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# MARX'S ANALYSIS OF THE ORGANIC COMPOSITION OF CAPITAL AND THE DIALECTICAL PROCESS OF CAPITALIST DEVELOPMENT: A RE-EXAMINATION.

By

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## INTRODUCTION:

Karl Marx, born in 1818 of middle class German Jewish parents, spent much of his life theorising, analysing and debating social issues. By his death in 1883, he had left behind a profound influence on history. This influence was particularly felt in areas of social conditions that very much affected the life of men.

This article attempts to analyse Marx's thought on the composition of capital, establish a link between his assumptions and those of the early Marxists notably Rudolf Hilferding, Rosa Luxemburg and Vladimir I Lenin. In doing so, the internal dynamics and the dialectical process of capitalist development as well as the expansionary dynamism of capitalism will be examined in relation not only to Marx's era, but also to our contemporary era.

## MEANING OF CAPITAL

Capital has various connotations and conceptions by different people. But within the frame work of our analysis, we shall consider capital in line with the following meaning commonly in use:

- (i) a substantial sum of money that may be used to buy instruments of production, to pay wages or purchase raw materials - in short, the "wherewithal", to set up a business outfit or venture.
- (ii) the store of means of production, tools, machines, houses, factories, mines, worked-up land, stocks of food and raw materials, goods, processed and finished products, etc. - in short, all the various assets that help to further the production of what the community, state or society needs.
- (iii) State securities, stocks and shares in companies, etc. which may or may not represent real instrument of production or money subscribed as shares or loans.

This simple but apparently clear conception of capital does not go down well with scholars like John Eaton<sup>1</sup>, who hold that "none of these definitions of capital is an accurate or complete economic definition". According to him, these definitions or conceptions of capital have described aspects and not the essence of things. In view of these differences in the conception of capital, we shall attempt a comprehensive definition in order to get nearer to the essence of the substance of capital. We shall do this by considering who the capitalists are, and by analyzing the capitalist mode of production. This is at the core of Marxist thought and is crucial to our discussion.

## THE CAPITALIST MODE OF PRODUCTION

Essentially, the capitalist mode of production has certain specific features. One feature is that the means of production are very unevenly distributed in the society to the point that for all practical purposes the society is divided basically into small groups of people who monopolise the means of production and the vast majority of the population who have no means of production<sup>2</sup>. The former is the capitalist class and the latter constitute the working class or the proletariat. In this regard the capitalist owns the wealth in the form of money and the means of production which are set to work by hiring wage workers. There can therefore be no capitalist production unless in addition to the capitalist class, there is also a class of wage workers.

It is apparent from all this that three main features give capitalism its essential character, viz :

- (i) wealth is concentrated in the hands of a few people (the capitalist class), who own the means of production such as raw materials, factories and machines, as well as wealth in the form of money;
- (ii) a majority of the people (the masses) have no other means of getting a living except by selling their labour power for wages (salaries). This is the class that Marx calls the proletariat.
- (iii) invariably, not all production is for personal use of the producers as some is for exchange or for sale in the market. Moreover, production is carried on in large units, employing hundreds and thousands of workers.

By deductive reasoning, therefore, capitalism is characterised essentially by commodity production which according to Claude Ake<sup>3</sup>, gives capitalist societies some of the characteristics of a market.

With the emergence of this hitherto unknown mode of production, industry predominates over agriculture. Specialisation and division of labour both within

... between productive units has been carried to a very high degree with unbelievably high technological innovations<sup>4</sup>. Many sociologists, political economists and development economists have noted that while these economic processes have ushered in unprecedented increases in production and wealth of the capitalist, it has brought also mass poverty for the working class, devastating economic crises and wars affecting substantial part of the world of our time.

The title that Karl Marx gave to his major work, *Das Capital*, published in 1867 indicates the period in history in which his analysis was focused. *Das Capital* or *Capital* in English, is indeed the culmination of a series of works in which Marx linked his basic theory of dehumanisation of the working class to the processes of economic production and exchange<sup>5</sup>.

The phenomenon of dehumanisation brings us to the question of exploitation of the proletariat under capitalism. As noted earlier, the basic means of subsistence of the working class in a capitalist economic formation is by the sale of their labour power for wages. The bourgeois or capitalist uses the labour for his purposes and in return pays wages (salaries). But the exchange rate goes at what Samir Amin calls "unequal exchange".

It is unequal because the bourgeois pays far less than the worth of the proletariat labour power.

The difference between the proletariat labour power and the value of his products goes into the pockets of the bourgeois as unearned income or more accurately as surplus value. In fact, in the words of Ake, it is a relation of gross inequality, of subordination and domination, of exploitation and antagonism<sup>6</sup>.

This unequal exchange between the proletariat labour power and the value of his products becomes more evident when it is viewed against the background that labour power is in fact a commodity which has the peculiar property of creating when used, value greater than its own. However free, open and fair the labour market may be, the capitalist still stands to make his profits. Accordingly, Marx asserts that the source of profit to the capitalist is the difference between the value of the worker's labour power and the value of the wages he receives. This is the Marxian Labour Theory of Value.

This unequal and exploitative class relationship is further made evident when we reduce capital to its two main components, namely: constant and variable capital. Constant capital, is that investment of the capitalist in non personal factors - such as raw materials, machinery, factories and transport. It is constant because their value remain the same throughout the production process and are merely transformed. Machines cannot be exploited and can

therefore not contribute to the total profit although they help labour to produce more useful things. The variable capital is the personal factor of production - the wage bill or salaries - which brings about increase in the value of capital since the capitalist, as we noted earlier, pays less than the labour power and appropriates the surplus for himself. The ratio of constant to variable capital is called, in Marxian parlance, the organic composition of capital which we now address.

### MARX'S ORGANIC COMPOSITION OF CAPITAL

One is quick to observe that as a common place phenomenon, now in our contemporary world system, as in the past, in Nigeria or in other capitalist countries, whatever profit he may be making, the capitalist is persistently striving to maximise profit. As noted by Ake, the law of profit maximization governs capitalist societies to the extent that we may legitimately talk of a capitalist rationality, or the tendency to behave in a manner compatible with the logic of this law. Shall we then say it is quite wrong to attribute this characteristic behaviour of the capitalist ethic to greed for money? Perhaps the answer lies in the social therapeutics of the future. Suffice it to say that on the contrary, the greed for profit maximisation in the capitalist community may be attributed to the economic system in operation in any one capitalist society. It is known, however that, the keener the rivalry between competing capitals, the more is single mindedness a necessary condition for survival as a capital. The law of capitalism tends to eliminate those who do not seek continuously to increase their wealth<sup>8</sup>.

In general, only a portion of the surplus value will be consumed by the capitalist as his means of living. The balance is used to enhance his embourgeoisement in his unceasing fight against his rivals. This balance he turns into a new capital which in its turn will enable him appropriate additional surplus value. The process of turning surplus value into new capital is called accumulation of capital. According to Marx's analysis, as capitalism expands through accumulation of more capital, the outlay for machinery tends to increase. What this means is that the organic composition of capital which is the ratio of constant to variable capital also increases. To say that the organic composition of capital increases means logically that the share of variable capital decreases. Accordingly, the rate of maximization of surplus value declines, since as we remarked earlier, surplus value always comes from variable capital. Hence we have seen that the expansionary dynamism of capitalism has consequences for the production of surplus value.

A simplistic way of putting it is that as organic composition of capital increases, the rate of capitalization of surplus values tends to be reduced. The decline of the rate of profit due to increase in organic composition of capital can be neutralized up to a point by intensifying the rate of exploitation of the worker. But in the long run, the rate of profit will tend to fall because from the theoretical point of view, there is no limit to the increase of organic composition of capital if the capitalist must maintain himself in the competitive system of free market. On the other hand, there is a limit to the intensification of exploitation of the worker because part of the product of his labour must go into his own maintenance if he is to live and continue to produce.

This perhaps explains why Banks, and allied financial institutions, oil companies, Cocoa-cola, U.A.C. of Nigeria PLC, Guinness Nigeria PLC, and other multinational corporations, frequently, adjust upwards the pay packets of their staff in order to sustain them so as to enhance capitalist embourgeoisement.

For purposes of further clarification of Marx's analysis of organic composition of capital, we introduce the following symbols into our discussion:

V = Variable Capital (i.e. wage bill or salaries),

C = Constant Capital (Machinery and Raw Materials),

S = Surplus Value

Going by Marxian analysis to which some contemporary political economists, development economists and sociologists lend credence, the total product of industry, (any industry that has profit motive), for any period of time is equal to  $C + V + S$ . From this, Marx deduced three ratios. First is the ratio  $\frac{S}{V}$  = rate of exploitation - ratio of surplus to variable capital. Marx expresses it as a division of the working day into the times which a man works for himself and the times which he works for the capitalist.

Thus if  $\frac{S}{V} = \frac{3}{2}$  and the working day is 10 hours, a man works 4 hours for

$\frac{3}{2}$

himself and six hours for the capitalist. It therefore means that he (the worker) has done 4 hours of necessary or paid labour and 6 hours of surplus or unpaid labour.

The second,  $\frac{C}{V}$  = organic composition of capital is the ratio of constant to variable capital. The third is the ratio  $\frac{S}{C + V}$  - rate of profit. While Robinson describes

$\frac{S}{C + V}$  as unambiguous

$\frac{S}{V}$  and  $\frac{C}{V}$  as unambiguous

ratios, he sees the rate of profit ratio as representing the "false semblance of

an association in which labourer and capitalist divide the product to the different elements which they respectively contribute towards its formation".

Proceeding further, Robinson notes that "Marx's method of treating profit as 'unpaid labour' and the whole apparatus of constant and variable capital and the rate of exploitation, keep insistently before the mind of the reader a picture of the capitalist process as a system of piracy, preying upon the very life of the workers".

### THE DIALECTICAL PROCESS OF CAPITALIST DEVELOPMENT

There is a considerable controversy about the validity of the theory of rising organic composition of capital and its corresponding decline in profit. However, as noted by Ake, "it would appear that those who dispute this thesis have not succeeded in disproving it". Following his analysis of capital, Marx seemed to have concluded that capitalism was bound to destroy itself and eventually collapse by virtue of its own contradictions, irrespective of the political struggle of the proletariat.

One notes that since Marx made his postulates in 1867 and the application of the principles across cultures, capitalism, rather than wither as "prophesied", is increasing, given the ascendancy of capitalist countries like USA, Japan and South Korea in world technology and political economy. Howbeit, it may well serve our purpose here to examine some of the contradictions which Marx saw in capitalism with a view to having an insight into the internal dynamics and the dialectical process of capitalist development as well as its expansionary dynamism. This will indeed serve as our points of departure in establishing linkages between Marx's assumptions and those of the early Marxists notably Rudolf Hilferding (1877 - 1914), Rosa Luxemburg (1870 - 1919) and Vladimir Lenin (1870 - 1924).

The first of these contradictions relating to rising organic composition of capital and eventual fall in the rate of profit has already been touched upon. As Karl Marx further argues in Volume 1 of *Das Capital*, capitalism involves itself in inextricable contradictions as it strives towards unlimited growth. The first, the contradiction of rising organic composition of capital has also been discussed. Put simply, as technology progresses and the amount of constant capital increases less and less labour is necessary to produce the same volume of goods; the ratio of variable to constant capital decreases and so does the profit.

Marx posits that the law of diminishing rate of profit is a universal law of



capitalist production. The capitalist tries to arrest the fall in the average rate of profit by intensifying the rate of exploitation of the workers. The workers are therefore paid low wages and the power of the state is used to prevent them from effectively increasing their wages. Ake puts it that "the drive for maximising surplus value, which is necessarily a drive for the intensification of exploitation increases the wretchedness of the workers, their earning power lags behind this general standard of living, and their unsatisfied wants increase<sup>11</sup>.

As the wretchedness of the worker increases, his antagonism, real or potential to the capitalist system, particularly to the bourgeois class, tends to increase. He increasingly recognises the implications of capitalist relations of production and becomes more prone to want to destroy it. So we can already see how in acting out its own internal logic namely the maximisation of surplus value the capitalist system tends to generate its own dialectical negation<sup>12</sup>. This makes it glaring that the proletariat are the potential army of capitalism.

A third dialectical process of capitalist development is closely linked with the theory of rising organic composition of capital. As we have seen, the expansion of production leads to rising organic composition of capital.

Rising organic composition of capital in turn leads to the concentration of capital. This is so because the share of capital that goes to machinery has increased, replacing human labour in production. As a branch of production becomes more mechanised, it becomes more difficult for new entrepreneur to enter that branch of production and remain competitive. Thus rising organic composition of capital leads to monopolistic capitalism - a form of capitalism in which the economy is dominated by a few large entrepreneurs (enterprises) who control the market and make it extremely difficult for new entrepreneurs to break into their line of production.

An example in Nigeria is the Igbo control of motor spare parts business, building materials and super markets within central business districts (CBD) in urban areas. Thus we see that in the capitalist mode of production, competition leads to monopoly which is a negation of competition. This is so because when competition reduces the number of enterprises to a few large ones, these few large ones will tend to co-operate to reduce competition among themselves by fixing prices and dividing the market.

Such an arrangement could offer better prospects of maximizing surplus value within the capitalist enclave than the continuation of unrestricted competition. However, such an arrangement will invariably entail limiting production in order to keep prices high. Limitation of production ultimately entails limitation of accumulation of capital. Hence, the expansion of capitalist

production tends to negate itself in the long run.

In attempting to establish links between Marx and other early Marxists, it is necessary for us to begin with "Luxembourgism". A revolutionary theoretician and social agitator, Rosa Luxembourg was born in 1870. She played a key role in founding the Polish Social Democratic Party, the German Communist Party, and the development of Marxist theory of her time. Most of her theoretical and political opinions derive logically from her views on accumulation. Considering the dialectical nature of capitalist development, Luxembourg differs from Marx in the belief that capitalism will collapse by virtue of its own contradictions and irrespective of the political struggle of the proletariat. To Luxembourg, the revolution would overthrow capitalism long before the latter's economic possibilities were exhausted. She held that the capitalist system could only work as long as it had at its disposal a non capitalist market, whether internal or external, and as it was in the nature of the system to destroy its non capitalistic environment, it was inevitably preparing its own economic ruin.

As far as she was concerned, there could be no such thing as "pure capitalism" on a world scale. If the capitalist economy developed to that extent, it would cease to exist. Karl Marx predicted the eventual collapse of capitalism but did not define the exact conditions under which the system would become an economic impossibility. Rosa Luxembourg set out to do this - partly, by supplementing Marx's views and partly by modifying them.

Reacting to her Marxist thought, Kolakowski observes that "Luxembourg was frequently blind to the empirical reality of social events and showed an extra-ordinary lack of political understanding in regard to national questions and to the revolution itself. Her writing show a theoretical consistency of the kind which can only come from extreme dogmatic rigidity and insensitivity to facts"<sup>13</sup>.

Turning to Lenin, it is indeed necessary to point out that there has been considerable controversy on the question of whether Leninism is a "Revisionist" ideology in relation to the Marxist tradition, or on the contrary, a faithful application of the general principles of Marxism to new political situations. Stalin, for instance, maintained that Lenin added nothing to the inherited doctrine and took nothing away from it, but applied its principles unerringly, not only to the Russian conditions, but most importantly to the entire world situation<sup>14</sup>.

On the crucial question of the dialectical process of capitalist development and its eventual collapse, Lenin believed that in a bid to maximize profit, capitalism is forever plagued with the problem of over production and monopolies. In the search for outlets for other surplus products, the monopolies move into the underdeveloped countries. Once the colonial frontier was closed, however, the

great capitalist nations would, Lenin predicted, fall upon each other in a series of world wars, each nation desperately seeking a safety valve for its over-production. Lenin's thesis becomes more illuminating when one reads his book *Imperialism - The Highest State of Capitalism* (1917). At the same time, however, in accordance with the Leninist scheme, the people of colonized lands would rise against their foreign masters, starting an international revolution that would prove fatal to capitalism.

Okot Pitek's *Song of Lawino*, Achebe's *Things Fall Apart* and Alex Hailey's *Roots* are added peeps to the Leninist scheme with respect to the African situation. Conversely except for Algeria's war of resistance against the French and Kenya's *Mau-Mau*, much of Africa experienced not a revolutionary transition from colonial status to sovereign nationhood, but rather "negotiated independence".

Finally, we now consider Rudolf Hilferding's Marxist views. Hilferding holds essentially that the domina<sup>n</sup>ce of profit as a motive in capitalist production leads naturally to the contradictions of capital and to technical progress. The latter expresses itself economically in the constantly increasing proportion of constant capital in the organic composition of capital and also in a change within constant capital itself. This means that the transfer of already invested capital is increasingly difficult; circulation of capital can be transferred at will from one branch of production process. According to Hilferding, this will make it difficult for an average rate of profit to emerge. Hence in this direction, Rudolf Hilferding was closely linked with Marx's thought.

On the question of Cartelization which Marx saw as a result of monopolistic capitalism, Hilferding puts the question as to whether there is any impassable limit to the process, and answers that there is not. Furthermore, Hilferding argues that in circumstances of Cartelization, prices would be fixed conventionally and this would turn into a calculation which divides the total output between the Cartel magnate and the rest of society. Money would cease to play a part in production and the anarchy of the market would be done away with. Society would still be divided into antagonistic classes, but it would have a planned economy. Hilferding does not seem to say that matters are bound to develop in this way, but that such is the tendency of the concentration of capital.

With reference to the question of revolution, while Marx was more cautious in predicting outright revolution, Luxemburg, Hilferding and Lenin believed in the proletarian revolution. Lenin, for example, believed in a political revolution led by the party supported by the proletariat but requiring in addition the impetus of other claims which it purported to represent and which it harnessed to its cause.

## CONCLUSION

Kolakowski holds the opinion that Karl Marx's theory is incomplete or ambiguous in many places, and could be "applied" in many contradictory ways without manifestly infringing its principle of capitalist development. The attempt here has been to present a historical re-examination of Marx's thought on the organic composition of capital, drawing the main thrust of the thesis in relation to what earlier Marxists conceived of the analysis in terms of application to concrete situations in Europe of Marx's time. In doing so, we have demonstrated that not only in the world of Marx does capital, the capitalist mode of production or the organic composition of capital hold real but also in contemporary times of Africa, Asia and Latin America, and, hence, in the dialectical process of capitalist development across time and space. The thesis was a master piece which requires careful consideration, analysis and re-examination by faithful apostles and apostates alike imbued with high level of abstraction for which Marxist analysis is reputed.

## ENDNOTES

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1. John Eaton, *Political Economy - A Marxist Textbook* (New York: International Publishers, 1966), p. 76.
2. Claude Ake, *A Political Economy of Africa* (Ibadan: Longman Nigeria Limited, 1981), p. 14.
3. *Ibid.*, p. 14.
4. M. Haralambos, *Sociology - Themes & Perspectives* (Slough: University Tutorial Limited, 1980), p. 526.
5. K. Marx, *Wages, Price and Profit* (Moscow: Progress Publishers, (1947).
6. Claude Ake, *A Political Economy*, p. 14.
7. *Ibid.*, p. 16.
8. John Eaton, *Political Economy*, p. 93.
9. Robinson, *The Economics of Imperfect Competition* (London: Macmillan, 1969), p. 28.
10. Ake, *A Political Economy*, p. 18.
11. *Ibid.* p. 16.
12. Kolakowski, L. *Main Currents of Marxism Vol 1 - The Founders* (Oxford: Oxford University Press, 1978), p. 203.
13. *Ibid.* Vol II - *The Golden Age* p. 75.
14. *Ibid.* Vol III - *The Breakdown* p. 381