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Production vs. Realisation: A Critique of Fine and Saad-Filho on Value Theory

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Abstract
This article assess two important recent books on Marx's political economy and argues that, despite many virtues, there are some crucial limitations in their approach to Marx's political economy. Ben Fine's and Alfredo Saad-Filho's *Marx's 'Capital'* and *The Value of Marx* by Saad-Filho place too much explanatory weight on the composition of capital, giving too little attention to Marx's analysis of money, and to the processes of circulation and realisation.

Keywords
Marx, profits, capital, composition of capital, money, Fine and Saad-Filho

This article assess two recent books by Ben Fine and Alfredo Saad-Filho, and argues that there are some crucial limitations in their approach to Marx's political economy. As part of that critique, I sketch an alternative perspective. I start with some comments on the introduction to Marx's *Capital*, written by both authors, which appeared in 2004. The earliest version of this book, called *Marx's 'Capital'*, was published by Fine in the 1970s and now appears, with Saad-Filho as co-author, in a revised and greatly extended fourth edition. This new version has the restriction of containing no quotations from Marx or anyone else and no footnoted references. But, by sacrificing these, the authors have been able to achieve a compact, lively and approachable presentation of many of the main themes of *Capital* in a 50,000 word text. Difficulties are not evaded and there are chapters which comment on some of the major theoretical debates of the past three decades – on the falling rate of profit, or the transformation problem, to give two examples. Notably, Fine and Saad-Filho clarify what is distinctive about Marxist political economy through a running critique of the ideological assumptions on which mainstream economics is based. This makes their book of direct use to readers looking for a antidote to the 'Economics 101' or A-level courses they have had to endure,

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and gives helpful guidance for further reading provided at the end of each chapter. The book will be widely used as an introduction to Marx's political economy in the years ahead, and its influence on how *Capital* is interpreted is likely to be considerable. It is therefore important that its account of Marx should be subject to critical discussion. I will also engage *The Value of Marx*, a theoretical text by Saad-Filho in which he reviews some of the debates about Marxist value theory in recent years and explains in some depth his own distinctive approach.[1] In addition, I comment briefly on an outstanding introduction to Marx's political economy by Michael Heinrich, published in Germany in 2004.[2]

Fine and Saad-Filho's introduction to Marx's *Capital* is based on a well-argued clarification and defence of the labour theory of value, developing the theme that abstract labour is not a category imposed by theory, but reflects the dynamics of a capitalist economy in which

> different concrete labours are regularly, systematically and necessarily brought into equivalence with each other in production as well as exchange.[3]

In an excellent preliminary chapter on Marx's method, Fine and Saad-Filho emphasise that the general pattern of the argument in *Capital* involves a movement from abstract categories, stage by stage, to the development of a more concrete, detailed account. Marx's dialectical thought establishes connections between a starting point of abstract concepts and

> a careful unfolding of their historical and logical content to reveal the relationship between the way things are and the way they appear to be.[4]

They correctly insist that it is crucial to be clear about the level of abstraction of given concepts and arguments at each stage in a dialectical argument. There is, in their book, an admirable awareness of the requirement that mediations between abstract and concrete levels of analysis must be patiently traced. For example, a *direct* derivation of the price of commodities from necessary labour-time was one of the fundamental errors which Marx identified in Ricardo.

1. Thanks to Pete Green for helpful discussion in the preparation of this review article.

2. Heinrich 2004. Michael Heinrich is an editor of Marxist journal *Prokla* which was inaugurated in 1971 and now published quarterly in Berlin. The first edition of his *Introduction to Marx's Critique of Political Economy* sold out rapidly and a second (extended) edition of the book appeared within less than a year.

3. Fine and Saad-Filho 2004, p. 103.

4. Fine and Saad-Filho 2004, p. 4.

What they argue strongly is that Marx is not dealing with technical processes of price formation and resource allocation in ways familiar in mainstream economics. *Value*, in Marx, is about capitalist social relations. The substance of value is abstract labour, measured in units of socially-necessary labour-time. But the essential character of value-creating labour is that it is carried out under the control of capital by workers obliged to sell their labour-power to gain access to means of production and to work the hours of unpaid labour which are the source of surplus-value. Thus the theory of value is not primarily a theory of price formation, though it underpins a Marxist account of how a price system works, and from it prices can be derived at more concrete levels of analysis. The book is given strength and coherence by its lucid exploration of the theme that what Marx's value theory is essentially concerned with is the reproduction of class relations through exploitation of labour.

The central line of argument is organised, as it is in Marx, round the circuit of productive capital. Money capital is converted into wages, machinery and other means of production. In the phase of production, value is created and surplus-value extracted from unpaid hours of labour-time. Capital is reconverted back into the money-form, as the value and surplus-value embodied in the commodities are realised by sale of the commodities in competitive markets.

Fine and Saad-Filho's text is notable in that, overwhelmingly, the major focus of attention is on the *production* phase of the circuit, much less so on processes of competition and of realisation of value. This bias is explicitly acknowledged and is defended by the following arguments. Firstly, they point out in a number of places that value must first be produced before it can be distributed: 'exchange does not create value'.[5] Where capitalism differs most decisively from other modes of production is in the separation of workers from means of production, the creation of value by workers employed by capital, and the extraction of surplus-value from wage-labour. In contrast, the use of money and processes of market competition are not confined to the capitalist mode of production, but appear in many forms of non-capitalist society, wherever goods and services are bought and sold. To foreground value *production*, as opposed to value *realisation*, is, they argue, to concentrate attention on what is distinctive about capitalism. Secondly, they stress that a focus on production is one fundamental way in which Marxist political economy differs from mainstream economics which tends to take production for granted as a technical process, and to narrow the scope of economics to

5. Fine and Saad-Filho 2004, p. 37.

questions of the allocation of scarce resources. Thirdly, they argue that the distinctive types of crisis to which capitalism is subject arise from its essential character as a system in which exploitation takes place at the point of production. They acknowledge that 'almost all crises will appear to originate in the sphere of circulation as an inability or unwillingness to buy, sell or invest'.[6] But the underlying reality is that

> the fundamental cause of crisis . . . is the contradiction between the capitalist tendency to develop without limit the productive forces (and the surplus-value that has to be realized), and the limited social capacity to consume the product.[7]

The forms and dimensions of crisis which arise from markets, competition and money are thus seen as secondary to the essential relationship between capital and labour which defines the system.

At the risk of exaggerating the difference in my own theoretical approach as compared with that of Fine and Saad-Filho, I will, for convenience, refer to their position as *productivism*. I will argue that there are some serious weaknesses in their approach, and that (with some crucial modifications) a variant of the readings of Marx which stress *value-form* and *competition* will lead to more coherent accounts of the dynamics of the capitalist system. It is essential to focus not just on production, but rather on the whole *process of reproduction* of capitalist social relationships, and of the realisation of value and surplus-value. It is also crucial to emphasise the distinctive nature of the forms of money which develop in a capitalist system, and the roles which money plays in and around the circuit of capital reproduction.

It should, however, be acknowledged that their prioritisation of production leads Fine and Saad-Filho to emphasise aspects of Marx's argument which are essential to its critical and creative power, and which are sometimes neglected. They direct attention to the relationships of power and exploitation which are central in the labour theory of value and which get lost when this is treated, in a reductionist way, as no more than a theory of price. A focus on production has the merit of encouraging constant awareness of the *materiality* of the labour process. Abstract labour is still *labour* – effort, concentration, exhaustion. Fine and Saad-Filho are right to point out that this can get overlooked in some variants of value theory which move too quickly from abstract labour to its *monetary* form of expression – as for example in the so-called 'new interpretation', which I discuss below. They are also firm opponents of

6. Fine and Saad-Filho 2004, p. 92.
7. Fine and Saad-Filho 2004, p. 95.

underconsumptionism, the reductionist misreading of Marx which locates the essential cause of capitalist crisis in the low wages paid to workers and consequent lack of demand.[8]

However, despite these merits, there are two crucial weaknesses in productivist doctrine. Firstly, value has not only to be produced, but also *realised* by the sale of commodities for *money*, in a situation of *competition*. Of course, these processes are not neglected in productivist approaches such as that of Fine and Saad-Filho, but they are treated as somewhat secondary – concerned only with the *distribution* of value and surplus-value, not with what they see as the decisive processes of value production. Secondly, there is in their book virtually no discussion about the nature of money. It is striking that the section at the start of *Capital*, Volume One, in which Marx explores the nature and functions of money, is given no more than the briefest of mentions: 'essential to exchange is money. The functions of money have been well explored in the literature'.[9] It is assumed here that the general account of money in the economics literature will be an adequate guide to Marx's discussion of *money in capitalism*. Fine and Saad-Filho do add that

> as a means of payment it [money] mediates the process of exchange, by settling transactions (at any one time, this use may come into conflict with money's use as a store of value, and this is important in crises).[10]

But no explanation is provided of this elliptical and highly compressed sentence, and readers relying on the book as an introduction to Marx may well be left bewildered. Here, Fine and Saad-Filho could have drawn on the brilliant account by David Harvey of how the cost-cutting pressures of capitalist competition tend to lead to the introduction of forms of money which are cheaper to produce and use than gold and other forms of commodity-money. But paper-money and the forms of credit-money supplied by banks are more vulnerable to devaluation by inflation or exchange-rate changes, so lead to enhanced uncertainty, risk and possible crisis when used to meet capital's requirement for stability in the forms of money used to preserve value, transmit it into different currencies, or transfer ownership of value.[11] Harvey argues that, although national banking systems can be organised by a central bank to

8. For a critical discussion of an influential current of underconsumptionism, using as example its explanation of the post-1990 crisis in Japan, see Kincaid 2001 and 2003, and the reply by Burkett and Hart-Landsberg 2003.

9. Fine and Saad-Filho 2004, p. 31.

10. Fine and Saad-Filho 2004, p. 32.

11. See the powerful analysis in Harvey 1999, pp. 283–332.

encourage the use of cheaper forms of money, 'at the international level within the hierarchies of money, the notion of money as a measure of value refuses to die'.[12] But, in Fine and Saad-Filho's book, there is only the briefest mention of money's role as measure of value, and no discussion of Marx's distinctive and vital concept of *world money*.

There is also no extended treatment in Fine and Saad-Filho of Marx's account of the *value-form* – the section of *Capital*, Volume 1, which Marx himself considered of foundational importance to his political economy, and which he carefully revised a number of times through successive editions of *Capital*.[13] The closest they come is the question they pose towards the end of their book. 'Why', they ask, 'do the dominant relations of production give rise to the value-form, and how do values appear as prices in practice and change over time?'[14] But this question is raised only in passing, and no answer is offered at this point, nor, in a direct sense, anywhere else in their book. They treat the fact that capital starts and ends each circuit of production and realisation in the form of *money-capital* as an unproblematic question. It is in its treatment of the phenomena of circulation – money, realisation of value, and competition – that this book has serious weaknesses as an introduction to Marx's critique of political economy.

12. Harvey 1999, p. 295.

13. Marx 1976, pp. 138–77, and Marx 1978, pp. 130–50. In is notable that, in Heinrich's recently published German introduction to Marx's *Capital*, there is a careful and lucid exploration of the the early sections of *Capital*. Heinrich stresses the fundamental importance of Marx's conception of the *form* of value as expressing a *relationship* between individual concrete labour and what Marx calls the 'ghostly objectivity' of abstract social labour. He traces the succession of forms by which Marx begins with the elementary form of the exchange relationship (x of commodity A = y of commodity B), and is able to end by revealing the secret of the dazzling money-form (Marx 1976, p. 139). Heinrich acknowledges that Marx was not always consistent in his treatment of abstract labour. It was a fundamental scientific breakthrough to conceptualise abstract labour as a social relationship rather than as some kind of averaging of physiological labour expended – which is how it is analysed by Ricardo and other classical political economists. It is true that, in *Capital*, Marx at one point defines human labour-power as 'expenditure of brains, muscles, nerves, hands etc.' and seems here to equate this with abstract labour. But, Heinrich argues, Marx's deeper insight is that abstract labour, as expressed in the value relationship, is *social* – and this point is strongly emphasised in Marx's afterthoughts on the argument in *Capital*. One consequence is that it makes no sense to ask whether value is created in the production or the circulation phase of capital reproduction. As Heinrich puts it, value is not like a bread-roll, first baked, then sold. The relationship between individual labour and the 'phantom-like objectitivity [*gespenstige Gegenständichkeit*]' of abstract labour involves both production and circulation. See Heinrich 2004, pp. 51–3, and the more detailed discussion in Heinrich 2003, pp. 196–251. Marx's phrase about the ghostly character of abstract labour is in Marx 1976, p. 128.

14. Fine and Saad-Filho 2004, p. 131.

Production and circulation in *Capital*

At an early point in their book, Fine and Saad-Filho write,

> in analyzing a mode of production, for example capitalism, Marx's starting point is always production – how do capitalist societies produce the material conditions of their own reproduction.[15]

In is true that the first sentence of Volume 1 of *Capital* begins with 'the wealth of societies in which the capitalist mode of production prevails'. But, immediately, the commodity is introduced as 'the elementary form' of that wealth. The effective start of *Capital* is the commodity – a form which capitalism shares with all modes of production in which goods are offered for sale on markets. Although commodities are discussed from early on in *Capital* as produced by labour, the main focus of the first three chapters of *Capital* (more than a hundred pages of text) is on exchange and money. Thus, neither 'capital', nor its way of organising production, are defined and analysed at the start of Marx's work. Rather, the category of 'capital' is introduced only in Chapter 4, and then by an argument involving *derivation*. In the first three chapters, Marx was concerned with the process which starts with the exchange of commodities for money and the use of the money to buy other commodities (C–M–C'). Chapter 4 uses arguments based on dialectical logic to explain why C–M–C is subject to an inversion process, and becomes M–C–M, in other words, a process which starts with someone owning a sum of money, transforming it into the form of a commodity and afterwards back into money by the sale of that commodity. Marx then deals with the case in which the owner ends up with more money than at the start, and poses the question of where the extra value could have come from. An argument based on dialectical necessity then leads to an explanation of the source of surplus-value in unpaid labour-time.[16] Both in method and substance, these first three chapters of *Capital* are crucial for the entire development of the rest of its analysis of capitalism. They get too little attention in Fine and Saad-Filho's book. Even in an elementary account, it is important to find ways of acknowledging how radically *Capital* deviates from the empiricism and positivism of mainstream economics.

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15. Fine and Saad-Filho 2004, p. 15.

16. I thus disagree with Saad-Filho who writes that, 'in chapter 4 of *Capital 1* Marx does not "derive" the concept of capital from the concept of commodity, or the capital circuit from simple commodity circulation. He merely *contrasts* the circuits C–M–C, M–C–M and M–C–M' in order to demonstrate that commodity circulation cannot systematically add value'. Saad-Filho 2002, p. 23.

Of course, in Marx, production is fundamental. But, everywhere in capitalism, Marx sees inversion processes at work which determine the system as an inverted system,

> the bewitched, distorted and upside-down world [*die verzauberte, verkehte und auf den Kopf gestellte Welt*] haunted by Monsieur le Capital and Madame la Terre... this personification of things and reification of the relations of production.[17]

Too-exclusive a focus on the production phase of the circuit of capital can obscure the opposition between use-value and value, and the sequence of more concrete forms in which this opposition is expressed.[18] Both use-values and abstract value are created during the phase of production. But which of these use-values are to count as value, and for how much value, depends on processes of social validation which take effect during the exchange phases of the circuit of capital.

Capital is process, value in motion, trying to enlarge itself as it passes through a sequence of circuits. Marx portrays capital as a value substance which starts in the form of money and which in the circuit of production and reproduction undergoes a chain of *transformations*. Money capital is transformed into means of production. Commodities are transformed back into capital in the money-form. Production is fundamental, but the nature of the system involves an inversion whereby the realisation processes that take place in circulation become a condition for production. Marx argues that,

> circulation is not merely an external operation for capital... circulation belongs *within* the concept of capital... the movement of the metamorphoses through which it must pass now appears as a condition of the production process itself; just as much as its result. Capital, in its reality, therefore appears as a series of turnovers in a given period.[19]

The production phase of industrial capital should not be treated as isolated, and complete in itself. Until realisation takes place as commodities are

17. Marx 1981, p. 969.

18. This point was made by Simon Clarke in a critique of an earlier version of Ben Fine's productivist emphasis. 'If we consider the production and circulation of use-values the two spheres can be defined independently of one another: a certain determinate quantity of use-values is first produced and then exchanged one for another. However as soon as we consider the production and circulation of value, which is the basis for our understanding of the *social form* of production, it becomes impossible to consider production and circulation independently of one another' (Clarke 1980, p. 9).

19. Marx 1973, p. 638.

transformed into money, it is not clear which firms have produced value and in what amounts.[20] Unless commodities are transformed into money, the labour expended into making them has created no value. Until the point of realisation by sale, value has no more than a virtual quality. Here, before considering the further implications of the primacy of production in Fine and Saad-Filho's reading of Marx, it will be helpful to look at the theoretical foundation of this approach as it is explained in Saad-Filho's *Value of Marx*, published in 2002.

Saad-Filho on Marx's value theory

Saad-Filho's book is, for a number of reasons, an outstanding contribution to the literature on Marx's value theory. It summarises, with authority and clarity, the evolution of scholarship and debate over three decades about some essential elements in Marx's critique of political economy. There is, of course, a price to be paid for the depth and thoroughness with which these foundations are treated. Saad-Filho explains that,

> this book is incomplete in that… it does not discuss important aspects of value theory, including interest-bearing capital, the tendency for the rate of profit to fall and crisis theory.[21]

These are severe limitations to be faced by any reader hoping for an account of Marx's political economy which would directly help understanding of the capitalist system today, in which financial markets exercise huge dominance over what gets produced and where, and in which gyrations in profit rates interact with debt structures and exchange rates to generate recurrent crises. However, within its limitations, this book is formidable, and, in particular, its discussions of labour and of wages will, I believe, prove to be lasting contributions to scholarship.[22] Students of Marx will find, especially in the

20. At some points in their discussion, Fine and Saad-Filho do acknowledge this, if only in passing: 'it is not sufficient to produce (surplus) value; it has also to be realised on sale' (Fine and Saad-Filho 2004, p. 57). But realisation processes are not discussed in any detail.

21. Saad-Filho 2002, p. 9.

22. Especially an innovative account of the homogenisation of labour in which the different value productivities of normalised and synchronised labour are translated into distinct quantities of abstract labour. Normalisation of labour establishes the equivalence of labours performed in different firms in the same sector, synchronisation that of labours in different firms across time or using different technologies. Labours are homogenised as commodities receive a price or when money fulfills the function of measure of value (Saad-Filho 2002, p. 92).

detailed footnotes, a thorough review of much of the recent literature on value theory, accompanied by a perceptive running commentary.[23]

It is illuminating to consider how Saad-Filho defines and criticises what he sees as the two major alternatives to productivism within the array of readings of Marx which treat money and realisation as crucial questions. My argument will be that Saad-Filho concentrates his critical artillery on two rather limited variants of approaches which stress money, competition, and the law of value. The consequence is that he evades the challenge posed by more powerful versions of such theories. This is a crucial question. In my view, if Marx's political economy is to be further developed to provide an fully adequate account of the highly financialised capitalism of today, then it has to adopt an approach which stresses the competition in the sphere of circulation; the selectivity operated by the law of value, and thus processes of capital allocation; and an adequate theory of the forms and functions of money in the dynamics of capital accumulation.

The integration of these into an organically interconnected account requires an approach which analyses, not production as an isolated moment, but rather *sequences* of: production → realisation → processes of capital reallocation → purchase of means of production → production, etc.

In dealing with the question of money, Saad-Filho focuses on the well-known 'new interpretation' of Marx's value theory which was developed independently by Duncan Foley and by Gérard Duménil in the early 1980s to deal with a famous difficulty in Marx – the transformation problem. Surplus-value is produced by unpaid living labour employed by capital, not by the dead labour embodied in the means of production used. But there is a tendency for the rates of profit of different companies to equalise, irrespective of their ratio of labour to capital in production. This seems contradictory, and many ways of resolving the difficulty have been proposed. The 'new interpretation' rejects as useless the reading of Marx's argument in terms of a model which identifies two separate stages: first, the creation of surplus-value measured in hours of unpaid labour, and then a process of redistribution

23. For example Saad-Filho offers a convincing critique of the neo-Ricardian approach, which was evolved in the 1970s by economists such as Ian Steedman and Geoff Hodgson, under the influence of Pierro Sraffa. Although this tendency retained a strong emphasis on exploitation, it rejected Marx's monetary type of value theory as a metaphysical excrescence. Value, they argued, was *embodied* in the individual commodity by the labour-time it took to make it. They reduced production to a technical process only, and money to a mere score-sheet. Uncertainty and the arrow of time were eliminated by use of simultaneous input-output models. Class struggle, for the neo-Ricardians, centred on distribution, not at the point of production.

of total surplus-value, now specified in monetary terms, to the capitals contributing to the pool of surplus-value. Instead of this double system (first labour-time, and then money-prices), the 'new interpretation' proposes a single system – value only ever appears in monetary form. In fact, in the 'new-interpretation' view, *that is what value is* in a Marxist account – the monetary expression of labour-time (MELT).[24] Saad-Filho identifies the MELT approach with a 'value-form interpretation of Marx, in which labour becomes abstract and is socialized through sales'.[25] Saad-Filho has a number of criticisms of this approach. MELT, he points out, analyses only at an aggregate level. Total value produced is *immediately* identified with the amount of money for which commodities sell. There is no allowance for the variation between value and prices of individual commodities which, as Marx argued, was necessary for the regulation of the system.[26] As Saad-Filho expressed the point in an earlier text,

> this is simply a circulation-based view of price. It is correct so far as it goes, but it fails to give analytical priority to conceptually more fundamental processes such as the performance of labour in production.[27]

Because value and price, and surplus-value and profit are treated as identical, the result is that

24. Foley summarises the 'new-interpretation' position as follows: 'the money value of the whole mass of net production of commodities expresses the expenditure of the total social labor in a commodity-producing economy' (Foley, 1986, p. 14).

25. Saad-Filho 2000, p. 29.

26. Where the prices of particular commodities were above values, the firms involved would get an extra profit – thus extra capital would be committed to the production of such commodities. Marx writes that 'the possibility that the price may diverge from the magnitude of value is inherent in the price-form itself. This is not a defect, but, on the contrary, it makes this form the adequate one for a mode of production whose laws can only assert themselves as blindly operating averages between constant irregularities' (Marx 1976, p. 196). As Saad-Filho correctly observes, the 'new interpretation' 'eliminates the mediations and the complex relationship between value and price and surplus-value and profit'. Saad-Filho 2002, p 33.

27. Saad-Filho 1996, p. 128. In his reply, Foley himself concedes that, 'there may be a real role for a concept of the value of labor-power independent of the *ex post* realized wage share in a fully developed Marxist theory' (Foley 2000, p. 30). But this concession is formalistic – Foley remains committed to the 'new-interpretation' doctrine which does not theorise labour-power independently of its monetary expression. Saad-Filho does not discuss the 'temporal single system' [TSS] paradigm, which has elements in common with the 'new-interpretation' approach – in particular an unmediated identification of money with labour-time (which is what is meant by the term 'single system'). For explorations of the TSS reading of Marx see Freeman, Kliman and Wells (eds.) 2004, and Freeman and Carchedi (eds.) 1996. For a cogent critique of the immediate identity of money and labour-time in TSS doctrine, see Veneziani 2005.

> the ['new interpretation'] becomes unable to incorporate some of Marx's most important insights into the analysis, including technical change, accumulation, the credit system and crises, other than as exogenous accretions.[28]

The other variant of value-form Marxism which Saad-Filho identifies and attacks is what he calls the 'Rubin tradition'. He argues that Isaak Rubin and his followers attribute to capitalism the characteristics of a society of simple commodity production in which small producers own their own means of production and sell their products on the market. In such a society, private producers are in control of their own concrete labour, and labour only becomes abstract as the commodities produced are valued in monetary terms in the market and converted into money by sale. Correctly, Saad-Filho argues that a capitalist society is different in that labour becomes abstract in and through the production process. It is under the control of capital, and subject to the organisational imperatives of capital, at the point of production.

Saad-Filho concedes that Rubinist theory deserves commendation for its discussion of abstract labour and money, but his overall assessment is highly negative:

> the claim that separation [i.e. division of labour] is the essential feature of commodity production has led the Rubin tradition to subsume capitalist relations of production under simple value relations. Consequently, in spite of its significant contribution to the analysis of value, this tradition has added little to our understanding of *capital* and *capitalism*.[29]

What are under criticism here, under the name of 'the Rubin tradition', are approaches which lay heavy emphasis on the early chapters in *Capital*. In his discussion, Marx traces the close links between abstract labour and money. But, because money is, in an immediate sense, extraneous to the exploitation of surplus-labour at the point of production, Saad-Filho sees the Rubin tradition as locating the formation of abstract labour in the processes of monetary exchange, instead of at the point of production. The result is, he suggests, that

> The Rubin tradition wrongly presumes that commodity exchange is the determinant aspect of capitalism, conflates money with the substance of value, and eschews

28. Saad-Filho 2002, p. 33. Surplus-value and profit are identical in 'new-interpretation' doctrine because they look only at the net creation of new value, and abstract from the transfer of value from fixed capital to commodities produced. The critique of the MELT approach has been further developed in Fine, Lapavitsas and Saad-Filho 2004. For a defence of the MELT approach see Foley 2000.

29. Saad-Filho 2002, p. 27.

> the mediations that structure Marx's value analysis. Lack of analytical depth explains its failure to illuminate important real relations identified by Marx, for example, the capitalist monopoly of the means of production, the subordination of the workers in production, the social regulation of production through competition, mechanization and deskilling, and the mediations between value and price. Because of these limitations, the Rubin tradition is poorly equipped to explain the main features of capitalism and to analyse their social, economic and political consequences empirically.[30]

We can certainly agree with Saad-Filho that the acid test of what is more or less useful in these debates about abstract fundamentals has to be settled by which most powerfully generates explanations of the way capitalism works *concretely*. Saad-Filho considers that the Rubin and value-form traditions go astray because they distract attention from the fundamental contradiction in capitalism, namely the constitutive split between labour and capital, and the processes of exploitation as they occur in production. Instead, what Saad-Filho sees as a secondary division is elevated to equal status – the competition between capitals, the market and circulation.

> Most neoclassical economists and some Marxists usually adopt the point of view of circulation (exchange). From this viewpoint, the capitalist economy appears as an uncoordinated collection of competing activities, distinguished from one another by the commodities produced in each firm and their possibly distinct technologies. This approach tends to emphasize the processes that bring coherence to decentralized economies and ensure that needs are satisfied, subject to constraints. In this context, relative prices and the distribution of labour and of income are highly important. The inquiry may be extended subsequently into why the 'invisible hand' can fail, in which case there are disproportions and crisis. These issues are worthy of detailed study and bring to light important aspects of capitalism. Unfortunately, however, they are not conducive to the analysis of the mode of *production*. This is a severe limitation, because the essential differences between capitalism and other modes of production stem from the relationship between the workers and the owners of means of production and the mode of labour associated with it. One of Marx's most important claims is that, if the analysis is restricted to circulation or distribution and ignores the sphere of production, some of the most important features of capitalism remain hidden.[31]

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30. Saad-Filho 2002, pp. 28–9. The claim that Rubin himself neglected capitalist production and identified the distinctiveness of capitalism in its mechanisms of exchange is highly questionable. In passage after passage, Rubin traces the interlinkages between production and market exchange. For example: 'The theory of value analyses the laws of exchange, the laws of the equalization of things on the market, only if these laws are related to the laws of production and distribution of labor in the commodity economy. The terms of exchange between any two commodities... correspond to a given level of productivity of labor in the branches of production which manufacture these goods'. Rubin 1975, p 67, see also pp. 40–1, 119–22, 155–8, 249–53.

31. Saad-Filho 2002, p. 33.

Under attack here are currents of Marxist theory which stress the *law of value*, the shorthand term used to refer to the competitive processes which ensure allocation of labour and capital to branches of production in ways which are responsive to profitability. In the law-of-value paradigm, competition and realisation of value by sale of commodities are not given emphasis in order to turn Marx into a neoclassical economist *avant la lettre*. In a law-of-value approach, it is *profitability* that drives the system. But what is given full recognition is that profits depend not just on surplus-value extraction (as productivist doctrine tends to argue) but on adequate levels of effective market demand to ensure the realisation of value by the conversion of commodities into money. To stress the need for realisation is not in any way to deny the priority of production. But competitive market pressures to cheapen commodities are the source of the imperative for capitalists to shorten labour-time per commodity produced via an intensification of the labour process, or to increase labour productivity by the introduction of more advanced and cost-effective technologies and techniques. Production has priority, but it is subject to pressures generated in the realisation process, and involving monetary valuation.

In Marx, there are many formulations which stress that the division of capital into many competing capitals is fundamentally constitutive of the capitalist mode of production, no less than the capital/labour relation. For example:

> conceptually, competition is nothing other than the inner nature of capital, its essential character, appearing in and realized as the reciprocal interaction of many capitals with one another, the inner tendency as external necessity.[32]

And again:

> All moments of capital which appear involved in it when it is considered from the point of view of its general concept obtain an independent reality, and, further, only show themselves when it appears as real, as many capitals. The inner, living organization, which takes place in this way within and through competition, thus develops all the more extensively.[33]

Saad-Filho does quote the famous passage in which Marx notes that his value theory is indispensable for explaining how in a decentralised, competitive,

32. Marx 1973, p. 414.
33. Marx 1973, p. 520.

many-capitals system, allocation of labour and capital to branches of production can be viably carried out,

> every child knows, too, that the amounts of products corresponding to the differing amounts of needs demand differing and quantitatively determined amounts of society's aggregate labour. . . . And the form in which this proportional distribution of labour asserts itself in a state of society in which the interconnection of social labour expresses itself as the private exchange of the individual products of labour, is precisely the exchange value of these products.[34]

But, in Saad-Filho's comment on this, he fails to explain the way in which Marx moves on from the basics of value theory to derive the concept of a *law of value* – the pressures on the many capitals, locked in competition, to economise on their use of labour by increasing productivity, intensity of work, the number of hours of unpaid labour extracted etc.[35] It is precisely the emphasis – strategically central in the Rubinist and value-form traditions – on Marx's account of the division of labour, of competition, and of capital allocation, which leads to the clearest vision of the central importance of the law of value in Marx's overall account.[36]

Although the Hegelian new-dialectics school has many questionable features, on this point it is on the right track. What is of the essence is not *value* as a static concept, but the *law of value* as a selective and disciplining process operating via rates of profitability, compelling capitals to compete, and to compete by exploiting. The law of value makes its presence felt in a simultaneous and multi-dimensional way at all stages in the circuit of capital. It is operative with especial force both in the causation of capitalist crisis, and as crucial determinant of the shakeout and restructuring of capital which results from crisis.[37]

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34. Marx 1988a, p. 68, quoted in Saad-Filho 2002, p. 36.

35. See the discussion of Marx on the division of labour in Saad-Filho 2002, pp. 35–7.

36. Saad-Filho expresses admiration for John Weeks's 1981 book *Capital and Exploitation*. This is odd, since the view of the law of value which I outline above is a central theme in Weeks's book. See especially Chapter 2, 'Value as a Social Relation', and Chapter 6, 'The Competition Among Capitals'. It is true, however, that Weeks agrees with Fine's devaluation of 'old' capital as a key cause of the fall in the rate of profit which I discuss in my appendix. (See Weeks 1981, pp. 198–202). It is pleasing to see John Weeks's landmark work getting the acknowledgement it fully deserves. My own view of the law-of-value paradigm owes much to study of this book, and also to Shaikh 1977, 1981, 1984, and to Harvey 1999. The essential methodological underpinnings of the law-of-value reading of Marx are more fully spelled out by Rosdolsky than by Rubin. It has to be acknowledged, however, that neither of these writers has a fully adequate account of Marx's theory of capitalist competition.

37. In a critique of Chris Arthur's distinctive variant of value-form theory, I have tried to identify what I believe should be rejected in this tradition of Marx's interpretation, and to clarify

Fine and Saad-Filho fail to appreciate the far-reaching implications of the stress in Rubinist value-form theory on Marx's distinction between production as *private* and the *socialisation* which takes effect as prices are determined by competition in the circulation process.[38] In each branch of production, *privately* controlled labour is being validated and revalued in terms of the competitive norms established by *socially-necessary* labour-time. The law of value deals essentially with how competitive units in the system are subject to imperatives to use the labour at their disposal, firstly, in ways which match or better the productivity levels of their competitors, and, secondly, to produce commodities for which there is adequate market demand. Defined in this way, the law of value operates at many levels in a capitalist system, and in diverse and indirect forms. For example, it acts as a crucial influence on rates of profit of firms – disciplining them not just to produce what the market will absorb, but to meet competitively set standards of labour productivity, as well as other costs of production. The law of value appears in a less direct form, but is still operative, in forms of international crisis in which a national currency is hit by devaluation. When this happens, the effect is that average national labour-time is being devalued as compared with a similar quantity of labour-time in countries whose currencies have not devalued. It has also to be recognised that one of most potent and fundamental forms of expression of law of value is in and through the competitive process which determines how financial markets allocate capital available for investment – to which firms, in which countries, and for what forms of production. The law of value also exerts its pressure as companies make decisions about how to allocate internally generated capital. As these examples suggest, to develop coherent accounts of the different forms

the value-form reading of Marx as the indispensable basis for the concepts of system, the historical formation of systems, and the role of law-of-value selectivity (via capital allocation as implemented by the financial system) for the concrete analysis of capitalism today. One of the reasons for engaging with Arthur closely is that his stress on value-form explicitly allows a conceptual space for price formation. Since I believe that price is a vitally necessary category in Marxist political economy, Arthur's work is relevant to concrete analysis of the law of motion of capitalism today in a way that is not true of the commodity-fetishism accounts, such as those of Georg Lukács or Moishe Postone which centre on a sociological account of reification. See Kincaid 2005.

38. As noted above, they see in Marx's discussion of market processes, in which private labour gets revalued as a quantity of abstract social labour, nothing more than an analysis of simple commodity production (that is, a system in which workers own the means of production and trade output on markets). But the law of value should be seen as the dynamic logic at the essential core of Marx's vision of how capitalism works as a system. The selectivity operated by the law of value has some important similarities with the theory of natural selection in evolutionary biology.

in which the law of value takes effect is not easy, and becomes even more difficult if the starting point is a perspective of production considered as an isolated moment. More promising are approaches which examine the competitive pressures operative in each phase of the chain of circuits of capital, and which assess whether, and how, a logic of selectivity is at work, asserting itself despite the contingency of many forms of noise.

The composition of capital

I turn now to consider in more detail the most distinctive element in the theoretical position which informs Fine and Saad-Filho's book on Marx's *Capital*. An important reason why both Fine and Saad-Filho place enormous stress on the moment of production is because this allows them to give a central explanatory role to what Marx called the *composition of capital*. This is the ratio, *means of production/labour*, of the capital employed in the production process. The ratio is measured in value terms – amounts of socially-necessary labour-time required to produce, (a) the means of production (in other words, machinery and raw materials) used in a given period of production, and (b) the wage goods which workers employed in production are able to buy with the wages they are paid. The ratio is usually expressed as c/v.[39]

Fine and Saad-Filho's distinctive theoretical claim is that Marx defined the composition of capital ratio in two different ways, and that he was correct to do so.[40] Their aim is to follow his example. It is their view that the composition of capital has, 'been generally explained cursorily and understood only superficially and incorrectly in the literature'.[41] Since the arguments involved are rather technical I summarise them here only briefly (see the Appendix for

39. Here, the calculation of labour-time allows for intensity of effort, and skill involved, as well as length of time worked. The ratio is often referred to as c/v, following Marx's own shorthand: 'c' is constant capital, namely, machinery, raw materials etc., called 'constant' because their value is merely transferred to the commodities produced. The term 'v' in the c/v formula means 'variable', meaning the capital used to pay the wages of the workers whose unpaid hours of labour enable capital invested in production to *vary*, in other words, make a profit. The term 'dead labour' is often used to refer to the labour-value stored up in machines and raw material. 'Living labour' is the labour which actively uses machinery to transform raw material into commodities, and whose hours of unpaid labour are the source of surplus-value created during the production process.

40. See Green 1986 for a valuable discussion of some of the key issues posed by the categories used by Fine and Saad-Filho to analyse the composition of capital, and the implications of this approach for their explanation of tendencies affecting the rate of profit.

41. Fine and Saad-Filho 2004, p. 102.

a more detailed version). What is at issue is Marx's analysis of the various influences which, in combination, determine whether the overall rate of profit in a capitalist economy will rise or fall. Clearly, a vital question. In line with their belief in the priority of production, Fine and Saad-Filho want to argue that the fundamental tendency of a capitalist economy is for the rate of profit to decline, and that this happens because of a general rise in the capital-to-labour ratio at the point of production. Technological advance allows an increase in the productivity of labour, that is, mechanisation enables relatively fewer workers to produce a larger quantity of output. But fewer workers may mean the extraction of less surplus-value and therefore a fall in the rate of profit on total capital advanced. Of course, Marx listed an array of countertendencies which act to raise the rate of profit or to slow its decline. But Fine and Saad-Filho want to relegate these to secondary influences. There is, however, one particular countertendency which poses a major difficulty for them. Productivity advance lowers the cost of production of the machines and raw materials used in production. If means of production are being cheapened in this way by technological progress, can we be sure that the composition of capital is actually going to rise, and so give rise a fundamental tendency for the rate of profit to fall. Marx notes that if an increase in productivity cheapens the elements of constant capital, this acts as an offset to any rise in the capital-to-labour ratio.

Fine and Saad-Filho deal with this difficulty by arguing that such an effect of technological progress, in preventing the rate of profit from declining, would require a phase of market competition in which, over time, the price of machines and raw materials was forced down. Thus, if technological progress acts to raise the rate of profit, this can only be after market forces have played a role. Since their basic position is that market processes of value realisation are secondary to the essence of Marx's political economy (a focus on production seen as an isolated moment in the circuit of capital), their view is that we can take as *dominant* the tendency for the capital-to-labour ratio to rise, and profit rates to fall as a result.

I believe that this argument cannot be sustained.[42] Summarised briefly, my case is that the double-edged effect of technological progress on the composition

42. And, empirically, the trend in the recent period in the worldwide capital/labour ratio has been emphatically in the direction of more labour relative to capital. Richard Freeman estimates that 'the entry of China, India and the former Soviet bloc into the global economy cut the global capital/output ratio by 55 per cent, to just 60 per cent of what it otherwise would have been' (Freeman 2005, p. 1). There is also much evidence that there have recently been extraordinary productivity advances in Department I (production of means of production). These have the effect of lowering the value of constant capital relative to variable capital.

of capital cannot be neatly separated into *either* production *or* circulation effects. The essence of capitalism lies in the extraction of surplus-value – this is, of course, agreed. But the rate of profit is a relatively concrete variable, with a linkage to empirical profit rates as they appear on a capitalist balance-sheet. Between the value-creating and surplus-value extraction processes which are the underlying essence of the system, and the visible play of prices at the surface of the economy – all kinds of mediating elements have to be recognised.[43] Fine and Saad-Filho, of course, acknowledge this. But what they fail to deal with adequately are the *inversion* processes which operate between essence and surface. For it is also an essential characteristic of capitalism that its essential character is not merely hidden, but, in many respects, the opposite of its surface appearance – and its essence can only be clarified by a political economy which uses arguments involving dialectical necessity to trace the inversions.[44]

The practical effect of the neglect of inversion is that the many countertendencies, which limit the fall in profits, or which act to increase profits, are treated as secondary and as operating only at a more concrete level of analysis. This severely limits the extent to which, on their reading, Marx's account of the influences which determine trends in profit rates could be used to explain or theorise the direction of profit rates in present-day economies. Dismissed as secondary, some crucial determinants of profit rates are passed over as marginal to the main line of argument. Here are two examples.

One of the most important countertendencies in the list which Marx gives in *Capital* is mentioned only in passing by Fine and Saad-Filho – 'the

43. Marx summarises the point as follows: 'The transformation of surplus-value into profit is, as we saw, just as much determined by the circulation process as by the process of production' (Marx 1981, p. 967).

44. Saad-Filho acknowledges that his approach has been deeply influenced by Ilyenkov's materialist dialectics. The account of abstract to concrete in the organisation of the argument of *Capital* in Ilyenkov 1982 certainly deserves careful study. But its account of inversion themes in *Capital* is fatally limited. Ilyenkov deals mainly with how appearances differ from underlying essence. A deeper theme in *Capital* is that of a system which is itself inverted. Here, the Hegelian readings of the 'new-dialectic' scholars, though controversial, are far more perceptive, especially in their exploration of how Marx is using Hegel's reified idealist logic to explain capitalism as an reified system. See, for example, Murray 1988 and Arthur 2002. I discuss inversion themes in a critique of Chris Arthur's reading of *Capital* in Kincaid 2005, especially pp. 104–8. See also Murray 1988, pp. 28–30, 218–20. Wolff 1988, has a brilliant account of Marx's use of irony as an appropriate trope in a scientific account of a system which is inverted, not just in appearance, but in the logic of its actual operation. 'To the producers, therefore, the social relations between their private labours appear *as what they are*... material relations between persons and social relations between things' (Marx 1976, p. 166, my italics).

superexploitation of workers'.[45] Even in an introductory text, a more extended discussion of this is vital, because of its huge influence on rates of profit in the world economy today. Over the past two decades, there have been enormous increases in levels of productive investment by multinationals and by local indigenous capital, in the low-wage economies of the world such as Mexico or China. Through these gigantic increases in direct investment, metropolitan and local capital has been able to secure vast increases in this size of the world labour force directly exploited by capital.[46] And the low wage costs involved means that a huge rise in the average rate of exploitation of the world's labour-force has been secured. This, in turn, has an upward effect on world rates of profit.

As a second example, take the further set of countertendencies of enormous significance not discussed by Fine and Saad-Filho. Profit rates in a given period of time can be hugely increased by a rise in the rapidity of turnover of capital. Within a given period of time, an increase in the speed with which capital passes through the circulation phase and returns to the production sphere raises the rate of profit for that time period. If there is a doubling in the annual turnover of a sum of capital invested in production, then the annual rate of profit on that capital will double. Both Marx and Engels wrote eloquent passages on the acceleration of turnover times which resulted from advances in transport and communications. Here is one by Engels:

> The main means of cutting circulation time has been improved communications. And the last fifty years have brought a revolution in this respect that is comparable only with the industrial revolution of the second half of the last century. On land the Macadamised road has been replaced by the railway, while at sea the slow and irregular sailing ship has been driven into the background by the rapid and regular steamer line and the whole earth has been girded by telegraph cable. It was the Suez canal that really opened the Far East and Australia to the steamer. The circulation time for a shipment of goods to the Far East which in 1847 was at least twelve months has now been more or less reduced to as many weeks.... The turnover time of world trade as a whole has been reduced to the same extent, and the efficacy of the capital involved in it has been increased two or three times and more. It is evident that this cannot but have had its effect on the profit rate.[47]

45. Fine and Saad-Filho 2004, p. 116.

46. Richard Freeman of Harvard University estimates that the labour force available to global capital tripled from just under 1 billion workers in 1980 to over 3 billion in 2000. One factor was population increase in the poorer countries, already part of the capitalist system in 1980, especially in Africa and Latin America. A further 1.47 billion workers were added to the capitalist labour force by its incorporation of China, India and the former Soviet bloc. Freeman 2005.

47. Marx 1991, p. 164. See also Marx 1992, Chapter 5 on circulation time. The first trans-Atlantic telegraph line was opened in 1867, the year of publication of the first volume of *Capital*.

In our own period, it is evident that the effect on profit rates from continuous revolutionising of transportation and communication has been considerable. Think only of containerisation, air transport of commodities, and the reduction of necessary administrative overhead costs by information technology. And to these we need to add the effects of acceleration of turnover of capital arising from rationalisation in production and circulation processes, the use of just-in-time systems, computerised stock control etc. Competition will, over time, erode any exceptional profits which derive from these advances in productivity, but, in the interim, they act to prevent or limit falls in overall profitability.

Fine and Saad-Filho do concede that 'profit rates can rise as well as fall'.[48] But their account is heavily focused on the relative expulsion of labour from production (as productivity rises) and on how the resulting rise in the constant capital-to-labour ratio means a tendency for profit rates to decline. This is unfortunate because a fuller examination of forces acting to raise or depress profit rates is essential if Marx's categories are to be developed to construct concrete accounts of capitalism today.[49]

Conclusion

My criticisms in no way apply to the many valuable contributions to Marxist political economy made by these two authors – for example, in recent years, Saad-Filho's work on Brazil and Fine's studies of social capital and of consumption.[50] But, in the two books under discussion here, because the

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Price information could then be transmitted between London and New York markets in two minutes instead of two weeks as previously.

48. Fine and Saad-Filho 2004, p. 112.

49. Unfortunately, Heinrich's introduction to Marx's critique of political economy is also rather limited in the account it offers of the market and non-market processes which influence the rate of profit. In his very short chapter on 'Crisis', Heinrich attacks the view that central to Marxism is the expectation of a final crisis and general breakdown of the capitalist system. He briefly summarises Marx's account of the cyclical alteration of boom and slump in the evolution of capitalism. But, in his discussion of Marx's account of crisis tendencies in capitalism, Heinrich offers only an oversimplified underconsumptionism and does not explain convincingly why inadequate working-class demand for commodities cannot be compensated for by other sources of demand: by the consumption appetites of the higher income groups (heavily sustained by returns on rentier investment), by company investment in fixed capital, or by state expenditure on arms, infrastructure, etc. See Heinrich 2004, pp. 169–78.

50. Saad-Filho 2003 and Fine 2001, 2002. Saad-Filho has recently edited and co-edited two valuable collections of articles on anticapitalism and on neoliberalism. However, it is striking that few, if any, of the contributors to these books link their discussions to the fundamental categories of productivist value theory. See Saad-Filho (ed.) 2003, and Saad-Filho and Johnson (eds.) 2005.

authors concentrate their critique on weaker variants of value-form theory, and neglect stronger alternatives, they have directed attention away from theoretical questions on which further work and development are urgently needed if value theory is to produce a fully adequate account of the forces at work in the world economy today. I concede that such a value theory is still very much of a site under construction. But what is essential is that, in the movement from the abstractions of value theory towards interpretations of current economic developments, questions of competition and the multidimensional operation of the law of value must be given as much weight as those of production. Here, in summary, are just three reasons why.

The first reason is political. An inordinate stress on production can be misleading. Workers in the circulation sphere may not create value, but they are exploited no less than productive workers. Fine and Saad-Filho acknowledge that this is true of all types of unproductive wage-labour.[51] However, what is not explicitly noted is that the unpaid hours of circulation workers contribute to profit in that they help to reduce the necessary overhead costs which capital must face in realising value and surplus-value by selling commodities. Such costs are a deduction from profits. Thus profits can be increased by intensification of work or wage cuts in the circulation sphere and worker resistance in the face of such attacks matters no less than in the production sphere.

The second reason has to do with productivism, which is constricting theoretically because it tends to make the nature and role of money external to the core of the system, given its stress on the theme that money is not a distinctive feature of capitalism.

Finally, it is essential that value theory should focus on sequences of *reproduction*, rather than on *production* treated as an isolated moment. Only such an approach will allow further development of a crucial dimension of Marx's political economy – his account of how the forces of competitive selectivity operate in and through processes of capital allocation, and especially in periods of crisis, to shape and restructure capitalist production.

Appendix on the Composition of Capital

What Fine and Saad-Filho call *organic composition of capital* (OCC) is the capital-to-labour ratio measured at the values (and prices) which obtain at the time when production takes place. They contrast this with the *value composition*

51. Fine and Saad-Filho 2004, p. 47.

of capital (VCC) which registers the effect of value (and price changes) resulting from technical progress taking place over time.[52] Their argument is that the OCC, defined in this way, is an indispensable category because it assesses the constant capital-to-labour ratio *at the point of production*, and not (as the VCC does) at a later time, after (a) technical advances have changed prices and costs of production, and (b) these changes have taken effect in and through the circulation process. The OCC reflects 'the "old" values prevailing prior to the technical changes and the renewal of the production process'.[53] The OCC is measured at historic cost of production prices. In contrast, the VCC is based on current 'new' prices which reflect the effect of technical advance (or increases in productivity) which lower the value of means of production required per unit produced.[54]

Here, certainly, Fine and Saad-Filho are highlighting an issue of great importance. One of the largest risks which an industrial firm faces is that its investment in productive equipment which incorporates a given technology may be rendered unprofitable if its rivals are able, subsequently, to begin production using more up-to-date and cheaper techniques and equipment which allow them to sell at lower prices. The losses inflicted in this way on the firms which made the older, outmoded investment must be one of the factors tending to depress profitability when advance in methods of production raises productivity. But it cannot be, as Fine and Saad-Filho seem at times to claim, the most abstract and fundamental force acting on the overall rate of profit of industrial capital.

> Marx's law of the tendency of the rate of profit to fall is based upon the conceptual distinction between the organic and the value compositions of capital [OCC and VCC].[55]

They reach this conclusion via a complex and not completely clear argument, namely that on their definition,

52. See Fine and Harris 1979, also Fine 1983, for earlier discussions of the distinction between OCC and VCC. Most other commentators define the OCC in the same terms which Fine and Saad-Filho use as the definition of their VCC. The latter also use a third ratio, the technical composition of capital (TCC); the physical ratio of material inputs to labour, but this plays no effective role in their analysis.

53. Fine and Saad-Filho 2004, p. 106.

54. See Green 1986 for a valuable discussion of some of the key issues posed by the categories used by Fine and Saad-Filho to analyse the composition of capital, and the implications of this approach for their explanation of tendencies affecting the rate of profit.

55. Fine and Saad-Filho 2004, p. 110.

> the OCC measures the results of accumulation by exclusive reference to the sphere of *production*, i.e. (surplus) value creation, whilst the VCC measures and reflects the process of accumulation in the sphere of *exchange*, i.e. surplus value realization. . .[56]

By having an OCC category which is isolated from circulation and realisation, the intention of Fine and Saad-Filho is to locate the fundamental tendency of the rate of profit to decline in the *production* process, and, as I noted above, to identify it with the undermining of profitability of firms with older means of production as they lose out in competition with the newer technology of more up-to-date rivals. This contrasts with the more common orthodoxy that the fundamental downward pressure on the rate of profit derives from a rise in constant capital (c) relative to labour (v).

I have mentioned the lack of concern of Fine and Saad-Filho with Marx's account of the nature and roles of money. Oddly, one of the fundamental questions which led Marx devote so much attention to the nature of money in the early chapters of *Capital*, is raised by Fine and Saad-Filho in their chapter on the transformation problem. 'Why', they ask, 'do the dominant relations of production give rise to the value-form, and how do values appear as prices in practice and change over time?'[57] They then go on to argue that Marx, in his discussion of transformation, does not express *v* and *c* in money terms, in other words, that the OCC ratio of *v/c* is not a monetary expression. They condemn the usual treatment in the literature which assumes precisely that *c* and *v* are expressed in money terms. It is incorrect, they argue, to talk about differences in value composition 'as if c and v were quantities of *money*. . . . This is *not* the case for Marx'.[58] The implication is that they think that in Marx *c* and *v* must here refer to *labour-times*! But this is no way possible. In Marx, there is a relation between socially-necessary labour-time and money, but money is the form of expression of abstract labour. Capitals deal with their labour-force in terms of hours of concrete labour and wages paid. Abstract labour as the substance of value, measured in hours of socially-necessary labour-time, is not directly accessible to consciousness of capitalists or workers. Abstract labour is expressed only indirectly in monetary form. In their suggestion that that in the *v/c* formula, capital and labour should be defined in non-monetary terms, we see clearly how far Fine and Saad-Filho have been led astray by the dream of finding a pure organic composition of capital at the

56. Ibid.
57. Fine and Saad-Filho 2004, p. 131.
58. Fine and Saad-Filho 2004, p. 132.

point of production, free from the complicating effects of circulation, and not requiring specification in monetary terms.

Fine and Saad-Filho write that,

> the OCC connects the rate of profit with the sphere of *production*, where living labour produces value and surplus value. In contrast, the VCC links the profit rate with the sphere of *exchange*, where commodities are traded and where the newly established values measure the rate of capital accumulation.[59]

Notice the imprecision of the terms being used: 'connect', 'links'. Some difficulties are being evaded here. The VCC registers changes in the value and price of labour and means of production inputs and thus reflects alterations in the capital/labour ratio resulting from changes in productivity. However, VCC is still a measure which refers to a *production* process – and, once a new VCC is established, as competition forces other capitals to lower their prices, this new VCC will become established as the OCC of a new phase of production. This, in turn, is followed by a new VCC as further rounds of technical advance again alter productivity and costs of production. This point is obvious when we take a *re*-production perspective, and see, as Marx did, a sequence of repeated cycles: production → circulation → production → circulation, etc. Fine and Saad-Filho's analysis is too focused on a single phase of production at a given OCC, followed by productivity change, and a repricing process which is registered in VCC. Their procedure is misleading, and it is vital to focus on the production-reproduction sequence, not on production treated as an isolated moment.

This seems elementary – but Fine and Saad-Filho take a different course for two reasons which seem to them decisive. Firstly, a production-linked OCC

> is important because it pins the source of surplus value and profit firmly down to *unpaid* labour. This helps Marx to substantiate his claims that machines do not create value, that surplus value and profit are not due to unequal exchange.[60]

To drive home this argument is a central concern of their book, which seeks at every point to challenge the orthodoxy of mainstream economics that profit is the product of a combination of the three factors of land, capital, and labour. Secondly, they argue that OCC as a production-based concept, uncontaminated by circulation processes, is essential to a Marxist political economy, in order to

59. Ibid.
60. Fine and Saad-Filho 2004, p. 133.

clarify 'the tensions created by the integration of production with exchange'.[61] And also to suggest that the transformation problem is closely linked to the thesis of a tendency for the rate of profit to fall, since both transformation and tendency centrally involve the composition of capital.

But how do they achieve a circulation-free concept of the constant capital/labour ratio? Marx, they argue, got it right. His OCC

> is only concerned with the effects of the differing rates at which raw materials are transformed into outputs… he is less concerned with how the inputs *c* and *v* have previously obtained their prices, and more concerned with how differing organic compositions affect the process of price and profit formation.[62]

Marx, they suggest, is comparing two sectors of production A and B in which A uses more labour than B to work up more raw materials *c*, irrespective of the cost of these raw materials. They then argue that prices will rise above value in a sector in which either (a) a given quantity of labour works up a greater quantity of raw materials – regardless of its cost – or (b)

> the use of a greater quantity of labour in production will create more value and more profits than a lesser quantity, (again regardless of the cost of raw materials) the commodities produced will command a higher price relative to value.[63]

Marx, they say,

> is primarily concerned to isolate the impact of prices of the different quantities of labour necessary to transform the means of production into the output – regardless of the value of the means of production being used as raw materials.[64]

Two aspects of this treatment are questionable. (a) In discussing constant capital they focus on raw materials – the OCC, they write, 'is only concerned with the effect of the differing rates at which raw materials are transformed into outputs'.[65] It seems, at this point in their argument, that fixed capital (machines, factory buildings, etc.) is excluded from their definition of constant capital. Note also the reduction of *c*/*v* to raw material/labour in the following:

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61. Fine and Saad-Filho 2004, p. 134.
62. Fine and Saad-Filho 2004, p. 132.
63. Ibid.
64. Fine and Saad-Filho 2004, p. 133.
65. Fine and Saad-Filho 2004, p. 132.

> raw materials and labour enter the production process with given values, and this leads to a definite ratio of constant to variable capital.[66]

Yet, earlier in the book, it is allowed, as Marx explained, that wear and tear on machinery involve, in effect, a transfer of value to commodities produced. 'The value of constant capital does not vary during production (only labour creates value)'.[67] (b) This instability in the definition of constant capital is associated with another strange move by Fine and Saad-Filho. As the quotations above indicate (from pp. 106 and 132), they seem to define capital and profit in terms of current *flow*, and exclude considerations of the *stock* of capital. In their account, the 'c' under discussion is not the whole stock of constant capital, but the flow of value transferred during the production process from constant capital to commodity. It follows that they define rate of profit as the marginal surplus-value return on the flow of constant capital and wage costs, not surplus-value divided by the total stock of capital engaged in production. But, for any given capital, what matters is how large the rate of profit is on *total capital advanced.* A profit could be high in flow terms, yet the business on the rocks, if a very large sum has had to be tied up in machinery and plant in order to produce this profit.

One is left with the impression that, in Fine and Saad-Filho's text, the capital/labour ratio is being asked to do too much analytical work. To identify a static, atemporal *c/v* ratio, they are forced to abandon reference to the outstanding stock of capital whether for individual capitals or for capital as a whole. Their argument stresses, 'the unchanging values of commodities (including labour power) during production'.[68] This supposed stability of the OCC as production takes place is crucial to their argument. And it is clear that, for a firm which has invested in a given array of means of production, the amount of money advanced does not alter during production. But money-capital involved is the total tied up in a given stock of capital, not just, as in Fine and Saad-Filho, the flow of capital absorbed by the costs of current production. But, as Marx correctly insists, the value of the means of production can be eroded if there is a general cheapening of the elements of constant capital which takes place during the period of productive life of a given stock of means of production (machinery, raw materials, etc.).

66. Fine and Saad-Filho 2004, p. 106.
67. Fine and Saad-Filho 2004, p. 40.
68. Fine and Saad-Filho 2004, p. 113.

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