‘Surplus Profits’ and Progressive Land Ownership: A Marxist Perspective.

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Abstract.

Firstly I outline Shan Turnbull’s idea of businessmen earning ‘surplus profits’ on their investments, like a shopping centre, and how potentially the use of progressive forms of land ownership may eliminate, or capture, these ‘surplus profits’ to the advantage of the local community. Next I explain Marx’s view of how profit is produced and distributed in the capitalist economy. This allows us to see how Turnbull’s ‘surplus profits’ are no better or worse ethically than profit in general under capitalism. I then focus on how Marx imagines the value of fixed capital is determined and how it can, or crucially does not, return to the capitalist in money, a non-fixed form of value. Finally I return to the question of the potential usefulness of alternative progressive forms of land ownership to local communities, now guided by Marx’s framework of how value and profit are produced and distributed in our capitalist society.

(151 words)

Introduction/The Turnbull View.

I should firstly say that I admire the work of Shan Turnbull, and personally like the man. His work on monetary reform and alternative forms of land ownership reflects his genuine desire to make the system we actually have work better for people. Furthermore its not just talk, Shan has been involved with many real projects that have/continue to help real people. I am also not trying to suggest that it is pointless to try to 'reform' the system. However I am suggesting that to understand what 'reforms' can or can not achieve in a capitalist system requires us to understand capitalism, the very thing I believe Marx remarkably achieved 150 years ago.

I will not be addressing Turnbull's work on monetary reform in this paper (see typically Turnbull, 2009), as to do this properly raises too many issues, requiring too much space. I hope to consider the question of monetary reform in a future paper, so for now point the reader to Potts (2011a) for my thoughts on the financial system, the mystery of inflation, and the question of what is or is not usury.

Let us try to outline Turnbull's notion of 'surplus profit' (see typically Turnbull, 2012) in as simple example as is possible to illuminate the essence of his idea. Suppose on a plot of land a shopping centre and some houses could be built. Say to buy the land and to build costs £10 million, with the shopping centre and houses (to rent), together costing £1 million a year to run, and grossing a return of £ 3 million a year, a profit of £2 million a year. For simplicity assume that both the houses and the shopping centre do not physically depreciate i.e. last forever. Let us also assume that the value of money is fixed.

Now what is a 'reasonable' return for investors and what would represent 'surplus profits'. This will depend on what investors' judge to be a reasonable rate of return. Let us call this a 'normal' rate of profit, which would reflect both the risk of such projects and the interest rate. The exact determination of this rate, although key to investors in the real world, is not actually key to identifying the concept of what would represent 'normal profit' or 'surplus profit.' Turnbull simply wants to stress that before beginning the project the investor has in mind a definite amount of return (influenced by the interest rate and risk) in a definite period of time, that if they do

achieve fully recovers their investment and the necessary return on it to have made that investment worthwhile. Once this return/profit has been made, further profit is identified as 'surplus profit'; surplus in the sense that such a high return was not necessary to induce the project to go ahead in the first place.

It is simplest to assume that the normal rate of profit (and interest) are zero percent. In our abstract example once the profit on the investment reaches the total cost of the investment, £10 million, thereafter all profit is surplus (as the 'normal' return is zero). This point is reached after five years, £2 million multiplied by five equals £10 million, so every year thereafter the investor makes a 'surplus profit' of £2 million, a profit that was not required for them to have made the investment in the first place. If we assumed a positive 'normal' rate of return and interest rate within certain limits the only difference is that it would take more years before profit became 'surplus'. Clearly if the 'normal' rate of return was high enough then a yearly profit of £2 million would become insufficient to ever make profit 'surplus', but then we would be modelling away the very phenomena we seek to identify.

Such 'surplus profit' are seen as a drag on society, an unnecessary over-reward to lucky investors, paid for by the 'high' prices in the shopping centre and the 'high' rents to those who live in the houses. 'High' is meant in the sense that prices and rents could be lower if the investors choose to forgo their 'surplus profits' by setting prices and rents so as to just break even.

So how could an altered form of land ownership eliminate 'surplus profit' or more precisely eliminate the investor from receiving this 'surplus profit'. Quite simply the owner of the land, let us now assume this is the local community (we have so far abstracted from who the investor bought the land from, or where that money went), 'sells' the land to the investor under the understanding that once their 'normal' return is met it, along with the shopping centre and houses on it, revert back to the ownership of the local community again. The investor should still want to go ahead as before as they just need to make their 'normal' return. Likewise there is no reason for the price they pay for the now temporary use of the land to change (and if it did fall then their 'normal' return, and the time required to accumulate this return would also fall). The community should thus receive no less payment for the land under this

alternative form of ownership. Indeed, if the land was initially privately held the original private seller could get the full 'market' value of the land, the investor their normal return from then using it, with the community gaining the land in the end for free, without having to disrupt the returns/incentives of anyone at all! This alternative progressive form of land ownership simply stops investors from being 'over-rewarded' by 'surplus profits'.

As to what the community now does with the shopping centre and the houses is up to them. Let us consider some options –

A) Both the shopping centre and houses could be run by the local community on a 'not for profit' basis. The £2 million previously 'surplus profit' is now captured in kind by the local community in the form of cheaper prices at the shopping centre and very low rents for the houses. We are of course assuming that only the local community uses the shopping centre and lives in the houses, or some of the gain in kind would go to 'outsiders'. If the local community is unwilling or unable to run the shopping centre or look after the houses then a private company could be contracted to do this on the basis they are restricted to a 'normal' rate of profit. Assume for simplicity that such a firm needs only to advance the running costs of £1 million, as the local community owns all the fixed assets. Their 'normal' profit would not be calculated, like for the previous investor, on the total cost of the shopping centre and the houses plus the running costs, but simply on the running costs. The £2 million 'surplus profit' minus the 'normal' profit for the private firm can be paid in kind to the local community by reducing appropriately the prices in the shopping centre and the rent for the houses.

B) The shopping centre could charge the same prices and the rent on the houses could stay the same, creating a £2 million return, capture of 'surplus profit', for the local community to either distribute in cash or use to provide some form of amenity. If a private firm ran the shopping centre and houses, its normal profit would have to be deducted from the £2 million, reducing a little the return to the local community.

In all cases the ‘surplus profit’ is eliminated through the community’s ownership of the shopping centre and the houses. This profit can only be considered surplus to the private investor as it is they who have already received their ‘normal’ return, defined by their own calculation of that ‘normal’ return i.e. the necessary return for them to have an incentive to invest in the first place. The now ‘captured’ previously ‘surplus profit’, lets call it charmingly the community bonuses may be enjoyed in various ways by the local community, depending on what they want to do with the shopping centre and the houses.

We could see this new form of land (equally applicable to assets in general) ownership as potentially defining an ‘ethical’ model of foreign direct investment from the developed world to the developing world. Developing countries could encourage foreign direct investors to open mines or provide public services like water, returning the mines/infrastructure to the developing country when the investors had received their ‘normal’ return. It is also the ideal model for forms of public-private finance agreements. The hospital car park becomes the hospital’s property when it has delivered a ‘normal’ return, rather than it remaining a license for private investors to make ‘surplus profit’ (even potentially selling on this right to another investor).

So in summary Shan Turnbull seems to be on to something ‘revolutionary’, that would be able to peacefully blunt the excesses of our market economy.

Marx’s Concept Of Value: Where Profit Actually Comes From.

Marx sought to explain or rather critique the capitalist form of social organisation that had, for him, comparatively recently, led by the UK, evolved in Northern Europe. Despite the youthfulness of this new social system, that had, and continued to, sweep away traditional social relations in favour of ‘free’ markets, Marx could already see why it must end; how it contained the seeds for its own destruction. The capitalist system would inevitably tend to behave in such a fashion that its inherent weaknesses would lead humanity to wish to transcend from this essentially unreformable system to a superior form of society. Marx predicted that the capitalist system would tend to concentrate capitals, meaning creating fewer and larger dominant firms in each

sectors over time, and produce growing, at least, relative inequality both within and between countries. Furthermore capitalism would be inherently unstable through a tendency for profitability to fall in boom, and hence the need for profitability to be boosted again through absolutely necessary (not avoidable or accidental) periodic crises. Marx's analysis is not merely a point of view, rather it is an inevitably abstract, as it seeks to analyse the whole of capitalist society, scientific theory, which must be judged, like any scientific theory, on its internal inconsistency and its ability to account for the real phenomena we observe in capitalism.[1] So if Marx's value theory appears strange to you, that's not the point, just ask yourself if its predictions are accurate?

Marx (1976) explains how in capitalism commodities have one thing in common, they are all the products of human labour, both directly by living labour and indirectly by the dead labour in already produced other inputs (such as raw material, machines etc). It is this human labour, that can be expressed in units of money or labour-time, which is the substance and sole source of value. Commodities are also use-values, concrete things with useful features that are necessary to produce other commodities and/or are suited for personal consumption. They are produced by labour processes that combine different types of concrete labour and other use-values/concrete commodities, which would need to occur for production to take place no matter the form of society. However what is specific to capitalism is that the objective of production is not to maximise use-value, but to ensure that the capital value advanced to production is expanded in production to deliver a profit. It is in this valorisation process which is the dominant process in this new form of social organisation, production is for profit, to expand the value of capital, pure and simple.

$M = C = c + v$

Focusing on the valorisation process, M money capital is advanced by a capitalist, in the form of constant capital c, meaning all non-living labour inputs (raw materials etc), and variable capital v, the value of the wages paid to living labour. For now to simplify assume all constant capital is used up in production i.e. none remains fixed to take part in future production periods. Again for simplicity we assume circulation between production periods is instantaneous, while production takes time. Big C

represents total inputs of c and v, and is termed productive capital. So what is the value of these inputs? Marx's answer is complex; commodities have both a produced value and an appropriated or realised value. The produced value of a commodity is a 'social' average over all producers of that commodity, high productivity (leading) producers, average productivity producers and low productivity (laggard) producers. Like Marx (1976) let us initially assume for simplicity that commodities appropriated values equal their produced values. Remember our unit of value is labour-time, to be precise abstract social labour-time,[2] that we can express either in hours or money as long as we know the monetary expression of labour-time (MELT), the number of units of money that represent one hour of labour-time at that point of time. Let us assume that MELT = £1, one hour of labour-time is expressed by £1, at the start of production when M is advanced, and set c = £80 and v = £60.

M = C = c + v
£140 = £140 = £80 + £60

Inputs are purchased in circulation just prior to production at prices, appropriated values, equal to their produced values (remember we are assuming this) established at the end of production last period. Capitalists have paid the 'full' price for their inputs of constant capital, their total produced value, which now transfers to the value of this period's output as the inputs are productively consumed in production. Their form changes, coal becomes steam, but their value remains constant, hence they are called constant capital. But what of variable capital? Labour-power is a very peculiar commodity to capitalists, to them its use-value is the ability to create value equal to the total hours worked L. The value of this period's output, which equals the value of total capital as we assume no fixed capital or carried forward stocks, is equal to c plus L. Note C' is total capital/output in commodity form i.e. units of output, and M' is total capital/output in money form.

c + L = C' = M'

Let L equal 60 hours. We assumed workers were paid wages, v = £60, and assumed MELT = £1, so v equals 60 hours, the total hours workers work, there is no room for profit!

M = C = c + v as v = L M = C = c + L = C' = M'

£140 = £140 = £80 + £60 £140 = £140 = £80 + £60 = £140 = £140

Why advance M value and go through all these changes in form of value (money capital, productive capital, commodity capital and back to money capital) to make no profit. To find profit we must understand that the use-value of workers to capitalists, the hours they work, is not their exchange value, Marx (1976) pages 274 to 275 and 731,

> 'The value of labour-power is determined, as in the case of every other commodity, by the labour-time necessary for the production, and consequently also the reproduction, of this specific article. … If the owner of labour-power works today, tomorrow he must again be able to repeat the same process in the same conditions as regards health and strength. His means of subsistence must therefore be sufficient to maintain him in his normal state as a working individual. … must include the means necessary for the worker's replacements, i.e. his children, in order that this race of peculiar commodity-owners may perpetuate its presence on the market.'
>
> 'The fact that this particular commodity, labour-power, possesses the peculiar use-value of supplying labour, and therefore of creating value, cannot affect the general law of commodity production. … The law of exchange requires equality only between the exchange-values of the commodities given in exchange for one another. … its result is:
> (1) that the product belongs to the capitalist and not to the worker;
> (2) that the value of this product includes, apart from the value of the capital advanced, a surplus-value which costs the worker labour but the capitalist nothing, and which none the less becomes the legitimate property of the capitalist;
> (3) that the worker has retained his labour-power and can sell it anew if he finds another buyer.'

Let L continue to equal 60 hours, which can be expressed as £60 assuming MELT continues to equal £1 at the end of production, but reduce v to £20. Means of subsistence with a value of 20 hours is sufficient to reproduce the workers.[3] Because L = £60 and v = £20, a surplus value of s = £40, representing 40 hours of labour-time, ensures M'- M = £140 - £100 = £40.

M = C = c + v < c + v + s = C' = M'

£100 = £100 = £80 + £20 < £80 + £20 + £40 = £140 = £140

Capital can expand - profit is possible, because it is 'gifted' to the capitalist by the workers, who have no choice but to do so. The capitalist system is based on a fundamental, and continually repeating each morning of another working day, act of

robbery. As Marx explains the role of economics/vulgar economy is to hide this central antagonism by developing a theory that all factors of production are fairly rewarded in this best of possible worlds, Marx (1981) pages 968 to 969,

> 'Capital–profit (or better still capital–interest), land–ground-rent, labour–wages, this economic trinity as the connection between the components of value and wealth in general and its sources, completes the mystification of the capitalist mode of production, the reification of social relations, and the immediate coalescence of the material relations of production with their historical and social specificity: the bewitched, distorted and upside-down world haunted by Monsieur le Capital and Madame la Terre, who are at the same social characters and mere things. … vulgar economics, … finds the natural basis of its fatuous self-importance established beyond all doubt precisely in this trinity, in which the entire inner connection is obliterated. This formula also corresponds to the self-interest of the dominant classes, since it preaches the natural necessity and perpetual justification of their sources of income and erects this into a dogma.'

We can now consider Shan Turnbull's notion of 'surplus profit' in a new light. In our as simple as possible abstract economy a profit of £40 is made each period, along with the return of the £100 the capitalist advanced back to the capitalist. Assuming abstractly for simplicity that the capitalist's 'normal' profit is 0% and they advance their own money, as all of it returns, all the profit is 'surplus profit'. Alternatively assuming abstractly for simplicity that the capitalist borrowed the £100 at a 0% interest rate and again that 'normal' profit is also 0%, after only three periods the capitalist can repay the loan, thus entirely owning the capital they advance, and have already made £20 surplus profit.[4] Thereafter every period a further £40 is made in surplus profit. Are we to be outraged by this surplus profit? No more than we should be outraged by capitalists' daily robbery of surplus value from workers i.e. than by capitalism itself.

In an alternative non-capitalist society workers need not be exploited, the question becomes how to allocate that society's available labour-power to maximise the return in use-value, not exchange-value, to that society. Furthermore part of this calculation concerns how much labour-time such a society is willing to part with, Marx (1981) page 959,

> 'This realm of natural necessity expands with his development, because his needs do too; but the productive forces to satisfy these needs expand at the same time. Freedom, in this sphere, can consist only in this, that socialized man, the associated producers, govern the human metabolism with nature in a rational way, bringing it under their collective control instead of being dominated by it as a blind power; accomplishing it with the least expenditure of energy and in conditions most worthy and appropriate for their human nature. But this always

> remains a realm of necessity. The True realm of freedom, the development of human powers as an end in itself, begins beyond it, though it can only flourish with this realm of necessity as its basis. The reduction of the working day is the basic prerequisite.'

So far we have been using a very simplified model to represent capitalism, so lets now be less abstract and consider more of capitalism's features. We shall focus on fixed capital in the next section. So far, like Marx (1976), for simplicity we have assumed commodities' appropriated values equal their produced values. But as Marx (1976, page 421) notes if appropriated values equal produced values than industries with lots of constant capital (c) compared to variable capital (v) and surplus value (s) would make a lower profit rate than industries with less c to v (and s). It makes no sense that labour intensive baking should be more profitable than constant capital intensive cotton spinning. Marx (1981, Part 2) explains that movement of capital between sectors would tend to equalise profitability, per unit of capital advanced, between sectors. Profit is transferred from industries with less c to v, to industries with more c to v, through commodities appropriated values, their prices, deviating from their produced values.[5] Furthermore, monopolies (Marx, 1981, page 1001), outside this transformation in the competitive economy, are likely to appropriate more profit than they produce (reducing the profit appropriated in the competitive sectors).

The equality of appropriated values to produced values thus only holds at the level of total capital, with the MELT at any given moment of time equalling the total appropriated value of capital in monetary expression divided by the total produced value of that capital in terms of labour-time.[6]

Within sectors/industries we have already noted that the produced value of the commodity is a 'social' average over all producers of that commodity, high productivity (leading) producers, average productivity producers and low productivity (laggard) producers. For simplicity let us consider an industry with, for the commodity it produces, price (appropriated value) equal to the commodity's produced value. All below average productivity producers have an individual produced value above price, so don't realise all the surplus value they produce, instead transferring some surplus value to above average productivity producers with individual produced value below price, allowing them to realise more profit than they produce. Here we discover how capitalist competition both creates growth and inherent instability.

Capitalists invest in trying to improve their production processes to reduce the individual produced value of their output compared the average for that industry to improve their profitability/improve their position compared to other firms in the industry. 'Competitively' inspired investment thus drives growth, but Marx stresses that mechanisation/labour-saving drives productivity improvements. But it's the workers who are the source of the profit, so if capitalists, in search for higher than average profit, advance more constant capital as compared to variable capital, surplus value and hence the rate of profit will tend to fall.[7] Growth will ultimately fail as growth reduces the profit rate. Crisis/recession is now required to reduce the value of constant capital (factories, machines and raw materials) and increase the rate of exploitation of labour (s/v), to restore the rate of profit and hence investment and boom again.[8]

Marx (1978) explains how activities purely associated with the circulation of commodities, or management to enforce the exploitation of labour, are unproductive i.e. consume surplus-value. Specialist capitalists, who conduct such unproductive activities more efficiently than productive capitalists could themselves, from retailers, bankers to accountants, will also tend to share the economy's average profit rate, despite consuming value rather than creating it.

Let us now turn to the question of interest and rent. In capitalism lending to capitalists is not usury. Interest is simply a division of profit to the actual owner of the capital advanced; so operate on anyone else's' money (including the banks) and pay them their share of the profit. In contrast lending to people is usury, as they are not advancing this money as capital, and thus are not able to pay the interest by robbing workers of their surplus value (for more see Potts, 2011a). Without this ability to exploit others the borrower is in danger of not being able to repay their loans and loosing their collateral, their possessions.

Rent is simply a redistribution of profit - workers surplus labour - to those lucky enough to hold 'land' (with knowledge potentially, depending on the legal situation, just as with actual land, representing virtual land). Marx (1981) Part Six extensively explores rent, identifying differential rent and absolute rent. If all of a resource to rent (like agricultural land) commands a rent, then the rent on the least desirable example

of that resource (least productive agricultural land) is termed an absolute rent for that resource. More desirable examples of that resource (more productive agricultural land) help the capitalist that uses that resource to reduce the individual value of their output as compared to the average produced value, providing them with a surplus profit. This enables the user to pay a higher differential rent for the 'better' resource they rent. However the superior rented resource is not creating value or surplus value. Rather, like when we considered the existence of leading and laggard producers in an industry, the firm's individual produced values transfer surplus value between firms in an industry (and beyond with other industries). For workers, unable to pay rent with other workers' surplus labour, having to pay excessive rents is another potential source of exploitation, a secondary source of exploitation to their primary exploitation in production.

Marx (1981) Parts Four and Five (369 pages!) explore credit and the financial system (see Potts, 2010b and 2011a). Given that I do not want to encroach on Shan Turnbulls' work in this area, considering this being beyond the scope of my paper, let me just focus on Marx's idea of fictitious capital. Any stream of income can be capitalised and sold as an asset, from shares to bonds and other forms of debt. Marx (1981) page 596,

> 'Moving from the capital of the national debt, where a negative quantity appears as capital – interest-bearing capital always being the mother of every insane form, so that debts, for example, can appear as commodities in the mind of the banker'

When these assets change in price, any capital gain or loss does not represent a creation or destruction of value, just a change in fortunes of those who hold these assets, Marx (1981) page 597 to 599,

> 'Even when the promissory note – the security – does not represent a purely illusory capital, as it does in the case of national debts, the capital value of this security is still pure illusion. … the capital does not exist twice over, once as the capital value of the ownership titles, the shares, and then again as the capital actually invested or to be invested in the enterprises in question. It exists only in the latter form, and the share is nothing but an ownership title, *pro rata*, to the surplus-value which this capital is to realise. … The independent movement of these ownership titles' values, not only those of government bonds, but also of shares, strengthens the illusion that they constitute real capital besides the capital or claim to which they may give title. They become commodities, … Their depreciation in a crisis is a powerful means of centralizing money wealth.'

Hopefully it is becoming clear how Marx thinks value is created and then distributed/scrambled for. Let us now turn our attention to fixed capital to stress how there is no 'natural' or 'fair' return here either.

Fixed Capital Does Not Create Value/Is Actually Likely To 'Waste' Value.

Fixed capital is fundamentally like all other elements of constant capital, in that it can not add any greater value in production than its own value. The difference is that as it stays around over more than one circuit of capital (thus defining it as fixed) it does not add all its value to the commodity in a single circuit of capital, but bit by bit over how many circuits of capital it lasts. So say a machine with a value of £10,000 brand new, in normal use will ware out in five years. For simplicity let us assume the MELT stays constant at £1 in our example, from the period the machine was built, and through the five years the machine is employed. We can now compare monetary expressions without the distortion of a changing value of money. Each year the machine will add £2,000 to the value of the commodities it helps to produce. Assuming circulating constant capital (entirely used over the year) is £4,000 and variable capital v = £3,000, the firm's total capital, assuming the machine is brand new, at the start of the first year, equals,

M = £10,000 + £4,000 + £3,000 = £17,000

Let us assume the rate of exploitation of labour is 100%, so s = v = £3,000. In the first year the firm produces output (Q) equal in value to,

Q = c + v + s = (£2,000 + £4,000) + £3,000 + £3,000 = £12,000

At the end of the first year the fixed capital now has a value of £8,000 to add bit by bit in the next four years. The firm's total capital M' thus equals £12,000 plus £8,000 a total of £20,000, M' has grown above M by the money expression of the total surplus-value/unpaid labour performed over the year. The firm's profit rate is,

r = (M' – M) / M = (£20,000 - £17,000) / £17,000 = 17.65%.

This is assuming that at the end of the first year new machines still have a value of £10,000. Let us assume they do. Let us continue our example in Table 1, assuming the value of new machines stays constant at £10,000 each year.

Table 1 - Fixed Capital, New Machines Continue To Have A Value Of £10,000.

	Start Year Value of FC	Start Year Depreciation Fund	Other c	v	Capital Advanced M	In year FC Passes
Year 1	£10,000	£0	£4,000	£3,000	£17,000	£2,000
Year 2	£8,000	£2,000	£4,000	£3,000	£17,000	£2,000
Year 3	£6,000	£4,000	£4,000	£3,000	£17,000	£2,000
Year 4	£4,000	£6,000	£4,000	£3,000	£17,000	£2,000
Year 5	£2,000	£8,000	£4,000	£3,000	£17,000	£2,000

	Other c Passes	v adds	s adds	Value of Output Q	End Year Value of FC	M' = Q+FC+ Dep Fund	Profit Rate *r*
Year 1	£4,000	£3,000	£3,000	£12,000	£8,000	£20,000	17.65%
Year 2	£4,000	£3,000	£3,000	£12,000	£6,000	£20,000	17.65%
Year 3	£4,000	£3,000	£3,000	£12,000	£4,000	£20,000	17.65%
Year 4	£4,000	£3,000	£3,000	£12,000	£2,000	£20,000	17.65%
Year 5	£4,000	£3,000	£3,000	£12,000	£0	£20,000	17.65%

We imagine that the used up fixed capital of £2,000, that passes to the value of output each year, and is realised in money when that output is sold, is saved in a depreciation fund, so the machine can be replaced when it has worn out. Total capital advanced, M, includes the depreciation fund, so stays constant at £17,000 each year. The depreciation fund is also included in total capital at the end of each year, which stays constant at £20,000, so the profit rate stays constant at 17.65%. Each year is very similar, differing only in the declining value of the ageing machine/fixed capital and the matching growth of money capital held in the depreciation fund to enable the replacement of the machine at the start of year 6. Note the depreciation fund stands at £8,000 at the start of the fifth year, the machine passes its last £2,000 to the value of output in that fifth year. When output is sold at the end of the fifth year this £2,000 is added to the depreciation fund, which reaches £10,000 enabling the machine to be replaced for the start of year 6 (again capital simply changing form, not value).

But what if during the five years new machines became cheaper due to productivity improvement in the sector that produces the machine. Say, at the end of year 2 new machines fall in value to £5,000, see Table 2. At that point our two-year old machine has already passed £4,000 of its value to output, but what is its value now? A new machine now has a value of £5,000, if it were two years old (assuming it still lasts five years) it would have a value of £3,000. Our old machine thus drops in value from £6,000 to £3,000 at the end of year 2. This depreciation is not physical, but as Marx strangely calls it, is moral depreciation, dependent on the value of new machines. This is a real loss to the capital value of the firm at the end of year 2, M' = depreciation fund plus the value of its output plus the remaining value of its fixed capital = £2,000 + £12,000 + £3,000 = £17,000. Given at the start of year 2 M = £17,000, M' = M, the firm's capital has completely failed to expand. £3,000 of surplus-value was extracted from labour, but £3,000 of moral depreciation matches this, ensuring the firm makes no profit in year 2.

Table 2 - Fixed Capital, New Machines Cheaper From The End Of Year 2.

	Start Year Value of FC	Start Year Depreciation Fund	Other C	v	Capital Advanced M	In year FC Passes
Year 1	£10,000	£0	£4,000	£3,000	£17,000	£2,000
Year 2	£8,000	£2,000	£4,000	£3,000	£17,000	£2,000
Year 3	£3,000	£4,000	£4,000	£3,000	£14,000	£1,000
Year 4	£2,000	£5,000	£4,000	£3,000	£14,000	£1,000
Year 5	£1,000	£5,000	£4,000	£3,000	£13,000	£1,000

	Other c Passes	v adds	s adds	Value of Output Q	End Year Value of FC	M' = Q+FC+ Dep Fund	Profit Rate *R*
Year 1	£4,000	£3,000	£3,000	£12,000	£8,000	£20,000	17.65%
Year 2	£4,000	£3,000	£3,000	£12,000	£3,000	£17,000	0.00%
Year 3	£4,000	£3,000	£3,000	£11,000	£2,000	£17,000	21.43%
Year 4	£4,000	£3,000	£3,000	£11,000	£1,000	£17,000	21.43%
Year 5	£4,000	£3,000	£3,000	£11,000	£0	£16,000	23.08%

The £2,000 depreciation of year 2 still comes back as part of Q, allowing the depreciation fund to grow to £4,000 at the start of year 3. Our machine now passes

not £2,000 but £1,000 of value to output in year 3 (a third of its value as before), because new machines add £1,000 a year. Let us assume that at the end of year 3 and up to the end of our scenario, new machines continue to have a value of £5,000 i.e. we have no further moral depreciation. The cheapening of machines at the end of year 2 ensures total capital advanced by our firm at the start of year 3 drops to £14,000. With no moral depreciation capital expands by the surplus-value extracted from labour to £17,000, a 21.43% profit rate (higher then before as M has fallen in relation to M'-M = s).

Note how at the start of year 4 the depreciation fund is already sufficient to buy a new machine. The £1,000 that is added by our machine in year 4 to the value of output, and flows back in money to the firm when the output is sold, need not be added to the depreciation fund, it is released from being capital. This is not profit, but a return of £1,000 of the capitalist's capital to him at the end of year 4. This is why the capital advanced at the start of year 5 falls to £13,000. £1,000 is again released as capital in the same way at the end of year 5. If the firm renewed its now worn out machine at he start of year 6 for £5,000, total capital advanced would equal £12,000 (£5,000 + £4,000 + £3,000).

So moral depreciation of machines can seriously damage a firm's profits. Marx explains how this encourages firms to operate their machines for as long as possible each day to shorten their life/allow their value to pass to the commodity faster, and thus reduce the possibility/extent of moral depreciation they might face. Thus shift work, including night work makes sense to any capitalist with machines prone to moral depreciation. Marx believes the introduction of more and more machines, all subject to moral depreciation, is a key reason for the lengthening of the working day in the UK's industrial revolution.

In summary the point is that fixed capital is not creating new value or surplus value. It merely passes its value to output, if it avoids moral depreciation. Yes the transformation process that tends to equalise profitability between sectors appears to make profit a matter of a return on all capital advanced. But there is no 'natural' return to any element of the capital that is advanced; just a return on the total capital advanced that is made possible purely through the exploitation of labour. So fixed

capital only appears to create value/profit if we ignore where the profit is ultimately coming from i.e. if we don't ask too many questions of capitalism.

Illuminating Our Shopping Centre Example With The Light Of Marx's Value Theory.

So let us consider our shopping centre and houses example again. Say the £10 million purchase and build cost is split into £5 million for the land and £5 million to build the shopping centre and the houses, which for simplicity we assume do not depreciate. As they do not depreciate they do not pass any of their value back to the capitalist. So the capitalist holds £5 million fixed capital and an ownership title to the land that was priced at £5 million when they bought it.

Let us consider the yearly £1 million running costs and £2 million profits more closely. The £1 million could represent a certain amount of circulating constant capital and a certain amount of variable capital. Purely for simplicity let us assume all the running costs are for variable capital.

It is still not straightforward to find out what the total surplus value extracted from the workers is, as the £2 million profit need not be wholly produced in that firm or more surplus value may have actually been produced in the firm than is appropriated.

The appropriated value from running the shopping centre and houses may be higher than the produced value. The workers could be exploited at a rate of 100%, so v = £1 million and s = £1 million, a total produced value of £2 million (we have no circulating constant capital to pass its value and as the fixed capital does not depreciate no value transferred from fixed capital either). Total appropriated value must be £3 million to deliver a profit of £2 million, £1 million produced in the business and £1 million transferred from elsewhere to this 'lucky'/leading producer.

In contrast this business may produce more surplus value than they appropriate. If s = £3 million, with v = £1 million (300% rate of exploitation), the produced value is £4

million, with total appropriated value equalling £3 million, £ 2 million of surplus value is retained by the firm as profit and £1 million is transferred elsewhere.

For simplicity let us assume for now that the shopping centre and the houses appropriate the same value as they produce, £ 3 million, v = £1 million and s = £2 million, a 200% rate of exploitation. The capitalist earns the £2 million profit each year through simply exploiting its workers. They work one third of the week to create the value of their pay so they can reproduce themselves and two thirds of the week for free for the capitalist.

In our abstract example with zero 'normal' return and zero interest rate, in five years total profit equals £10 million, the cost of acquiring the land and buildings. Our capitalist, if we think like Turnbull, has their money 'back', and as they need no extra incentive to have invested, now in further years receive a 'surplus to incentive profit' of £2 million each year.

Of course it only appears this way if the capitalist chooses to see it this way. They have not got their capital invested in buying the land and building the shopping centre and houses back. The £5 million of, non-depreciating, buildings is still in its fixed form and they legally still hold the land, which may be worth more or less than £5 million now. If the title to the land could now be sold for £7 million (with the house and shopping centre being sold with the land for an extra amount) then the capitalist has made a £2 million capital gain on the land. But this is no creation of value, it is just a change in the value of a title that is fictitious capital. Some other investor simply paid £7 million for this piece of fictitious capital. Likewise if the shopping centre and the houses are purchased by a new investor as an investment for a price different to £5 million, it's a capital gain/loss for our capitalist and not an act of creation of value in any way.

Actually what has been happening in our example is very simple. The capitalist simply robbed £10 million from the workers who for five years worked two thirds of their time for free for the capitalist; that's how exploitation of workers works!

This becomes even more evident if we assume the shopping centre and the houses revert to the ownership of the local community after five years. If option B is taken, the houses' rents and the shopping centre's prices remain unchanged. The workers work the same time for £1 million wages, creating this value in a third of the week, then in the rest of the week they produce £2 million surplus value/profit for the new exploiter – the local community! Exploitation remains at a rate of 200%. If option A is taken then the difference is simply that their free labour, the surplus value, is distributed in kind to the local community. Again they still suffer exploitation at a rate of 200% in exactly the same way.

If the workers were not part of the local community, then their situation would be entirely unchanged. The local community might have precisely hired these outsiders, as they could not be bothered to work/exploit themselves! Alternatively if the workers were the entire local community we would have an odd situation. They would exploit themselves in work to make surplus value/profit to return to themselves because of their property rights as members of the local community. Given the 'barricades' have been stormed - the workers own the means of production - would it not be more straightforward to forget running the 'local community' as a business at all?

Say the workers were a third of the local community and the other two thirds could work, or people could be encouraged into the local community until this point is reached. Now all the local community could work for a third of the time that the workers previously worked, for the same wage/ability to reproduce themselves. Labour –time is cut by two thirds, workers receive the full value of their work, not just its exchange value under capitalism. As $v = L$, $s = 0$. We have not only eliminated 'surplus profit' but ended exploitation, the extraction of surplus value, completely; now that's progress for the workers. Has capitalism now ceased?

If our 'non-exploitative' local community were an entirely self-contained unit then capitalism would have ended in this locality as nobody is advancing capital to make a profit. Retention of 'prices' and 'wages' in the community's own money would simply be a way of distributing the result of the local community's labour back to itself. This now anachronistic form of organising society would be better replaced by

a social acceptance of work and a social method of distributing the outcome of that work.

The problem is that we can not live by shopping centres and houses alone – where are the schools and hospitals, not to mention the reality of the non-living labour inputs required to keep running the shopping centre and the houses. We are all extremely interconnected by the advanced form of division of labour that capitalism has created/enabled to happen. Non-members of the local community will shop and work at the shopping centre, just as the local community will not spend all its income at the shopping centre or all work their. The only feasible solution for the local community is option B, to run the houses for full rents and charge full value prices in the shopping centre. The resultant £2 million profit can then be distributed to the local community just as if it were a capitalist itself (it is, exploiting the workers' surplus labour!).

Being surrounded and connected to capitalism all about, may even lead to the local community allowing its members to sell their right to be a member of that local community. The right to be a community member would then be a piece of fictitious capital, purely a claim on a future stream of income. The local community may entirely cash in on their 'community business' and sell it to move somewhere sunnier and cheaper. The price would be a capitalisation of the £2 million yearly profit, in our abstract example with zero interest rates the price would be infinite, now that's a 'surplus profit'. In the spirit of Margaret Thatcher the local community would be replaced by a scattering of very rich individuals.

Clearly the solution is for the entire community, not just some local communities, to own all the means of production i.e. revolution on a world scale to bury capitalism forever. This is the only real way to stop the exploitation of workers and move onto a better form of society.

This conclusion is made even more evident if we relax the assumption that the £2 million profit equals the surplus value extracted from the workers in this 'community business'.

Let us remind ourselves why the 'community business' might appropriate more or less value than it produces. The tendency for the profit rate to equalise across sectors causes surplus value to be transferred from labour-intensive sectors to capital-intensive sectors. Within sectors leading producers appropriate more value at the expense of laggard producers. In sectors where the relative status of a producer is location sensitive, like housing and shopping centres, Marx's concept of differential rent comes into play.

Imagine firstly the case where appropriated value is £2 million and produced value £3 million. The workers work a third of the week to create the value to cover their £1 million wages. The next third of the week is surplus labour to gift to the local community (to the extent the workers are the local community back to themselves). The final third of the week is a gift of the workers' surplus labour to leading capitalists/richer communities elsewhere. Let us imagine that the 'community business' is laggard because its houses and shopping centre in the least attractive location with consequently zero differential rent. So the local community subsidises richer communities elsewhere, but at least does not have to charge itself any differential rent (to distribute back to itself!). Subsidised community projects on free unwanted land, as most likely small laggard producers, are not only 'helping' the local community, they are gifting surplus labour to more successful capitalists/communities elsewhere. In capitalism the weak help the strong.

Average producers, on land of average attractiveness, appropriate £3 million of value and produce £3 million of value. The local community can charge itself, and distribute back to itself, a differential rent of £1 million a year. No matter how the local community confuses itself, the workers work a third of the week for 'themselves' and the other two thirds of the week to gift surplus labour to the local community.

Leading producers, due to their most attractive location, appropriate £4 million of value and produce £3 million of value. The can charge and distribute back to themselves a differential rent of £2 million a year. The workers work a third of the week to create the value to cover their wages, then the rest of week is surplus labour to gift the local community. Furthermore this lucky local community receives a

gift/tribute of surplus labour from elsewhere that is equivalent to exploiting another third of a week work from their own workers each week. At least the workers lucky enough to work for the leading 'community business' don't have to produce this gift, and if they are members of the local community will receive 'their' share of other workers labour (plus a share of their own surplus labour back).

In any case the leading, 'blessed', local community would be becoming richer at the expense of laggard capitalists and, if there were any, laggard local community businesses elsewhere. In capitalism within any sector the leaders go forward at the expense of the laggards, creating a tendency to growing, at least relative, inequality between producers and those who rely on those producers, whether the producers are capitalist or 'community capitalists'. As the economy operates on a world scale, if in the minority of leading developed countries community businesses became the norm, this would make no difference to the vast majority of the world's population that live in 'developing' countries. They would continue to 'subsidise' the developed countries, and not care that things seemed much fairer in those developed countries.

Conclusion.

Don't get me wrong; I'm all for revolution, but you can not, when you have not actually had a revolution, just turn an established business into the property of the local community because its cumulative profit outweighs the capitalist's original hoped for return. Within the context of the game the capitalist has been playing, and others continue to play i.e. being capitalists, such 'robbery' would be immoral.

But capitalism is immoral, plain and simple, because it solely depends on exploiting workers to continue to exist. Even if the distribution of workers surplus labour (at least that produced within and retained by that capital) becomes more equitable through the introduction of 'community businesses' through changing how land is purchased, or rather effectively rented, exploitation would continue.

Businesses with the highest profit, by the definition of 'surplus profit' precisely those businesses most likely to pass to community ownership, are most likely to be leading capitals. Spreading the 'wealth' of leading capitals to those closely connected to them would do nothing to deal with the tendency for these leading capitals to go forward at everyone else's expense as long as we remained capitalist.

But this is happening anyway! Leading capitals concentrate in rich countries, boosting living standards in rich countries as a whole. We all live in UK PLC, and see it as our national interest to stay ahead of the 'developing' world.[9] Our tax and welfare system is 'community revenue sharing'. Our citizenship entitles us to a standard of living that the majority of the world's population can not hope to achieve.

Notes.

1. Kliman (2007) seeks to reclaim Marx's value theory from false allegations of inconsistency. If a simultaneous approach to time, and a dualistic concept of price and value (price and value as distinct separate systems), is adopted, in the tradition of Bortkiewicz's (1952 and 1984) 'adjustment' at the start of the C20th, 'Marx's' value theory becomes both inconsistent and redundant (Steedman, 1977). Values in labour-time are perfectly proxied by conventional 'real-terms'/physical quantities. Kliman (2007) explains how this choice of method was not Marx's. Interpreting Marx as having a sequential approach to time, and a concept of prices/appropriated values and values/produced values existing in a single system of value, expressible in units of money or labour-time, ensures Marx's value theory is freed from any inconsistency. Furthermore Marx's central results, such as the tendency for the profit rate to fall in response to labour-saving technological change, are confirmed. Thus the Temporal Single System Interpretation (TSSI) of Marx argue that it makes no sense hermeneutically speaking to adopt an interpretation of Marx's method that makes 'his' work inconsistent when an consistent interpretation of this method exists. Kliman (2010a) and Freeman (2010) both summarise how 'Marxist' economists are reluctant to accept that a consistent Marx exists, preferring to continue to individually correct Marx ensuring the fragmentation/disintegration of the 'Marxist' school. Potts (2014) explores Sinha's (2009) unscientific attempt to exclude the TSSI/Kliman (2007) from being studied by 'Marxists' simply because it does not take the simultaneous and dualistic approach that renders Marx inconsistent!

2. Marx (1976) Chapter 7 explains how skilled labour, proportionally to its cost of training, counts as a multiple of standard/unskilled simple labour.

3. Assuming the workers are paid at the start of the period and consume means of subsistence produced last period, the relevant MELT to convert their wages from money to hours is the MELT holding at the start of the period (established at the end of production last period).

4. If the interest rate and rate of 'normal' profit are positive (but below the actual profit rate) the only change is the number of periods before profit apparently becomes surplus to the investor's incentive to invest.

5. This transformation 'problem' was the battlefield for 'Marxist' economists to challenge the consistency of Marx's value theory, see Kliman (2007).

6. Potts (2011b) explains how Kliman's calculation of produced values ensures that the MELT is effectively determined by the total appropriated value of newly produced commodities, expressed in money, divided by the total produced value of newly produced commodities in terms of labour-time. In contrast Freeman includes carried over units of stocks and remaining units of fixed capital with newly produced commodities in his calculation of commodities' produced values. This ensures that MELT is the appropriated value of total capital, including carried over units of stocks and remaining units of fixed capital, in monetary expression divided by this total capital's produced value in terms of labour time. Finally we should note that Kliman's revaluation of previously existing units of commodities (stocks and

remaining units of fixed capital) to the produced value of newly produced commodities does also ensure that the appropriated value of total capital in money divided by its produced value in labour-time equals his calculation of MELT.

7. Marx (1981) Chapter 14 explains how counter-tendencies also act, at the same time, in the opposite direction to the tendency for the rate of profit to fall. As means of subsistence cheapen the worker can be reproduced with goods representing less value, for a set L reducing v and thus increasing s i.e. raising the rate of exploitation. Also constant capital cheapens, which we will see an example of when we consider fixed capital. Heinrich (2013) argues that, as there are forces acting on the profit rate in both directions, Marx's tendency for the profit rate to fall can not be used as an explanation for crisis. Kliman *et al* (2013) respond to Heinrich by explaining how Heinrich misunderstands the nature of Marx's tendency for the rate of profit to fall. It is not a rule that the counter-tendency must be weaker than the tendency, rather it is a prediction/observation that under capitalism that the counter-tendencies tend to be dominated by the tendency for profitability to fall. Followers of simultaneous valuation, in the tradition of Okishio (1961), by their simultaneous valuation of the unit value of inputs to the unit value of output arrive at an essentially physicalist concept of value, confusing increased productivity in physical/use-value terms with profitability in terms of value. Hence, to counter Marx, the Okishio theorem states that labour-saving technological change increases the profit rate as long as workers real wages do not rise. The TSSI, for example Potts (2009), show how for Marx rising physical profitability in response to labour-saving technological change does not translate into rising profitability in terms of Marx's actual unit, value (expressible in money or labour-time), disproving the Okishio theorem.

8. Kliman (2003, 2010b and 2011) has been presenting statistical data on US profitability since 1999 that broadly indicates falling profitability in the Golden Age followed by stagnate profitability since the 1970's. Kliman argues that profitability remains low because no crisis has been strong enough to restore the profit rate, as governments support debt/credit creation to limit crises. The consequent failure to restore profitability has delivered stagnation/slow growth rather than any decisive boom. Potts (2010a and 2011a) explores how within this stagnation surplus capital is drawn to financial speculation, while Potts (2013) explores how Keynesian economics has attempted to bring an artificial stability to, but in fact just distorts our inherently unstable system.

9. Arguably it was Benjamin Disraeli who discovered this national community trick, opening conservative working men's clubs to support the illusion of all being in it (UK PLC) together. One-nation conservatism proved the most popular choice of the enfranchised UK population from its inception to Mrs Thatcher's move to the market/individual. Given the success of the brand it should be of no surprise that the UK independence party is doing so well by offering it back to the public.

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