

THE LAW OF VALUE, PART 1

Capitalism has entered an era of profound crisis. Since 2007 the working class in every corner of the world has experienced unprecedented attacks. As giant banks fail, countries go bankrupt, factories lose profits, and the bosses fight for their existence by reducing wages, cutting pensions, laying off workers, increasing work hours, waging wars for cheap resources and profit, and expanding attacks on immigrant workers, using more police brutality, and racism and sexism.

This crisis of capitalism has loosened the grip of capitalist ideology on the masses. Hundreds of millions of workers in the world are on the move and questioning every aspect of capitalism and searching for solutions that capitalism cannot provide. In the 19th century, European countries went through decades of severe capitalist crises and civil wars. In the midst of these crises, by learning from the working class struggle, Karl Marx, for the first time in history, clearly spelled out the inner logic (fundamental structure) of capitalism and the need to destroy it with revolution in order to put the workers in power.

As the present capitalist crisis intensifies and major world war looms on the horizon, it is absolutely essential that the working class, led by our party, understand the basic laws of capitalism, as explained by Marx, Lenin, and others.

Our understanding of how capitalism works will advance our struggle to win the masses to communism. With this issue, **Red Flag** will begin a series on the Labor Theory of Value. We encourage party members, friends, and readers of **Red Flag** to form study groups and share their experiences in their work places and struggles with others.

What is the Capitalist Mode of Production?

Capitalism is a society organized based on the production of commodities (i.e., products) that are bought and sold in the market place for profit. Food, airplanes, machines, cars, natural resources are examples of commodities. These commodities are extracted and produced by human labor. Under capitalism, the capitalist bosses own the means of production necessary to manufacture these commodities, backed up by the State, with its army, police and laws defending the bosses' property.

The means of production are factories, machines, tools, materials, and workers' labor power. Under capitalism the means of production become capital. In such a society the capitalist boss owns the means of production and sells the products made by workers for profit. In this process, called capital accumulation, invested money creates more money. This expansion of

capital is the inner logic of capitalism. This basic form of production takes on law-like properties; Marx called it the Law of Value.

The owners of capital become a class, the capitalist class. They own the means of production, but in order to realize their profit, they absolutely depend on another class, the class that has nothing but its labor power to sell. That class is the working class, which is the majority. The exploited working class produces the profit for capital expansion. This makes capital a self-negating force: these contradictions of capitalism create its own gravediggers, the working class. On the one hand, capital exploits and dominates the worker, but on the other hand, it relies on the vast working class to create value. This fierce antagonism between the two classes is the foundation of capitalism, and it creates constant instability, periodic crises and wars. It has the potential for revolution and establishing a communist society.

In future articles we will explain the fundamental concepts of the labor theory of value and the general crisis of capitalism. We will look at exploitation, money, credit, the rate of profit, and the crisis of over-production from the point of view of destroying capitalism and replacing it with a society without capital or money.

COMMODITY PRODUCTION: MAKING MONEY OR MEETING NEEDS?

In the last issue of *Red Flag* we explained that under capitalism, capitalist bosses own all the means of production and they produce commodities that are bought and sold in the market place for profit. The means of production are tools, factories, and raw materials. All commodities are products of the labor of the international working class. Cars, houses, food, airplanes, furniture, clothes, medical care, etc. are examples of commodities.

Vacant homes outnumber homeless people in United States. Recent figures count at least 3.5 million homeless people and 12 million unoccupied homes. Why can't the homeless people legally move into the unoccupied homes? Because the banks who own them are not interested in their use. They are interested in the rent money or mortgage. Similarly, over 43 million people in the US live in poverty and often go hungry. Yet there is enough food to feed everybody in the world.

This is a contradiction at the root of every commodity. A commodity in capitalist society is produced for exchange and not for use by the producers. Things are not produced for their social needs, but rather for their exchange value in order to make profit.

So what is exchange value?

Exchange value simply is a ratio at which one commodity is exchanged with another. The exchange value of a commodity is determined by the amount of labor that is required to produce it. So we can say for example that 5 pounds of bread equal one shirt. What we mean is that the amount of time spent to produce 5 pounds of bread is the same as the amount of time required to produce a shirt. The exchange values of commodities are expressed in the money form by their price.

Use value: Every commodity has a use: it satisfies certain social need. This is a use value. For example, bread nourishes us and fills our stom-

achs when we're hungry.

The contradiction: Use value and exchange value

Now we can see that every commodity has two contradictory, opposing aspects: use value and exchange value. When we buy a commodity this contradiction is not obvious or visible. But tension in a capitalist society is rooted in this fiercely antagonistic contradiction between these two aspects of a commodity. It is this contradiction that brings two classes – the working class and the capitalist class — face to face with opposing interests.

Let us take a simple example of a capitalist boss who owns a bakery. This boss has no use value for that bread at all. You cannot use and exchange at the same time! The boss is only interested in the bread for its exchange value in order to make a profit. The use value exists only for the person who buys the bread. This logic applies to all commodities.

In capitalist society, the production is for exchange, and not for its use. So why do we, the working class not produce things for use? Because we do not have control over the means of production. The only way for us to satisfy our needs is to buy things with the money we get by selling our labor for wages. So our labor power is a commodity like any other. To reproduce it and to survive, we need money under capitalism. We exchange our labor power for the money we need to buy the necessities of life. If the boss can't make a profit off our labor, we can't sell it, and the bosses condemn us to death.

In summary: Commodities have a dual nature – use value and exchange value. The bosses are interested in the exchange value to make profit; the working class is interested in its use value to meet social needs. Under capitalism, the exchange value of a commodity is primary. If you don't have the money, you can't buy bread, no



matter how hungry you are. And the bosses will let the bread rot in the store before they give it to the hungry people who need it.

This contradiction is at the root of all the problems, crises and antagonisms of capitalism. How does this affect you, your coworkers and the struggle at your workplace?

In a communist society, there will be no money and no exchange value, no commodities and no exchange. We will produce only to satisfy the needs of the international working class.

NOTE: In the last issue, we incorrectly stated that labor power is one of the means of production that the capitalist owns. That is true in chattel slavery. In capitalist wage slavery, the workers sell their labor power as a commodity.

IS PROFIT MADE IN THE FACTORY OR IN THE MARKET?

In the last issue of *Red Flag* we learned that every commodity contains a contradiction between its exchange value and its use value. When we buy a commodity in a market, this contradiction is not visible. However, when we take a closer look, we see fierce antagonisms emerging.

At the beginning of the industrial revolution in England, rich landowners used their control of the state to enclose the common land of the peasants, forcing them off the land and into the cities. The former peasants, with no means of production and only their labor power to sell to the capitalists, became the working class. This process has been repeated throughout the world where subsistence farmers are forced off their land and forced to sell their labor power to the capitalists to survive.

Labor power – a unique commodity

Our labor power is a commodity that we have to sell to survive. Just like any commodity, it has exchange value and use value, and there is a contradiction between them. The exchange value is the wage we are paid for our labor, mainly determined by the cost of our subsistence. We get just enough to keep us coming back for another day of work. But our labor power also has use value: producing commodities for sale.

Exchange value (wages) and use value (the

work we do) are contradictory aspects of labor power. It is the contradiction between the use value and the exchange value of labor power that makes exploitation possible.

Profit and Exploitation:

Capitalists invest money in the means of production: machines, tools, and raw materials. Then they hire workers. At the end of the day, they have commodities that are sold in the market for more than the cost of the means of production and wages. Now they have more money than they started with. How is this possible?

It appears that buying and selling commodities creates value. However, this is impossible. Buying and selling merely changes the ownership of commodities. This process cannot create value.

Karl Marx solved this mysterious puzzle by looking not at the market, but at the production process itself. Labor creates all value. The capitalists buy workers' labor power and use it to create value, turning raw materials into commodities



like furniture or bread. Labor power is bought at its exchange value and commodities are sold at their exchange value. But workers produce more value in a day than what they receive in wages. Profit comes from the difference between the value that we create and the value that we receive.

Workers work longer every day than it takes to create the value of their labor power. This extra labor that the capitalist does not pay for is called “surplus labor.” The capitalist’s profit comes from selling the product of this surplus labor that is embodied in every

commodity. Thus, the key to capitalist profit is exploitation of labor, taking the product of workers’ unpaid labor and selling it in the market, “realizing” a profit. Exploitation does not happen in the market. Labor power is bought at value, commodities are sold at value. No profit is made in these exchanges. The profit does not come from market at all; it comes from the labor process.

Because the profit is realized in the market place, the bosses’ culture is based on the sacred market, and in ignoring exploitation in the process of production. The apparent freedom to buy and sell in the marketplace disappears in the coercion of the production process where we are forced to sell our labor power to survive.

In a communist society our labor power will not be a commodity to be bought and sold. Nothing will be bought and sold; we will freely give our labor to produce the necessities of life of the international working class.

In the next issue of *Red Flag* we will expand more on the contradiction between exchange value and use value that results in a class contradiction between capitalists and workers. We will talk about crisis, surplus value and profit. A question for study groups: why can’t machines create value?



When workers seized a factory in Ireland

“Without revolutionary theory there can be no revolutionary movement.” Lenin, *What Is To Be Done*

HOW WE WORKERS CREATE THE VALUE OF BREAD

This is the fourth article in our series on capitalist political economy. The last article asked why machines can’t produce value. Now we’ll look at the example of a bakery (or bread factory). The capitalist boss who owns this factory needs raw materials such as flour, oil, and yeast, and machinery like ovens and kneading machines. As **Red Flag** has explained, these are all commodities that have exchange value (or simply “value”). Marx calls these commodities “dead capital” because the labor of the workers who produced these commodities is embedded in them, and “constant capital” because their value does not change.

Of all the ingredients required by the capitalist to make bread, the key ingredient is the workers’ labor power. We sell our ability to work, our labor power. This is a commodity that Marx calls “live” or “variable” capital.

The value of our labor has two components. When a boss buys our labor power, we produce all value but we receive only a portion of this value in the form of wages. Our wages are determined by the average amount of value required for us to barely survive. This varies in different countries and industries, and different periods of capitalism. In other words, the boss pays us just enough so we can come back to work the next day. But the bosses constantly devise ways to squeeze more value out of us. The opposite interests of the bosses and workers often take violent form in our daily struggles.

The boss keeps the other portion of the value

that we create. It’s stolen from us! This is called surplus value. The process of working involves paid value and unpaid value. We can represent the paid value, our wages or variable capital, as (v). The unpaid value is surplus value (s). Our work is the total of v and s, or v+s. Now if we represent constant capital (machines, raw materials) as c, the total value of the bread is c+v+s.

Raw materials/machines (c).
Value already created by
workers and now trans-
ferred to the commodity

Variable capital (v)
Wages

Surplus (s) = unpaid value

Workers create all value

Value of Bread

To illustrate that machines don’t create value, let’s say that in our bread factory there is a kneading machine. This machine has a fixed cost and limited life. If the machine costs \$10,000 and it lasts for making 100,000 loaves of bread, then 10¢ value is transferred from the machine to each loaf of bread. No value is created by the machine. Each minute the machine is used, its life is reduced.

On the other hand, our labor power creates value over and above what we are paid. In addition, the bosses can make us work faster, and use racism and sexism to lower our wages below subsistence and reduce or eliminate our benefits. They use the cops, the courts, and union contracts to extract more surplus value from us. But the boss cannot make the machine work harder, threaten it with the cops, or cut its pay or benefits. The boss must pay full price for the machine, and when it wears out, he has to pay full price for a new one.

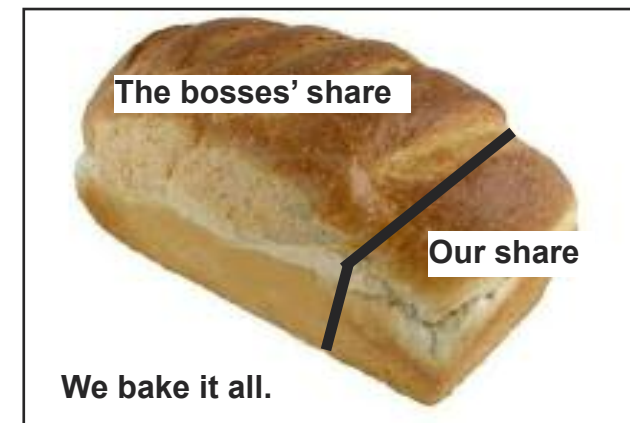
Crisis and contradiction

Factories don’t operate in isolation. There is a fierce competition among bosses and they constantly attempt to lower the socially necessary labor time to make bread by investing in more expensive and efficient machinery. They use the profit they make from the value we create to buy these more efficient machines. The value created by us, the working class, confronts us as an external force and dominates us. Over a period of time, as more and more capital accumulates, the bosses replace

living capital (the workers) with dead capital (machinery). However, since only the workers create value, the stage is set for a massive crisis that requires the massive destruction of capital in all its forms.

This is the basis of Marx’s crisis theory. In the next article we will further examine this crisis by looking at the falling rate of profit.

For study groups: Why is the capitalist labor process, the production of commodities, inherently violent, requiring coercion and force?



CAPITALISM'S FUNDAMENTAL CONTRADICTIONS LEAD TO CRISIS AND WAR

In the previous articles in *Red Flag* on political economy we explained how in the labor process under capitalism the workers are paid only for a portion of their working day. This is the value of our wages, or variable capital. The bosses pocket the value produced by workers but not paid as wages, as surplus value, or profit.

In order to produce commodities, the capitalist boss buys the means of production (raw material, machines etc) or constant capital, and buys our labor power. When the commodity is sold in the market, profit is realized because workers are not fully paid for the value of what they produce. The capitalists compete for maximum profits or face takeover by rival capitalists.

Understanding the relationship among these concepts gives us powerful tools to understand capitalism and how crisis develops, giving us opportunities for revolutionary change. As communists committed to building communist society we must grasp these concepts.

The Rate of Exploitation:

This is the ratio of unpaid to paid labor and it gives us an idea of how much exploitation is taking place in a factory. For example, in a garment factory in an 8 hour work day, if the workers spend 2 hours to produce their wages and spend 6 hours producing value for the boss, the rate of exploitation is $3 = (6/2)$

The organic composition of capital, or capital to labor ratio: (Capital costs divided by labor costs)

This is a way of looking at the relationship between the constant capital (machines and raw materials) to the value of variable capital or wages. As capitalism becomes more and more advanced, the bosses are forced to buy more expensive machinery in order to remain more productive than their competition. This increases the organic composition of capital, increasing the share of constant capital like machines in it. Workers are increasingly replaced by machines, but the machines create no

value. Only workers create value. For example in the jewelry industry the capital to labor ratio is now 0.21 to 1.0. For every \$1 spent on labor, \$0.21 is allocated for capital costs.

The rate of profit :

The rate of profit is the ratio of profit to the labor and materials which are input. The capitalists' interest is to increase the rate of profit. They do that by bringing in machines. But any increase in machinery will reduce the rate of profit unless the rate of exploitation changes. **It is a fundamental contradiction of capitalism that when the capitalists try to increase production, efficiency and profit by investing in machinery and laying off workers, this very action makes the rate of profit fall.**

In the jewelry industry, the use of technology in place of human labor has increased over the past 5 years as electronic data exchange and inventory management systems have taken over many daily tasks. During this time, wages have decreased, and workers have been cut.

As bosses invest more in machinery and raw materials, the rate of profit tends to fall. The bosses' only source of profit is the exploitation of workers. So as the boss lays off workers and produces more with more machines and fewer workers, his rate of profit falls. This is the key to understanding the law of capitalism that Marx called the tendency of the rate of profit to fall.

In the next article we will talk about the capitalists' constant battle to counter the falling rate of profit and how this makes the crisis worse and how crisis opens the doors for communist revolution and construction a society based on the needs of the international working class.

V = variable capital (portion of value produced by workers that they receive in wages. Also called living capital.)

S = surplus value (value produced by workers but not paid as wages)

C = constant capital (means of production: raw materials, machines, etc. Also called dead capital.)

(1) Rate of exploitation s/v

A higher rate of exploitation means that the bosses are getting a bigger share of what the workers produce. Either wages are decreasing or productivity is increasing.

(2) Organic composition of capital c/v

Capitalist competition forces bosses to put more money into expensive machinery.

Workers are replaced by machines, increasing the organic composition of capital, but the machines don't create value.

(3) Rate of profit $s/(c+v)$

Capitalists need the highest possible rate of profit. Any increase in c or v will reduce the rate of profit.

(4) Another formula for the rate of profit:

$(s/v)/((c/v)+1)$

We derive this formula by dividing the numerator and denominator in formula (3) by v .

This expression shows that if the rate of exploitation (1) stays the same and the organic composition of capital (2) increases as it must, the rate of profit falls. To maintain the rate of profit, the bosses must increase the rate of exploitation - or find some way to reduce the organic composition of capital.

The final article on the series answering the question “Does history repeat itself?” will be in the next issue.



“Without revolutionary theory there can be no revolutionary movement.” Lenin, *What Is To Be Done*

Falling Rate of Profit is a Disaster for Workers:

COMMUNISM WILL ABOLISH PROFITS, MONEY & EXPLOITATION

In the last issue of *Red Flag* we explained how capitalist bosses' relentless pursuit of maximum profit forces them to invest in machinery. In this process, as machines replace workers, fewer workers produce more commodities and therefore the value of commodities falls. Since only workers' labor can create value, fewer workers now create less new value. At the same time, the bosses' costs for machinery go up, so the rate of profit falls. This is an important law of capitalism. Unless the bosses take measures to counter this tendency of the rate of profit to fall, serious crises develop.

Suppose that the socially necessary labor time to produce 100 loaves of bread is 1 hour. There are two companies, A and B, producing bread and they each have a certain market share. If company A makes a heavy investment in machinery and now produces 500 loaves of bread an hour, the value of one loaf of bread is now less than before because it requires less labor time to produce.

In order to make profit, Company A now must produce a lot more bread, to recover the cost of the machines, and also to capture part of the market of Company B. Company B, which is still producing 100 loaves an hour, can't afford to sell its product as cheaply as Company A. It must also invest in the newer machinery or it will go out of business.

Both companies are locked in a battle for survival. They attack the workers harder to extract more surplus value from them.

In real life, there are more than two companies. There are many capitalists spread over many countries in different segments of industry desperately trying to maximize their profit. As the example shows, the very action of individual capitalists to increase their profit causes the rate of profit to decline over all.

An aspect of the law of value - that capital must self-expand, that money must make more money by stealing the value that workers produce but aren't paid for - can only operate if the capitalists resort to coercion and class violence to lower workers' wages and benefits.

Forcing the workers to work longer and faster increases the surplus value, causing the rate of profit to go up. Reducing wages has the same effect. As fewer workers are employed, the rising army of the unemployed puts downward pressure on wages as workers are forced to accept lower paying jobs. The use of immigrant workers, es-

pecially undocumented people, racism and sexism, and moving jobs to countries where workers are paid even less, are all used to lower wages.

Lowering workers' living standards involves coercion and violence.

The bosses threaten loss of jobs or use the police, militia, and army against workers who go on strike to force them to go back to work. Recent massive strikes in Europe, the miners' strikes in South Africa, Spain, and Australia show how the working class fights back in the face of bosses' violent attempts to increase the surplus value extracted from the working class.

This series on the political economy began by looking at the contradiction between use value and exchange value. Starting from this contradiction we have seen how this leads to class violence.

In the next article, we'll show how crises of overproduction and world war are the inevitable outcomes of production for profit. Coming articles will show that communism is not only a necessity for the international working class, but the only way to put an end to this bloodthirsty society based on profit. As the 40 miners in South Africa are laid to rest, let us recall Marx's words written over 150 years ago: "Capital is dead labor, that vampire-like, only lives by sucking living labor." The international working class must put an end to the reign of terror of capital by spreading the revolutionary ideas outlined in *Mobilize the Masses for Communism*.



“Without revolutionary theory there can be no revolutionary movement.” Lenin, *What Is To Be Done*

CAPITALIST DEVELOPMENT LEADS TO CRISES OF OVERPRODUCTION

Workers need many things to survive. In capitalism, the only way to get these things is to sell our labor power. Marx referred to this process as a circuit of commodities, where our labor power as a commodity is exchanged for money and that money buys commodities we need.

Workers Need Useful Things;

Bosses Need Profit

But for the capitalist class it is quite the opposite. They start with money to buy raw materials, factories, and our labor power to produce commodities. When these commodities are sold, they make more money. Since only workers can create more value than they are paid for, the bosses make a profit when the products of our labor are sold. This is the circuit of capital, where the money the commodity is sold for (M') is more than the money that was invested (M). This circuit of capital is very important for capitalism and it must occur as fast as possible. Any disruption causes severe crisis.

Where does the money come from that capitalists need to buy raw materials, factories, and pay for our wages, and then what happens to the profit they make? As capitalism develops, competition makes the factories and machines more

complex and expensive. Industrial capitalists may not be able to afford the higher costs. They call on financial capitalists, who own banks, to lend them the money. A portion of the industrial capitalist's profits goes to the financial capitalists in the form of interest payments on loans.

Why can't industrial capitalists always save money for future investments? Capital can only expand by creating new value. Simply hoarding money prevents this from happening because it removes it from the circuit of capital. To continue the circuit of capital, industrial and financial capitalists must reinvest a large portion of their profit and interest from loans so that money makes more money.

**More Machines, Less Workers = Falling
Rate of Profit**

In the last issue of *Red Flag* we explained how capitalists, locked in fierce competition, are forced to improve efficiency by constantly investing in better machinery. The first capitalists to use the new machinery get a brief period to make more profit by capturing a larger market share and selling commodities more cheaply than their rivals. But as the rival capitalists catch up with the new technology, the overall value

of commodities falls, since they contain less labor time. This is why a blank CD used to cost \$2 and now you can get it for a dime. Machines replace workers and since only workers create value, the rate of profit falls. Fewer workers produce lots more commodities while at the same time capitalists have to buy expensive machinery.

For the financial capitalists, the actual process of production is of no concern. They're not in business to make chairs or cars but to make money. Their sole interest is to find a sector of industry or different place where maximum profit can be realized by making loans or buying stocks. For an industrial capitalist, however, organizing production for a specific commodity is very concrete. Both industrial and financial capitalists depend on each other; but their conflicting interests cause the entire capitalist system of production to be destabilized. We will see this process in more detail in future articles.

The process we have described where money makes more money is also called the process of capitalist accumulation. In this process more and more value is created, thus the total value in so-

See CAPITALIST CRISIS, page 7

CAPITALIST CRISIS from page 8

ciety is expanding. This process can go on as long as the value created (or profit made) goes back into the circuit of capital to make more money. However, the same process of capital accumulation creates obstacles to the circuit of capital. As the rate of profit falls, it is harder for the capitalists to find a place to invest and make a profit. So they have to invest where the risks are higher, like speculating, which eventually leads to financial crisis.

Crisis of Overproduction

Thus, the very process which creates value begins to restrict the creation of value. Competition makes the capitalists build up more productive capacity and products than can be sold in the market. This is a crisis of capitalism: credit freezes, factories go idle, workers are laid off, their homes are foreclosed, businesses fail, banks go bankrupt, devaluing capital. Governments and corporations reduce wages, benefits, and pensions. Mountains of commodities fill up the warehouses while the workers go hungry, homeless

and without essential things they need to survive. This is the crisis of overproduction which we are in today.

The capitalists' reaction to this crisis is destruction and the devaluing of capital. Next we will look at the aspects of this crisis of overproduction where various imperialist powers are engaged in violent destruction of their rivals' capital. We will see how this crisis inevitably leads to world war and how it opens the doors for the working class to create an egalitarian communist society.

“Without revolutionary theory there can be no revolutionary movement.” Lenin, *What Is To Be Done*

COMPETITION FOR PROFIT MAKES WORLD WAR AND COMMUNIST REVOLUTION INEVITABLE

The last column explained that the only way capitalists can create profit is by investing in the process of production. This is called a circuit of capital: capitalists invest money (M) in factories, raw materials, and workers' wages and exploit labor to produce commodities (C). When these commodities are sold in the market, the boss makes more money (M¹). However, competition among capitalists using more machines and fewer workers forces the rate of profit to fall.

Competition for profits causes a massive production of commodities that cannot be sold and capital that is unable to produce value in the circuit of capital. The capitalists respond by intensifying the exploitation of labor by speed-up, wage cuts, and looking for cheap sources of raw materials, like oil and minerals to restore the rate of profit, as well as competing for markets to sell their commodities.

Today, major imperialists like the US, China, Europeans and emerging imperialists like Brazil, India, and South Africa are locked in a worldwide battle to control natural resources. The recent oil wars in Iraq and coming wars with Iran and possibly Venezuela show that the imperialist bosses must forcibly occupy areas with natural resources for their own use and to prevent their rivals' access to them.

Wherever there are mines, oil, or coal, workers from South Africa to China to Mexico and the US are ruthlessly attacked as the bosses try to reduce the cost of these natural resources. Wage cuts reduce workers' ability to buy the things we need to survive.

To make a profit while the value of commodities is falling, capitalists must expand their markets. This intensifies rivalry among imperialists

who compete for the same shrinking markets and resources, including materials and the exploitation of workers' labor power.

As capital cannot be absorbed in the circuit of capital and commodities cannot be sold, destruction and devaluation of capital begins. Mountains of commodities that workers need, such as food and houses, are physically destroyed, thrown out or sold for lower prices. Factories lie empty. The imperialists fight over who will bear the brunt of devaluation. Within a country, the conflict among capitalists, and between finance and industrial capitalists, intensifies. Some capitalists survive at the expense of many. The capitalists who survive impose their increased exploitation on workers.

The declining rate of profit leads to riskier investments and attempts to conceal the risk, leading to a financial crisis and speculation.

Some imperialist countries, in order to save their own capitalists, create barriers to markets and capital while at the same time trying to limit their rivals' markets.

Both financial crises and crises of overproduction are built into capitalism. All attempts to overcome them only create conditions for their intensification.

Major imperialist wars become the imperialist bosses' solution to their competition, shrinking markets and crises. We are in the shadow of looming wider imperialist wars and world war in which the US, Chinese, European and other imperialists will violently destroy their rivals and try to capture world markets for profit. World War II gave rise to US world domination, and the domination of dollar. Today, the US position is severely weakened. China has replaced the US's

market domination in many areas. However, militarily the US still remains a dominant force. It still has bases in Germany, Japan and over 1000 more worldwide. Chinese bosses won't allow the US to control the oil, other resources and sea lanes they need to power their rising empire. This has put the US and Chinese bosses on a collision course for re-division of the world markets. Both groups of bloodthirsty imperialist exploiters will intensify exploitation, racism, nationalism and fascist movements to prepare armies to fight the bosses' wars for profit. The US electoral circus is part of this drive.

However, during WWI, the Russian working class, led by their Communist Party, made a revolution against capitalism. After WWII, the Chinese did the same, although fighting for socialism made their reversal inevitable.. Today the working class is rising up, as we see in heroic struggles in South Africa, Latin America, Europe, the Middle East and China against slave-labor working conditions. Now we communists can mobilize masses of workers, preparing our class ideologically for communist revolution that will put an end to capitalist production and wars for profit for good. We'll build a communist society where there will be no production for exchange, no money. The working class will produce for need. Karl Marx wrote in the *Communist Manifesto*, “What the bourgeoisie therefore produces, above all, are its own grave-diggers. Its fall and the victory of the workers are equally inevitable.”

Next: *The function of money under capitalism and how a society without money will be organized.*

MONEY: CAN'T SERVE THE NEEDS OF THE WORKING CLASS

We need money to buy food, but we cannot eat money when we are hungry. We spend most of our life making money and worrying about it. If we don't have it, we can lose our home or go hungry. The drive for money causes wars. What is money? How is money used in capitalist society and what problems does it create?

As we explained in previous articles, under capitalism, commodities have two contradictory aspects: use value and exchange value. The owners of the means of production, the capitalists, steal surplus value from workers who make the products that the capitalists sell. These commodities, produced by workers but owned by capitalists, must be exchanged in the market place for the surplus value to be turned into actual profits

Under capitalism, the market is a place where commodities are exchanged.

But without a way to measure the value of commodities, exchange would be chaotic and unpredictable. Money resolves this problem for the capitalists by embodying the value of each commodity and thus provides a universal means of exchange. The exchange value of a commodity is how much human labor must be spent to produce that commodity, and the average price of that commodity is proportional to that value. By giving a monetary value to each commodity (that is, a price), money also makes the circulation of commodities much easier. For example if it takes twice the amount of labor to produce a pizza compared to a loaf of bread, the average price of a pizza would be twice the average price of a loaf of bread. However, since money is a universal commodity, it allows us to exchange any commodity for another rather than simply bartering two loaves of bread for a pizza.

Historically, different commodities, such as gold, silver, and banknotes, have served as money. But no matter what commodity is chosen to represent money, money measures exchange

value and makes the circulation of commodities (use values) possible. In this way money reflects the duality between use and exchange value.

As long as there is a steady and reliable supply of money, market exchange can go on without a problem. However, there is a fundamental contradiction. Workers' labor power produces commodities. Although capitalist production is for exchange, there is no way to predict or guarantee that commodities produced will be exchanged for their value. If there isn't enough demand for the product, there will be conflict between the value of a commodity and its market price. In the worst case, the product will not sell at all. For example, in the year 2008, 6 million cars went unsold in the US because the buyers didn't have enough money to buy them. Where previously money made the exchange of commodities possible, money now comes into conflict with the exchange of commodities and prevents it from happening.

This contradiction between money and commodities makes the demand for money change constantly.

Thus, production and consumption in a society changes over time, which destabilizes money. Money becomes unreliable in measuring the exchange value of a commodity and in sending appropriate signals to capitalists about how much of a given commodity to produce for its use value. This causes the labor value of a commodity to diverge from its market price, causing a severe crisis. There are two possible solutions to resolve this crisis of the supply of money.

The first one is hoarding, when individuals or institutions withdraw money from circulation, thus reducing the available supply. When money is hoarded, it stores value which can be injected back into circulation in the future. Hoarding slows down the circulation of money, slowing down buying, selling, and the accumulation of profits. Hoarding is extremely detrimental to

capitalism since only when money is in circulation can it be invested in production to create value and make profits. In the financial crisis of 2007, serious hoarding of money by financial institutions deepened the crisis.

The opposite of hoarding is credit, when buying and selling takes place in the hope that a payment for value will be made in the future. Credit makes economic activity take place with less money than is available. It artificially inflates the price of commodities, as happened during the housing bubble. Credit creates debt and more credit is used to pay debt. Credit inevitably lays the basis for speculative bubbles. Ultimately when debts become due, there is not enough money to settle accounts. This is what happened in the financial crisis in US in 2008 and has been recently unraveling in Europe.

Money, whose historic role under capitalism is to embody the duality between use value and exchange value to make exchange possible, inevitably exposes the contradiction between use and exchange value. The attempt to resolve this contradiction forces capitalism to go through periodic cycles of hoarding and credit. In either case, the crisis exposes the very use of money and its inability to serve the needs of the working class.

(Next: we discuss how only in communism, when workers own all the means of production, production for exchange will end, and so will the need for money.)

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“Without revolutionary theory there can be no revolutionary movement.” Lenin, *What Is To Be Done*

Behind the Dollar:

After the crushing defeat of Nazi Germany at the gates of Stalingrad in 1943 by the heroic Soviet Red Army, the US capitalists saw a huge opportunity to control the world's markets and economy. The vast British empire was weakened, much of Europe and Japan were in ruins and the Soviet Union had suffered enormous destruction. At Bretton Wood, the US, the world's largest creditor nation in 1944, led a conference of the allied countries to rebuild the war-devastated economy. Serious disagreements emerged at the conference as the British delegation, led by economist Keynes, tried to block US domination. The US proposal to create the World Bank and the International Monetary Fund ended inconclusively.

US Bosses Impose Will With Atom Bomb

In the summer of 1945, the US dropped atom bombs on Japan. A few months later, Britain, along with all other allied powers, unanimously accepted the US proposals from Bretton Woods. By using the most lethal weapon of mass destruction, the US bosses guaranteed that the US dollar was accepted as the reserve currency by every nation. This also gave the US veto power in the IMF, thus ensuring that US imperialists can borrow money without limits. To ensure complete US domination, in the waning years of WWII, when the German army was in retreat and Japan had collapsed, the US carried out merciless fire-bombing of Germany, Japan and even parts of France to destroy their industrial base and terrorize masses of workers.

Marshall Plan--Control Industry, Stop Communism

As World War II ended, the rebuilding of Europe commenced under the US-led Marshall Plan. Its aim was to ensure the US military occupation of Europe, dismantle German banks and heavy industry and undermine Britain and France. It ideologically and financially countered communism as millions of workers in the world

BOMBS AND BLOOD

were looking for an alternative to capitalism. It allowed the US to force European countries, in spite of their huge reserves of coal, to convert their power plants from coal to oil. This they had to buy in dollars from Middle Eastern countries controlled by the US. Japan's rebuilding also involved the US occupation of Japan by half a million US troops and the dismantling of Japanese banks and heavy industry.

The victory of the Chinese Red Army in 1949 and the heroic role of the working class in the Soviet Union in defeating Nazi Germany inspired millions of workers around the world to fight capitalism. To ensure that masses of workers in Japan and Germany did not embrace communism, the US carried out a policy of a major concessions to German and Japanese capitalists. In Germany, the focus of the US-led policy was to manufacture sophisticated machines for US the heavy industries. A major German company, Siemens, which had built the Nazi war machine, was allowed to produce machine parts for US corporations. Today Siemens is a major supplier of crucial machinery for Boeing. The aim of rebuilding Japan under US occupation was to use cheap Japanese labor to produce consumer goods such as home appliances, electronics and automobiles.

Decline of One Imperialist, Rise of Others

Since WWII, US imperialism has steadily declined with the emergence of China, Germany, Russia, etc. The unprecedented productive capacity of China, Germany, Japan and other emerging capitalist countries has caused the decline of dollar. However, since the dollar is still the major reserve currency in the world, its decline constantly destabilizes the world economy. The relative decline of the dollar is forcing either hoarding of dollars or creation of credit by the US ruling class. In either case it accelerates the decline of the dollar, along with its market.

The domination of US imperialism and the

power of the US dollar were created as a result of WWII. The financial institutions such as the IMF, the World Bank, and various trade agreements which continue to serve US imperialism are being challenged by the Chinese and other imperialists. However weak the dollar is today, it can only be replaced through another major imperialist war. The oil wars in Iraq, Iran, Libya, Syria and other wars raging around the world show that US imperialists will not give up their domination.

Communist Revolution Will End the Rule of Money

As the US, China and other imperialists prepare for a world war to determine which currency will dominate the world, the only choice the working class has is organize a communist revolution and to build a communist society where there is no money and there are no imperialist bosses. Our next article will be about how society can be built without money and the ideological struggle involved in it.



“Without revolutionary theory there can be no revolutionary movement.” Lenin, *What Is To Be Done*

Capitalism's Goal: Profit

OUR GOAL: COMMUNIST SOCIAL RELATIONS

“The theory of communism may be summed up in one sentence. Abolish all private property.” Marx wrote this in the *Communist Manifesto*, when violent revolutions and civil wars engulfed Europe in 1848. Capitalism, born out of the violent overthrow of feudal society and its ideology, is based on private property. The capitalists own all the means of production. The working class has nothing but our labor power to sell.

When capitalism was emerging from feudalism, the rising capitalists had to fight many violent battles to smash the feudal lords and their state power. They had to win the workers to the idea that capitalism meant freedom for workers to decide where to work, live and what to buy.

By analyzing capitalism, Marx showed that capitalists are the enemy of the working class. They materially profit from our labor, and their so-called freedom is nothing but wage slavery. The superficial appearance of “fair” exchange of wages for our labor power through money hides the essence that the capitalists steal part of the value we produce. Payment of money for our labor power is therefore a punishment, not a reward.

As we have shown, the contradiction in commodity production is between use value and exchange value. Capitalist production is primarily for exchange value, to make profit. Before workers can use a commodity, it must first be exchanged. No matter how hungry workers are, if they can't buy food with money, they starve. Workers spend all their lives as wage slaves, exchanging money for things they need to survive.

For workers, money is a commodity to be exchanged for other commodities. But for the capitalists, money is a social relationship, it is capital. Capitalists own factories, banks etc., where capitalists and workers face each other as

exploiters and exploited with opposing interests.

This private ownership of the means of production propels a capitalist frenzy to compete for maximum profit. We witness the horrors of profit as we see factory fires incinerating garment workers in Bangladesh, bombs falling in Gaza and capitalists facing off in Syria to decide who will control enormous oil profits

ICWP is mobilizing the masses to build a communist society after overthrowing capitalism. This will involve hundreds of millions of workers in smashing centuries-old capitalist ideologies of individualism, racism and sexism.

The foundation of communism will be the abolition of money and private property, which make exploitation possible. Money is what makes private ownership possible, at the same time that it makes the sale of commodities possible. Only a handful of capitalists decide what to produce and distribute-for profit.

Under communism, what we need will be distributed without money.

This distribution and its production will require a mass party entrenched in the lives of the international working class. This party, involving millions upon millions, will guarantee collective planning and action about what to produce and how to distribute it to satisfy the needs of the masses.

These are not abstract ideas. We can see glimpses of how society can be built without money when we see workers organizing and helping each other under horrific conditions. After Hurricane Sandy, workers risked their own lives to save others. Food and other necessities

were distributed based on need. In Bangladesh, after the deadly garment factory fires, tens of thousands of workers walked off their jobs for several days to help thousands of other workers affected by the fire.

Workers gladly sacrifice at enormous personal risk to reach out to fellow workers in times of need. These are nascent communist relationships that will thrive when private ownership is abolished and workers will be able to produce for need, not profit.

Under communism, because production will be for need, masses will train the whole working class to do many things with scientific understanding. The narrow division of labor that capitalism creates for profit will be abolished. No one will only be a doctor, engineer, teacher, or garment worker. By eliminating the division between mental and manual labor, we will unleash everybody's creative potential. When workers realize that no bosses benefit from their labor, they will gladly work hard for the common good.

Because production under communism will be for need, it will free up the labor of millions of people doing useless things that only support the profit system, like salespeople, accountants, insurance agents, lawyers, managers, supervisors, police, people employed in advertising, etc. These things promote individualism and capitalist relations.

In communist society the most important goal in the production and distribution of things will be creating communists and winning the masses to communism. To consolidate and advance communism, masses of communists will have to wage a life and death ideological battle against individualism, as we develop broad communist social relations.