

MARXIST

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Theoretical Quarterly of the Communist Party of India (Marxist)

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K.K. THECKEDATH

Wider View of Marx's Philosophy

Praxis of the Working Class

Ye are the salt of the earth, but if the salt has lost its savour, wherewith shall it be salted?

—Sermon on the Mount

What is very often quoted is the most famous of Marx's theses on Feuerbach, namely, '*The philosophers have only interpreted the world in various ways; the point is to change it.*' This was a part of the eleven theses written by Karl Marx in Brussels, probably in April 1845. It may also be noted that this was the last thesis in the collection of short statements about Feuerbach prepared by Marx and published posthumously by Engels. These hang together as a complete philosophical testament of Marx. To separate this out from the full set of theses and project it as an injunction for social action for social change is fraught with danger. Marx was struggling against Hegel's idealist philosophy and then against Feuerbach's confused attempts at materialism. He was trying to enunciate the epistemology of the working class based on dialectical materialism.

Let me illustrate my point by noting what happened at a prestigious meeting in Mumbai some years ago where nearly two thousand intellectuals had gathered to felicitate a political leader on his ninetieth birthday. The star attractions as speakers

were Nandan Nilekani, Ramchandra Guha and a well-known intellectual from Maharashtra, who had been for long the editor of popular Marathi dailies in the city. After the first two speeches, the Marathi speech was full of rhetoric and anti-communist venom. The speaker started by saying how he had been a Marx-follower in his student days, and had attended study classes by famous Marxists, like X and Y. Then he referred to the developments of 1968 in France, the rise of post-modernism, the new ideas of history which put a question mark on several propositions of historical materialism, the collapse of the Soviet Union, the new tactical moves of the Chinese Communist Party, and then went into the argument to show that a general debacle of all theories had taken place. He then ended his speech with Meghnad Desai's old paraphrase, which drew a huge applause from the house: 'The world has changed, the point is to re-interpret the world.'

The point that I am trying to make is that today no intelligent person is against the idea of social change, as such, but what we have to emphasize is the direction and quality of the proposed change. Even if the change proposed is from capitalism to socialism, the question still arises: is it proletarian socialism or non-proletarian socialism that we are talking about?

But before we come to this question, let us look at the eleventh thesis in a larger context. In its isolation from the other ten theses, it appears as a mere social prescription for a revolutionary change of the present capitalist system. But in fact it is a summing up of an entire new epistemological approach which emphasizes social practice in the process of acquiring knowledge—social practice as the link between the two moments of knowledge, namely, sensation and reason.

Marx was trying to answer the problem of the connection between the empiricist stress on sensation and the rationalist emphasis on

reason in the process of building knowledge. He found fault with Feuerbach's total refusal in his work to consider practice which was also a part of reality. He says in Thesis 1: 'The chief defect of all previous materialism (that of Feuerbach included) is that things, reality, sensuousness are conceived only in the form of the object, or of contemplation, but not as sensuous human activity, practice, not subjectively ... Feuerbach wants sensuous objects, really distinct from conceptual objects, but he does not conceive human social practice itself as objective activity ...'

This stress on human activity, which is a part of objective reality, is the thread which runs through the entire text.

It may be stated here that even before these theses were formulated in April 1845, in his earlier work, *Economic and Philosophic Manuscripts* of 1844, he had crossed the bridge between 'matter' and 'mind', which had been the stumbling block for philosophers. He says:

Let us now look more closely at the *objectification*, at the production of the worker; and in it at the *estrangement*, the loss of the object, of his product.

The worker can create nothing without *nature*, without the *sensuous external world*. It is the material on which his labour is realized, in which he is active, from which and by means of which it produces.

But just as nature provides labour with the means of life in the sense that labour cannot live without objects on which to operate, on the other hand, it also provides the means of life in the more restricted sense, i.e. the means for the physical subsistence of the worker himself. Thus the more the worker by his labour appropriates the external world, sensuous nature, the more he deprives himself of means of life ...

Thus, Marx had identified nature with the sensuous external world, and the external world with sensuous nature. Thus, for

Marx, matter and mind are not two things existing parallel to each other, but a single thing. He makes the observation in *The Holy Family* that this identification of matter and mind had already been made by such philosophers as Descartes and Spinoza:

Descartes in his physics endowed matter with self-creative power and conceived mechanical motion as the manifestation of its life. He completely separated his physics from his metaphysics. Within his physics, matter is the sole substance, the sole basis of being and of knowledge.

In *Holy Family*, it is further clarified: 'Materialism is the natural-born son of Great Britain. Already, the British schoolman, Duns Scotus, asked, "whether it was impossible for matter to think?"' And further: 'The real progenitor of English materialism and all modern experimental science is Bacon ... Among the qualities inherent in matter, motion is the first and foremost ...'

What is to be noted is that even before Marx and Engels had met for the first time in September 1844—*The Holy Family* is their first joint work—Marx had come to the conclusion that nature was sensuous reality. This is the concept that he works out in Thesis 1 on Feuerbach.

Herein is contained the germ of dialectical materialism, namely, the appreciation of the unity of mind and matter. This idea was later developed by Marx and Engels in their joint work, by Marx in his *Capital*, and later on, in the early twentieth century, by Lenin who, with his *theory of reflection*, was able to show how matter develops into consciousness over a long period of development. (Please see my piece, 'In Defence of Dialectical Materialism', *Marxist*, vol. XXX, no. 2 (April-June 2014))

Epistemology is not only concerned with knowledge and its methods but also with its validation. How do we know whether objective truth can be had through human thinking? The clear answer is provided in Theses 2 and 8: Social practice is the

touchstone for checking on the truth of our theories. Thesis 2 states:

The question whether objective truth can be attributed to human thinking is not a question of theory but is a *practical* question. Man must prove the truth, i.e. the reality and power, the this-worldliness of his thinking in practice. The dispute over the reality or non-reality of his thinking which is isolated from practice is purely a *scholastic* question.

Thesis 8 states:

All social life is essentially *practical*. All mysteries which lead theory to mysticism find their rational solution in human practice and in the comprehension of this practice.

The dynamism present in this philosophy of practice is especially important today. When immense, and apparently independent, power apparatuses and mechanisms (like the giant computers) set in motion by the rapidly growing productive forces tend to make us believe that man is nothing and that the product is everything, this philosophy shows us the right way forward. While Marx strongly emphasized the material and social conditioning of all human thought and action, he was convinced of the capacity of men to change these given circumstances. Thesis 3 reads:

The materialist doctrine concerning the changing of circumstances and upbringing forgets that circumstances are changed by men and the educator must himself be educated ... The coincidence of the changing of circumstances and of human activity or self-change can be conceived and rationally understood as *revolutionary practice*.

Theses 9 and 10, which immediately precede the most famous Thesis 11, sum up the epistemological character of this outlook

by comparing the earlier contemplative materialism with the new philosophy of practice. Thesis 9 states: 'The highest point reached by contemplative materialism, that is, materialism which does not comprehend sensuousness as practical activity, is the contemplation of single individuals and of civil society.' Thesis 10 states: 'The standpoint of the old materialism is civil society; the standpoint of the new is human society, or social humanity.'

Finally, we have Thesis 11, which is a declaration of the new philosophy of practice and knowledge as well as a call for revolutionary social action: The philosophers have only *interpreted* the world in various ways; the point is to *change* it.

Thus, this important Thesis 11, as a part of the totality, establishes a new philosophy, not only of the social phenomena, but of all knowledge whether of the organic and social world or of physical processes and their study.

As an immediate example from science is the following: if we wish to observe a small moving object like the electron, we must shine a light (radiation) on it. But all radiation, like all motion, combines within itself two contradictory aspects of localizability as well as non-localizability. The radiation will, therefore, in whatever way we focus it, change the reality of the electron, its position and state of motion. The fact of observation is an act of intervention, and inevitably it changes the object of observation.

II

More on Early Marx

The distinction often drawn between an 'early Marx' and a 'late Marx', with the dividing line between the two broadly coinciding with his turn to political economy, is difficult to sustain. In fact such a distinction based on his turning to political economy cannot be made. For, even though it is widely believed that Marx's attempts to make a serious study of political economy was due to contact with Engels, one must note that even before he met

Engels for the first time in September 1844, his *Economic and Philosophic Manuscripts*, written between April and August 1844, show a deep study of the current trends in political economy. The notings on political economy made by Marx during his stay in Paris from the end of 1843 till January 1844 show his intense work on the subject. They contain summaries of works by J.B. Say, Adam Smith, David Ricardo, McCulloch, James Mill and several other authors. In particular, he was impressed by the work of Ricardo, and he mentions his book *On the Principles of Political Economy and Taxation* (1817). He refers to the glittering illusion about the nature of wealth, and speaks about transient nature of even industrial wealth. He explains this by using Ricardo's 'Law of the Tendency to a Fall in the Rate of Profit' (LTFRP). He says:

If, therefore, industrial wealth appears at first to be the result of extravagant, fantastic wealth, yet its motion, the motion inherent in it, ousts the latter also in an active way. For the fall in the rate of interest is a necessary consequence and result of industrial development. (*Economic and Philosophic Manuscripts*, in *Collected Works*, Marx and Engels, Vol. 3, Progress Publishers, 1975, p. 315)

It is true that Lenin had said that contact with Engels was 'undoubtedly a factor in Marx's decision to study political economy, a science in which his works have produced a veritable revolution'. However, Lenin did not have an opportunity to see Marx's *Manuscripts*, a set of documents which was published only in the 1940s. Hence, to separate an *early Marx* from a *late Marx* on this basis of his study of political economy would be wrong. In fact, on the matter of political economy, I would fully agree with Prof. Patnaik when he says: 'What happens over time in fact is a *development* of Marx's thought, whereby Marx, through his study, fills the gaps in his knowledge which had existed earlier, but *not a break* in his thought as is often suggested.'

However, there is an aspect to his earlier writings with which

Marx makes a complete break in his later writings. I shall come to this in section III. In the present section we marshal proof on how late Marx continued his work on political economy to strengthen the above views given by his earlier writings, especially on Ricardo. We do this because of the controversy in academic circles on Marx's formulation of the falling rate of profit (LTFRP). This has special reference to our own understanding of the great recession of 2007 and the present health of world capitalism.

A look at Marx's later work, *Grundrisse* (1857–58), *A Contribution to the Critique of Political Economy* (1859), his preparatory notings, *Theories of Surplus Value*, Parts I, II, III (1862–63), *Capital*, Vol. 1 (1867), right upto *Capital*, Vol. 3 published in 1894, will show that he was consistently supporting Ricardo's stand that the entire political economy should be explained on the basis of the universal concept of 'value'. He was the one who rescued Ricardo from the so-called logical contradiction between the notion of value as social labour and the role of value in the creation of average rate of profit.

On Value

Quoting William Petty, Marx describes an early version of value: 'If a man can bring to London an ounce of Silver out of the Earth in Peru, *in the same time* that he can produce a Bushel of Corn, then one is the natural price of the other' (*Theories of Surplus Value*, Part I). Although Petty speaks of a natural price, what he means is the concept of value as the embodiment of the socially necessary quantity of labour-time. Petty, Adam Smith and Ricardo had brought out a new meaning of the term value, which was different from the way the merchant community of that time were using it. They did not merely create an abstraction from the many uses of the word value. They created a scientific concept and raised the question of what the real source of value of things was, the substance of value, and gave the answer that it was socially necessary labour-time.

However, Adam Smith was satisfied with the explanation of commodity exchange using the concept of value. Although he was the first economist to express the concept of labour as the universal substance of economic phenomena, he was continually using untheoretical descriptions of empirical data merely from the point of view of a man who was involved in accumulating value. Ricardo, on the other hand, was engaged in the task of deducing all economic phenomena from one simple substance, namely, *value* as labour-time.

Ricardo found by trial and error the correct view of the nature of scientific (theoretical) analysis of facts. This was behind his strict efforts at deductive consideration of phenomena and categories. In the language of today, it was a negation of eclecticism. In spite of the fact that, in his work, he was troubled by the contradictions that arose between value as that generated by living labour, arising from that part of capital which was invested in wages, on the one hand, and profits, which appeared to arise from the total capital invested, as total capital multiplied by the average rate of profit, on the other, he must be credited with pinpointing the substance behind all the categories of economics. Marx paid him a handsome compliment when he titled a section of Chapter X of his *Theories of Surplus Value* 'The Determination of Value by Labour-Time—the Basis of Ricardo's Theory'. He starts the chapter by saying, 'Despite certain deficiencies the Ricardian Mode of investigation is a necessary stage in the development of political economy.'

Marx says that Ricardo starts out from the determination of relative values of commodities by the 'quantity of labour'. Ricardo does not examine the form—the peculiar characteristics of labour that creates exchange value—the nature of this labour, nor does he recognize the fact that the development of commodities necessarily leads to the *formation of money*. Although he tries to explain every economic category with the help of the substance of value (labour-time), since he omits some essential links and directly seeks to prove the congruity of economic categories with one another, this

leads to erroneous results.

While Adam Smith uses two methods, one to describe exchange and another to explain the external phenomena of life, 'both these methods of approach not only merrily run alongside one another, but also intermingle and constantly contradict one another'. Marx describes this situation thus, and gives credit to Ricardo for rescuing science. He writes:

But at last Ricardo steps in and calls to science: Halt! The basis, the starting point for the physiology of the bourgeois system—for its internal organic coherence and life process—is the determination of value by labour-time ... This then is Ricardo's great historical significance for science.

Marx and Ricardo's Falling Rate of Profit

We have already said that 'early Marx' had recognized the importance of Ricardo's law of the average rate of profit. It must here be stated that Marx followed up this work throughout his active life, and succeeded in explaining this principle of the law of the tendential fall in the rate of profit in Part III of Volume 3 of *Capital*. This volume, like Volume 2 of *Capital*, was only published posthumously. In *Grundrisse* (1859) he says about this law: 'This is in every respect the most important law of modern political economy, and most essential for understanding the most difficult relations. It is the most important law from the historical standpoint.'

But in the process of rehabilitating this law, Marx had to resolve some of the contradictions from Ricardo's work. The task was essentially to save Ricardo from the contradiction between value, as defined from the process of exchange, on the one hand, and value which goes into the substance of average rate of profit.

Marx showed how all these wrong attempts to eliminate the contradiction resulted in destroying the very soul of Ricardo's discovery of value as the substance of political economy. He

considers these in Part III of *Theories of Surplus Value*. In particular, he shows how the attempts by James Mill resulted in the 'Disintegration of the Ricardian School' (see Chapter XX).

For this purpose, Marx had to break himself free from all earlier attempts, including those of Ricardo himself and such bourgeois economists as James Mill. These economists were dealing with the contradiction in a verbal (formal) manner, as a bad student would deal with a contradiction in a grammar lesson, namely by noting that you cannot have a statement as well as its opposite at the same time. This is Aristotelian logic of the excluded middle. Marx dealt with the problem by treating the contradiction itself as a *dialectical insight* into the working of the capitalist system.

Dialectics

There is an interesting exchange between Marx and Engels. Marx writes to Engels on January 16, 1853: 'I am getting some nice developments e.g. I have overthrown the entire doctrine of profit as previously conceived. In the method of working it was of great service to me that by mere accident ... I leafed through Hegel's Logic again.'

Hegel had recognized that to have a concept of a thing it was necessary to grasp the thing, to get hold of it and hold it still. But Marx asked the question: What if the thing is in motion and this motion is part or all of its truth? He then answers as follows, 'All of these fixed propositions themselves become fluid in the course of development. But only by holding them fast at the beginning is their development possible without confounding everything.' (See *Grundrisse*, Penguin Classics, 1973, p. 817)

The concept of the interchangeability of categories was inspired by the work of Hegel. The following quotation from Engels shows that the founders of dialectical materialism insisted on this interchangeability of categories. Engels refers to two philosophical tendencies, namely, one which considers that the categories are fixed in content, which he calls metaphysical, and the other which

considers that the contents of the categories are fluid, which he calls dialectical:

... that analysis shows one pole already present in the other *in nuce*, that at a definite point the one pole becomes transformed into the other, and that all logic develops from these progressing contradictions. (*Anti-Duhring*)

Personally, as a student of science, I would add that this principle has been instinctively recognized by all the great geniuses of science. When confronted with a deep contradiction in their area of study, instead of brushing aside the contradiction, they try to resolve the contradiction by penetrating analysis of the concepts, which, in reflecting reality, are themselves undergoing change. As an example, one may mention the great physicist and one of the founders of quantum theory Niels Bohr. He gave the following advice to his younger colleague Werner Heisenberg: 'If you have a correct statement, then the opposite of a correct statement is of course an incorrect statement, a wrong statement. But when you have a deep truth, then the opposite of a deep truth may again be a deep truth.'

A simple example from the field of physics is the following pair of propositions: (a) 'an electron is a particle', and (b) 'an electron is not a particle'. These two contradictory statements both represent deep truths: the first that the electron is localizable, with a trajectory like a bullet, and second that an electron is non-localizable, like a sea wave which hits a two-mile-long beach everywhere simultaneously as a wave front. This *wave-particle* nature of the elementary particle is expressed by this fluid contradictory combination of propositions. This is what Niels Bohr meant.

Capital, *Volume I*

Coming back to Marx, by re-reading Hegel, he had grasped Hegel's

deep philosophical insight into the dialectical principle of unity and struggle of opposites. He further realized that the whole of the theory of profit had to be recast. He planned the structure of *Capital*, Volume 1 accordingly. Of the eight parts in Volume 1, Part I consisting of the first three chapters does not even touch the idea of capital. Chapter I is *Commodities*, Chapter II is *Exchange*, and Chapter III is *Money or the circulation of commodities*. Part II of the book then deals with the transformation of money into capital.

In Chapter I, he deals with commodities from the historical point of view, never for a moment forgetting the dialectical movement of the concept itself. In a special section he deals with the fetishism of commodities, showing how the relation between two commodities, which is expressed in terms of value, is actually a reflection of the actual relation between sections within society. This relationship gets inverted. Also he points out that the concept of value is related to the sum total of the labour performed in society:

A commodity is therefore a mysterious thing, simply because the social character of men's labour appears to them as an objective character stamped upon the product of that labour; because the *relation of the producers to the sum-total of their own labour* is presented to them as a social relation, existing not between themselves, but between the products of their labour.

Thus Marx deals with value in terms of totalities and aliquot parts, and not as a finally formed physical structure, such as a chemist would treat, for example, the composition of copper sulphate and say that one gram of copper sulphate contains so many milligrams of copper.

In Chapter II, Marx develops the idea of exchange and shows how, historically, with the development of exchange, in all societies and cultures, some special commodity arises as medium of exchange, for example, gold, or money. With the rise of money,

the system of barter gets replaced, through the intermediary of money, into two operations of sale and purchase. The formula C-C gets converted into C-M-C and then into C-M (sale) and M-C (purchase). The philosophical implication is that now there is the time factor which has to be taken into account. Between a sale and the purchase made with that money, there is a time span. During this period the money commodity might itself have its value changed. The flow of time cannot be ignored. Unfortunately, this is what the bourgeois economists do, who treat the entire economic process as though they were dealing with the barter system where there is a simultaneous exchange of commodities.

In Chapter III, Marx defines price as follows: The expression of the value of a commodity in gold or money, is its *money-form* or price. Thus, Marx introduces the concept of price in terms of the fundamental concept of value. But again he brings in the dialectical aspect of this relationship. Money has two entirely distinct functions to perform: as measure of value, and as standard of price. He points to a real contradiction here.

The magnitude of value expresses a relation of social production, it expresses the connection that necessarily exists between an article and the portion of the social labour-time of society required to produce it. As soon as the magnitude of value is converted into price, the above necessary relation takes the shape of a more or less accidental exchange ratio between a single commodity and another, the money commodity ... the deviation of the former from the latter, is inherent in the price form itself.

It is to be noted that in the above passage Marx links the two notions of value and price dialectically in the opposite categories of 'necessity' and 'contingency' (the accidental).

The soul of the dialectical treatment is the recognition of change in all things and the flow of time. The non-dialectical approach would fail to understand the dialectical relationship

between price and value. He had much earlier, in January 1862, in his preparatory notings, *Theories of Surplus Value*, recognized the ‘fluidity’ of these concepts—value and price. We thus have the following statements in these notings:

Thus their use value and exchange value go to the devil ...

and

It is therefore wrong to say that the competition of capitals brings about a general rate of profit by equalizing the prices of commodities to their values. On the contrary, it does so *by converting values of the commodities into average prices, in which a part of the surplus value is transferred from one commodity to another, etc.* (emphasis in original) (see *Theories*, Part II, p. 30)

All the bourgeois critics of Marx refuse to understand this dialectical relationship between prices and value, where they flow into each other, values getting transformed into prices during the process of circulation in the market, and prices getting transformed into values during the process of production of the commodities.

It is this recognition of the fluidity of concepts, which Marx talks of in his letter to Engels referred to above. ‘All of these fixed propositions themselves become fluid in the course of development. But only by holding them fast at the beginning is their development possible without confounding everything.’ This is exactly what he did while writing *Capital*. In Volume I, he held value as a fixed concept, leaving aside all considerations of the movement of value itself through various factors, and worked out the laws of movement during the process of the production of commodities. He gives the sub-title ‘A Critical Analysis of Capitalist Production’ to Volume I. Volume II of *Capital* deals with the process of circulation, and, in Volume III, Marx deals with the whole system, where he considers how value, as well as surplus

value, are distributed amongst the different capitals.

In Volume I of *Capital*, Marx gave the resolution of the vexed issue which earlier bourgeois economists could not explain:

Ever since political economy had put forward the proposition that labour is the source of all wealth and of all value, the question became inevitable: how then, is this to be reconciled with the fact that the wage worker does not receive the whole sum of value created by his labour but has to surrender a part of it to the capitalist?

Marx answered this question with his observation that in a capitalist society, since all the means of production are owned by the class of capitalists, as also the means of sustenance of the workers, the workers are forced to sell the only commodity which they possess, namely their commodity—labour-power.

But then he shows that this commodity, labour-power, which is intimately connected with the worker himself, has the magical property that its use value is greater than its exchange value. Its exchange value, say six hours of social labour-time, is much less than the value that the worker can work and produce, namely value of 12, 14 or more hours of labour-time.

Although Marx keeps the concept of value fixed in Volume I, and does not mix it up with its dialectical opposite of price, he still uses the concept of money as a perfect measure of labour-time. He measures labour-time in shillings. He says:

By advancing three shillings, the capitalist will, therefore, realize a value of six shillings, because advancing a value in which six hours of labour are crystallized, he will receive in return a value in which twelve hours of labour are crystallized.

Here he is taking three shillings as the value in which six hours of labour are crystallized.

This is how he explains profit as surplus value produced by the

worker in the process of production.

It should be stated here that this method of expressing value in terms of shillings was attacked by a series of Marx's detractors for nearly a century. However, in the deep movement beginning in the 1980s, represented by the temporal single system interpretation (TSSI) of Marx's *Capital*, this method has been justified as rigorously scientific. This expression of 'crystallization of value' is now called the Monetary Expression of Labour-Time (MELT). (See, for example, Ramos-Martinez and Rodriguez-Herrera, 'The transformation of values into prices of production: a different reading of Marx's text', in *Marx and Non-Equilibrium Economics*, ed. Carchedi and Freeman, 1995). Indeed money is the necessary manifestation of value (but it is not value unless it is commodity money).

Further, Marx pointed out that the working day of the worker can be seen as made up of two parts, the part representing the worker's wage (exchange value of labour-power) and the other part representing the surplus value created by him in addition to creating his own exchange value. The capitalist is interested, and is forced by the competition from other capitalists, to increase the share of surplus value, that is to increase the ratio of surplus value to the value of the labour-power. To increase this ratio he tries various methods, like elongating the working day or intensifying the exploitation of the worker by speeding up the production process. This latter he does by using machinery. Both these attempts are resisted by the workers. They do this not individually but unitedly, by using their social unity. This social unity increases tremendously under capitalism, where workers are brought together to work under one roof. This is *class struggle* between the capitalists and the working class. In Volume I, Marx explains the rise of class struggle.

Capital, Volume 3 and Ricardo's Falling Rate of Profit

Since we are not considering the entire work of *Capital*, but only restricting ourselves to Ricardo's law of the falling tendency on

which the early Marx made his observations, we merely note here that Marx was able to fully explain this law in Volume III. This volume was published in 1894 a full thirteen years after his death. We shall not go into the proof here, but we shall follow this law and its history after Marx had developed the proof. But before we go into this matter, it is necessary to refer to two other issues in volume III. These are (i) the issue of the relation between prices and values, and (ii) the institution of credit.

The Price-Value Dialectic

In this volume, Marx also brings together the two dialectical opposites of value and price, which he had carefully kept apart until now. He proceeds to show how values transform into prices by working out the 'prices of production' which, as Ricardo had pointed out, are proportional to the total capital invested. The values, on the other hand, are proportional to the part representing the labour-power utilized, since value is actually socially necessary labour-time.

In Chapter IX of *Capital*, Volume III, Marx develops the theory of the 'Transformation of the values of Commodities into Prices of Production'. He makes use of the idea of the flow of value from one commodity into another during the process of circulation, an idea which he had referred to in 1862–63 in *The Theories of Surplus Value*. In the modern treatment of this subject this is done through the introduction of the concept of the Value Transfer Vector.

Thus, Marx resolves the contradiction, which was pointed out by Ricardo and which had stumped him, through a detailed working out of the transformation. To sum up, values are created in the process of production of commodities from raw materials and labour-power on the basis of their prices, and prices are formed from the values of these commodities in the process of circulation. Prices and values do not form two separate systems, but they form a single system in dialectical movement.

The Role of Credit

Among the different issues taken up in Volume III we would refer to Chapter XXVII titled ‘The Role of Credit in Capitalist Production.’ Marx shows how in the course of the development of capitalism the institution of credit makes its appearance. He explains the role of credit in the equalization of the rate of profit, in the reduction of the costs of circulation, and in the formation of stock (joint-stock) companies. He then goes on to show how these joint-stock companies adumbrate, and contain within the idea of joint stock, in a latent form as the egg contains the embryo of the chicken, a transition from capitalist production to a new form of production, namely, socialist production.

Under this system of joint stock it becomes possible to have an enormous expansion of the scale of production and of enterprises that was impossible for individual capitals.

The capital, which itself rests on a social mode of production and presupposes a social concentration of means of production and labour-power, is here directly endowed with the form of social capital (capital of directly associated individuals) as distinct from private capital, and its undertakings assume the form of social undertakings as distinct from private undertakings. *It is the abolition of capital as private property within the framework of capitalist production itself.*

[This also transforms] the actually functioning capitalist into a mere manager, ... a mere money-capitalist ... the stock company is a transition toward the conversion of all functions in the reproduction process which still remain linked with capitalist property, into mere functions of associated producers.

He further says:

This is the abolition of the capitalist mode of production within the capitalist mode of production itself, and hence a self-dissolving

contradiction, which *prima facie* represents a mere phase of transition to a new form of production.

However, Marx also points out that the credit system enables the acts of sale and purchase to be separated by long stretches of time. This raises the possibility of speculation. Speculation, bankruptcy and swindling are innate possibilities linked with the credit system.

Interpolating a footnote in *Capital*, Volume III, Engels writes that Marx was able to predict twenty years earlier the speculation in the joint-stock company which created the Panama Canal. He says that France had to shell out one and a half billion francs for the crime of the Panama Canal swindlers.

Marx closes this chapter with an inspiring paragraph:

The two characteristics immanent in the credit system are, on the one hand, to develop the incentive of capitalist production, enrichment through exploitation of the labour of others, to the purest and most colossal form of gambling and swindling, and to reduce more and more the number of the few who exploit the social wealth; on the other hand, to constitute the form of transition to a new mode of production. It is this ambiguous nature, which endows the principal spokesmen of credit (from Law to Isaac Pereire) with the pleasant character mixture of swindler and prophet.

The credit system shows that capitalism itself creates the condition for the abolition of private property in the means of production, that is, for socialism. The defining feature of socialism is *the abolition of private property in the means of production and its conversion into social property*. This is what Lenin takes as his starting point in his pamphlet *To the Rural Poor*.

Ninety Years of Nitpicking at the Falling Rate of Profit

We now return to the story of the falling rate of profit. Marx had expressed his fears that the law of the falling rate of profit would face the extreme ire of the bourgeois ideologists, indeed more than all other propositions in *Capital*, which also indicated other causes of crises and breakdowns in the capitalist system. Why was the bourgeoisie attacking this law of the falling rate of profit? Marx himself gives the answer. He says:

But the main thing about their horror of the falling rate of profit is the feeling that capitalist production meets in its development of the productive forces a barrier which has nothing to do with the production of wealth as such; and this peculiar barrier testifies to the limitations and to the *merely historical, transitory character of the capitalist mode of production.* (*Capital*, Vol. 3, p. 242)

The expected attack from the bourgeois ideologists came as soon as Volume III was published in October 1894. It should be remembered that Marx had treated values and prices not as two systems but as two stages of the same thing, values being created in the stage of the production of a commodity and prices emerging through the process of exchange in the market (circulation). He had clearly stated that these are not identical processes. ‘They diverge not only in place and time, but also logically’ (*Capital*, Volume III, p. 244). The bourgeois ideologists attacked Marx dishonestly by suppressing this fact, and by treating values and prices as two sets of systems determining each other mutually and *simultaneously*.

The attack was launched by the Austrian Minister for Finance, Eugen von Bohm-Bawerk, ‘who then encouraged Bortkiewicz to recast Marx’s transformation as a general equilibrium system, restoring the contradictions that Marx had painstakingly eliminated’. In 1906, Bortkiewicz, who was a student and admirer of Leon Walras, used Walras’s algebra of simultaneous equations, to show that Marx’s arguments were contradictory. Then the

bourgeois ideologists used the same names of 'value' and 'price' to the results that they obtained through this algebra, hiding the fact that what they had obtained had nothing to do with Marx's value or price.

This announcement that there was a contradiction in Marx between Volumes I and III was lapped up by the bourgeois ideologists. They reworked their algebra and said that Marx could be saved, but his law of falling rate had to be given up. This expurgated version of Marx's theory, without the falling rate of profit, was accepted by the academic Marxists throughout the universities in the world. For want of a better name, we may call this 'academic Marxism'.

It is a curious fact that in 1961 a Japanese economist Nobuo Okishio published a paper entitled 'Technical Changes and the Rate of Profit' where he used the same assumptions of simultaneity and the algebra of simultaneous equations to claim that Marx's falling rate of profit was wrong. In due course, and in celebration of this great discovery, in 1980 a jubilant bourgeois thinker, Philippe Van Parijs duly published an obituary of the falling rate of profit. The imposing title of this article was 'The falling-Rate-of-Profit Theory of Crisis: A Rational Reconstruction by Way of an Obituary'.

But by the end of the twentieth century, however, matters changed. With the early work of Robert Langston and Ernest Mandel, a programme of re-examining the attack by the bourgeois ideologists began. Way back in 1962 in his book, *Marxist Economic Theory*, Mandel had remarked that Bortkiewicz was ignoring the flow of time in the whole process: 'Von Bortkiewicz shows a similar lack of historical sense when ... he declares that the transformation of values into prices of production does not reflect any real historical process.' What was achieved towards the end of the century, following the work of Langston and Mandel, and culminating in the proceedings of the Bergamo Conference held in 1994 to commemorate the hundredth year of the publication of Volume III of *Capital*, was that Marx's political economy was

finally and fully reinstated.

A rigorous proof of the falling rate of profit was presented by Alan Freeman at this International Conference held in Bergamo, Italy, from December 15–17, 1994. His paper was titled, ‘A General Refutation of Okishio’s Theorem and a Proof of the Falling Rate of Profit’ (see R. Bellofiore (ed.), *Marxian Economics: A Reappraisal*, Volume 2, Macmillan, 1998). Freeman ends his paper with the observation: ‘*Thus we find—an astonishing and salutary result—that after a hundred years of nit-picking at Marx’s original statement of the general law of the falling rate of profit, that this law is not merely valid, but scientifically and rigorously exact.*’ Also see his paper ‘Price, value and profit—a continuous, general, treatment’, in *Marx and Non-Equilibrium Economics* (op. cit.).

This new scientific approach which recognizes that Marx did not excise the flow of time from reality, and that he did not separate the dialectically united prices and values and put them into two boxes with impenetrable walls but treated them as one system, is now known as the *temporal single system interpretation* (TSSI).

Empirical Data in Support for the Falling Rate

Now let us look at the empirical evidence in support of this law. In my earlier piece, ‘Globalisation of Finance Capital and Marx’s Law of the Falling Rate of Profit’, in *Marxist* (XIX, 2, April-June 2003), I had produced empirical evidence in the form of a table for the USA, giving the rate of profit in the manufacturing sector for the period 1947–1977, as well as graphs for the following eight economies, namely, the UK, Sweden, France, West Germany, Italy, Canada, Japan and the United States. These had been reproduced from the book *International Perspectives on Profitability and Accumulation* by Moseley Fred and Wolff Edward (Elgar, 1992). We now update this by giving three graphs.

As fresh evidence we give below a common graph for the profit rates for the following four economies: UK, US, Japan and the Euro-zone (Figure 1, above). This is for the long period

The Profit Rate: UK, US, Japan, and the Euro-zone
(10-Year Moving Averages)

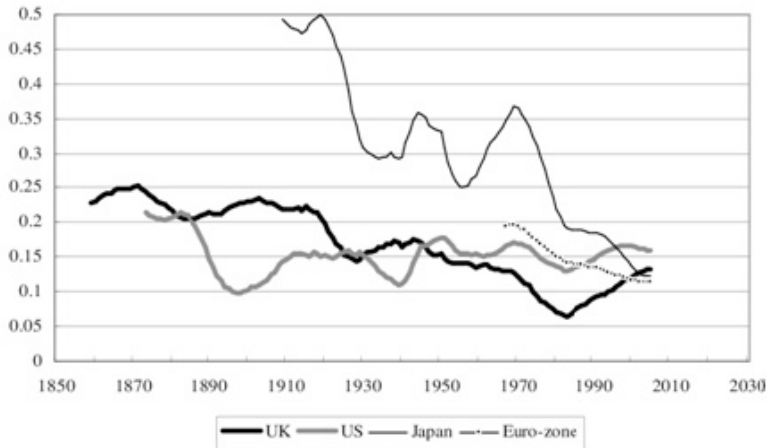


Figure 1

1850–2010. (Source: Li Minqi, Xiao Feng and Andong Zhu, 'Long Waves, Institutional Changes, and Historical Trends: A Study of the Long-Term Movement of the Profit Rate in the Capitalist World Economy', *Journal of World-Systems Research*, vol. 13, no. 1 (2007), pp. 33–54)

A falling tendency in the rate of profit is clearly seen in all four economies.

Now we deal with a technical point. In 2004, Dumenil and Lvy pointed out that in the 1980s the profit rates had reached a low but have since been rising in the two economies of US and UK. This is also seen in Figure 1 above. Of course, they were cautious in coming to any conclusions. In their book, *Capital Resurgent: The Roots of the Neoliberal Revolution*, they make an admission. They say:

As we have noted, the profit rate reached a low at the beginning of the 1980s and has since been increasing. This chapter therefore concludes with a paradoxical observation: accumulation diminished with the drop in profit rates, but the more recent trend towards a rise

in profit rates has not been coupled with a corresponding recovery of capital accumulation, despite the swing of the rate of accumulation at the end of the 1990s.

We would say that there is no paradox. This is because, as Freeman showed shortly afterwards, there has in fact been no upward trend in the first place. In 2012, Freeman showed that the apparent rise in the rates of profit in the cases of UK and US in the eighties was because necessary correction had not been made for 'financialization.' When financialization is taken into account, these assets function as money-capital and enter into profit equalization. The profits are indeed falling even in the US and UK. (See Alan Freeman, 'The Profit Rate in the Presence of Financial Markets: A Necessary Correction,' *Journal of Australian Political Economy*, no. 70 (Summer 2012), pp. 167–92)

This important work of Freeman contains the following two charts (see Figures 2 and 3 below), which show that in the corrected graphs the profit rates are consistently falling for UK and USA after 1980.

Thus, precisely where Dumenil and Lvy had pointed to a rise in the profit rate (i.e. in the 1980s), the corrected graphs show that the original falling tendency has continued. With this we come to the end of our discussion on the falling rate of profit. The ninety years of nitpicking at Marx's falling tendency had come to a close with the Bergamo Conference of 1994.

Early Marx had in his work *Economic and Philosophic Manuscripts* of 1844 raised the issue of Ricardo's law of the falling tendency of the rate of profit, and assuming this as correct had derived certain results about wealth under capitalism. Marx, in his work Volume III of *Capital*, published posthumously in 1894, had explained this law. *In this sense there is a wonderful continuity in the work of early Marx and late Marx.*

[Note: We only add here that the law of the tendency of the falling rate of profit helps us to understand the present reality,

Corrected Profit Rate for the UK Economy

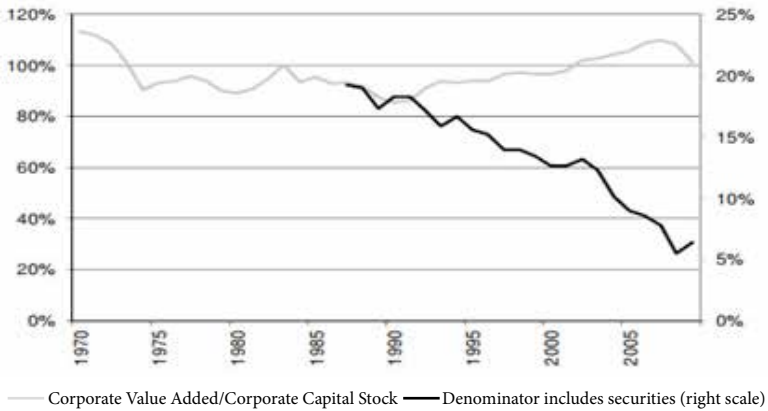


Figure 2

The Profit Rate in the USA

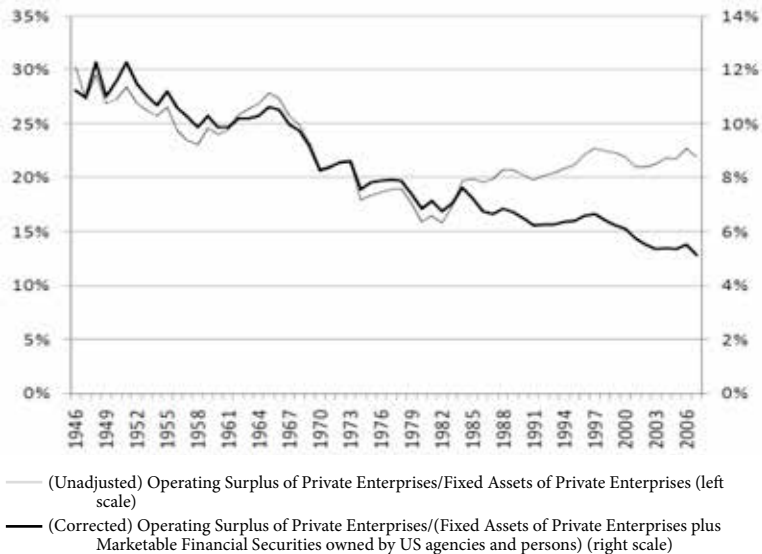


Figure 3

especially with respect to the great recession which has gripped the world capitalist economy in the past decade since 2007. In his recently published book, *The Failure of Capitalist Production: Underlying Causes of the Great Recession* (2012), Andrew Kliman

concludes on the basis of in-depth analysis of official US data, ‘after crunching the figures,’ that Marx’s theory based on the falling rate of profits can explain these events. Kliman’s careful data analysis shows that the rate of profit in the US did indeed decline after the post Second World War boom. He shows that free-market policies have failed to reverse that decline. This fall in profitability led to sluggish growth, mounting debt, desperate attempts to fight these problems by piling up even more debt—ultimately ending in the Great Recession. We may also add that in the recently published *The Bloomsbury Companion to Marx* (2018), Alan Freeman has this to say: ‘Provoked by the depth of capitalism’s third great historical crisis, awareness is growing that Marx’s theory offers, and always offered, an understanding of profit, class and crisis which is not only superior to Neoclassical theory, but of direct practical relevance to the generations living in the shadow of its failure.’ (p. 376)]

III

Difference Between Early Marx and Late Marx

And yet there is a *sharp break* between early Marx and late Marx, and that is in the matter of class struggle. The concepts of class struggle, or the leading role of the proletariat in bringing about a revolutionary transformation of capitalism into socialism, are not to be found in any of the earlier writings of Marx, whether we consider his doctoral thesis of 1841, his notes made during his stay in Kreuznach (the *Kreuznach Notebooks*) during 1843, or his well known work *Economic and Philosophic Manuscripts of 1844* (written between April and August 1844). The concept of proletariat and class struggle as the way forward makes its appearance in his later writings in Paris after he met Frederick Engels in September 1844.

Let us trace this concept of class struggle in his writings during his active life as a writer, thinker and political figure which spanned

four decades from 1842, when he published his first articles for *Rheinische Zeitung*, to 1875, when he wrote and circulated the *Critique of the Gotha Programme*. We consider the joint work of Marx and Engels, *The German Ideology*, written in 1845. In this book we have the first rudimentary expression of the class nature of the state, and the need for domination of the working class on it. It states:

Further, it follows that every class which is aiming at domination, even when its domination, as in the case of the working class, leads to the abolition of the old form of society in its entirety and of domination in general, *must first conquer political power* in order to represent its interest in turn as the general interest, which in the first moment it is forced to do. (pp. 52–53)

In 1848, in their *Manifesto of the Communist Party*, Marx and Engels give us a brief account of how the workers, who initially form a mere mass, gradually get converted into a class and finally become the gravediggers of capitalism:

At this stage the labourers still form an incoherent mass scattered over the whole country, and broken up by their mutual competition ... collisions between individual workmen and individual bourgeois take more and more the character of collisions between two classes ... The real fruit of their battles lies in the ever-expanding union of the workers ... [T]he organization of the proletarians into a class, and consequently into a political party, is continually being upset ... The advance of industry, whose involuntary promoter is the bourgeoisie, replaces the isolation of the labourers ... by their revolutionary combination due to association. The development of Modern Industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie, therefore, produces, above all, is its own grave-diggers. (pp. 54–60)

But further, they also make it clear in the *Manifesto* that the first step in the revolution by the working class 'is to raise the proletariat to the position of the *ruling class*, to win the battle for democracy' (p. 74). Here we have a statement of the political role the working class would have to take up in and after the revolution. This is not yet a clear enunciation of the concept of 'dictatorship of the proletariat'.

The matters become much clearer in Marx's writings after the Paris Commune of 1871. For example, it is spelt out in the preface to the German edition of the *Manifesto* in 1872:

... in view of the practical experience gained ... in the Paris Commune, where the proletariat for the first time held political power for two whole months ... one thing especially was proved by the Commune, viz., that the working class cannot simply lay hold of the ready-made State machinery and wield it for its own purposes ...

In the *Civil War in France*, written in 1872, Marx clarifies:

But the proletariat cannot, as the ruling classes and their different rival factions have done in the successive hours of the triumph, simply lay hold of the existent state body and wield this ready-made agency for their own purpose. The first condition for the holding of political power is to transform its traditional working machinery and *destroy it* as an instrument of class rule.

The clearest enunciation of the concept is to be found in his *Critique of the Gotha Programme* written four years after the Paris Commune:

Between the capitalist and communist society lies the period of the revolutionary transformation of the one into the other. There corresponds to this also a political transition period in which *the state can be nothing but the revolutionary dictatorship of the proletariat*.

This recognition of class struggle and its form in the dictatorship of the proletariat constitutes the major *break between early Marx and late Marx*. In fact we can state it in an aphorism: 'Late Marx is equal to early Marx plus class struggle plus more.' It is necessary, however, to explain what exactly Marx had discovered about class struggle. This is expressed in the following excerpt from his letter to Weydemeyer dated March 5, 1852:

And now as to myself, no credit is due to me for discovering the existence of classes in modern society or the struggle between them. Long before me bourgeois historians had described the historical development of this class struggle and bourgeois economists, the economic anatomy of the classes. What I did was to prove: 1) the *existence of classes* is only bound up with *particular, historical phases in the development of production*, 2) that the class struggle necessarily leads to the *dictatorship of the proletariat*, 3) that this dictatorship itself only constitutes the transition to the *abolition of all classes* and to a *classless society*.

Lenin, the leader of the first successful socialist revolution made a thorough examination of this concept in August 1917 as a practical requirement of the revolution they were preparing for. In his book *State and Revolution* he states:

It is often said and written that the main point of Marx's theory is the class struggle. But this is wrong ... [T]he theory of class struggle was created ... by the bourgeoisie, ... it is acceptable to the bourgeoisie ... To confine Marxism to the theory of class struggle means curtailing Marxism, distorting it, reducing it to something acceptable to the bourgeoisie. *Only he is a Marxist who extends the recognition of the class struggle to the recognition of the dictatorship of the proletariat.*

Lenin and his comrades were in the active work of creating a socialist society. They did not want a repetition of the Paris

Commune. So are the Chinese people and Communist Party trying to do today. So, whether it was in 1917 or it is in 2019, the importance and need for a long period of dictatorship of the proletariat cannot be gainsaid.

IV

Proletarian Socialism and Non-Proletarian Socialism

Socialism is bound up with class struggle. As Marx showed in Volume III of *Capital*, through the institution of credit the capitalist system itself opens up the possibility of creating huge accumulation as social capital (socially-owned capital). ‘This is the abolition of the capitalist mode of production within the capitalist mode of production itself, and hence a self-dissolving contradiction, which *prima facie* represents a mere phase of transition to a new form of production.’ The law of the tendential fall in the rate of profit, from the other side, shows ‘that capitalist production meets in its development of the productive forces a barrier which has nothing to do with the production of wealth as such; and this peculiar barrier testifies to the limitations and to the *merely historical, transitory character of the capitalist mode of production*’. The motive engine of capitalist production is the rate of profit, and this cannot be sustained without the destruction of capital itself as capital.

Socialism, as Lenin defined it for the understanding of the rural poor, means: ‘we shall take all the land and all the factories from the landlords and the bourgeoisie and set up a socialist society’. Now, private property and its protection are enshrined in the Constitution of India. Besides, the huge state apparatus stands behind this right to private property in the means of production. Hence, socialism cannot come without an intense class struggle between those who own the means of production and those who are property-less. But the property-less also have their rights

guaranteed in the Constitution. For example, the Preamble includes the aim of creating a 'socialist' republic. As Marx says, 'Between two equal rights, force decides.'

This is why the fight for socialism is bound up with class struggle and force. Lenin had suggested a two-stage approach to win socialism. The first stage is the democratic stage (people's democracy), and the second stage is the socialist stage.

The socialists in the world can be divided into two broad categories. Those who accept the Marxist theory of class struggle, the leading role of the working class, and the dictatorship of the proletariat, and those who do not. These two ideas of socialism may be called 'proletarian socialism', using Lenin's phrase (see Lenin, *On Marx and Engels*, p. 76), and non-proletarian socialism. In our country, for example, the year 1935 saw the inauguration of two formations, the proletarian socialists, under the communists, and the non-proletarian socialists under the leadership of Jayaprakash Narayan and others. How these two trends have developed is there for all to see.

In recent times, communist literature is finding a spate of writings by academic Marxists. The load of an academic Marxist university education weighs heavily on many writers. They bring out profoundly argued books on Marxism and its relevance to the twenty-first century. But they are seen to be avoiding comment on the two important subjects on which early Marx and late Marx spent their energies in youth and old age, namely, the falling rate of profit and the dictatorship of the proletariat. For those who want to avoid discussing the dictatorship of the proletariat, early Marx is convenient, and for those, who, ostrich-like, wish to ignore the observed fact of the falling rate of profit, academic Marxism is useful. This is a tragedy for the rising working class.

In summing up the discussion, and looking at the various attempts to inject the limited outlook of the early Marx into the working-class movement, we make the following observation. The

revolutionary working class is the salt of the earth and its flavour is true Marxism. We would repeat the question that Jesus Christ asked his followers: 'but if the salt have lost its savour, wherewith shall [the earth] be salted?'