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Club Educational Study Guide: Political Economy

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SESSION 1: HISTORICAL MATERIALISM AND CAPITALIST COMMODITY PRODUCTION

Why study political economy?

As working people and trade unionists, we are facing a new and very different economic environment. Never before in our lifetimes have

- the living standards of working people declined over a long period of time (not just during recessions) - the new generation been worse off than their parents - the union movement experienced such a dramatic decline - global competition been such a dominant factor in the U.S. economy - the working middle class faced elimination - the role of immigrant workers been so important economically and politically - an unceasing state of war become our normal condition.

There are sharp debates in the progressive movement about how to address these problems.

To come up with answers, we need to understand the workings of the modern U.S. and world economies and build our strategies based on this understanding.

Definition: Political Economy is the study of relations between people in the process of production and exchange.

Humans have always carried out production as a social activity. Up until about 7000 years ago, all people were organized into bands or tribes, and there were no social classes. With the development of herding and agriculture, new forms of social organization developed: Slavery (ancient Egypt, Mesopotamia, Greece, Rome, Incas, Mayas, Aztecs) Feudalism (Europe in the Middle Ages, Japan) Capitalism (Western Europe since 1500, most of the world including the U.S. today)

These are all class societies, in which some people do the work and others enjoy the fruits of their labor without working.

Capitalism is characterized by commodity production production is not for the personal use of the producer, but for exchange on the market.

What is a commodity? It is a product of human labor. It is useful (it has use value). It is produced for exchange, not for the use of the producer (it has exchange value).

Therefore, every commodity has two kinds of value: use value and exchange value. Use value is qualitative and subjective. Something is useful that is, it satisfies some human need or desire or it is not. Exchange value is quantitative and objective products are exchange for each other in definite proportions. The exchange value of a commodity is determined by the amount of socially necessary labor required to produce it.

Commodity fetishism

Labor power as a commodity

Suggested reading:

Marx and Engels, Communist Manifesto, chapter 1: Bourgeois and Proletarians

Lenin, The Three Sources and Three Component Parts of Marxism

Engels, Socialism: Utopian and Scientific, chapter III: Historical Materialism

Ryndina et al, Fundamentals of Political Economy, chapter 3: Capitalist Commodity Production and/or John Eaton, Political Economy, chapter 2: Commodity Production

SESSION II: PRODUCTION AND EXPLOITATION UNDER CAPITALISM

In the early days of capitalism, the great classical economists William Petty, Adam Smith, David Ricardo recognized that value is based on labor. Even Abraham Lincoln stated that Labor is the source of all wealth.

But with the rise of the labor movement, pro-business economists realized that this theory undermined the legitimacy of low wages and high profits. So they have developed new theories, like marginal prices, to justify the status quo.

Definition: Money is a generally exchangeable commodity.

Definition: Price is the exchange value of a commodity expressed in money.

1. Pre-capitalist simple commodity production: C (commodity) M (money) C (different commodity)

This typically does not result in a profit. The producer buys a new product representing about the same amount of labor as the product he sold.

2. Merchant capitalism:

M C M (more money)

The merchants profit comes from the exchange process, not from production. He buys where a product is abundant and cheap and sells where it is scarce and expensive.

3. The cycle of capitalist production:

M C P new C M

New value is created in the production process. This is the source of all new wealth in the modern capitalist economy.

The commodities with which this process begins may include raw materials, equipment and machinery, land and buildings. These are called constant capital (c), because by themselves, they cannot create a new commodity with a value greater than their own value. The crucial extra commodity is labor power, or variable capital (v).

The employer hires workers (buys labor power) and the labor they add to the production process creates new value.

However, the pay the workers receive for their labor power is only a fraction of the new value created by their labor. The rest of the newly created value goes to:

a. owners profits, such as dividends and appreciation of stock b. excessive compensation to top management c. commercial costs (such as advertising and sales commissions) d. interest on bonds and bank loans e. land and building rent f. taxes used to support capitalism (bureaucracy, police, military)

Together, these are called surplus value (s) On average in U.S. industries, total surplus value is at least 3 or 4 times total wages. In other words, even though Labor produces all new value, workers only receive 25% or less of what they produce!

So why do business claim that their rates of profit are so much lower than 75 or 80%? Its because they only include part of the surplus value the owners or shareholders profits in the equation:

Rate of profit = profit _____ x 100% capital (c+v)

A boss will cry poverty in wage negotiations because the shareholders are only receiving 10% rate of profit, when banks, landlords, and corporate officers are also getting rich from their share of the value added by the workers labor.

Racism, sexism and super-exploitation

- Racism has been associated with capitalism since its beginnings, especially in the United States.
- Super-exploitation extra profits from discrimination against racially oppressed groups, immigrants and women.
- Extra profits are not the only purpose of racism: racism is used to prevent the unity of the working class.

Understanding that exploitation is inherent in the production process under capitalism is basic to understanding the politics of this system. The conflict between the social character of production and the private capitalist mode of appropriation of its results is the main economic contradiction of capitalism.

Suggested reading:

Ryndina et al, Fundamentals of Political Economy, pages 45-55 and/or John Eaton, Political Economy, chapter 4: The Essence of Capitalist Exploitation
Victor Perlo, Super Profits and Crises: Modern U.S. Capitalism, chapter 2: Exploitation of Labor Surplus Value; chapter 4: Racism

SESSION III: IMPERIALISM

Imperialism is the monopoly stage of capitalism

Concentration of production and capital Historical stages in the United States 1860-1873: heyday of competitive capitalism; bare beginnings of monopoly in a few industries 1873-1900: development and growth of monopolies; competition still predominant 1900-1903: monopoly gets the upper hand in the economy late 20th century: intensified globalization and deregulation through elimination of barriers to free flow of capital Types of monopoly arrangements: cartels, syndicates, trusts (vertical and horizontal), conglomerates, transnationals

Merging of bank capital with industrial capital; creation of the financial oligarchy New role of banks Finance capital Financial oligarchy

Export of capital (not just commodities) To underdeveloped countries To other developed countries The role of free trade

Formation of international monopolies Cartels Transnationals

Territorial division of the world among the great powers Colonialism Neocolonialism Tendencies to war Between capitalist powers Suppression of national independence and social change

Imperialism is parasitic and decaying capitalism

Tendency to retard the growth of productive forces Monopoly subversion of the market Holding back new technology Barriers to free flow of information

and technology: patents, commercial secrecy Production for profit, not use Increase in non-productive workers (bureaucracy, military, circulation, personal services) Growth of militarism

Growth of a section of the rich divorced from the productive process (the Idle Rich, the Jet Set)

Political reaction Intensified use of racism, anti-communism, anti-terrorism Attacks on labor rights Regressive taxation Monopoly control of media Degradation of popular culture Official lawlessness: Watergate, Iran-Contra, theft of 2000 election, Bush/Ashcroft assault on Bill of Rights War as a tool for domestic repression Fascism

Imperialism is capitalism ready for the transition to socialism

Creating the material prerequisites for socialism

Sharpening of the contradictions of capitalism

Law of uneven economic and political development

The general crisis of capitalism

State monopoly capitalism: monopoly capitalism characterized by a fusion of the power of capitalist monopoly with that of the state

- Use of state levers for stimulating monopoly concentration of production and capital - Revolving door between business and government - Business activities of the state - State economic regulation - Militarization of the economy

Lenin: State-monopoly capitalism is a complete material preparation for socialism, the threshold of socialism, a rung on the ladder of history between which and the rung called socialism there are no intermediate rungs.

Suggested reading:

Lenin, Imperialism: The Highest Stage of Capitalism

and/or

Ryndina et al, Fundamentals of Political Economy, chapters 7-8

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