5. Internationals
First, Workingmen's Association (1864-73)
Origins and promoters.
Constituent elements (conflicts).
Work:
Support of strikes, Communards, 'oppressed nationalities'.
Exposure of war-makers.
Education – spread of socialist ideas.
Decline: Crushing of Commune.
Hostility of Governments.
Disruptive work of Anarchists.
Backwardness of workers.
Second (1889-1914) –
Exclusion of Anarchists.
Rival 'Reformers' & T.U. Congress.
Attitudes of components to reformism, State, permeation, war, pacifism, nationalism, opportunism.
Rise of national political labour parties.
Lingering end in confusion and final treachery 1914.
Third (so-called) (1915-17) –
Effect of war on reform parties.
Third (Moscow) (1919) –
Bolshevik Manifesto and formation of communist parties.
Belief in imminence of world revolution.
Hotch-potch of every variety of opportunist movement and policy – revolutionary intentions overtaken by reformism.
Attitude of S.P.G.B. to Second and Third Internationals – Need for international of socialists recognising class struggle and need for political power for Socialist Rev.

6. Revolutionary Socialist Movement
Scientific foundations (Marx, Engels, etc.) – L.T.V./M.C.H.
Isolated political revolutionaries compelled to adhere to reform parties.
Origin of S.P.G.B. 1904 – secession from S.D.F.
Object and Principles (lessons of history).
"Hostility" – reforms and reformism.
Democratic control and organisation.
Some Party controversies.

Mastering Marxian economics

Members of the Socialist Party wishing to be able to speak officially for the Party in a formal debate against a representative of another political group have had to pass a speakers' test. This has included such questions as "do peasants create surplus value?" and "what is the difference between value, exchange value and use value?"

Rival political groups may have mocked us for this but at the same time they were aware that Party speakers knew their Marxian economics. Many learned the hard way that, when debating with the Socialist Party, it was better not to claim to be a Marxist and talk about capital as a thing, or of workers selling their labour, or of commodities existing in socialism.

Admittedly, there is a certain irony in us priding ourselves on understanding the economics of capitalism when we want to see an end to economics – the study of the relationships that arise when goods are produced for sale – since we want to see production directly for use replace production for the market. But we have always taken the view that it is important to understand the way capitalism works since this explains how it can never be reformed to work in the interest of the working class. Economic theory underlies our case against reformism.

The labour theory of value

The labour theory of value is, rightly, regarded as the cornerstone of Marxian economics. Its importance to socialists is that it explains how the working class is economically exploited under capitalism.

In its Marxian form, it says that the value of a commodity is determined by the amount of labour time that has to be spent on producing it from start to finish under average conditions of production (what Marx called "socially necessary" labour). The classical economist David Ricardo (1772-1823) explained that it is not just the labour expended at the last stage of a commodity's production – during which it is transformed into the finished product – that is relevant:

> "In estimating the exchange value of stockings, for example, we shall find that their value, comparatively with other things, depends on the total quantity of labour necessary to manufacture them, and bring them to market. First, there is the labour necessary to cultivate the land on which the raw cotton is grown; secondly, the labour of conveying the cotton to the country where the stockings are to be manufactured, which includes a portion of the labour bestowed in building the ship in which it is conveyed, and which is charged in the freight of the goods; thirdly, the labour of the spinner and weaver; fourthly, a portion of the labour of the engineer, smith, and carpenter, who erected the buildings and machinery, by the help of which they are made; fifthly, the labour of the retail dealer, and of many others, whom it is unnecessary further to particularize. The aggregate sum of these kinds of labour, determines the quantity of other things for which these stockings will exchange" (*Principles of Political Economy and Taxation*, Chapter I, Section III).

Marx's specific contribution to the theory was to point out that what workers sold to a capitalist employer was not, as had been supposed by earlier exponents of the theory such as Ricardo, their labour (i.e. the work they did) but their "labour power", by which he meant their capacity to work. This, like any other commodity being bought and sold, had its value determined by the amount of socially necessary labour that had to be expended to produce it from start to finish, i.e. essentially by the value of the things workers had to consume to maintain their capacity to do work of a particular kind and to raise a family to replace them when they would no longer be capable of working.

This might amount to, say, 5 hours worth of socially necessary labour-time. The value of what the workers produced, when put to work by the capitalist in his workplace on materials supplied by him, depended on how much socially necessary labour-time was expended in the process. If it was 10 hours of socially necessary labour then 10 hours worth of value would be added. Naturally, an employer was only going to employ workers if they produced more than what he had to pay for the value of their labour-power, otherwise there would be nothing in it for him.

The period of time workers spent replacing the value of their labour power (in our example, 5 hours) Marx called “necessary labour”; the period of time spent beyond this he called “surplus labour” and the value created during it “surplus value”, the source of the employer’s profit. Capitalism was thus based on the exploitation of the working class for surplus value. This was later shared out amongst the capitalist class as ground rent (for the landowners) and interest (for banking capital), leaving the rest as industrial and commercial profit for the capitalist employer.

Taxes not a burden on the working class

Before the First World War, the Socialist Party had to spend much time arguing that it followed from the labour theory of value that taxes were not a burden on the working class but on the surplus value already extracted from them by the capitalist class.

When workers leave their workplace they have already been exploited for everything over and above the value of their labour power; nothing more can be extracted from them without reducing what they have to live on below the value of their labour power. Workers do sometimes physically pay taxes in the sense of handing over money from their wages to the tax-collecting authority. But to the extent that this becomes generalised it becomes part of the cost of production of labour power, so that wages are going to have to increase to compensate for it if the employers are to get the same quality labour power as before. Workers may pay taxes, but taxation does not fall on the working class as a class. In the end, it falls on surplus value.

That any taxes on wages would be passed on to the buyer of labour (power), i.e. the capitalist employer, had been recognised by Ricardo who made this specific point in chapter XVI of his book. Its socialist political implication was that taxation issues were no concern of the working class since they were essentially arguments amongst sections of the capitalist class as to how to share out the cost of running their state.

The same Marxian argument applies against so-called ‘secondary exploitation’ which some pre-WWI writers on Marxian economics claimed workers suffer when they came to buy what they needed. Workers can certainly be overcharged or sold adulterated goods by cheating shopkeepers, but if this practice becomes widespread then, again, if the capitalist employer is to receive the same quality labour power as before wages will have to rise to compensate for this. The same argument applies the other way too: subsidised prices and rents tend to keep wages down and have often been introduced for just this reason.

Of course, the suggestion here is not that taxes, rip-off prices, or subsidies have an automatic and immediate effect on wages. We are talking about an effect that takes time to come about, through the operation of labour market forces, including the struggle of workers to push up wages and – in the case of price subsidies and state payments to workers – of employers to push them down.

The political conclusion – since these were not mere academic discussions – was that, while capitalism lasts, workers should concentrate on exerting maximum pressure on the wages front and not be diverted into struggling for lower taxes, price controls, subsidies or other such reformist measures.

Capitalism won’t collapse

Between the two world wars the main economic issue was the slump. Here the Socialist Party applied Marxian economics to refute two fallacies. First, that the slump represented the final breakdown of capitalism and, second, that the way to avoid slumps was for governments to overcome a chronic shortage of purchasing power that was said to be built into capitalism.

The first view – that capitalism was collapsing – was put forward by critics of capitalism who wanted it to be true. The two main ‘defects’ that were identified to explain why capitalism would eventually collapse as an economic system were that it wouldn’t be able to find enough markets to keep pace with rises in productivity and output, and that the rate of profit would fall so low that investment could dry up.

Detailed works had been written to argue both points of view, backed up by quotes from Marx. Most of them were in German and were not translated into English at the time so that they had little impact on political discussions in Britain. The Party’s 1932 pamphlet *Why Capitalism Will Not Collapse* did not deal directly with these theories, but pointed out that capitalism had gone into big slumps before and that it had always recovered from them due to the internal dynamics of the system that made it cyclical in nature; there was no reason to suppose that the then current slump would not turn out to be a phase of capitalism’s business cycle too, unless, that is, the working class organised consciously and politically to end capitalism.

The Marxian economic analysis once again led to a political conclusion: that capitalism would stagger on from crisis to crisis until the working class decided to replace it with socialism, hence the importance of getting the working class to do this rather than counting on them being pushed into action by the automatic collapse of capitalism as an economic system.

Underconsumption and the cause of crises

Perhaps the most common theory amongst critics of capitalism – including the Party in its early years – as to why capitalist crises occurred was that "the workers can't buy back all of what they produce" and that as the capitalists cannot use all their revenue for personal consumption the result is that stocks of unsold goods eventually pile up and production stalls until these have been cleared.

The theory that capitalism suffers from this particular type of 'underconsumption' ignores the fact that what the workers can't buy the capitalists can, or could, out of their profits. Demand under capitalism is not made up simply of the demand for goods for personal consumption, but also of demand for means of production coming from capitalists wanting to re-invest their profits, which is also a form of spending. Crises occur, in which there appears to be a shortage of purchasing power, not because there is not enough money to buy what is produced but because some of the capitalist holders of money choose not to spend it because profit prospects are not attractive enough. Crises, in other words, are not caused by the inability of the working class to buy back the entire product of industry.

The Socialist Party became increasingly critical of this "can't buy back" view in the 1930s but it was not until the 1950s, in a series of articles by Ted Wilmott ('E.W') that appeared in the Party's internal discussion journal of the time, *Forum*, and then in the *Socialist Standard*, that the Party definitively committed itself to the alternative view that capitalism's cyclical crises were due to the anarchy of production leading to one sector of the economy expanding disproportionately faster than the other sectors. This initial sectoral overproduction, through its knock-on effects, would then be transmitted to other sectors of the market economy leading to the appearance of a more general crisis.

Banks and credit creation

One particularly crude type of underconsumptionist theory that the Party regularly had to deal with in the 1930s was that of the Social Credit movement started by Major Douglas. His argument was that there was a 'chronic shortage of purchasing power' due to the issue of money being in the hands of banks that had a vested interest in keeping money in short supply so as to be able to command a higher rate of interest on the money they lent out. Although, according to Douglas, banks had the power to create credit with the stroke of a pen they generally chose not to do so; this power should therefore be taken from them and vested in some public body which would make this extra purchasing power, supposedly needed to ensure the full use of productive capacity, available to all in the form of 'social credit'.

Among other things what this theory overlooked from its deficiency of purchasing power standpoint was that interest charged by banks to capitalist firms is not an additional amount that is added to prices and which therefore cannot be paid for out of current income (wages and profits) generated in production. It is instead a part of the surplus value which the industrial capitalist has to hand over to the banking capitalist for the loan of their money and so is already included in total purchasing power.

Edgar Hardcastle ('Hardy') at the post office workers' union

In any event, as a series of articles in the *Socialist Standard* during the 1930s mainly by Edgar Hardcastle ('Hardy' or 'H') – which were developed from the arguments of both Marx and Edwin Cannan (1861-1935), the last of the classical economists – pointed out, banks do not have the power to create credit out of nothing by a mere stroke of the pen. They are essentially financial intermediaries that can only lend out money that has first been deposited with them. Of course, not all money deposited with a bank has to be retained as cash, but when a bank is said to have a cash ratio of 10 percent this does not mean that it can lend up to 9 times the cash deposited with it – a common currency crank view – it merely means that it can loan out 90 percent of the cash deposited with it.

Banks make their profits from the difference between the rate of interest they pay depositors and the rate they charge borrowers. There is nothing special about them; they are not wicked finance capitalists against whom the anger of workers should particularly be directed, just capitalists with their capital invested in a particular line of business, no more nor less reprehensible than the rest of the capitalist class.

Modern economics textbooks no longer claim that a single bank can create credit. They now attribute this power to the banking system as a whole, but this is just playing with words. Their argument merely demonstrates that they assume that money is continually re-deposited within the system, thus tacitly accepting that what banks can lend out is restricted by what has been deposited with them.

Enter and exit Keynes

Keynes, it used to be claimed in the 1950s and 1960s, had saved capitalism by showing how slumps could be avoided by state intervention. When a slump threatened, he taught, what the government should do was to increase its spending and/or run a budget deficit and take measures aimed at increasing investment and personal consumption.

Keynes agreed with those critics of capitalism who argued that, if left to itself, capitalism would tend to overproduce in relation to available market demand (he was a bit of an underconsumptionist in this respect, or at least was sympathetic towards underconsumptionist theorists). The solution he proposed of state intervention was welcomed with open arms by the Labour Party as it provided a theoretical justification for their reformist practice. In fact, Keynesianism can be said to have been the economic theory of modern reformism.

It wasn't until the post-war boom, which had been caused by other factors than state intervention, came to an end in the early 1970s that Keynesian theories were put to the test. They failed miserably: state spending (which had to come out of taxes that in the end fell on profits) could not make up for the fall in investment due to the diminished profit prospects; indeed, by increasing the tax burden on profits it tended to make matters worse.

In the end, governments everywhere were forced to abandon Keynesian policies. As James Callaghan, the then Labour Prime Minister, told his party's conference in 1976:

> "We used to think that you could just spend your way out of a recession and increase employment by cutting taxes and boosting government spending. I tell you, in all candour, that that option no longer exists and that in so far as it ever did exist, it only worked on each occasion since the war by injecting bigger doses of inflation into the economy, followed by higher levels of unemployment" (*Times*, 29 September 1976).

This confirmed the Marxian view we had been expressing that what drove the capitalist economy was not state spending but profits and that any government had to take this into account or risk making matters worse. Governments had to allow capitalism to function as the profit system it is. The economic theory on which reformism had based itself had been shown in practice, as well as in theory, to be wrong.

Non-stop inflation

As Callaghan hinted, the only lasting legacy of Keynesian economic policy has been continuous inflation. Keynes famously said, on one occasion, don't bother about currency policy, concentrate on tax policy and let the currency look after itself. The Bank of England (and its equivalents in other countries) took this literally and allowed the supply of currency (notes and coins), which had long since ceased to be convertible on demand into a fixed amount of gold, to increase at will. The result had been predicted by Marx himself:

> "If the paper money exceeds its proper limit, which is the amount in gold coins of the like denomination that can actually be current, it would, apart from the danger of falling into general disrepute, represent only that quantity of gold, which, in accordance with the laws of the circulation of commodities, is required, and is alone capable of being represented by paper. If the quantity of paper money issued be double what it ought to be, then, as a matter of fact, £1 would be the money-name not of 1/4 of an ounce, but of 1/8 of an ounce of gold. The effect would be the same as if an alteration had taken place in the function of gold as a standard of prices. Those values that were previously expressed by the price of £1 would now be expressed by the price of £2." (*Capital*, Volume I, Chapter 3, section 2(c)).

What, in 1867, was only a theoretical possibility or an exception is today the general rule. All currencies are inconvertible paper currencies which have to be managed by governments and/or central banks but most governments and central banks have over-issued such currencies, with the result that Marx, basing himself on the labour theory of value, had predicted. In articles by Hardy and others, the *Socialist Standard,* with rising prices becoming a major political and economic issue especially by the 1960s and 70s, hammered home the Marxian explanation of inflation, while at the same time making the point that capitalism without inflation was no better than capitalism with inflation. Once again, the important thing was the political conclusion: that inflation was not caused by excessive wage increases but by government action to tinker with capitalism and that therefore workers would be misguided to soft-peddle the industrial struggle and agree to wage restraint – as often urged by governments of the period, especially Labour ones.

Finally, by the way, the answer – for any reader thinking of joining us and becoming a Socialist Party speaker – is that peasants do not create surplus value.

ADAM BUICK