

SURPLUS VALUE, PROFIT,
AND EXPLOITATION

The theoretic structure of Marxian economy was elaborated to provide an understanding of the laws of the motion of capitalism. The motion of capitalism, however, is nothing but the process of economic development under conditions of multiple centers of investment-decisions. It becomes, then, an interesting question to ask how much of the theoretic structure of Marx applies to the problems of economic development in general and how much is limited to those aspects alone which follow from the theoretically contingent condition of decentralized investment-decisions. It will not, therefore, be the primary purpose of this paper to examine the adequacy of the conceptual structure of Marxian economic thought, or even its relative advantages or disadvantages over the more widely accepted school, following the inquiries of Walras, Menger, Jevons, and others; but, rather, to assume the general framework of Marxian theory and attempt to seek an answer within its limits.

Having accepted the labor theory of value from the classical economists, Marx attempted to understand the phenomenon of capitalist production and explain the emergence of profit therein. The explanation, as is well known, was found in the fact that the labor-power which the

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capitalist engaged produced more value than it was paid for in terms of the value of its labor. This surplus value would have accrued to itself if the means of production had not been alienated by the conditions of capitalist production. The appropriation of the surplus value by the capitalist, depending as it does on the economically contingent fact of the alienation of the means of production from those who possess only their labor-power, is exploitation in the Marxian sense of the word. The appropriation of the surplus value provides also the foundation for the emergence of profit, even though it would be wrong to indentify the two, since the rate of surplus value is its ratio to the variable capital only, while the rate of profit is the ratio of surplus value to the total capital outlay which one incurs. It should, however, not be forgotten that “the absolute amount of profit is equal to the absolute amount of surplus value.”¹

The emergence of surplus value is thus the precondition for the possibility of exploitation and profit, and not vice versa. The surplus value merges, however, because the labor-power chooses itself or is forced to choose to work for a far longer time to produce goods of greater value than are necessary for its maintenance and reproduction at the prevalent standard of living in any particular society. It should be noted that the emergence of such a surplus is in no way dependent on the alienation of the means of production from labor-power except in the sense that under conditions of alienation the owners of labor-power are bound to be forced to produce such a surplus. But the condition, while *sufficient*, is not *necessary*, for the same phenomenon can be produced even when the condition is absent. It should, therefore, be clear that the confinement of surplus value to conditions of capitalist production is analytically unjustifiable. It is rather the immediate and direct result of the increase in productivity beyond the bio-social minimum which is, according to Marx, a precondition of capitalist production. This condition, however, merely permits, or makes it possible for surplus value to emerge, but in no way necessitates it. The crucial point is the forcing of oneself or being forced by others to work for a longer period in order to produce more value than would have been sufficient to live on at the former level. In short, with an increase in productivity, one may produce goods equivalent to the former value in less time, or work the same amount of time and produce goods of greater value. If the former choice be made the economy will be static; if the latter, developmental. The emergence of surplus value, thus, is a sign of a devel-

1. Karl Marx, *Theories of Surplus Value*. Selections (London, Lawrence & Wishart, 1951), p. 329.

oping economy and can be viewed, in fact, as merely another name for it.

The creation of surplus value by working more time than is necessary to reproduce the value of labor-power opens, however, not merely the possibility of an increase in customary consumption and thus in the course of time the customary value of labor-power, but also the possibility of an increase in the rate of economic development of a society. A large amount of surplus value, or even the whole of it, may be used as capital for investment rather than as revenue for consumption. And even where no substantial amount of surplus value exists in the economic system, it can be created by depressing the value of the labor-power to the biological minimum. The maximum amount of surplus value, however, would be available for capital investment where both the value of the labor-power was depressed to the minimum and the working day extended to the maximum. This is the condition for the most rapid rate of economic development which a society can achieve, provided it uses its surplus value for investment rather than consumption.

Such an appropriation of surplus value is, then, the determinant of the economic development of a society. The technical fact of appropriation or deduction is economically unrelated to such questions as *who* appropriates or deducts or in what *form* the appropriation or deduction takes place. The crucial difference lies in whether the surplus value appropriated is used for *investment* or *consumption*. Such a choice can be made only by those who own the means of production, or, to put it in operational terms, those who exercise direct effective control over them. It is, of course, true that such a decision would be immensely facilitated if the surplus value were appropriated from the labor of others, for then the sacrifice would not be made by oneself. The decision, however, does not depend on that condition, just as, when surplus value is appropriated by oneself out of one's own surplus labor, it does not necessarily follow that it will be used for consumption rather than investment.²

Thus while the decision between consumption and investment out of the deducted surplus value is the crucial one for the rate of development of an economy, it remains true that whoever makes the decision would be in a privileged consumption-position whatever be the direction of his decision.³ This position of being the privileged consumer follows directly from

2. The cultural factors influencing such a decision are not mentioned here as they are outside the conceptual framework of Marxian economy.

3. Leaving aside the limiting case when the whole of surplus is reinvested and no portion of it is consumed.

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the strategic role that the persons who make the decision occupy in an economy. It should be noted that the role is indispensable for the functioning of a developing economy, though the fact of privileged consumption follows merely from the fact of deduction or appropriation of surplus value. But when the deduction is made through the value of one's own surplus labor and the decision is made by one's own self, there seems to be a justification⁴ for the privileged consumption-position of the person who makes the decision. When, however, appropriation is done by persons who play no part in the production-process, except that of making investment-decisions, it is difficult to see the justification for their privileged consumption-position. Whatever this may be, it remains a fact that there would be the greatest probability of such persons apportioning to themselves a privileged consumption-position in the distributive apparatus of an economy. Such a probability follows not from any economic or sociological necessity but rather from the psychological fact that most persons would like to maximize their satisfactions if they can do so.

The problem of "justification," in fact, depends on the answer to the question whether the person or persons who make the investment-decisions create "value" in the Marxian sense of the word. It is difficult to determine what measurable labor is involved in investment-decisions. According to Dobb, "As used by Ricardo and Marx the conception of labour was an objective one; labour being conceived as the expenditure of a given quantum of human energy."⁵ It is well known, however, that the expenditure of an objectively measurable quantum of human energy is in itself insufficient to create economic value. This expenditure is the common denominator of all activity and can in no way be the basis for the distinction between different kinds of activities. When Marx denies to the capitalist the function of creating value, he surely does not mean to deny the "expenditure of a given quantum of human energy." The denial of the value-creating role follows, perhaps, from the capitalist's essential *dispensability* to the process of production. This dispensability is technical and economic rather than social in its nature. For Marx generally grants that the capitalist is indispensable in his social role at least at a particular level of a society's socio-historic development. This social indispensability does not, however, grant him the value-creating privilege in the theoretic structure of Marxian economy.

4. This "justification," of course, has nothing to do with economics.

5. *Political Economy and Capitalism* (London, Routledge & Sons, 1937), p. 13.

The capitalist, however, is merely a name for the bearer of certain functions which cluster around the concepts of commercial, industrial, and finance capitals. These functions belong to the areas of marketing, entrepreneurial, managerial, and investment-decisions. Deeper than these are the function of the capitalist to appropriate surplus value and to accumulate capital, both of which are indispensable for a developing economy, and if indispensability to the productive process be the criterion for value-creation, it is difficult to see how it can be denied of the capitalist, who exercises all these functions. The combination of these different functions in the same individual or their dispersal among different persons can be no ground for forgetting their indispensability to the economic process.

Whatever the criterion for value-creation that we employ, it would apply equally to all persons who perform the same functions in the working of an economy. The linguistic designation, for example, of the person or persons who make investment-decisions in different economies would be irrelevant for the question whether they create value or not. It is necessary to insist on this point since many Marxist economists seem to imply that the persons performing such functions in a socialist economy would be creating value, while their counterparts in the capitalistic system would not be doing so. If value is being created by the labor of persons who are performing such functions, it is being equally created by such persons in both the societies; if not, it is being created in neither of the two.

The point is an important one, since the related concepts of “productive” and “unproductive” labor depend upon it. Marx wrote: “*Productive labour is, therefore—in the system of capitalist production—that which produces surplus value for its employer, or which transforms the objective conditions of labour into capital and their owner into a capitalist; and therefore, labour which produces its own product as capital.*”⁶ This characterization can equally well apply to any economic system which is not just reproducing itself. The production of surplus value and its alienation are two different things even if it be a fact, as in the case of capitalist production, that the two are intimately related to each other. The confinement to conditions of capitalist production leads further to the failure to see that such an intimate relation may obtain in conditions which are apparently different from the capitalistic. All labor must produce a part of its own product as capital even for conditions of static reproduction. It is only when surplus value is transformed into capital that we have productive

6. *Theories of Surplus Value*, p. 181. (Italics author's.)

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labor in the system of capitalist production. But transformation of surplus value into capital has no necessary relation to capitalistic forms of production. If this were so, a socialistic society could not even start on any program of economic development, which is merely another name for the transformation of surplus value into capital. The persons who perform that function do not, according to Marx, perform any "productive labor" in the economic system. He confined his statement to those who perform such a role under conditions of capitalist production, but such a limitation is analytically unjustifiable, as the role is not necessarily limited to capitalistic conditions only.

The labor of persons who perform such roles is not merely "unproductive" in the sense that they do not create any surplus value which is transformed into capital, but also "unproductive" in the broader sense that it does not create any value at all. These people, then, even though they perform indispensable functions in the process of production, belong to the class of "pure consumers," since they do not create any value. The class of "pure consumers," it can readily be seen, depends on our criterion of value-creation. The Marxian interpretation of the "labor-criterion" would, perhaps, include the managerial function as falling under the criterion and exclude the commercial, entrepreneurial, and investment functions from its possible range. The administrative police and military "labor" of running a society would hardly be even considered as a claimant. It may be true that the economic system of production may not even function without the relatively successful functioning of the political system, but this would in no way result in what may be called "political labor" creating "economic value."

Such a consequence, it should be noted, is confined in no way to the political structure of a capitalistic society. Whatever be the social system, the workers "laboring" in the "political" area of a society cannot be considered as creating value in the Marxian sense of the word.⁷ It should be remembered, in this connection, that Marx, when computing the value of labor-power, included what may be called the "biological costs" only. That there were "social costs" to be incurred if any person were to live, he conveniently forgot to take into account. It would certainly have been inconvenient to consider a part of the administrative, civil, and military costs as belonging to the value of labor-power. The reasons for such a denial are well known, but what is perhaps not equally well known is the

7. If by some reinterpretation "political labor" is considered to create "economic value," it would do so in every society, including the capitalistic.

fact that these reasons cannot be confined merely to the capitalistic system of society. If they are true they would apply to every society; if not, they would apply to none. The existence of military costs, for example, follows from the fact that there are other groups besides one's own in the world. A capitalist, Communist, or Fascist state would not need a large army if its sway stretches round the whole world; if it does not so stretch, it is bound to keep an army whether it likes it or not. The police would function in any complex society even if it extends round the globe. The administrative functions also would increase rather than decrease. If these roles, then, are merely value-consuming and not value-creating, they would be so in every society.

The presence of such a large class of pure value-consumers would insure the fact of "exploitation" in every society. These persons can consume only by appropriating to themselves the surplus value created by the labor-power of others. The forms of appropriation may be different in different societies, but the fact of appropriation lying behind the veils of these different forms can be directly inferred from the existence of a class, which, by definition, cannot create any value. The fact of appropriation, it should be noted, is distinct from the question whether a part of what is appropriated is used as capital and invested for further production. It may be so used, or it may not be. The fact is merely a function of our criterion and the existence of persons who do not satisfy such a criterion. If there are such persons in any functioning social system, then the existence of "parasitic exploiters" would almost be inevitable in any society.

The use of what is appropriated as capital and its reinvestment for productive purposes, however, shows that exploitation may also result in economic development. Though we cannot infer from the fact of exploitation the fact of economic development, the converse does not hold true. If there is economic development we can always infer exploitation, for it is merely the appropriated surplus value used as capital for investment rather than as revenue for consumption. This relationship of economic development to exploitation in the Marxian sense cannot be confined, by the very nature of the case, to conditions under capitalism. The relationship is intrinsic and is related only contingently to the social forms under which the economic development occurs. The difference of social conditions within which the development occurs would be reflected more in the form rather than in the content of exploitation. It should be remembered that the so-called "expropriation of the expropriator" is not exploitation but merely a transfer of the locus of exploitation from one set of exploiters to another.

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The old exploiters did not create any value and, thus, could not be exploited in the technical sense of the word. But the new set of persons who expropriate the expropriators does not create any value either and thus can merely transfer to itself what the previous set used to expropriate.

The fact that the new set uses the appropriated surplus value for economic development cannot make any difference to the essential situation, for it is generally agreed that the previous set of exploiters operated in the same way. The mere function of using the appropriated surplus value for economic development, as we have already pointed out, does not create any value in the theoretical framework of Marxian economy. The exercise of the function by a new set of persons, therefore, does not change the situation in any essential aspect with respect to the fact of exploitation.

The problem of economic development under socialism and, thus, the related problem of exploitation in that society, did not engage the attention of Marx. The sufficient reason for such neglect lay in his belief that the socialist revolution would take place in a society where the productive forces would have developed to their utmost under conditions of capitalism, and only then would they have become fetters for further development of production. On the one hand, there was the feeling that the capitalist system of production would have developed the productive capacity to such an extent that what was required for the all-round economic well-being of the people was a mere change in the ownership and distributive system of the society. This is what is technically known as the problem of "underconsumption" in Marxian economy. On the other hand, there was also the feeling that in its developed stages, the capitalistic system would not be able to increase or even utilise the existing productive capacity of the system. This is what is known as the "falling-rate-of-profit" aspect of the Marxian theory. While both the aspects follow logically from the Marxian theory, it may be said with fair accuracy that Marx did not conceive a very wide gap between the productive capacity of the developed capitalist system and the desirable consumption standards of the whole of the people. If it were not so, the problem of developing the productive capacities of an economy under socialist conditions to insure a fair consumption standard for all would certainly have engaged his attention. In fact, Marx was in the happy position of assuming that the dirty job of exploiting the peasantry and the proletariat would already have been done by the capitalists who, in pursuing their rate of profit, would have created an industrial apparatus and technology capable of raising production to unknown heights, so that the socialists, in taking control, would get all the

glory by merely distributing equitably the goods thus produced. This is what is known as the historic function of capital and to which that glowing tribute in the Communist Manifesto has been given.⁸

The situation, however, completely changes if it is granted that the socialist revolution may occur in an economy where the productive capacity has not been developed to the “saturation point” by the capitalist entrepreneurs. As is well known, such a possibility has not merely been granted in the Marxist literature after the experience of the Russian Revolution but has already assumed the form of a law stating that it is the weakest link in the chain rather than the strongest that breaks first.⁹ This is merely a roundabout way of saying that the productive capacities of such a society are completely undeveloped in relation to the productive performance of the most developed societies and that the task of the so-called socialist revolution would be, at least at first, to develop productive capacity.

It has generally been granted that the historic function of capital was just such a development of the productive system of the societies which are now considered as the strongest links in the chain of capitalism. It would, therefore, be interesting to know whether the socialistic performance of the same function involves the same basic mechanisms differentiated only by the fact that it has merely to repeat what capitalism had to create.

The pattern of capitalist development is fairly well known. So also is the performance of socialism in the Soviet Union. But what has perhaps not been observed or, at least, not emphasized, is the basic similarity between the two, as indicated in the proletarianization of the peasantry by land-enclosures, the creation of wage-labor by making it impossible for handicrafts to survive, the indirect exploitation of even the existing peasantry by cheaper bread and more costly manufactured goods, the increasing capitalization of agriculture, the intensive use of labor, and even forced labor in certain areas of the economy—in short, all the diverse ways and means to appropriate surplus value from those who create it. The human suffering involved is described with biting vigor in the first volume of *Capital*, but the author of those passages did not or could not imagine that one day those very means would be used and that suffering imposed under his august name.

8. Joseph Schumpeter noted it in his well-known article on Karl Marx, *Ten Great Economists* (London, Allen & Unwin, 1952), p. 8. Paul Sweezy has also mentioned it in his *Socialism* (New York, McGraw-Hill, 1949), pp. 111–12.

9. We are not interested here in considering how far the introduction of such a law is consistent with the theoretic structure of Marxian sociology and philosophy of history.

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The differences that are generally emphasized are the state-direction of the process of development and the immense shortening of time in which the development has taken place. The heavy investment in capital-goods rather than consumer-goods industries is defended by considerations of defense and the requirements of a faster rate of economic development. The suffering is explained primarily in terms of the pre-socialist mentality of the peasant. It can easily be seen that some of these characteristics are common to socialist and non-socialistic economies and that others follow more from the fact that the economic development is belated and, therefore, copied and not created.

It is well known, for example, that the industrial development in France or Germany or pre-socialist Russia was not carried out under the auspices that prevailed in the case of England. It was the banks of the *crédit mobilier* type which functioned as the instruments of industrialization in France. It should be remembered that "the difference between banks of the *crédit mobilier* type and commercial banks in the advanced industrial country of the time (i.e., England) was absolute."¹⁰ Similarly, in Germany it was the type known as the universal bank which was the instrument of industrialization. In Czarist Russia, where the backwardness was so great "that no banking system could conceivably succeed in attracting sufficient funds to finance a large-scale industrialisation," it required "the compulsory machinery of the government, which, through its taxation policies, succeeded in directing incomes from consumption to investments."¹¹ The same contrast in the auspices under which the imitative industrialization took place can be noted within the two halves of the Austro-Hungarian monarchy. As Mr. Gerschenkron has pointed out, it was in the relatively more advanced part of Austria proper that "the banks could successfully devote themselves to the promotion of industrial activities," while, "across the Leitha River, in Hungary, the activities of the banks proved altogether inadequate, and around the turn of the century the Hungarian Government embarked upon vigorous policies of industrialization."¹² Canada is the other example where a large part of economic development had perforce to be done under state auspices. As W. T. Easterbrook has written, "what followed could be described as a period of planned expansion, with a great

10. "Economic Backwardness in Historical Perspective," Alexander Gerschenkron in *The Progress of Underdeveloped Areas*, ed. Bert F. Hoselitz (Chicago, University of Chicago Press, 1952), p. 12.

11. *Ibid.*, pp. 18-19.

12. *Ibid.*, p. 19.

deal of state control of a very direct sort over the rate and the course of growth from the 1870's to 1914."¹³

The auspices under which the industrialization has taken place in the Soviet Union is, thus, in no sense unique or peculiar to socialism, as many writers seem to think. Even the direction which such an industrialization has taken is hardly new. "The Russian Government of the 'nineties," for example, "did not evince any interest in 'light industry.'"¹⁴ In Germany, the banks were primarily attracted to coal-mining, iron and steel making, electrical and general engineering, and heavy chemical industries. The shortening of time and the related high speed of development are more a result of borrowed technology than characteristics specific to socialist development. The case of Japanese industrialization in the East points also to the same conclusions. As for the explanation of human suffering in terms of peasant mentality, it should be remembered that the majority of persons in the underdeveloped economies are peasants and that the so-called explanation would be equally valid for the suffering of the people in the early stages of capitalist development.

It is extremely unlikely that the bourgeois economists of Marxist persuasion are not aware of these similarities, but they consistently refuse to apply the Marxist categories to the situation of economic development under socialism, since these categories, though supposed to be purely descriptive or analytic in their nature, have a strong emotional significance, mostly of a negative character, attached to them. For example, "the disposition of numerous small owners and the creation of a proletariat" are, for Dobb, "the condition *sine qua non* for the capital-investing process."¹⁵ But this description would be confined mostly to places where he is describing capitalist development. When he wrote of socialist development, however, he would use the more innocent phraseology that there is required, for example, "large increase in the labour-force engaged in industry and on construction, and consequently a rapid growth of the urban population."¹⁶ Similarly, he would not write that the investments under the Soviet Union plans were largely financed by the direct and indirect expropriation of value from the peasantry, but rather that they "were largely financed by a fall in the *relative* share of agricultural production consumed

13. "State Control and Free Enterprise in Their Impact on Economic Growth," *The Progress of Under-developed Areas*, p. 63.

14. *Ibid.*, p. 19.

15. *Some Aspects of Economic Development* (Delhi, Ranjit, 1951), p. 16.

16. *Ibid.*, p. 69.

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by its producers,” and that this did not require a fall in the absolute share consumed (except for rather special reasons in the two bad harvests of 1931 and 1932).¹⁷ Such statements can be multiplied to one’s heart’s content. The problem of exploitation, for example, becomes the problem of sacrifice, even though the majority of the persons (e.g., the peasants) may be opposed to it, and the persons enforcing the sacrifice through police, secret service, and the military may have nothing to lose and everything to gain from such sacrifice on the part of others.

The problem of exploitation under socialism is not much discussed by Marxist economists, although, as we have seen, the word has a purely technical significance in the theoretic framework of that economy. It is generally utilized, however, only for the description of pre-socialist economies because of the strong emotional overtones attached to it. It does not, however, require much ingenuity to see that if there are any persons in a society who do not create value, there must be exploitation in that society, or that if there is a more or less rapid rate of capital construction, there is equally present more or less of exploitation. Dobb has written, for example, that, “A socialist economy would clearly be ruled by the aim of augmenting its capital construction at a more or less rapid rate until the ‘saturation point’ of capital-equipment was reached—that is, until no further gain in productivity would result from using labour to embody itself as ‘stored-up labour’ where only the use and maintenance or replacement of existing plant and equipment took place; and where the whole current net output of labour could accrue to labour as current consumption.”¹⁸ It is clear, therefore, that exploitation can cease only when “the whole current net output of labour would accrue to labour as current consumption.” This is essentially the picture of a static economy and Dobb admits in the footnote that “so long as technical discovery continued, this point would probably never actually be reached; but it would continually be a goal which would be approached.”¹⁹ Leaving aside the questionable desirability of a goal whose precondition involves the complete sterility of

17. *Ibid.*, p. 75. (Italics author’s.) It should be noted that Mr. Dobb has merely written that the fall in the relative share did not require a fall in the absolute share—which is logically unimpeachable. He does not say, however, that it did not fall. As for the “special reasons” and their intimate relation to the enforced proletarianization of the peasantry as well as the related problem of de-kulakization, the reader is referred to the recent study of the whole question, *Communism and Peasantry*, Ramswarup-Prachi Prakashan, Calcutta, 1954.

18. *Political Economy and Capitalism*, p. 283.

19. *Ibid.*, p. 283. The similarity to Schumpeter’s concept of “innovation” and its relation to economic development and profit should be noted.

scientific knowledge and its virtual cessation as well as the question of the empirical meaningfulness of a goal that can be approached but never realized, Dobb has granted, in so many words, the inevitability of exploitation until such a condition is reached.

He has likewise failed to see that the concept of “saturation-point” of capital-equipment is itself a function not merely of existing technical knowledge but also of population and standard of living. If we assume a static standard of living or, say, a declining one, we can quickly reach the saturation-point; if, on the other hand, we assume it to be a rising one, it would be difficult even to conceive of a saturation-point. The same considerations would apply to population. The essential point is that the concept of a saturation-point cannot even be defined without a reference to population and standard of living. Thus, unless we assume these two to be static, the saturation-point cannot be reached and exploitation cannot be eliminated.

The achievement of Dobb’s saturation-point is menaced from another side, if Marx is taken to be correct. He writes: “Where capitalist production is developed—that is, the productivity of labour; that is, the constant capital; that is, especially the portion of the constant capital which consists in fixed capital—the mere reproduction of the fixed capital in all spheres, and the parallel reproduction of the existing capital which reproduces fixed capital, forms an accumulation fund. . . .”²⁰ This seems to mean that reproduction of capital leads inevitably to its accumulation, i.e., increase. The restriction of the phenomenon to conditions of “capitalist production” is purely accidental, as can be readily seen from the quotation itself. What matters is the existence of that “portion of the constant capital which consists in fixed capital” in large quantities and not the social conditions under which the production is taking place. If, then, it be true that mere reproduction of fixed capital leads to its accumulation, it would be impossible to conceive of a saturation-point ever being reached. In fact, any situation where “*only* the use and maintenance or replacement of existing plant and equipment took place” would become increasingly impossible as we would try to approach it, for the more fixed capital we would have the more we would accumulate just by reproducing it.

However, even if such a saturation-point is reached in a particular society, and even if it be granted that all adult persons, excluding children

20. *Theories of Surplus Value*, p. 369.

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and invalids,²¹ create value, it would not necessarily mean the end of exploitation in such a society. The differential distribution of income involving a differential standard of living for different classes of people would most probably imply exploitation in the Marxian sense, as it is extremely unlikely under conditions of free mobility and free opportunity that whole classes of people and not merely marginal individuals would create unequal amounts of value. If, on the other hand, there is not free mobility or free opportunity, exploitation is there for everyone to see.

But even if there is no differential distribution of income in such a society, does it necessarily follow that no appropriation of surplus value occurs? No; since according to Marxian theory, if such a country engages in trade, it would be either exploited or be the exploiter in such a relationship. The situation follows merely from the fact of trade or, rather, trade with a country which is under- or over-developed in relation to oneself. As Dobb says: "Super-profit in Marx's sense can arise, it would seem, as much from free and unregulated exchange between countries of *different productivity* as from regulated exchange or from foreign investment; and hence is a product in some measure of most international trade."²² Thus, if there are countries of different productivity, and if there is trade between them, there is also bound to be exploitation between them. The only way out under such conditions would be that either there is only one country in the world or that all are equally developed or that there is no trade between them. Only when one of these conditions is fulfilled, the exploitation arising from this source can cease.

The conditions for the cessation of exploitation in the Marxian sense are thus:

1. The achievement of saturation-point of capital-equipment. This involves: (a) static population; (b) static standard of living; (c) cessation of technical discovery and scientific knowledge on which it depends—in short, the elimination of J. B. Clark's "five kinds of change which are constantly in progress."²³ Such a condition is impossible of achievement,

21. The case of adult women who would not be doing any wage-work in a society would be peculiar. Will they have to be classed with pure consumers or as productive laborers in the field of reproduction?

22. *Political Economy and Capitalism*, p. 228. (Italics author's.)

23. The changes mentioned are the following: (i) Population is increasing; (ii) Capital is increasing; (iii) Methods of production are improving; (iv) The forms of industrial establishment are changing; (v) The wants of consumers are multiplying. Quoted from "The Distribution of Wealth," p. 56 in F. H. Knight's *Risk, Uncertainty and Profit* (Boston & New York, Houghton Mifflin, 1921), p. 33.

according to Marx, if a large proportion of fixed capital exists, as its very reproduction would lead to accumulations. 2. The lack of differential distribution of income in a society. 3. The virtual or actual exclusion of such a society from trade-contacts with other differentially developed societies. 4. The non-existence of persons who do not create value in the Marxian sense of the word.

All these conditions are of great importance for a full understanding of the concept of exploitation in Marxian economy. But it is the fourth one that is crucial for the whole theory and we suggest that it is an impossible condition for any society to fulfil. If any reinterpretation of the concept of value is attempted to make the socialist society fulfil the fourth condition, it would, we suggest, destroy the whole Marxian structure at its very foundation. How little this point is appreciated can be seen, for example, by an examination of Maurice Dobb's first simple axiom of economic law in a socialist economy. He writes: "First of such postulates is the simple axiom that the total money-value of finished consumers' goods must equal the total of wage-incomes over a given period (assuming that wages are the only form of personal money-income and that no part of personal income is voluntarily hoarded)."²⁴ Given the assumptions, the axiom is a tautology, and if the phrase "given period" be interpreted with sufficient elasticity, it would be true of capitalism also. But what is of greater importance is Dobb's covert assumption that all personal money-incomes are "wages," i.e., economically homogeneous in character. By making such a statement, he implies that all are value-creating in the Marxist sense—a contention that needs strictly to be proved rather than assumed without even explicit mention.

The existence of exploitation in the formal, technical sense of Marxian economy would, perhaps, be admitted by these thinkers. They may even go so far with us as to admit the impossibility of such technical exploitation being absent from any complex society. But they are sure to point out that such exploitation is motivated by the individual's lust for profit in a capitalist economy, while it is used for the collective good of the people by their representatives in a socialist system. Dobb says, for example, "It is the class character of capitalist economy which determines that its *leit-motif* should be profit—the augmentation of surplus-value. . . ."²⁵ "By contrast,

24. *Political Economy and Capitalism*, p. 322.

25. *Op. cit.*, p. 332.

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in a socialist economy profit as an income-category ceases to possess any significance as an economic incentive or as an interest which shapes and limits policy, for the reason that it ceases to exist as a personal revenue.”²⁶ Such statements can be found in abundance in all books on socialism, and, thus, deserve the consideration of any serious student of the subject.

The term “profit” in the Marxian economy means “surplus value” and the “rate of profit” means the ratio of surplus value to the total capital, including both constant and variable capital. Now it is very difficult to see that “the augmentation of surplus-value” is the *leit-motif* of a capitalist economy only unless the socialist society is, by definition, that where the so-called saturation-point has been reached. Dobb himself has admitted that “A socialist economy would clearly be ruled by the aim of augmenting its capital construction at a more or less rapid rate.”²⁷ There does not seem much difference in “the augmentation of surplus-value” and “the augmenting of capital-construction.” The latter necessarily presupposes the former, though the former does not necessarily involve the latter. In the case of capitalism, however, the converse also holds true for the most part.

The mistake seems to arise from thinking of “profit” as a form of personal revenue as is evidenced in the second quotation from Dobb. Under capitalism, only a part of the appropriated surplus value is used as revenue for consumption. The rest is used as capital and reinvested for production. If some individual uses it as personal revenue, *ipso facto*, he ceases to be a capitalist. The emphasis on the word “personal” is equally mistaken, for the problem of “profit” is not a problem in micro-economics, but in macro-economics. If it had not been so, Marx would not have commended the physiocrats for transferring “the investigation into the origin of surplus value from the sphere of circulation into the sphere of direct production,”²⁸ for the individual’s profit can always be understood in terms of the former. One man’s gain may be understood by another person’s loss, but it cannot suffice for the whole of economy as they cancel each other out.²⁹

Profit, then, is neither personal nor revenue in the framework of Marx-

26. *Ibid.*, p. 334. This statement is extremely ambiguous. It leaves the possibility open that profit occurs in a socialist economy but does not play a decisive part since it does not form a part of private revenue. As public revenue, perhaps, it does not matter much for the system.

27. *Ibid.*, p. 283. (Italics author’s.)

28. *Theories of Surplus Value*, p. 45.

29. We are ignoring here the lack of perfect knowledge and perfect mobility without which, perhaps, even such a profit would not occur.

ian economy. It is merely the appropriated surplus value by persons who do not create any value themselves and use a major part of it for reinvestment as capital and a minor part for consumption as revenue. These two parts are generally included under the identical term “profit,” but for analytical purposes it is of the utmost importance to distinguish them. To say, then, that the capitalist is motivated by profit is merely to say that he is ruled by the aim of augmenting capital construction at as fast a rate as possible. He is merely a functionary or instrument of capital accumulation and it would be too crude a mistake to be deceived by the apparent veil of individual capitalist’s pursuit and appropriation of profit in the market. It is difficult to imagine how any total economy can be motivated by anything except profit unless it has reached an absolutely static state—a point admitted by every bourgeois economist worth the name. A non-profit economy and a static economy are the same: they are merely different descriptions of an identical state of affairs.

It is, of course, true that the appropriation is made under perfect legal forms and by persons who themselves do not create any value. It is equally true that such persons enjoy a privileged consumption-position with respect to the goods and services that a society can command. But these are hardly the conditions in which a socialist society is, or could be, very different from the capitalist. Dobb writes: “Moreover, since wages in one form or another are the only form of income, social incentives will be exclusively associated with work, and the sole aim of economic policy will presumably be to increase wages at the most rapid possible rate.”³⁰ The ambiguity on which such writing sustains itself should be clear to anyone who cares to analyze. If the income of persons who appropriate surplus value and make decisions with respect to its investment as capital is called “wages” and thus assimilated to the earnings of the laborer or the peasant from whom it is appropriated, then certainly it is true that “in one form or another” wages are the only form of income in any society. But the crucial turn lies in that phrase “in one form or another” and the unwary reader concurs without noticing the turn. If both the laborer’s and the Gosplan and Politburo’s members’ labor is called “work,” then certainly the social incentives will be exclusively associated with work. But does Dobb imply by the creation of this homogeneous category that both are “value-creators” in the Marxian sense of the word? If so, he should have explicitly stated this revolutionary transformation of Marx’s fundamental concept

30. *Op. cit.*, p. 334.

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and taken full responsibility for such an innovation. He would, then, have found that the so-called “work” and “wages” would be the only thing in any society, for his definitions would have become so extensive as not to exclude any activity from their domain. Having created the homogeneity of “work” and “wages” through an implicit redefinition of concepts, he moves innocently to the conclusion that “the sole aim of economic policy will presumably be to increase wages at the most rapid possible rate.” The conclusion follows inevitably if the society has not already reached the saturation-point and the qualifying phrase “presumably” seems just superfluous. But the delicate question as to whose wages are to be increased remains unasked, both by the author and the reader. Dobb speaks as if there is no differential structure of wages, as if an increase of wages means an increase at all levels, and the reader accepts this as if it really were so.

The possibility of appropriation is derived primarily from the fact of the alienation of means of production from those who own just their labor-power. This is continuously emphasized in Marxist literature with respect to capitalism. But the equal prevalence of that fact under socialism is conveniently forgotten. The legal fact of the ownership of the means of production by the state should not be allowed to veil the fact that the conditions of production are effectively alienated from the labor-power, which has only the liberty to starve if it refuses to work under conditions imposed by others.

It is generally contended that the gulf of alienation is bridged in this case by the representative character of the persons who make crucial decisions with respect to appropriation and investment. The term “representative” is derived from the dictionary of political vocabulary and is primarily used for describing a government elected periodically on the basis of secret, adult, universal franchise from the competing parties, groups of individuals which have a fair amount of freedom to propagate their rival views before the electorate. When the term “representative” is used for the socialist state, however, it means no such thing. It is merely a synonym for the “dictatorship of the proletariat” or rather the “dictatorship of the *élite* of the communist party,” which is the true representative of the proletariat. It should be noted that even the dictatorship of the proletariat would be dictatorship of the minority, since in the so-called “weakest links of the chain,” proletarians, if we except the peasantry, are few in number.

It is also usually argued that large-scale technique and complex productive relations necessitate such an ownership by the state. Dobb, for ex-

ample, writes: "Since a régime of large-scale technique and complex productive relations could not revert to petty property and the small-scale production which this entailed, the negative act of expropriation must necessarily take the positive form of socialisation, in the sense of the transference of land and capital into the collective ownership of the workers' state."³¹ But he has forgotten that in underdeveloped economies, which are the weakest links in the chain and where socialist revolutions are supposed to take place, no such large-scale techniques or such complex productive relations exist and, thus, the question of reverting cannot arise. The problem is not one of reverting but of the appropriation of surplus value for purposes of investment or consumption—in short, of exploitation. This cannot be performed without the alienation of the conditions of production from labor-power. The collectivization of the peasantry and the liquidation of the Kulaks³² was not necessitated by the difficulty of reverting but by the difficulty of exploiting. In fact, even in spheres where large-scale production is economically wasteful, the socialist governments have shown little solicitude for encouraging them or even letting them be. It has generally remained unnoticed that the theoretic structure of Marxian economy can equally well lead to an attempt at the widest possible individual ownership of the means of production, based upon the invention of a technology which can simultaneously improve production and be of such relatively low costs as to be within the means of most individuals or small groups of individuals. Those areas of production where such a technology is impossible of achievement can be owned by the state which should represent the people, not in some metaphysical sense, but in the ordinary sense of common political usage.

It seems, therefore, that neither the so-called difficulties of reverting nor the real representative character of the state do, in the least, mitigate the exploitation on which the economic development in a socialist economy is based. Nor is the situation any different with respect to the privileged consumption-position or persons who themselves do not create any value. If anything, the facts are clearer and the veil thinner than under capitalist conditions. The differences, we suggest, emanate primarily from the fact that the economic development under socialism is imitated rather than created and because it is in the one case socialism, in the other capitalism.

31. *Op. cit.*, p. 77.

32. The Kulaks are regarded generally as rich peasants. But "in the south, in the 'thirties, a peasant was a Kulak, if he owned more than a horse, one cow, and more than five hectares of land," *Communism and Peasantry*, Ramswarup, p. 45. Also Chapter IV, *passim*.

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In any case, the differences are minor when compared with the basic similarities revealed by an analysis that uses the Marxian concepts to illuminate the phenomenon of economic development under its various forms. How far those similarities reflect on the adequacy of the theoretic framework and the consequent value-judgments based upon it is another question and can hardly be answered here.