CAPITALISM IN THE 21st CENTURY THROUGH THE PRISM OF VALUE.
More of a diamond than a prism.

The two authors, Guglielmo Carchedi & Michael Roberts, have written a flawed gem. I refer to Chapter 6 on Planning & China which lets the book down. Other than that it is a comprehensively researched book covering all the important topics which confront workers in the 21st Century. My observations and corrections seeks to strengthen this scholarly work, not to weaken it.

I intend to review this book chapter by chapter. I will exclude Chapter 5 '*Robots, Knowledge and Value'* as this warrants its own discussion given the novelty and nature of that chapter.

Chapter 1. Value and Nature.

I consider this the best chapter in the book. I have nothing critical to say about it. Instead it is to be complimented for its depth of coverage and analysis. The authors add their voice to those correcting the record about Marx and Engels not being pioneering environmentalists who failed to recognise how capitalism was damaging nature. Marx and Engels held that the relationship between society and nature was dialectal, that humanity was nature rendered conscious. The founders of our movement recognised that capitalism necessarily exploited workers and exhausted nature in its drive to reduce cost price.

The two authors in viewing the destruction of nature through the prism of value in its modern setting continue in Marx and Engels footsteps. In the chapter, the authors review the shallow and incomplete solutions proposed by reforming environmentalists especially their market solutions, and they detail the current studies showing the faltering progress towards zero carbon omissions. Every trajectory now misses the 1.5^{o}C threshold. They affirm that only by abolishing value production, that is capitalism, can global warming be reversed in time.

They are also to be complemented on their opposition to *Zero Growth.* As they point out on page 35, the proponents of Zero Growth fail to make the decisive distinction between socially produced limits and natural limits. A future society which eliminates waste and returns back to nature what it extracts from it, is limitless. And on page 37 they again correctly condemn Zero Growth as "inhuman" for it will condemn a whole swathe of humanity to enduring poverty.

Chapter 2. Money, Prices and Value.

This is one of the weaker chapters. The authors begin by recounting Marx's understanding of money as developed in Volume 1. This they do accurately. The problems begins once they depart the historical realm of commodity money, namely gold, and enter the contemporary world of fiat money, the term they use to describe modern inconvertible token money.

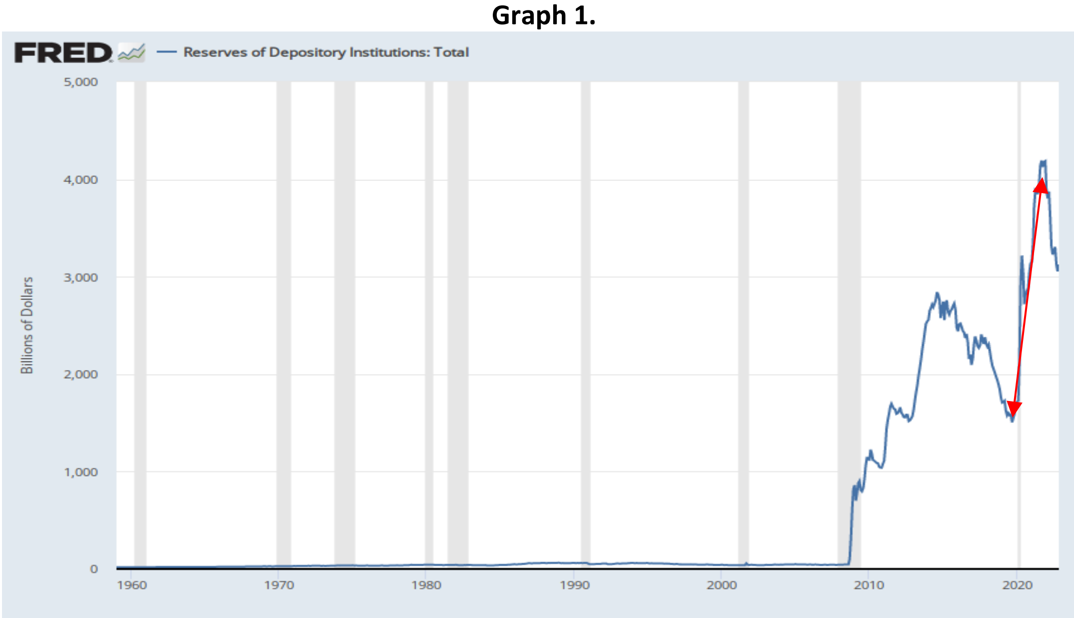
Firstly, they confuse credit money with money. *"Marx does use the expression 'credit-money'. By this Marx does not mean credit is money."* (page 51) Actually he does because there are two form of credit, trade credit and bank credit. With trade credit, the buyer is allowed to defer payment for a short period of time generally no more than 60 days. The seller does not give the buyer money to repay them, and if they did, the seller would have to pay twice the value of the sale on due date. Bank credit, or loans, on the other hand does create **temporary** money. In this case the buyer is provided with a sum of money, generally for the purchase of a product. Whereas trade credit is measured in months, bank credit is measured in years, and it may be lent unsecured or secured against the asset being bought. In this case money passes from the hands of the buyer to the seller from the lender with the debt belonging to the lender. The key point here is that form of money is impermanent, it is usually repaid monthly which tends to incrementally extinguish it. Those who claim that credit money, in passing from hand to hand continuously increases the money supply ignore the fact that it is also being continuously extinguished on the other side, with its net effect on the money supply being the difference between new issuance and the repayment of existing issuance.

Why is it important to distinguish credit money from money itself? It is the question of permanence. No I am not talking of the longevity of notes and coins. The issuance of these tokens is the least important aspect of money. I am talking about the issuance of state money via deficit spending and via mechanisms such as Quantitative Easing and Covid Relief funds. In the case of deficit spending the effect on the money supply depends on who buys the bonds, the banks or corporations/individuals. In the case of the mechanisms, this always increases the money supply regardless of the recipient. This kind of money will pass from hand to hand many times, often in the speculative arena. It will complete numerous circuits.

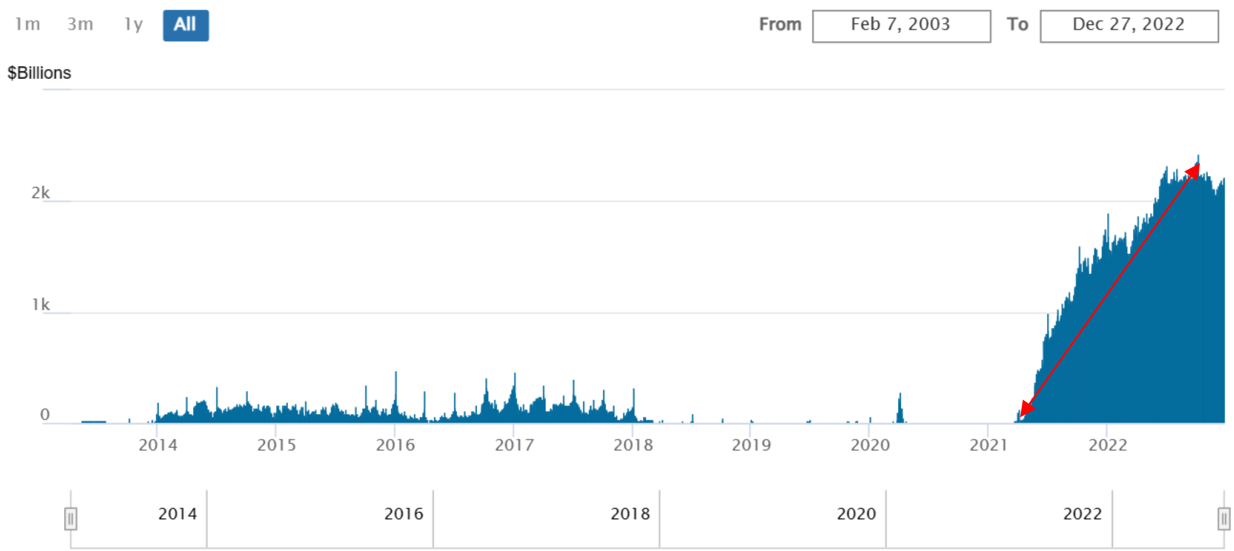
And, unlike credit-money, it will continue to do so until the government mops it up either by spending less than it receives in taxes, running a surplus in other words, or by Quantitative Tightening, selling back the bonds it bought. In the case of the former, if banking requirements such as reserves are not changed, there will be a reduction in the money supply, while in the latter, there is an immediate contraction in the money supply. Put another way these measures tighten monetary conditions.

Since 2009 the US government has pumped $13 trillion into the economy via Q.E. ($8 trillion) and Covid Funds ($5.1 trillion). This explains why there is so much money sloshing around. This can be seen in two areas besides customer deposits at bank; money deposited by banks with the FED in the form of reserves or Reverse Repos. In Graph 1 the deposits as reserves (longer term) are shown and in Graph 2 the Reverse Repo amounts (overnight usually) are highlighted. The effect of the Covid Funds are clearly seen (red arrows) which in many ways were just as impactful as QE. Indeed, about 40% of QE and Covid funding are currently parked idly in these two forms of deposits with the FED earning tens of billions in interest.

Graph 1.



Graph 2.



It is this money, also found in customer deposits with the banks that is behind the narrative of the "resilient consumer shoring up the economy". However, this is all ending.

The second omission rather than error is their failure to understand modern money. Between pages 82 and 84 the authors correctly criticise the various views of contemporary Marxists on money and inflation. They conclude: "*In spite of these useful insights, these theories fail to answer the fundamental question: how value determines prices and thus inflation under a regime of non-convertible paper money."* (page 84) This is not surprising because Volume 3 alludes to but does not comprehensively analyse non-convertible money.

I would argue that the two authors are themselves guilty of treating the question of value in a one-sided manner. They treat M2 as a sum of money. *We define the Value 'Rate of Inflation' (VRI) as the percentage change in the CCP (the value factor) plus the percentage change in M2 (**the money factor**)* (page 87 my emphasis). But by doing so they are beaten by appearance. M2 is not a sum of money, rather it is crystalised value in the form of deposited revenues. What I call the sum of unspent legacy value amounting to between 90% and 92% of M2. So value faces value. Equally interesting, most of this unspent revenue is recent, as confirmed by the small difference of only 7% between M1 and M2, where the former excludes time deposits of up to a year.

This legacy value in its revenue form is of course held individually by capitalists and workers in the form of profits, rent, interest and wages, and by the state in the form of taxes. More to the point, that sum of revenue is finite, because having previously been produced, it is invariable, unlike gold which is variable because of alterations to its cost of production. Thus these invariable revenues provides the ballast which keeps prices stable much to the disgust of FED chairs who cannot understand why this is happening despite their best efforts to raise price prior to 2019. And it is not only the FED or the BOE. I am surprised that it has taken us all this time to understand modern money, what I call Modern Marxist Monetary Theory or MMMT which can be found on my website. This is similar to the 60 years it took for the turnover formula to surface, and 50 years for the reason why the profit motive is always counter-productive in a **socialised** economy as found in the USSR.

So what is happening in effect is that legacy value circulates current value via the medium of money. Money can take the form of paper and coin or zeros and ones, it does not matter because it is only the errand boy. This completes our understanding of value, prices and inflation. Inflation can only occur when the legacy value component of M2 is diluted by a spike in credit money and/or new state money as described above. But until we understand money as representing legacy value, we cannot understand inflation. It is also worth mentioning that the velocity of circulation is best understood as: the rate at which revenues are being spent.

We return back to the quote above taken from page 87. If we understand that the velocity of circulation is the rate at which existing revenues are spent, then we understand, that because this quanta of unspent revenue is finite, increasing the rate of spend cannot induce inflation when smoothed over time, because if revenue is spent faster in one time period, it necessarily will be spent slower in another, to compensate.

Where the two authors get it partially right is with their Value Rate of Inflation or VFI. Provided we call it the Volume Rate of Inflation, its real name, we are on safe ground. Of course this does not affect the powers of prediction of VFI which remain useful. The reason for calling it the Volume Rate of Inflation, is explained in [this article](). This paragraph lifted from the article explains the difference between value and volume. *Now remember the net output used by the authors is a statistical construct obtained by national statisticians using deflators designed to reduce values to volumes. Deflators are notorious because they are based on modelling. To begin with, **real** net output is assumed to be less than **nominal** output because of the presence of inflation. In turn inflation speaks to the depreciation of money. However deflators do not appreciate money back to 1. That is because the statistical authorities necessarily underestimate deflators. Take this example. If the labour time per product is falling by 2% resulting in a volume increase of 2% while its price rises by 3%, the deflator should be 5% not 3% even if this 3% converts price into volume. Here the deflator used by statistical bureaus will be **3%** because its purpose is to reveal volumes whereas the depreciation of money in this case is **5%.** Thus volume changes and value changes are not synonymous*. In other words the total rise in the price of output was 5% while the value rise was 0%.

I have been in correspondence with one of the authors over this issue. In addition I have emphasised why Marxists have to now view modern money as representing legacy value in its revenue form.

I would like to end the analysis of this chapter on a positive note. The authors excel with their criticism of the theory of Modern Monetary Theory and its proponents. All I would add, is while the promoters of MMT claim that it will not be inflationary until all capacity is used up and bottlenecks appears allowing sellers to drive up prices, this is incorrect. In fact, to be effective it will be inflationary from the start if this additional money is spent. As this additional money is not anchored in value it dilutes the share of money actually anchored in value, which has the effect of diluting the legacy value stabilising prices.

Finally I would like to endorse their views on *Libra*. It simply converts real money into a pure token which benefits Meta by placing real money in its hands which can be used to purchase interest bearing or dividend earning assets. I would also draw a sharper distinction between craptocurrencies and digital money. Craptocurrencies represent both the polluting and paranoid swansong to the period of easy money. It potentiates nothing for the future. On the other hand, whereas craptocurrencies pollute, digital money does the opposite, it reduces the carbon footprint of printing, storing, transporting and guarding money. Digital money is just another form of state currency. However, it has enormous potential for the future, because the more developed digital money becomes, the easier it will be to move over to digital vouchers representing labour contributed and withdrawn from production. Right on I say.

Chapter 3. Crisis and Value.

This is a strong chapter. The two authors have always been in the forefront of defending, elaborating and confirming, through their elegant and innovative use of data, Marx's crisis theory. They have untiringly presented the tendency for the rate of profit to fall as the most important law governing the rhythm and eventual demise of capitalism. Indeed it is, for it is the catalyst behind all the other economic phenomena. And finally they have demonstrated that it is falling profits that depresses investment subsequently and not vice versa.

I was also gratified to see their use of Gross Output when explaining why it is the movement of investment, and not personal consumption, that determines the business cycle. To reuse an analogy. Imagine a highway with off ramps. Final sales represents the off ramps while the highway represents total sales or Gross Output. To determine the cars passing down the off ramp it is necessary to first understand what is happening on the highway. If investment increases, so too will the number of cars appearing on the highway, and everything else being equal, so too the number of cars exiting the off ramps. If the rate of turnover increases so that the cars are travelling faster, then so too will the number of cars exiting the off ramps. In both cases GDP will rise. Conversely if investment falls so that there are fewer cars on the highway, and if the rate of turnover falls as well decelerating the traffic, then clearly fewer cars will be exiting on the off ramps and accordingly GDP will fall.

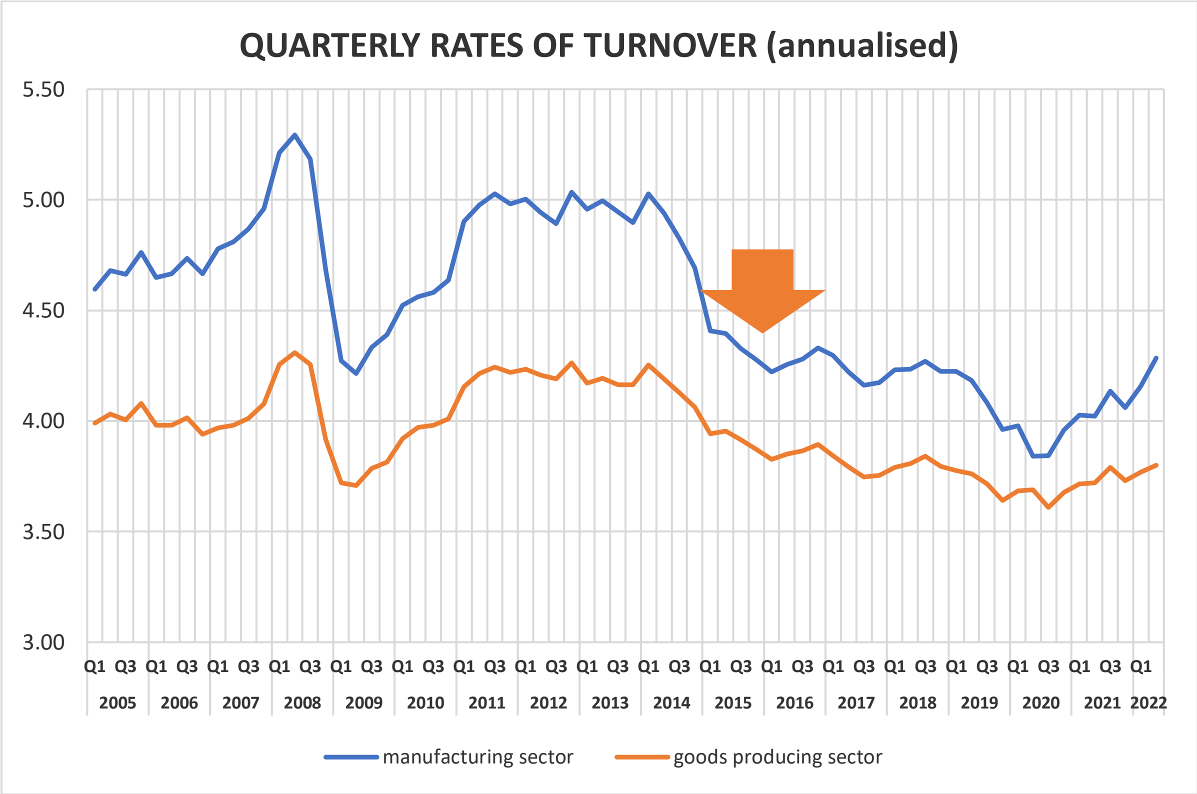
Where a minor difference of opinion arises, is with the conversion of a relative fall in the rate of profit into an absolute fall. We all agree that it is the absolute fall in the rate of profit, a time when investment encounters lower not higher profits, which is the trigger for a collapse in investment and hence the emergence of a recession. That said the authors see the progressive rise in the organic composition of capital as the source of this absolute fall in the rate of profit, but this is incomplete.

Now it is important for the reader to understand I am confining my remarks to the cyclical fall in the rate of profit, not the longer term secular fall where other considerations apply. My thesis assumes that at the top of the business cycle, it is the fall in the circulation of capital which directly causes a contraction in the mass of realised profits and hence to the absolute fall in the rate of profit. For their part the authors assume that the issue of realisation arises, not prior to, but only after the mass of profits have begun to fall. They see the issue of realisation as not the cause of the fall in the mass of profits but the consequence of its fall which then constipates the metabolism of capitalism.

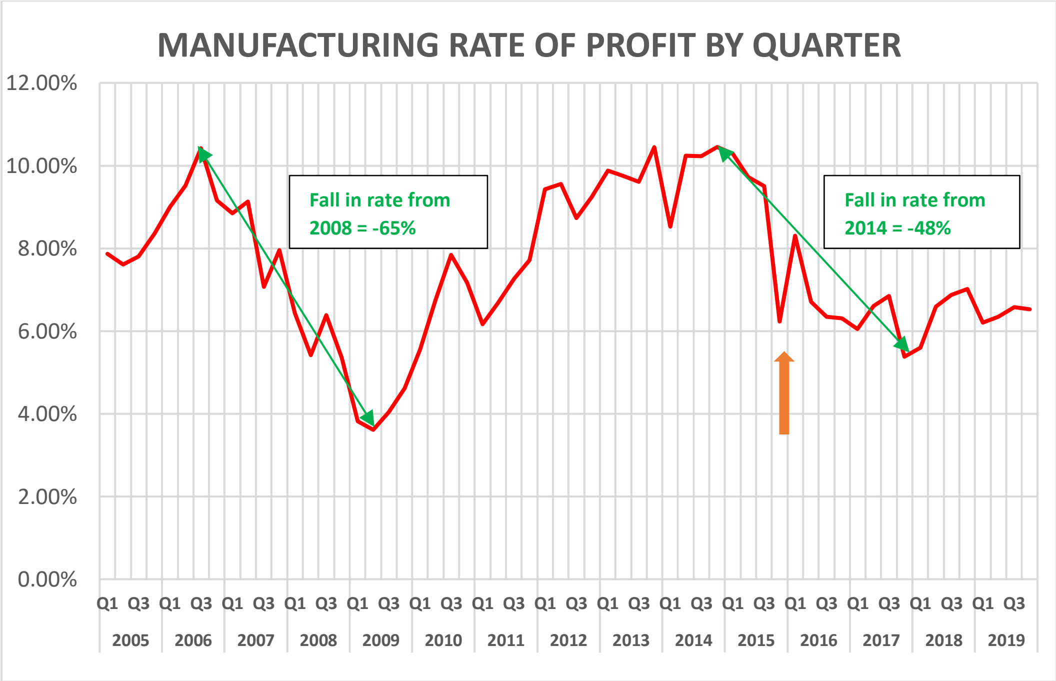
Or perhaps not. "*And Carchedi shows that, when total new value (mass) starts to fall along with the fall in the rate of profit…a slump in production follows.*" (page 96) Thus if it is the case that new value falls prior to a slump in production it follows there must be a realisation problem forming before the recession proper. In other words, production which has yet to slump is being devalued. And this happens quickly, within a quarter or two preceding the recession proper. In 2008 GDP only fell in the 3rd quarter but beginning in the 2nd quarter turnovers turned down. The fall from Q2 was 2% followed by a fall of 10% the following quarter after GDP fell. We have the same pyramid in Q1 2014.

The more classic profile is that following 2014 when the rate of turnover trends down. This trend, unlike the one between 2006 & 2008, is not complicated by the effect of the explosion in speculation around sub-prime mortgages. This elongation of the production/payment period after 2014 both helped depress the rate of profit (Graph 4) as well as to increase the requirement for working capital (Graph 5.) (C&I loans are short term bank credits which firms rely on for their working capital rather than for fixed investment.)

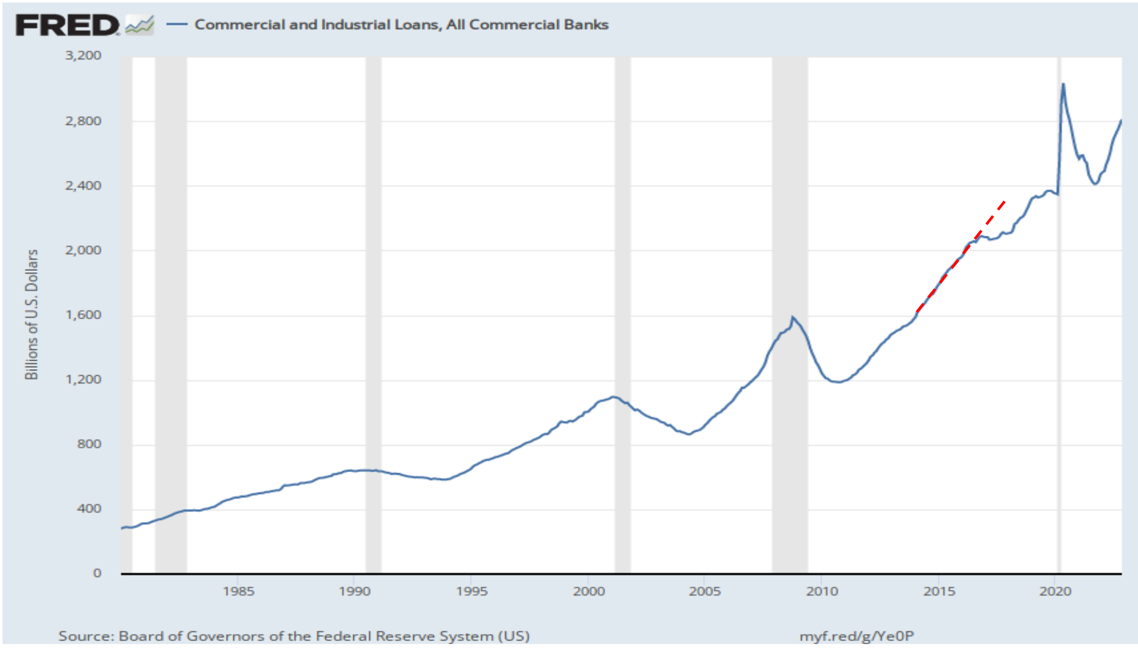
Graph 3.



Graph 4.

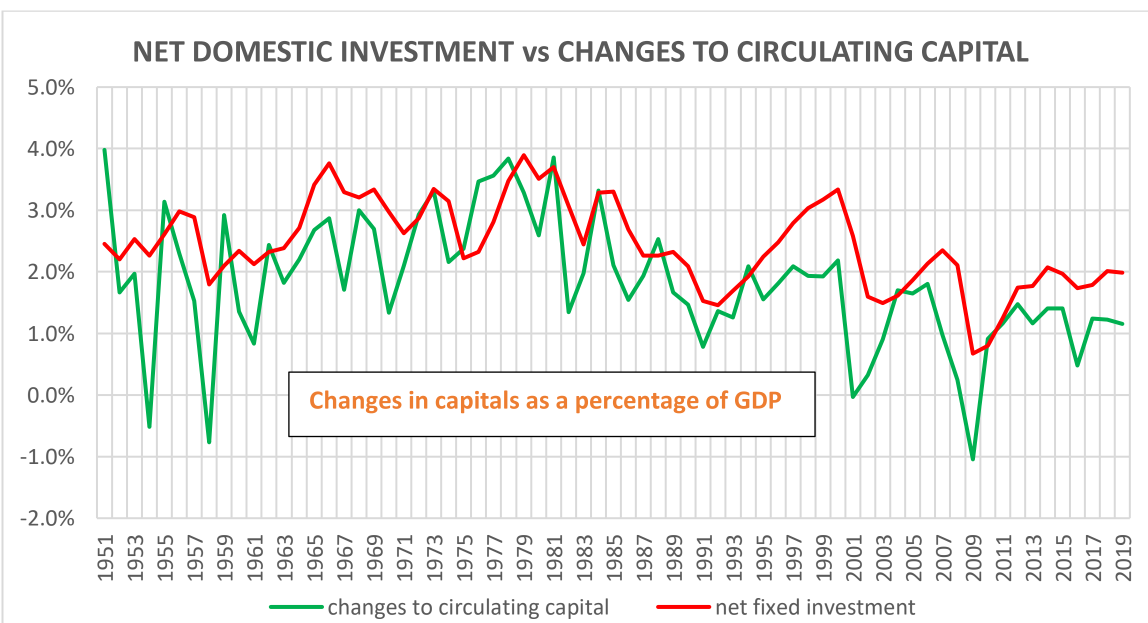


Graph 5.



And looking at the matter more closely in the graph below which covers the *non-financial corporate sector*, we find greater volatility in circulating capital compared to fixed capital. The fall from peak to trough is greater for circulating capital than for changes to fixed investment. Three observations are in order. Fixed investment adds more to GDP in the upturn than does the net addition to circulating capital, but in the recession it is the bigger collapse in circulating capital which depresses GDP and drives it into negative territory as seen in 2009, where net fixed investment remains positive. Thirdly the changes in trends, tends to occur earlier with circulating capital than with the changes to fixed investment.

Graph 6.



My contention is that it is the deceleration in turnovers which provokes the crisis of realisation occurring prior to the recession proper. What causes the deceleration in turnovers is the more interesting part. The evidence suggests that the fall in the relative rate of profit is not uniform throughout the economy. It falls more quickly in those areas where the composition of capital rises fastest due to the investment boom occurring in the latter half of the cycle and which is focused on Department 1. This is where constant capital is produced, both fluid (raw materials, oil, power etc) and fixed (buildings, machinery, equipment etc.) To maintain profitability in Department 1, there must be a more intense distribution of surplus value to these 'capital intensive' industries, which seems to be confirmed when comparing the Producer Price Index (PPI) to the Consumer Price Index (CPI). Towards the end of the up-cycle the gap between the two indexes opens up indicating a higher rate of inflation in the production of constant capital. The authors also draw attention to this rise in material costs.

However, it could also be the case that the redistribution of surplus value via Prices of Production is stressed at this critical time, probably to the point of failure, meaning insufficient surplus value is being transferred, which when added to the rising composition of capital, suggests there will be sectors where the rate of profit is falling sharply despite higher demand, thereby serving to arrest further investment there. And it is this arresting of sectorial investment which by reducing demand from the rest of the economy which is behind the deceleration in turnovers. In turn slower turnovers leads to a delay in the realisation of profits, tipping the relative fall in the sectoral rate of profit into a generalised absolute fall.

In conclusion, it is the **rapidity** of the conversion of a relative fall in the rate of profit into an absolute fall at the conclusion of the business or industrial cycle, which suggests the realisation problem occurs prior to the absolute contraction in production which then intensifies it.

Chapter 4. Imperialism and Value.

On the first page of this chapter the authors identify 4 channels through which surplus value passes into the hands of the imperialist economies or more precisely their owners. Actually there are 6 when we divide unequal exchange into its two component parts, the inequality formed by prices of production and the inequality formed by discounted prices. The 6th being government debt owed to imperialist investors and banks and the interest payments remitted on that debt. For the purpose of this analysis we will ignore the direct channels feeding surplus value into the imperialist countries which comprise income arising from investments, aka profits, rents and dividends remitted, interest payments on state debt, payments for the use of currency and finally exchange rates, though the last does exacerbate unequal exchange.

Before proceeding to discuss unequal exchange based on prices of production which the authors focus on to model the manner in which the dominated economies are held in thrall by the dominating economies (imperialist economies), I would like to discuss the issue of price discounts, which is neglected by the authors. The two price forms which redistribute surplus value both within and between countries, are prices of production and discounts. They are the largest components of unequal exchange. However, this author considers that of the two, discounts are the dominant form.

It is often forgotten that the costs and profits earned by distributors does not come from the value they add but from the value they receive from producers. In other words their gross margin arises from the prior discount given to them. The clearest way of seeing this is to examine firms which both sell directly to end users as well as indirectly via distributors. Let us say the price to end users is $100 per item. Let us also say the distributors sale price is also $100. But if the producing firm charged its distributor $100 and the distributor then sold the item for $100 they would make no money nor be able to cover their expenses. So the firm producing the item needs to discount the price to the distributor. Let us therefore say they offer a 20% discount. In this case the distributor buys the product for $80 and sells it on for $100 which is the recommended retail price, generating a gross margin of $20 per item. The discount of $20 forming the margin of $20 is likely to be sufficient to cover expenses including wages while yielding a profit for the distributor.

How is this discount set? Within a national economy, it is set as usual by demand and supply governed by the movement of capital. Capital will flow between production and commerce equalising the rate of profit between them. In this way the discount is adjusted over time to ensure producers earn the same rate of profit as do traders. Today some observers believe that the balance has swung decisively towards distributors because each segment of retail is dominated by around 4 giant chains dictating terms to the producers. While this may apply to small producers such as farmers it certainly does not apply to the giant food producers whose capitalisation continues to exceed that of distributors. For example the capitalisation of Nestle the world's biggest food company is $383 billion while that of the biggest retailer Walmart is $337 billion. In addition, both generate about the same amount of profit and therefore a matching rate of return, though Walmart's net margins are only a quarter that of Nestle.

The key point to bear in mind is that this modification of discounts via the equalisation of profit does not occur between the dominated and dominant economies. There is no movement in capital from producers say in China who make a lower rate of profit to the distribution sector in the USA where higher profits are realised. If that happened production in the dominated economies would contract producing shortages providing producers with the leverage to reduce discounts, while in the USA the glut of distributors would in turn drive down margins through the intensification of competition.

This does not happen. Instead it is the raw balance of power which dictates. The producers in the dominated countries are held captive by the distributors in the imperialist countries through a number of mechanisms including being their main customer or by the trade in a number of commodities being monopolised in London and New York. When the USA outsourced manufacturing to say China in the early 1990s, many firms who had been previously classified as manufacturers by the Census Bureau in the USA were reclassified as wholesalers (importers) as their main business was no longer producing things in the USA but distributing products produced outside of the USA.

And the shift has been vast. Of the $18.5 trillion dollars' worth of global imports in 2019, 35% was intra-company rising to 48% for the USA. The authors are aware of this as Roberts has written a number of times about this issue. So half of the imports into the USA came from contracted imports (agent-principle or joint ventures) as well as imports from US subsidiaries abroad. Apple is a great example. Hardly any of its hardware is produced within the USA.

In the presence of intra-company imports, prices of production cannot apply. Prices of production can only take place in the sphere of inter-company imports. What does apply with intra-company is discounts, not forgetting reinvoicing via tax shelters to reduce tax burdens. Unfortunately the authors do not deal with these issues in their chapter.

Before moving onto prices of production I would like to make a further point which arises when examining super exploitation which the authors dismiss. However it does apply in the context of intra-company trade. Take the car industry. Car plants owned by single corporations are dotted around the world both in dominated economies, in-between economies, and dominant economies. Examples of dominated economies would be China, Brazil and Mexico, in-between would be Eastern Europe and dominant economies would be the USA, France and Germany. In most countries, productivities in their plants are comparable. But wage rates are definitely not comparable. In Mexico the average wage is $1,100 p.m. compared to $3,500 p.m. in France. Despite the authors' objections, the super exploitation of workers within global industries located in the oppressed countries cannot be ruled out nor dismissed.

This clears the field to deal with prices of production. The reader may at this point feel I am not supportive of this chapter. I am, I endorse the views expressed therein over the issue of technological supremacy operating through the organic composition of capital. Yes, the imperialists do dominate the value chain with the USA straddling its commanding heights. We only have to look at the declaration of (economic) war by the USA against China to frustrate its economic advance from a contract producer to a technologically advanced competitor. And yes, the authors are quite correct to claim that the movement of surplus value occurs between capitals and not between capital and labour involving exploitation. In other words, the movement of surplus value leads to a higher centralisation of global capital in the hands of capitalists located within the imperialist countries.

My concerns lie elsewhere in the data they use to underpin their argument which tend to exaggerate the flows of surplus value and therefore the scope of unequal exchange. This is a question of method and assumption. I have dealt with this in a previous article so will only provide a synopsis here.

1. It is unwise to compare productivities between countries with differing average compositions using GDP. As I show in Graph 7 in the linked article, the issue of depreciation looms large. All things being equal, the GDP in a country with a higher composition of capital will have a larger element of depreciation boosting GDP compared to a country with a lower composition. This can account for up to 15% of the difference in productivity.
2. It is unwise to use rates of return, or what is the same thing, the return on fixed capital only, when comparing profitability between a higher composition country and a lower one. The reason being that in 'labour intensive' industries the share of total capital formed by circulating or variable capital is relatively higher. Thus when we add back this missing form of capital it tends to depress the rate of profit more in the dominated economies than in the dominating economies where the ratio of fixed capital per worker is higher. (The same applies within a country.)
3. There is a difference between physical hours worked and economic hours (or compound hours as described by Marx and Engels) worked. (**NB** Note 1 at end.) The difference lies in the adjustment for skill, which means that economic hours will always exceed physical hours as economic hours are multiples of simple physical hours. Hence it follows that in high composition countries where the density of skills is higher there will be additional economic hours. Thus when adjusting for economic hours, the difference in productivities between countries is reduced.

These observations are not designed to blunt the argument put forward by these authors, but to polish their hypothesis and to strengthen it. In the modern world the two primary means of international control of countries is technology and finance. Of course when that fails to intimidate and make obedient governments in the dominated economies, there are always boycotts, coups, regime changes, invasions and so on. This can be seen vividly in the Middle East with its oil wealth, where Britain and the US have continuously fostered coups, civil wars and invasions to prevent the area cohering into a common market built on oil wealth thereby becoming a new competitor to them. The cost of course has been millions of lives lost and the preservation of primitive rentier regimes.

Chapter 5. Socialism.

As I said earlier I will skip Chapter 4 in order to return to it at a later date. I will say this however in advance. The two authors carelessly juxtapose machine learning and artificial intelligence. The world of the computer is digital not analogue like our brains. Computers interpret the world **indirectly** via a programme while our brains interpret the world **directly** via experience. Until analogue computers can be developed, (not the side-show of quantum computing) artificial intelligence is off the table or keyboard

I was most disappointed with Chapter 6 with the exception of section 6.1. As far as planning goes the two authors still live in the shadow of the Soviet Union and their proposals are infused with academic elitism, aka authorities know best. So let us begin. It is insufficient to define the workers state as one inhabited by recallable working officials earning no more than the average income (page 197) (Note 1.) This tells us only about the structure of the workers' state, not its content. It is more important is to examine the powers of decision making allowed this state. These organs of the workers' state must not be allowed to decide what will be produced, nor how quickly, at what price and what the renumeration of workers will be, and finally, they are absolutely forbidden to add or levy any margins on production.

Only once that is understood, can we address the issue of planning which takes place outside the state. There are two great forms of planning - the planning of the articles of consumption and the planning of the resources arising from the social fund. They are distinct. What is common to both however, is that each separates out **what** to produce from **how** to produce it This means the planners are not bogged down trying to decide what to produce which would consume their working day and distract them from actually planning production. Instead, by being liberated from deciding the what, they are freed up to decide how best to produce the goods they have been instructed to produce.

I call the planning of the articles of consumption, *consumer led planning*. Consumers give of their labour and receive back the products of their choice. Nothing, nobody and certainly no state can intervene in this relationship without collapsing the motivation of the producing worker. This is one of the cardinal lessons from the USSR where the planning of consumer goods was top down, paternalistic and alienating. Thus, as far as decision making goes, it is the workers as consumers who are the active element while the planners are the passive element, as compared to the USSR, where the consumers were the passive element and planners were the active element. In short, via the internet, informed workers conscious of their income, conscious of the actual costs of production in real time and the possibilities lodged within production, instruct the planners of their choices, whereupon the planners aggregate these instructions forming the plan of production in close collaboration with the production and distribution units.

The second form of planning arises out of the social fund or common fund as Marx called it in the *Critique of the Gotha Programme.* Once again the workers' state does not decide the size of this fund formed out of the deductions from the social product, or more precisely how much each worker in production deducts from their contribution to that fund. The authors seem to miss the whole point of workers democracy. The size of these deductions cannot be set by the state or by a higher or central authority or by so called experts. That would be oppressive. The essence of workers democracy in the lower stage of communism is the collective decision making process whereby the producers themselves agree the extent of these deductions, and then, how much and to which projects and needs the fund will be distributed to. Yes, this is everyone deciding the strategic items and priorities, in short the budgets, in an organised and informed way (as opposed to the view at the bottom of page of page 229) unencumbered by the detailed plan.

Only once the extent of the deduction have been collectively agreed thereby setting the size of the fund, and once its grand divisions have been agreed, can the planners in the social sphere organise the plan. The authors have it arse about face. They approve the suggestion that the plan will be set by a higher authority and then put out to referendum. What would happen if the original plan gets rejected or severely modified, do the planners begin again and again with each iteration getting closer to what is acceptable. As long as planners are engaged with deciding what to produce, the plan will fail because it cannot be a democratic plan. A democratic plan is defined as a plan which has been decided beforehand by the empowered producers and users of the plan. And this is more, not less important, in the early phase of a communist society where the harshest compromises will have to be made: *What we have to deal with here is a communist society, not as it has developed on its own foundations, but, on the contrary, just as it emerges from capitalist society; which is thus in every respect, economically, morally, and intellectually, still stamped with the birthmarks of the old society from whose womb it emerges.* (Marx)

This is the only way to reconcile potential conflicts arising from such compromises amidst inherited inequalities. It is highly political. Unless society is involved in an informed way about how best to allocate the fund strategically between say, the repair of the planet, improving everyone's skill, ridding the world economy of its unevenness and so on and so forth, in other words unless the producers are involved in setting the priorities and resolving their differences, kiss political cohesion goodbye. Should this occur, all the computers in the world will not be able to prevent humpty-dumpty-socialism falling off the wall.

Until this is clearly understood we will not win the ideological struggle over planning versus the market. What is disappointing about the author's 8 point test for socialism to be found on page 196 is the absence of this point, viz, **decision making is now in the hands of society and not in the hands of capitalists or a bureaucracy.**

Next the issue of computers and planning. Actually the internet is more important. Let us again be clear, technology does not enable planning, all it does is to reduce the labour time needed to plan while improving its outcome. What enables planning is freed up social relations, workers reunited with their means of production, empowered and involved in decision making, and motivated by the fairness of a system regulated by labour time. In other words social harmony forming the circuit of information rather than silicon. Life is quintessentially human.

From the bottom of 227 the authors review what they consider valuable contributors to the discussion of planning. I consider what these experts have to say as 'academic speak', a distraction to real planning and workers democracy, best locked away in academic ivory towers. The ideas proposed here are either a reaction to command planning failing in the USSR (Alex Nova & Co), or elitist (Legault and Tremblay-Pepin) or technocratic (Haerdin, and Cockshott) which would in turn give rise to a failed plan. Out of all the reviews, only Hahnel and Albert come closer to what will work, because their proposals are more about the how to produce rather than the what to produce. Still their proposals remain confused and would be labour intensive.

Once the two plans has been drawn up as specified above and passed on, all that the committees, councils or boards managing production are allowed to do, is to implement them knowledgeably and efficiently (middle page 231). Discussion is limited to how best to fulfil the plan. These councils or committees or worker' managements are barred from rediscussing or revisiting the agreed plan over what to produce. They are confined to implementing the plan. Anything else would unleash chaos and be undemocratic in the broader sense.

The Transitional Society and China

The authors consider China to be a *blocked transitional society* stalled by the lack of workers' democracy. They consider it neither capitalist nor socialist. Clearly if it exists betwixt and between these two modes of production, but remains viable if not dynamic, then it must be a distinct mode of production. This seems to be implied by the authors who see it as something of a hybrid, where the private sector produces exchange values while the state sector produces use values.

Unless the Chinese Communist Party has two "Redbooks" one for the public and one for the inner circle of top cadre, then XI holds to a different line. In his report to the XX Congress of the Chinese Coputalist Party this October, Xi sets the tone and direction for Chinese Society over the next five years. This is what he had to say about the market as quoted in my analysis of his report: *We will build a unified national market, advance reforms for the market-based allocation of production factors, and put in place a high-standard market system. We will refine the systems underpinning the market economy, such as those for* ***property rights protection, market access, fair competition****, and social credit, in order to improve the business environment."* (my emphasis) In his report, unless he is being mischievous, he intends to give the markets wings, not suppress it.

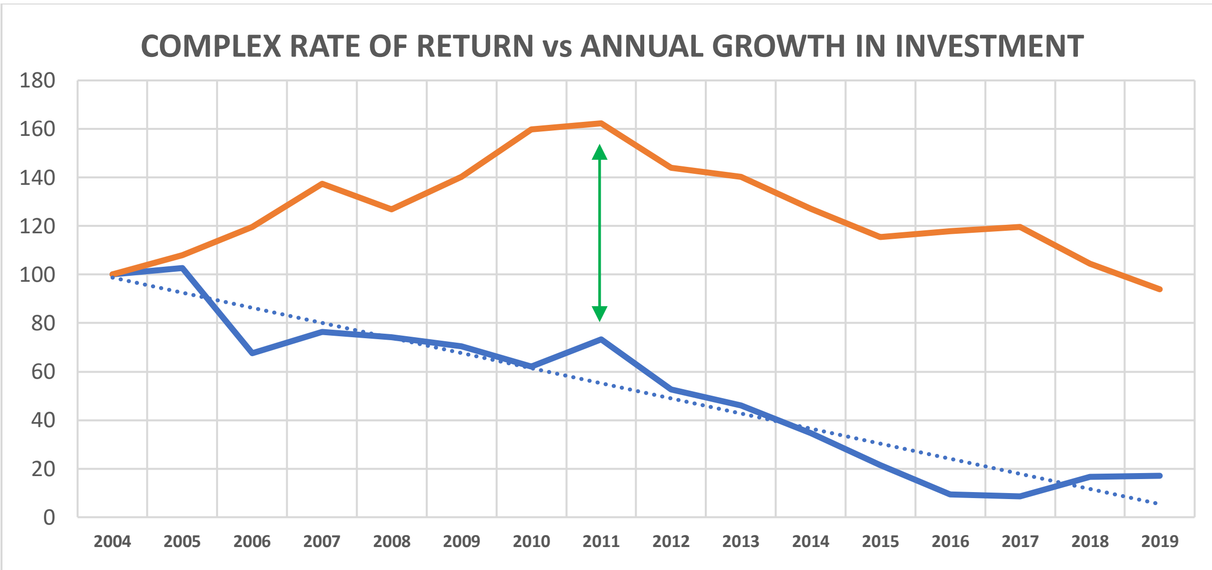
Now I do admit that I am an avid reader of history including the period of capitalism's primitive accumulation. But in all my research I have never read a single sentence or remark, ever, where a representative of early capitalism said they needed to refine feudalism, support it, grant it access and unify it. Instead they say the opposite. The early representatives of this *transitional society*, where capitalism was growing in the womb of feudalism, castigate feudalism, decry its parasitism and object to its restrictions. Exactly the opposite to what Xi is expressing.

For my part I see the Chinese economy as merely the polar opposite of the neo-liberal capitalist economy where the former has significant state involvement in the economy via investment and regulation, and where the latter has little involvement in production which is lightly regulated. In the case of China its continuing economic dependency on the state speaks to its immaturity, its lack of technological equivalence, the economic assaults on it, and the need to break into a world economy cornered by developed multi-nationals. This is why I dismiss all the nonsense attributed to China by the Left and the Right that it is somehow socialist, the former seeing possibilities lodged in it, and the latter keen to use it to besmirch the name of socialism. It is in fact a regular market economy with socialist pretensions.

The authors claim on page 213: " *Its economy is not yet dominated by the market, by investment decisions based on profitability…*" Au contraire, as the graph below shows covering Chinese industry based on data provided by the *National Bureau of Statistics of China*. In China 'industry' covers the *Primary and Secondary Sectors* of the economy but not the *Tertiary Sector* (analogous to the Service Sector). The graph compares the annual Complex Rate of Return to the annual growth rate in fixed investment as a share of GDP. (The term Complex denotes that it includes financial assets.) The graphs are indexed to compare their relative trends. Readers of Robert's website knows that one of his strengths is that he demonstrates the correct direction of travel between profits and investment, or what is the same thing, that it is movement in profits which dictates the movement in investment, not vice versa.

Now using this same test, if there were to be no association between profitability and investment in China, there should be a disassociation between the movement in profits and investment, except that the opposite is shown to be the case. When profits rose up to 2011 the rate of investment was stable growing each year by between 25 and 30% of GDP. However, once the rate of return topped out and fell by 43% after 2011, so too did investment, falling by over three quarters to below the growth rate of GDP itself.

Graph 7.



The authors continue to overegg the state sector. *"The biggest part of China's world-beating industry is…Chinese state owned enterprises (SOES) (page 215)."* The last time I looked those corporations were Huawei, Lenovo, JD.com, Tencent, Alibaba, TikTok, BYD and Nio the electric vehicle manufacturers, CATL or BYD the producers of car batteries and so on. Unless the CIA is to be believed, these corporations are private with sizeable foreign shareholdings. The USA may claim that many of these firms have close links with the state and therefore need to be embargoed, but this is mere misdirection, because what the US State Department fears most is their effect on US corporate profits not on US citizens. In any case as Musk's takeover of Twitter has revealed, Twitter was virtually run by the FBI.

Another area is the comparisons of state assets and private assets. This is comparing apples with oranges. State assets are exaggerated by extensive cross-holding - 1980s Japanese style. What should be compared is fixed assets but the Chinese Statistical Bureau, to my knowledge, does not separate out Fixed Assets from Total Assets which includes inventory and financial assets.

Why do the authors place such weight on the state sector? The reason is found in Section 6.5 headed PRODUCTIVITY VERSUS PROFITABILITY or its sub-text, the production of use values versus the production of exchange values. This is a rather convoluted section as the authors try to account for China's success.

Their starting point in terms of method is correct; the fall in the rate of profit is a result of the drive to raise productivity which means that capitalism can only economise on labour time in an unstable manner. They see this mechanism applying only to the private sector. Thus while acknowledging that the rise of the private sector has led to a greater correlation between profitability and GDP growth, they conclude that this has been the source of the growing economic instability in China (page 213). On the next page, despite the growth of the private sector, they describe how government policies and the state sector continues to curb and modify the law of value. Clearly according to their logic, if the economy is becoming more unstable due to the broader operation of the law of value, this will requires more curbs.

But what do these curbs imply. Firstly, the state can regulate against certain commercial practises such as creating addictive programs in the case of Tencent. It can regulate against certain financial practises which increase risk such as in the grey market. It can curb the outflow of capital. But these curbs have less of an effect compared to the support the state sector provides the private sector. These include expanding investment when private investment falters to smooth investment patterns, though as we have seen this is on the ebb. The state banks can be instructed to throw good money after bad by making risky loans to the private sector which they loathe to do as bankers. The state can take on unprofitable areas of production to nurture private investment, the upstream downstream developmental money.

Do these supports circumvent the law of value? No, on the contrary, the law of value circumscribes the scope of these supports. The state can produce use values in the form of weaponry or schools or hospitals but these have to be paid out of revenue, taxes levied on the rest of the economy. There is no free lunch. On the other hand, the more the state sector produces exchange values, that is products for sale, and converts them into new revenue, the less it is dependent on taxation, the less it is a drain on the commodity producing section of the economy. So there is a balance here in common with every other capitalist economy.

In fact the problem with the Chinese state is not that it produces too many industrial use values but that it produces too little. Let us take the debacle over the development of computer chips. Just as the CCP in its bureaucratic wisdom did not see the abrupt end to lockdowns without planning for it, so they did not prepare a decade ago for the chip embargoes they should have foreseen. What the CCP should have enacted, as it is doing today with its fusion projects, was to create lithography machines not for sale, but to learn how to produce them and to develop them until they caught up to the competition, at which time these use value could become exchange values. They failed to do so.

Where they did prepare in advance was with jet engines, which alongside lithography machines, are the two most challenging and complex engineering projects in the world. Given that the military ws-15 jet engine is finally going into production, Chinese jet engine capabilities are now only a half a generation behind the West. This engine has been in development for nearly 30 years, yes 30 years, and its path has been littered by innumerable failures, but these were progressively overcome. The same cannot be said for lithography machines. Clearly the lessons learnt producing this engine will be applied to the civilian jet engine sector, meaning that in a few years' time the Chinese will no longer be reliant on the LEAP engine sourced from General Electric to power its new Comac C919 airliner.

The reason why China did not have a similar programme to develop its own chips is that the private sector was disinterested in these developments. The private sector was obstructive. The growth of the likes of Huawei were fuelled by sourcing the most UpToDate components on the world market. Indeed, without exploiting the international division of labour, Chinese Tech would not have developed sufficient to catapult their corporations onto the world stage where they were able to compete with the best, and even begin to dominate sectors such as 5G and the Internet of Things (IoT). Had Trump not crushed Huawei, the world's biggest Tech company today would not be Apple or Samsung, but Huawei. (Incidentally, embargoes are now moving across into the world of electric vehicles which China, not Tesla, dominates.)

Thus theoretically a hybrid economy has definite limits. In terms of the law of value, it is the use value sector that feeds off the exchange value sector and not the other way around. The authors do not appreciate this. The connection between the use value sector and the exchange value sector is tax and to a lesser extent debt. The use value sector has to pay its way, it needs money, and if it does not generate this through socialising its labour through sale and therefore acquiring new revenues, the only sources of money is via the taxation of the exchange value producing sector of the economy, or via borrowing money previously generated by the sales revenues taking place in this market sector.

Xi and the communist party are under no illusions that it is the market which has been responsible for the economic success of their economy. They are cognisant of how easily and how quickly things can go wrong when the production of use values does not find a market outlet and how wasteful that can be. All of this can be read into XI's report where he affirms repeatedly that the market must allocate resources not the state. Here he is again: "*We will work to see that the**, market plays the decisive role in resource allocation** and that the government better plays its role." (*my emphasis).

Yes, the state can play a role in minimising the effects of the industrial cycle as can monetary policies by central banks. But those policies cannot replace the role of profit in directing the economy and generating efficiencies. Recessions are not optional for capitalism. Recessions clear the way ahead for a renewed period of profitable accumulation. Suppress them and the bow wave created by the forward motion of capitalism will grow to the point where the ship itself will founder.

Let me use the language of the authors. A recession occurs when some use values cannot be circulated profitably. They cannot be converted into exchange values. They are just as useful as before but in the peculiar world of capitalism where profits dictate they have been rendered useless, to be destroyed. Similarly the debt attached to them. A recession is therefore the destruction of use values in their capitalised form clearing the way for the use values produced under more favourable conditions to be once more converted into exchange values realising their surplus value. Thus the destruction of what has become an excessive quantity of use values helps restore the rate of profit.

But what happens when the opposite occurs. Instead of use values being destroyed more are added which are surplus to profits. In that case the rate of profit falls further rather than being restored, in that case more debt is added rather than being culled. The conditions of capitalist production are not rejuvenated, instead they age, becoming more geriatric. This is because the production of use value increases the capital producing them but without increasing profits in return, because these use values are not converted into exchange value. This is the dilemma facing the CCP. Will they allow the destruction of capital enabling a new round of accumulation, and if they do, can they control this destruction such that production is not disrupted? Can they continue to do so as the composition of capital rises in the future requiring more extensive destructions to revitalise conditions? If they can, then capitalism will endure for the indefinite future should the planet allow for this, and this model will dominate global capitalism.

I do not believe they can, and the evidence is in. Despite their best efforts, the rate of profit continues to trend down holding back the economy. A few days ago the Chinese Statistical Bureau released November's profit figures revealing that the annual Complex Rate of Return has fallen to 5.39% for the 11 months, down from 6.16% in 202, as a result of having fallen by about 0.2% quarter on quarter since then. It is likely that once December's profit figure is in, the rate of return is likely to be no higher than 5.3%. I do not want to issue a forecast for the Chinese economy, here, as this is not consistent with a review of this book. I cite these rates of return purely to demonstrate the growing difficulties facing the CCP.

Further, the recent rebellion against lockdowns which forced the CCP into an abrupt and humiliating U-turn, shows the fragility of the regime. If it is to keep society onside it needs to keep generating improvements in standards of living to offset the lack of political freedoms. But as the rate of profit falls this becomes increasingly difficult. The CCP finds itself caught in a trap of its own making.

Conclusion.

At the beginning of my review I used the analogy of the diamond to highlight this book. I would like to conclude on another analogy – a cake. While the cake here is missing a few cherries on the top and some sprinkles, and while the middle may have sagged a little, the ingredients are wholesome and rich, making the cake nourishing. Certainly a cake to savour and share.

Note 1. The authors on page 197 invoke Engels' dictum that elected officials should not earn more than the average wage, or what is the same thing, more than their electors. They then use this proposal to justify the view that an average wage should prevail in a communist society as a whole using the analogy of refuse collectors and economic professors. They claim that higher pay for skilled workers is **archaic** belonging to capitalist social relations. With one word they overthrow everything the *Critique of the Gotha Programme* stands for and they do so having quoted Marx: that rights cannot rise higher than the structure inherited whether or not it is archaic.

Marx and Engels writings are peppered with observations that skilled workers produce more value per hour than do unskilled workers when working for capitalists. Engels even put a figure on it, 3 times more. Let us take an example which avoids the **neo-Ricardian** position that wages should be set by **utility**, or how awful the work is. Assume a hospital where a worker is cleaning a toilet bowl while in the operating theatre a colorectal surgeon is re-sectioning a bowel. In the first instance, this is the area were faeces are flushed away and in the second it is where faeces form. Both are smelly workplaces. Should the cleaner and the surgeon be paid the same when it takes a day to train a cleaner while it takes 15 years of intensive study to become a surgeon? I rest my case.

Thus after the revolution, skilled workers will continue to contribute more to production than unskilled workers; end of. Thus the right to receive in proportion to contribution means unequal contributions and unequal consumptions. But this right is an equal right for unequal workers with the purpose of reconciling the inherited inequality of skill, the ongoing division between mental and physical labour, that is to say the inherited structure which remain in place in the years following the revolution. To have **equal distribution** as the authors want, would mean an **unequal right** because the unskilled will receive more, while the skilled will receive less, than their contributions. Instead of reconciling unequal contributions this would create antagonisms and division within the working class, requiring the workers state to police productive relations. No, a million times no.

But let us add context. The data shows that the capitalists and their retinue, both within and outside of production, consume more than half the articles of consumption by value. The data also shows that around half of the workforce is employed unproductively. This being so, abolishing parasitism and by restructuring production to avoid redundant work, the average worker can enjoy a standard of living four times higher for each hour of work, than was the case under capitalism. In other words, the unskilled worker working 1 hour in a communist society will earn a "wage" higher than a skilled worker would under capitalism.

So get it right comrades and do not imperil the revolution by unnecessarily antagonising skilled workers especially when our over-riding strategic concern is to preserve the means of production intact prior to and during the revolution which cannot be done without their help.

Brian Green, 2nd January 2023.