the total or partial value of the means of production to the newly produced commodity. Therefore, in 5 hours of work by the wage laborers,

the capitalist has recuperated all the money he has invested in production, both in terms of wages and means of production.

147. Nevertheless, the worker doesn't stop working: they must continue producing for another three hours in order to complete the eight hours they sold their labor power for. Everything produced in those last three hours is profit for the capitalist. Capitalists therefore obtain profits by appropriating labor, or better said, the products of the workers' labor who continues producing for more time than is needed to create or reproduce a value equal to their wages.

148. Under normal conditions, all commodities produced under capitalist relations of production have paid and unpaid work incorporated into them and are sold at their value.

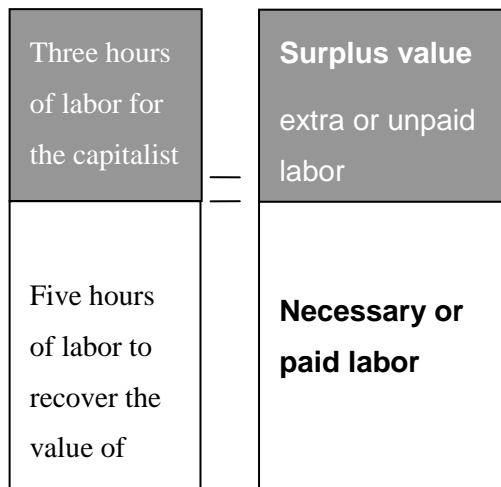
149. Regarding this subject Marx said: "The value of a commodity is determined by the *total quantity of labor* contained in it. But part of that quantity of labor is realized in a value for which an equivalent has been paid in the form of wages; part of it is realized in a value for which NO equivalent has been paid. Part of the labor contained in the commodity is *paid* labor; part is *unpaid* labor. By selling, therefore, the commodity *at its value*, that is, as the crystallization of the *total quantity of labor* bestowed upon it, the capitalist must necessarily sell it at a profit.... I repeat, therefore, that normal and average profits are made by selling commodities not above, but at their real values."<sup>16</sup>

150. The workday is therefore divided into two shifts that have very different significance.

The time during which workers reproduce the value of their labor power is referred to as **necessary or paid labor time**, and the additional time during which the worker creates surplus value for the capitalist is referred to as **extra or unpaid or surplus labor time**.

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16. Marx. *Value, price and profit*, p.21.



151. In terms of the small or independent producer, if they want to keep working after having produced value equivalent to what they require to exchange on the market for products they need for their immediate subsistence, then this surplus labor<sup>17</sup> is extra labor they have chosen to undertake. No one obliges them to work more, and the fruits of their surplus labor belong to them. In the case of wage laborers, this surplus belongs to the capitalist.

152. In sum, the capitalist appropriates the workers' surplus labor. That's why we can say that in a capitalist regime, labor power is a commodity that, when used, **creates more value than that which is required for its reproduction**. That is, not only does it create value, but it also has the **capacity to produce a greater value**, which is appropriated by the capitalist, and which we refer to as **surplus value**.

**Surplus value** refers to the value workers produce during the extra time they keep working over and above the hours of work required to reproduce the value of their labor power.

*e) The concept of surplus value explains capitalist exploitation*

153. Let's summarize what we have learnt up to now:

**First**, in capitalist society there exists, on the one hand, a group of people who own the most important means of production: capitalists. On the other hand, there is a group that has been completely dispossessed of their means of production, and as such cannot themselves produce the

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17. Recall that in Notebook No.1 we define as surplus all that which is produced over and above what is needed for immediate consumption.

goods they need to live: wage laborers.

**Second**, this situation forces wage laborers to sell the only thing they own - their labor power - as a commodity in order to survive.

**Third**, capitalists buy this commodity on the labor market. This commodity has the special characteristic of being the creator of all value, and is used to produce more value than what they paid for the labor power and means of production used in the production process. Capitalists obtain profit by appropriating the surplus value created by workers.

**Fourth**, the relationship established between capitalists and workers is a *relationship of exploitation*, due to the fact that capitalists, who own the means of production, appropriate the fruits of the labor of workers, who do not possess means of production.

**Fifth**, due to all this, it is clear that **the concept of surplus value is key** to explaining the exploitation inherent in a mode of production where the labor process is carried out under capitalist relations of production.

154. Having said all this, we can now see that exploitation of workers under capitalism does not occur in the same manner as exploitation did under slavery or feudalism.

155. In every economic system where the means of production are private property, **the owners of the means of production appropriate the fruits of labor** created by those who do not own the means of production. However, the way they do so changes from one system or mode of production to another.

156. Under slavery and feudalism, slaves or serfs are forced to work for their masters via direct force, imprisonment or submission to an external force. Slave masters or lords would not be able to appropriate the labor of their slaves and serfs without exercising direct power over human beings. If the latter were free of any ties that bound them to submission, they would be able to independently produce what they need to survive.

157. Under capitalism however, workers are “free and sovereign” in that no one forces them to work. It’s the power of necessity that drives workers to “voluntarily” offer their labor to capitalists, because if they don’t, they and their families will starve to death because they do not own the means required to be able to work independently and provide for their own subsistence.

158. The form that capitalist exploitation takes creates the illusion, or “deceitful appearance”, that by paying workers a wage, the capitalists are paying them for their labor. “Although one part only of the workman's daily labor is *paid*, while the other part is *unpaid*, and while that unpaid or surplus

labor constitutes exactly the fund out of which *surplus value* or *profit* is formed, it seems as if the aggregate labor was paid labor.”<sup>18</sup>

159. This is how, under normal circumstances, the capitalist is able to appropriate the labor of workers without recurring to direct force or other forms of pressure. We say normal circumstances because if workers, through their struggles, seriously endanger the capitalists’ profits or ownership over the means of production, they will resort to the police or army to repress workers.

#### 4. CAPITAL AS A FACTOR IN PRODUCTION

160. In the previous paragraphs we referred to capitalists and wage laborers, but why is it that the owners of the means of production, who hire labor power to produce commodities, are called capitalists?

*a) The concept of capital*

▪ *Are they called capitalists because they have lots of money?*

161. Not everyone who has lots of money is a capitalist. A greedy person who saves a lot of money in a slush fund isn’t necessarily a capitalist. Greedy people existed long before capitalists did.

162. Nor does capital refer to the money received by a worker in the form of wages or salaries, which in turn is used to buy a series of consumer goods for them and their family.

163. Nor does capital refer to the money a person wins in a casino or playing the lottery.

164. For money to become capital it must be used in the purchase of a commodity that allows the money owner to not only recover their money, but also **obtain more money after that commodity has been used in the process of production.**

▪ *Does this mean that only the money used to buy labor power can be referred to as capital?*

165. No, because **labor power** is not the only component involved in the capitalist production process; the **means of production**, such as raw materials, machines, buildings, etc., are also necessary.

166. Given all this, we can lay out what we mean by capital.

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18. Marx, *Value, Price and profit* p.20.

**Capital** refers to money that is used to buy means of production and labor power, as long as these are bought with the aim of obtaining more value through the labor process, that is, surplus value.

167. Money, therefore, isn't capital by nature. Money is capital only when it is used to buy the means of production and labor power in order to obtain surplus value.

168. Machines that are not working or stored away are not capital. They can only be considered capital when they participate in the process of producing surplus value.

169. The same applies to labor power. For example, money invested in buying labor power for domestic tasks is not capital. In this case, labor power does not produce commodities that a boss can sell in order to obtain surplus value; it is money spent on services for the benefit of the employer.

170. The means of production and labor power only represent capital when they are employed within certain relations of production - capitalist relations of production - that allow capitalists to obtain more money every time they invest in production. For this reason, it doesn't make sense to use the phrase human capital when we are referring to human potential, particularly under socialism.

171. These relationships reproduce themselves constantly. This is because, on the one hand, capitalists want to keep making more and more profit, and in order to do so continuously buy means of production and labor power for the purposes of obtaining surplus value. On the other hand, workers need to keep selling their labor power as the wages they obtain are only enough in the short-term to buy the commodities they need to consume to live. They are therefore obligated to keep selling their labor power in order to survive.

172. This is why capital cannot exist in any other society; **capital only exists in the capitalist system of production.**

*b) Constant capital and variable capital*

173. We have seen how only human labor has the capacity to both create value as well as transfer value from the means of production to a product or commodity. That's why the total capital that capitalists invests in production can be divided into two parts: one part is invested in the means of production, and does not increase value as its value is simply transferred to the products; and another part is invested in labor power, which increases value because labor power not only **creates** value but also **creates more value** or **surplus value**. It is therefore appropriate to talk about the existence of both constant capital and variable capital.

Capital invested in the means of production does not change in value during the production process, that why it's called **constant capital**. Capital invested in labor power produces more value during the labor process than was initially invested and, therefore, makes value vary; that is why is call **variable capital**.

174. Let's take the opportunity to memorize some formulas used in Marxist political economy. The letter **c** is used to symbolize constant capital, the letter **v** to symbolize variable capital, and **sv** to symbolize surplus value. For example, a business' books would look the following way:

<b>constant capital [c]</b>	\$100,000	(machines and production space)
	\$ 20,000	(raw materials : primary and auxiliary)
<b>variable capital [v]</b>	\$ 40,000	labor power
<b>surplus value [sv]</b>	\$ 20,000	

*c) The rate of exploitation*

175. Despite the fact that without constant capital it is impossible to create surplus value (labor power can only produce results when it puts the means of production into action), only labor can create surplus value.

176. Therefore, if we want to determine the rate of exploitation of a worker by a capitalist, we can leave aside the costs that the capitalist incurred in the acquisition of the means of production (constant capital). We only need to know the value of labor power (that is, the value of variable capital) and the magnitude of surplus value.

177. If we return to our example:

variable capital [v] = \$40,000

surplus value [sv] = \$ 20,000

178. The rate or degree of exploitation of the worker can be worked out by looking at the relationship between surplus value and variable capital.

179. This relationship, expressed in percentage terms, is called the *rate of surplus value* or rate of exploitation.

**rate of exploitation**  $sv/v$        $20,000 / 40,000 = 0.5 \times 100\% = 50\%$



180. It can also be worked out via the relationship between extra or unpaid labor time and necessary or paid labor time, as we will see further on.

## 5. ABSOLUTE SURPLUS VALUE AND RELATIVE SURPLUS VALUE

181. We previously noted that the capitalist is always interested in making more profit. We can now see that this is only possible by increasing the amount of unpaid labor carried out by workers. The more workers' unpaid labor they can appropriate, the more profit, that is, surplus value, the capitalist can obtain.

### 1) ABSOLUTE SURPLUS VALUE

#### a) *Extending the work day*

▪ *How can the amount of unpaid labor or surplus value be constantly increased?*

182. The first method that capitalists used to increase profits, when capitalism was starting up, was to **extend the workday as much as possible**.

183. This meant that once workers had produced value equivalent to the value of their labor power, they continued working for many more hours producing surplus value for the capitalist.

184. If in four hours they produced value equivalent to the value of their labor power, and they continued working for four hours more, the rate of exploitation would be 100%. However, if the capitalist is able to lengthen the workday to 12 hours, then the number of unpaid labor hours would go from four to eight, therefore producing double the surplus value and doubling the rate of exploitation of the workers. The rate of exploitation would now be 200%.

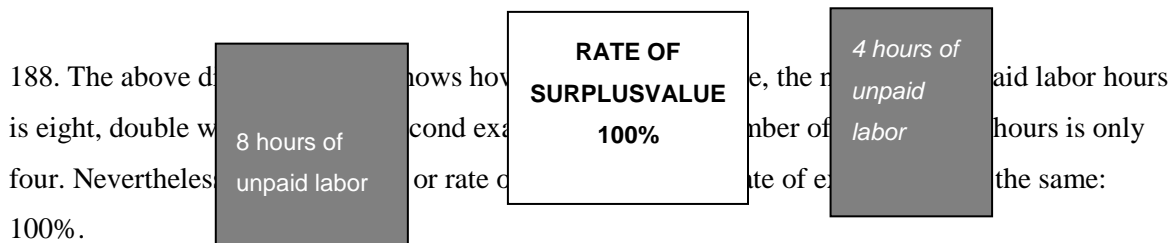
Rate of Exploitation	
workday	8 hours
paid work time	4 hours
unpaid work time	4 hours
rate of exploitation ( $4/4 \times 100 = 100$ )	100%
workday	12 hours
paid work time	4 hours
unpaid work time	8 hours
rate of exploitation ( $8/4 \times 100 = 200$ )	200%

185. This manner of obtaining surplus value is very convenient for the capitalist, because it does not require an increase in costs on machines or rent. This means they are able to increase their profits through greater exploitation of labor power, and without investing more capital.<sup>19</sup>

186. This was the method used at the beginnings of capitalism, when workers worked 16 to 18 hours a day.

187. Now we can lay out what we mean by rate of exploitation.

**Rate of exploitation or rate of surplus value** refers to the mathematical formula that measures the degree of exploitation of labor power.



▪ *Can the workday be extended indefinitely?*

189. No, because there are physical and historical limits to how much it can be extended:

**Physical**, because if the worker works for a long time, they will not get enough rest time to fully recover their labor power, leading to intensive exhaustion over time and a lowering of their performance.

**Historical**, because as capitalism developed, the working class also developed and organized itself to resist capitalist exploitation. Through difficult and hard struggles, the working class has won reductions in the length of the workday, forcing capitalists to find other ways to increase their profits.

190. Capitalists can no longer increase their profits by lengthening the workday; on the contrary, they often have to shorten the workday, due to pressure from workers' struggle.

*b) Intensification of labor*

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19. They would only spend more in terms of having to buy more raw materials and covering the cost of greater wear and tear on the means of production, which represent a minimum part of all capital invested.

▪ *Under these conditions, how can capitalists keep making more profits without lengthening the workday?*

191. Capitalists have realized that they can increase profits if they get workers to be more productive, that is, make more products within the same amount of work time; in other words, increase their productivity.

192. Capitalists have done studies to see which movements are absolutely necessary to carrying out a particular type of work, while trying to suppress all superfluous movements. They have also played music, improved lighting, etc. not out of the goodness of their hearts, but because these have contributed to workers producing more. They help accelerate the pace of work enormously.

193. Nevertheless, **the intensification of labor** also has its limits, because there are times when working at a greater intensity produces physical and mental exhaustion. This means capitalists cannot endlessly increasing their profits through this mechanism.

▪ *What other methods can capitalists use to keep increasing profits?*

194. To get workers to produce more without physically exhausting themselves, capitalists must perfect the instruments that workers use. They therefore introduce machines that gradually begin to replace human labor.<sup>20</sup>

195. For example, a modern loom produces many more meters of fabric in an hour than an old fashioned loom manually worked by a weaver. This means that each meter of fabric becomes cheaper, because less hours of labor are incorporated into it.

## 2) SUPER PROFITS

196. By producing at a lower cost than their competitors, this capitalist can make more profit than the other capitalists who are still producing with old-fashioned machines.

197. Let's recall that the cost of production largely depends on the labor time incorporated into all the elements involved in the process of producing the good (see paragraph 50-53).

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20. This new technology, which came about as a result of the industrial revolution, was referred to as machine tools because it was no longer the worker who used the instrument of labor; the instruments were now incorporated into the machine and the worker was in many cases limited to pressing a button to start the monstrous machine that some times occupied the entire factory floor space.

198. The difference between socially necessary labor time and the actual labor time taken to produce fabric at his company (which is less) will go into the capitalist's pocket. This profit is **referred to as super profit** because it's produced in exceptional circumstances.

199. This is one of the reasons why capitalist business owners try to introduce new machines into production and keep technological breakthroughs a secret, so that their use does not become generalized. If just one capitalist starts to use modern looms in his factory, they can produce many more meters of fabric in less time than before. This will have very little influence on the socially necessary labor time, as **all** the other capitalists will keep producing with old-fashioned looms that require a greater amount of labor time to produce one meter of fabric.

200. Nevertheless the individual capitalist will not be able to make profit in this way for a very long time because other capitalists, who also want to make more profit, will start to imitate him and will try to use the same new machines in their factories. This innovation will only start to influence the socially necessary labor time once it is used by a significant number of businesses in a particular branch of production.

201. As soon as a new machine is used by a big enough number of businesses, the output of social labor increases and with it, the time required to produce the commodity reduces. In other words, increasing labor productivity decreases the amount of socially necessary labor time required to produce a commodities. Consequently their value, and their price, falls.

202. If a capitalist doesn't succeeded in increasing the productivity of her business at the same rate as others, her costs of production will be higher than it is for others. Given she has to sell at a similar price to other capitalists (which is now lower than it was before), she will continuously make less profit until the day comes when she is no longer making profit and is forced to close her factory.

203. That is why **all** capitalists are forced to continually improve their means of production; if they don't, they won't be able to compete with other capitalists in their branch of production.

### 3) RELATIVE SURPLUS VALUE

#### *a) Reduction of necessary or paid work time*

204. In the history of the development of the capitalist system, there came a moment when machines replaced manual instruments of labor in most sectors of production. This enormously increased the output of labor (productivity) in one branch of production after another. As a result,

the value of commodities dropped because less production time meant less labor was incorporated into them. By reducing the value of commodities, particularly when it meant a **reduction in the value of consumer goods** such as food, clothing, home wares, etc., the value of labor power was also reduced because, as we have seen, its value depends on the value of the goods the worker needs to live.

205. Reducing the value of labor power means less labor time is required of the worker in order to cover the value they incorporate into the process of production. That is, **the necessary or paid labor time** within the workday diminishes.

### Rate of Exploitation (examples)

workday	8 hrs	$\frac{L}{SEP}$
paid work time	4 hrs	$\frac{L}{SEP}$
unpaid work time	4 hrs	$\frac{L}{SEP}$
<b>rate of exploitation (4/4 x 100 = 100)</b>	<b>100%</b>	$\frac{L}{SEP} \frac{L}{SEP}$
work day	8 hrs	$\frac{L}{SEP}$
paid work time	3 hrs	$\frac{L}{SEP}$
unpaid work time	5 hrs	$\frac{L}{SEP}$
<b>rate of exploitation (5/3 x 100= 169)</b>	<b>169%</b>	

206. The end result is that the individual motivations of capitalists that compels them to seek super profits leads to the establishment of a mechanism within the capitalist system that allows surplus value to increase without an increase in the workday and without an increase in the intensity of work. This mechanism involves a **reduction in the necessary or paid labor time**.

207. This mechanism gives the appearance that workers are being exploited less, but given that exploitation has to do with the appropriation of surplus value, we can say that, on the contrary, the rate of exploitation increases with this new way to obtaining surplus value. By reducing necessary or paid labor time, the worker produces the value of their labor power in less time, and therefore works more unpaid hours for the capitalist.

208. In this way, capitalists are constantly increasing their profits at the expense of workers and, as a consequence, the **difference in wealth and power** between both groups in society increases.

**Absolute surplus value** refers to surplus value obtained by extending the workday or intensifying the use of labor power. **Relative surplus power** refers to surplus value obtained by reducing the necessary labor time through an increase in labor productivity.

## SUMMARY OF THE TEXT

In this booklet, we have attempted to explain, in a simple but rigorous manner, the origins of capitalist exploitation: the production of surplus value. We started by analyzing the process of simple commodity production, then moved on to the process of capitalist production. We have taken surface appearances as our starting point in order to reveal the explanation that lies at the heart of the problem. We therefore began by looking at prices in order to understand where the value of commodities really comes from. After closely examining the concept of value and socially necessary labor time, we moved on to defining surplus value on the basis of an analysis of the value of labor power. Then, in order to distinguish between absolute and relative surplus value, we explained the concepts of constant capital and variable capital.

If anything should be clear to all of you, it is that capitalists get rich thanks to the labor of all those women and men who sell their labor power in exchange for wages. As they do not own the means of production, these workers must commit themselves to working a certain number of hours a day for the owners of the means of production. What they produce does not belong to them; instead it belongs to the owner of the means of production, who sells them in order to recuperate the money they have invested, and much more. The exploitation of workers cannot be overcome by simply struggling for better wages. It will only end when an alternative to capitalism is built, one in which workers are the real protagonists.

Let's finish with a quote from Marx, speaking to the workers of his time:

“...the working class ought not to exaggerate to themselves the ultimate working of these everyday struggles. They ought not to forget that they are fighting with effects, but not with the causes of those effects; ... that they are applying palliatives, not curing the malady.... Instead of the conservative motto: “*A fair day's wage for a fair day's work!*” they ought to inscribe on their banner the revolutionary watchword: “*Abolition of the wages system!*”<sup>21</sup> ◀

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21. Marx, *Value, price and profit*, p.76.

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## STUDY QUESTIONS

1. What struck you the most about the text we just studied?
2. When we talk about the market, are we only referring to the capitalist mode of production or are we referring to all modes of production? Or, to put it another way: does the market only exist within the capitalist mode of production, or, on the contrary, does the market exist in all modes of production?
3. Give three examples of objects that only have use value.
4. Do you think that in some region in your country there exists what we have referred to as a simple commodity exchange? Could you give an example?
5. There is a lot of talk about globalization, of the universalizing of markets. Does globalization benefit or weaken economies based on simple commodity exchange?
6. What does it mean to say that capitalism transforms everything into a commodity? Give an example to prove this statement.
7. Why does the price of tomatoes and other farm produce go up at certain times of the year? Why do sandals that are used in the summer decrease in price when winter starts? Don't these facts confirm that prices are set according to supply and demand?
8. What ultimately determines the price of a product?
9. What elements must be taken into consideration when looking at the cost of production of a kilogram of powdered milk? Did you remember that packaging and advertising must be taken into account?
10. We have talked about the law of value. Do you think this law applies in the case of a product that's produced by a monopoly? Consider, for example, a country where there is only one mobile phone factory.
11. Does a chair produced by a lazy carpenter that takes more time to produce have more value than a chair produced by a very efficient and fast carpenter?
12. What kind of labor counts when determining the value of an object?
13. Is there any difference between surplus value and profit?

14. Is money used to employ a domestic worker considered capital?
15. Is the monthly pension of a retired person considered capital? When could it be considered capital?
16. Can a capitalist, moved by the kindness of their heart, pay their workers double the salary that other capitalists pay for making a similar product?
17. There is a lot of talk about the idea of a just salary. What elements must be taken into consideration to say that a salary is just or unjust? Can it be said that developed countries pay more just salaries than less developed countries?
18. Are there sweatshops (maquiladoras) in your country? How are they different from other capitalist enterprises?
19. Can a person with few resources who receives a big inheritance be said to have become a capitalist?
20. Why is fighting for better salaries not a fight against the capitalist system?
21. Why is it that when workers are unhappy with their salaries, they generally decide against leaving the companies where they work?
22. Is there any relationship between the law of value and super profits that capitalists make when they introduce new machinery into their company and quadruple productivity?
23. Do you think that capitalists wait for their machines to deteriorate before renewing the equipment in their factory and introducing superior technology? Can a specific capitalist freely decide when they will change their machinery?
24. Why are Chinese textiles cheaper than those handcrafted in Latin America?
25. Why is it important to distinguish between constant capital and variable capital? Wouldn't it be better to simplify and just talk about variable capital?