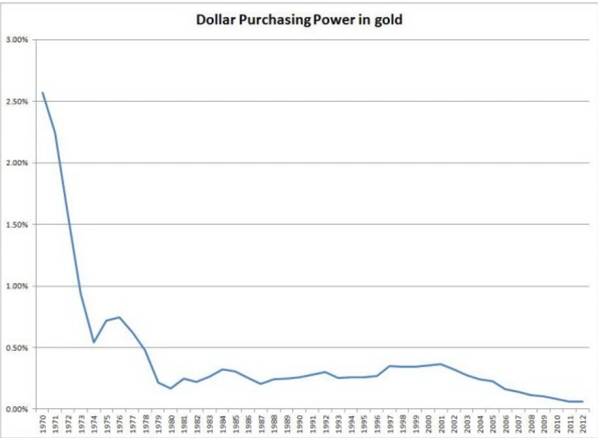
The Real Movement

Communism is free time and nothing else!

How superfluous labor time creates inflation

by Jehu



(https://therealmovement.files.wordpress.com/2014/03/dollarpurchasingpower.jpg)
The purchasing power of one dollar, as measured in percentage of an ounce of gold. (1970-2012)

I want to turn to the question of the impact of the growing mass of superfluous labor time has on the exchange value and prices of commodities. Once i am finished, I hope you will understand why inflation is not a mystery — and, consequently, why all inflation within the mode of production can be traced to the growing mass of unproductive labor.

As I explained in the previous post, the emergence of a significant mass of superfluous labor time within the mode of production is the result of the tendency toward overproduction of commodities, of overproduction of capital in the form of commodities.

According to Marx in Volume 3 of Capital, this overproduction necessarily results in the devaluation of capital: At the point where overproduction of capital becomes a general condition of the mode of production, no increase in the mass of capital can add to the mass of profits; indeed, the possibility exists that an increase in the mass of capital actually results in a fall in the mass of profits.

This result can be grasped if we think of overproduction in the form of additional commodities produced in a market already completely saturated by overproduction. Under such conditions, new capital in the form of the commodities does not add to profits but only results in a fall in the prices of the commodities and, therefore, a fall in profits. New capital added to the mass of capital would, under these circumstances, only lead to the withdrawal of an equal portion of existing capital under the pressure of competition. Says Marx (http://www.marxists.org/archive/marx/works/1894-c3/ch15.htm),

> *"In reality, it would appear that a portion of the capital would lie completely or partially idle (because it would have to crowd out some of the active capital before it could expand its own value), and the other portion would produce values at a lower rate of profit, owing to the pressure of unemployed or but partly employed capital."*

A portion of the total capital would have to give up its characteristic quality as capital; it could no longer be productively employed for the purpose of producing surplus value. It is true, as some Marxists argue, that there are counteracting tendencies to this, but, in this case, we are assuming a general condition of overproduction under which these counteracting tendencies no longer serve to restore profits. Once overproduction is absolute, no counteracting tendency suffices to enable the mode to restore itself nor all of them together. The mass of capital has encountered the limits of its expansion as a mode for the production of material wealth; in this situation, any additional expansion of hours of social labor must be superfluous to the production of material wealth.

On the other hand, capital is the production of surplus value, which must lead to the expansion of hours of social labor and to the employment of additional labor power for purposes of production of surplus value. To put this another way: If the production of surplus value is to increase, the surplus value produced by this increase must be consumed unproductively. Marx explains why:

> *"It would be immaterial in this respect if a part of the additional capital were to take the place of the old capital, and the latter were to take its position in the additional capital. We should still always have the old sum of capital on one side, and the sum of additional capital on the other."*

Newly produced capital, if it found its way into productive employment, would simply push a portion of older capital out of productive employment. In any case, some definite mass of capital would always be forced to cease operating as capital. The capital has already lost its capitalistic character, i.e., it can no longer operate as capital, can no longer be employed as capital to produce surplus value. On the other hand, the existence of this excess capital, (of excess capital in the form of commodities and means of production), depresses the profits of productively employed capital.

Destroying (unproductively consuming) this excess capital is a means to reduce the pressure on profits. Since this mass of capital already has ceased to function as capital, it can be tapped by the state for this purpose. This can be seen clearly in the Agricultural Adjustment Act of 1933 (http://en.wikipedia.org/wiki/Agricultural_Adjustment_Act), *"which reduced agricultural production by paying farmers subsidies not to plant on part of their land and to kill off excess livestock."* This crude, primitive method of reducing overproduction of capital already contains in itself all the features of superfluous labor. The law came into effect on May, 1933, about one month after Roosevelt signed Executive Order 6102 (http://en.wikipedia.org/wiki/Executive_Order_6102), which replaced commodity money with fiat dollars. Once the holding of monetary gold was outlawed in the United States, Washington could begin counterfeiting its currency without fear that a two tier system of prices — one for gold, the other for fiat dollars — would emerge.

As a result, the Roosevelt administration could simply print the necessary currency to pay farmers to not grow food. The stated aim of this policy was, *"to relieve the existing national economic emergency by increasing agricultural purchasing power"*. Which is to say, the state could maintain farm output prices above their exchange values.

But the rate of profit is the goad of the mode of production; thus by maintaining prices above their exchange values and artificially subsidizing profits, the state made possible additional employment of capital in a branch of production already suffering massive overaccumulation. Thus the additional investment in the branch was achieved by the wholesale destruction of the productive forces produced within the branch.

Had the state simply counterfeited its currency to pay the farmers to not grow food, and allowed this counterfeit to circulate along side commodity money, a two tier system of prices would have immediately popped up within circulation. The purchasing power of the currency would have fallen in proportion to the additional currency created and issued by the state. According to labor theory, this is because, the exchange value represented by the mass of state issued currency, no matter its quantity, can only equal the value of the mass of gold that would have taken its place in circulation.

Since the exchange value of farm output had fallen due to overproduction, the additional currency paid to the farmers would have no more purchasing power than the real value of the output. Paying subsidies to the farmers to not grow food would have only brought discredit to the currency, because of the inflation of currency prices of commodities. Currency prices of commodities would inflate, while the prices of the same commodities denominated in gold would have remained stable and the sellers of commodities would have demanded gold for their commodities.

By replacing gold with fiat currency and outlawing the monetary use of gold, the state could not prevent the inflation of currency prices, but it could prevent the sellers of commodities from demanding gold in exchange for their commodities. In case you missed the significance of this statement: *the biggest sellers of commodities are not Wal-Mart, Target or any other capitalist firm, but the proletariat, who sell their labor power to Wal-Mart, Target and similar capitalists firms*. Removing gold from circulation and replacing it with a valueless fiat currency, therefore, had the double effect of devaluing labor power and subsidizing profits.

I believe it is critical to understand that inflation is not caused by counterfeiting currency; rather it is the overproduction of capital that requires the counterfeiting of currency. The bourgeois monetarist simpletons ascribe to currency counterfeiting a power it does not have to create inflation. The overproduction of capital is, at the same time, the overwork of the population of workers for the purpose of producing surplus value. Inflation, therefore, begins not with the counterfeiting of the currency, but with hours of labor that are too long.

The whole of the secular inflation that has occurred since the Great Depression in all countries can be traced to overwork of the working class, not to currency counterfeiting. The expenditures of hours of labor beyond the duration of socially necessary labor time required for the production of commodities requires also prices for these commodities that increasingly diverge from the values of the commodities. While commodity money prices reflect, and can only reflect, the actual exchange value of the commodities (i.e., the labor time required for their reproduction), prices must increasingly reflect the actual labor time expended during that production.

The relation between the sum of prices and the sum of exchange values is the relation between the total labor time of society and the socially necessary labor time required for reproduction of the material needs of society. The general rule regarding the relation between these two magnitudes of labor time is this: as the socially necessary labor time of society decreases, the total labor time of society must increase.

This is why the very possibility of price deflation produces so much horror within the ruling class. Bourgeois theory states this inflation can be produced by printing money, as Bernanke explained in his 2002 speech (http://www.federalreserve.gov/BOARDDOCS/Speeches/2002/20021121/default.htm) on deflation. But this is not true: inflation can only be produced by extending hours of labor. Likewise, profits cannot be increased by austerity or cutting wages, but only by increasing hours of labor. Both the failure of QE and the failure of austerity in Greece demonstrate profit can only be increased by increasing hours of labor.

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One Comment to “How superfluous labor time creates inflation”

Thomas Lord says:
March 11, 2014 at 3:17 pm
Since I’m relatively new to Marx’s theory of prices (via Nichols) I apologize in advance for any stupid mistakes.

I think that you, Jehu, are working with an assumption that there has been a general condition of overproduction in the US since the 1930s, resulting from efficiency gains in the mode of production.

The deflationary threat of overproduction is, in this view, a threat of supply-driven deflation. For example, if a large enough quantity of food comes to market then the market price will fall to a very low level. If the market price is too low, sellers can not earn enough to reach the price of production: mainly this means that they will not make enough money selling food to hire enough people to grow next year’s crops.

That scenario shows how overproduction relates to superfluous labor. I understand you to argue that superfluous labor is growing because of a capitalist need to non-productively “soak up” an abundance created by efficient production. This labor must be superfluous because if it were not — if it produced more — it would worsen the problem of excess abundance. When the government goes ever deeper into debt and spends ever more, you see this in part as the government doing something more sophisticated than burning excess crops directly: instead it borrows them to feed superfluous labor, burning the excess crops in the stomachs of non-productive wage workers, sometimes even having those workers further things along by destroying capital through acts of war.

The government debt, in this scheme, grows ever larger through a fiat-based expansionary monetary policy which simultaneously tends to inflate commodity prices and deflate the exchange value of labor (for every worker must carry on his shoulders an ever larger mass of superfluous labor).

I think the mechanism you describe makes sense but I’m skeptical that it is what is really going on, at least since around 1970.

I’ll try to explain why.

“Overproduction” is a condition of prices: the market price of a commodity in a condition of overproduction falls below the price of producing that commodity.

Efficiency gains are only one mechanism that can create overproduction — the ration of units of a commodity produced per unit of labor grows so large that the commodity’s market price threatens to crash too far. Efficiency gains aren’t the only mechanism.

Two other ways that a given commodity can enter a condition of overproduction are if:

1) The production of some input to that commodity becomes *less* efficient.

2) The commodity requires some non-producible input whose market price goes up.

One very noteworthy input to pretty much all production is barrels of crude oil. The efficiency with which these are produced has been, for the most part, since the 1970s, falling. Lately it is falling precipitously, leading to fracking and tar sands exploitation.

One of the non-producible inputs to barrels of crude oil is unextracted oil reserves. Post-Hubert we have started recognizing and treating these as non-producible inputs. Under oligopoly control the price of these inputs has been going up.

So there are two big possible sources of inflation to consider — sources very distinct from efficiency gains and overworking labor — since (roughly) 1970.

I'll also note that since the 1970s and to the current day, if we set aside resource constraints for a moment, the potential for productive capitalist expansion is extremely high. This is illustrated by the industrialization of Asia and more recently by capitalist expansion in Africa.

Very palpably that expansion is running up against fuel and water-related resource limitations.

The case for huge growth in superfluous labor also seems sketch to me because:

a) 70 years since the last world war. Intervening wars have not, in an absolute sense, burned up much capital.

b) Looking structurally at particular sectors of the economy waste can generally be found but nowhere do I see structural case that the level of waste is growing and thus contributing to inflation. Indeed, capitalists have grown ever better at anticipating demand to avoid entering already crowded markets.

REPLY