Capital

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Abstract and Keywords

This chapter explicates Marx's concept of capital and highlights its centrality to his book Capital, arguing that Capital is specifically about capital, not all of capitalist society. In Marx's conception, capital has two forms, money and means of production, but capital itself is the process of self-expansion of value, or valorization. The commodity fetish and subsumption of labor under capital are explored in relation to this. Employing Marx's concept of the circuit of capital, the chapter considers his theory that value self-expands by extracting surplus labor and his understanding of the reproduction and accumulation of capital. It also argues that failure to rigorously respect the difference between constant capital and the value of means of production is one source of allegations that Marx's value theory and falling-rate-of-profit theory are logically inconsistent or incorrect. Finally, his theory of surplus-value is compared to the view that interest is a "return to capital."

Keywords: concept of capital, Karl Marx, self-expanding value, theory of surplus value, valorization

Karl Marx's major critique of political economy bears a one-word title: *Capital.* This is testimony to the central role that the concept of capital plays within that critique. The concept is foundational to all of *Capital's* major theories, analyses, and historical projections. Yet while the latter have always been the subject of intense debate, Marx's concept of capital as such has not been controversial.

This does not mean that his concept is generally accepted; it is not. The point is rather that, when considered in abstraction from their employment within theories and analyses, concepts are stipulative definitions, about which there can be little argument.

This article therefore contains little review of controversies. Instead, it will explicate Marx's concept of capital and exemplify its central place within his critique of political economy. Before turning to those matters, however, we will discuss Marx's conception of the relation between capital and capitalist society. Clarification of that relation is needed in order to avoid giving readers the impression that by making the concept of capital central to *Capital*, Marx in effect reduced all major aspects of capitalist society and modern life to capital, turned them into mere expressions of its “logic.”

1. Capital and Capitalist Society

The concept of capital is central to Marx’s *Capital* for a very simple, almost tautological, reason: it is a book about capital and it focuses almost exclusively on it. It is not a book about the whole of capitalist society; much less is it about everything important that takes place within capitalist societies (Kliman 2016).

Marx understood capital to be “self-expanding” value. Almost the whole of *Capital* is directly or indirectly about this self-expansion. Volume I focuses on the production process of capital, the physical production process in and through which value self-expands, becomes a bigger amount of value. Volume II focuses on the circulation process of capital—the purchases and sales of capitalist companies, and the relations between purchases and sales that are needed in order for the production process and the self-expansion of value to resume on the same or larger scale. Volume III focuses on what Marx called “forms of the process as a whole” (quoted in Rosdolsky 1977:13)—the splitting-up of the expanded value (surplus-value) into various forms of property income, and the forms in which the processes of production and circulation are reflected, imperfectly, in the thinking of economists and business people.

Marx was well aware that these topics do not encompass the whole of capitalist society. To appreciate how specific *Capital*’s subject matter is—that is, what it does not encompass—it is helpful to consider the extent to which he narrowed down his projected work over the course of two decades.

He originally intended to publish a critique that would deal not only with political economy, but also with philosophy, law, ethics, politics, civil life, and perhaps other topics. But in 1844, 23 years before volume 1 of *Capital* was published, he concluded that it would not be fruitful to deal with all these matters in the same work (Marx 1975:280–282).

When Marx returned to his critique of political economy in 1857–1858, he envisioned a work consisting of six books. Only the first book was to be about capital—capital in general, competition, the credit system, and share capital (stock ownership). The “capital in general” section was to include three main topics: the production process of capital; the circulation process of capital; and profit and interest (see Rosdolsky 1977:11–12). The remaining five books were to be about landed property, wage-labor, the state, foreign trade, and the world market and economic crises.

The 1957–1858 plan includes only economic topics (with the possible partial exception of the book on the state), and, although it covers quite a lot of ground, it seems not to cover the entire economic dimension of capitalist societies. For example, it seems to omit systematic treatment of consumption and non-capitalist production within capitalist society.

Yet this plan encompasses far more than what became the three volumes of *Capital.* These three volumes correspond more or less to what Marx had projected as the "capital in general" section. This was only the first of four sections of the projected book on capital, which in turn was only one of six projected books.

Capital does contain some extensive discussions but no systematic treatment, of economic crises, landed property, and wage labor. The extent to which it incorporates what Marx had wished to say about these topics is unclear. And there are only scattered and brief discussions in *Capital* of competition, the credit system, share capital, the state, foreign trade, and the world market.

In sum, a great deal of what Marx considered important about capitalist society did not find a place in *Capital* because he restricted it to a critique of political economy. And even much of what he considered important about capitalist economies—at minimum, the state, foreign trade, and the world market—is absent from *Capital* because these topics are not encompassed within the concept of capital as he construed it.

2. Dual Character of Capital

Marx critically appropriated two definitions of capital that already existed and are still in common use (see, e.g., Pearce 1992: 49–50). According to one definition, capital refers to physical means of production—buildings, machines, raw materials, and so forth—that were themselves previously produced within the economy. According to the second definition, capital refers to financial assets such as money, bonds, and shares of stock.

Marx called attention to both definitions of capital when he first explicated the concept of capital in chapter 4 of *Capital,* Volume I: "If we pin down the specific forms of appearance assumed in turn by self-valorizing value [i.e., capital] in the course of its life, we reach the following elucidation: capital is money, capital is commodities" (Marx [1867] 1990a:255). An accompanying footnote quotes one author who referred to capital as "[c]urrency" and another who wrote that "[c]apital is commodities."

The distinctive and novel aspect of Marx's treatment of capital is that the two definitions are dialectically transformed (sublated) by being integrated into a single, more comprehensive concept instead of lying side by side as opposites. Marx regarded physical and money capital as "mere forms" in which capital appears. He understood capital itself, as distinct from these forms, to be a process; and he defined it as "value in process" (Marx [1867] 1990a:256).

Marx *provisionally* expressed this process as the following "circuit of capital":

$$M – C – M'$$

where M denotes money, C denotes commodities, M′ is another amount of money, greater than M, and the dashes refer to exchanges. For example, $100 of value, which exists in the form of money, is advanced (invested) and used to buy $100 worth of commodities. Later, $100 worth of commodities is sold for, say, $110 of value in money form. The additional $10 is what Marx called “surplus-value” or profit.

In this process, the physical form of value changes, from money to commodities and back to money, but value itself persists throughout and increases during the process. Hence the circuit of capital is a process of “self-expansion of value” or “valorization of value” (*die Verwertung des Werts*) (Marx [1867] 1990a:252).[1] “[V]alue is here the subject of a process in which, while constantly assuming the form in turn of money and commodities, it changes its own magnitude, throws off surplus-value from itself considered as original value, and thus valorizes itself independently” (Marx [1867] 1990a: 255).

2.1 Historical Specificity of Capital

Although he recognized that means of production are a form of capital, and that means of production have been in existence since human beings first began to use tools, Marx did not accept the common view that capital has existed since that time. In his view, means of production by themselves are not capital, nor does the role they play in physical production make them capital. They become capital only under certain social conditions that have not always existed and that were rarely present prior to the emergence of capitalist societies. In a lecture delivered 20 years before the publication of *Capital,* Marx ([1849] 1902:35, emphasis in original) said,

> A negro is a negro. Only under certain conditions does he become a slave. A cotton-spinning machine is a machine for spinning cotton. Only under certain conditions does it become *capital*. Torn away from these conditions, it is as little capital as gold is itself money, or sugar is the price of sugar.

The same idea reappears in Volume III of *Capital:*

> capital is not a thing, it is a definite social relation of production relation pertaining to a particular historical social formation, which simply takes the form of a thing and gives this thing a specific social character. Capital is not the sum of the material and produced means of production. Capital is the means of production as transformed into capital, these being no more capital in themselves than gold or silver are money
>
> [Marx [1894] 1991:953]

In Marx’s view, what turns means of production into capital is their employment in a production process the purpose of which is to create surplus value. Thus, not all means of production are capital even in 21st-century society. For example, household appliances are not and nor are means of production used by those independent owner-operators who neither hire employees nor exploit themselves, because they do not create surplus value.[2]

2.2 Critique of the Dual Character of Capital

Marx was sharply critical of the dual character of capital. He wrote about "the bewitched, distorted and upside-down world haunted by Monsieur le Capital and Madame la Terre, who are at the same time social characters and mere things" (Marx [1894] 1991:969). (Capital has a "social character" by virtue of having value and being a means to create surplus value; as a means of production, it is a "mere thing.") In Marx's view, this is an important instance of the fetish character of commodities. When they function as capital, means of production are, like commodities generally, "products of [men's hands that] appear as autonomous figures endowed with a life of their own, which enter into relations both with each other and with the human race" (Marx [1867] 1990a:165).

Marx applied the term *fetishism* to this situation because he regarded it as analogous to situations in which people ascribe powers to totems or fetishes that they themselves have produced. He objected to the loss (alienation) of human power that this involves. Instead of being in control of things they have produced, and using them to enhance their self-development and well-being, people become dependent on and controlled by the things.

In the case of capital (and commodities generally), the transfer of power to the object is not, in Marx's view, an illusion or a misunderstanding of the actual facts (see Dunayevskaya [1958] 2000:100). The producers' social relations "appear [to them] *as what they are* … material relations between persons and social relations between things" (Marx [1867] 1990a:165–166, emphasis added). "These things, far from being under their control, in fact control them" (Marx [1867] 1990a:167–168).[3] Indeed, Marx ([1867] 1990a:772) regarded this subservience to things as the essence of capitalist production and the diametrical opposite of the new humanist society he envisioned:

> In [the capitalist] mode of production … the worker exists to satisfy the need of the existing values for valorization, as opposed to the inverse situation, in which objective wealth is there to satisfy the worker's own need for development. Just as man is governed, in religion, by the products of his own brain, so, in capitalist production, he is governed by the products of his own hand.

This "inversion of subject into object and *vice versa*" (Marx 1990b:990) is closely related to what Marx ([1867] 1990a:645; 1990b:1019–1038) called the "subsumption of labour under capital." This subsumption comes in two flavors. "Formal subsumption," which arose at the start of capitalism, refers to the facts that workers work for, and under the direction of, capitalists; that their labor power (ability to work) assumes the form of capital within the production process (Marx [1867] 1990a:736); and that the purpose of their activity is not their own, but the self-expansion of value. With the industrial revolution, the "real subsumption" of labor under capital also emerged. Whereas formal subsumption is about the subordination of labor*ers* to capital*ists*, real subsumption is about the subordination of labor itself—the activity—to physical capital, particularly machines.

According to Marx (1990a, chapters 14–15), the crucial difference between manufacture and machinofacture (production by hand vs. machine-dominated production) pertains to workers' control over the production process. In manufacture, workers are central to the physical production process and control the tools they work with; but in machinofacture, the tools are component parts of machines and controlled by machines, which the workers serve as "living appendages" (Marx [1867] 1990a:548). Thus, although it is true that in "[e]very kind of capitalist production, … it is not the worker who employs the conditions of his work, but rather the reverse, … it is only with the coming of machinery that this inversion first acquires a technical and palpable reality" (Marx [1867] 1990a: 548).

3. Features of the Valorization Process

In his discussion of the circuit of capital M – C – M′, Marx called attention to several noteworthy features of the valorization process. First,

- Value existing in money form is both the starting point and the end point of the process.

This has two immediate consequences. One is that

- The valorization process is "endless."

In other words, it can be "constantly renewed" indefinitely (Marx [1867] 1990a:252, 253). The end point of one circuit of capital can, and generally does, become the starting point of the next. The other consequence is that

- Consumption of commodities is not the purpose of the process (Marx [1867] 1990a: 250, 252, 254).

The person or company that has purchased commodities with the initial sum of money does not consume them; it proceeds to sell these or other commodities for money.

It might therefore seem that the purpose of the valorization process is instead to get money. However, the person or company that gets the money at the end of the process parted with money at the start. This indirect exchange of money for money would be "as purposeless as it is absurd," according to Marx ([1867] 1990a:251), if it were an exchange of equal sums of money—if, for instance, $100 were invested in order to get $100 back. Thus,

- The purpose of the process is actually the self-expansion of value, the generation of profit.

This is a quantitative purpose. It has nothing to do with the form of value (money vs. commodities). For example, Marx (1990b:951–953) discussed the case of farmers who sow seed that they have produced themselves, instead of buying and selling seed in the market. Although such farmers appropriate their surplus value in the commodity form instead of in the money form, Marx regarded them as capitalists and their production as capitalist production, given only that its purpose is the self-expansion of value.

Because it is endless and it has a quantitative purpose,

- The valorization process is "limitless" (Marx [1867] 1990a:253).

The "vocation" of any sum of value invested as capital is "to approach, by quantitative increase, as near as possible to absolute wealth" (Marx [1867] 1990a:252).

Marx seems to be saying here, in a quite florid way, that capitalists are profit maximizers. This is partly correct; he argued that "the possessor of money … functions as a capitalist" "only in so far as the appropriation of ever more wealth in the abstract [i.e., value] is the sole driving force behind his operations" (Marx [1867] 1990a:254). However, he regarded the limitless self-expansion of value as the purpose of the circuit of capital itself.[4] The capitalist is merely the medium (*Träger*) through which this purpose is realized; Marx's ([1867] 1990a:254) definition of a capitalist is "capital personified and endowed with consciousness and a will." Thus,

- The subject (*Subjekt*) of the valorization process is value itself, not the capitalist.

Value is a "self-moving substance which passes through a process of its own" (Marx [1867] 1990a:256).[5]

3.1 Uniqueness of the Capitalist Mode of Production

Several of the features of the valorization process previously described serve to distinguish the capitalist mode of production from previous modes of production such as ancient Greek and Roman slavery and medieval European serfdom. Marx held that these other modes of production were exploitative, just like the capitalist mode. However, they did not produce "value," wealth in the abstract, but only use values, concrete physical products, and services. Consequently, the purpose of production was not to augment the stock of abstract wealth but to satisfy the consumption requirements of the exploiting classes (as well as to preserve the social system, maintain the supply of slaves or serfs, and so forth). Because the consumption requirements of human beings, no matter how extravagant they might be, do have limits, production did not have a limitless purpose. And because production was oriented to human consumption, it is difficult to see how it could be described as having a purpose distinguishable from the purposes of the human beings for whose benefit it was undertaken.

Marx ([1867] 1990a:345) drew attention to several of these differences in a passage in *Capital* that discussed how slavery in the United States changed in response to the slave system's incorporation within the world market:

> in any economic formation of society where the use-value rather than the exchange-value of the product predominates, … no boundless thirst for surplus labour will arise from the character of production itself.… But as soon as peoples … are drawn into the world market dominated by the capitalist mode of production, whereby the sale of products for export develops into their principal interest, the civilised horrors of over-work are grafted onto the barbaric horrors of slavery, serfdom, etc. Hence the Negro labour in the southern states of the American Union preserved a moderately patriarchal character as long as production was chiefly directed to the satisfaction of immediate local requirements. But in proportion as the export of cotton became of vital interest to those states, the over-working of the Negro, and sometimes the consumption of his life in seven years of labour, became a factor in a calculated and calculating system. It was no longer a question of obtaining from him a certain quantity of useful products, but rather of the production of surplus-value itself.[6]

3.2 Capitalists as Personifications of Capital

Why was Marx so concerned to distinguish the purpose of capitalist production itself from the purpose of capitalists? At least part of the answer is that he was convinced that the defects of the capitalist mode of production are systemic unavoidable consequences of this mode of production itself. They are not contingent problems that are brought about by the ill will, distorted priorities, or ignorance of the particular individuals who happen to function as agents of the system at a specific moment. Accordingly, they cannot be undone by putting different people with different priorities in charge of the system. Marx's critique of capitalist production therefore takes care to focus on the system itself rather than on its agents.

In his preface to the first edition of *Capital*, Volume I, he remarked that, although "I do not by any means depict the capitalist and the landlord in rosy colors," neither does he demonize them and blame them for the defects of capitalist production: "individuals are dealt with here only in so far as they are the personifications of economic categories, the bearers [*Träger*] of particular class-relations and interests. My standpoint … can less than any other make the individual responsible for relations whose creature he remains, socially speaking" (Marx [1867] 1990a:92).

Later in the volume, he argued even more explicitly that the system controls the capitalists, not vice versa. He compared capitalists to "cog[s]" in a machine and argued that "competition subordinates every individual capitalist to the immanent laws of capitalist production, as external and coercive laws" (Marx [1867] 1990a:739).

Thus, capitalists maximize profit not because they choose to do so and not necessarily because they are greedy. Competitive pressures force them to maximize profit. Capitalists who needlessly incur additional costs by raising wages and benefits, improving working conditions, keeping redundant workers on the payroll, and so forth, will lose customers if they raise the prices of their products to cover the higher costs. If they instead keep their prices competitive, the drop in profits that results will hamper the ability of their businesses to grow. In either case, they will tend to be driven out of business, swallowed up by more successful competitors. Over time, therefore, the capitalists who remain capitalists will tend increasingly to be those who *do* function as personifications of capital by scrupulously obeying the imperative to maximize profit.

Marx's ([1867] 1990a:381, 381–382 n82) text provides examples of this phenomenon. He argued that capital's disregard for workers' health and life expectancy "does not depend on the will, either good or bad, of the individual capitalist." An accompanying footnote discusses a petition presented by twenty-six pottery manufacturers who wished to limit the working hours of children they employed but who realized that competitive pressures would not allow them to do so voluntarily. It also discusses a group of small cotton manufacturers who voluntarily reduced the length of the workday in their mills, which caused their output to drop. Larger manufacturers, increasing their own output in response, were able to "extend their own business and thus make great profits at the expense of the small employers."

4. How Value "Self-Expands"

After presenting the circuit of capital M – C – M′ Marx ([1867] 1990:258) noted that it contains "contradictions." These contradictions seem to reduce to the following. According to the M – C – M′ formula, the valorization process moves forward by means of exchanges of money for commodities. However, while commodity exchange is an exchange of equivalents, the formula depicts capital self-expanding by means of the second exchange, C – M′.[7] For example, $100 worth of commodities are sold for $110. This contradicts the principle that equivalents are exchanged. Thus, if the principle is valid, it is impossible for value to self-expand by means of exchange.

But what if the principle is invalid? Considering the case of non-equivalent exchange in some detail, Marx demonstrates that it remains impossible for value to self-expand by means of exchange. Some capitalists can make a profit by "buying cheap and selling dear," but Marx shows that their gains come from, and are exactly offset by, the losses of the capitalists with whom they trade. In the system as a whole, value has not self-expanded. Yet what if *all* capitalists sell their products for, say, 10% more than they are worth? Marx shows that they all gain 10% as sellers but lose it as buyers. They are no better off than they would have been had they refrained from inflating their sales prices.[8] "The capitalist class of a given country, taken as a whole, cannot defraud itself" (Marx [1867] 1990:266).

The upshot is that, although wholesalers do get their profits by buying goods at one price and selling them at a higher price, this only allows them to capture a portion of the already-created surplus value. It does not cause value to self-expand in the system as a whole. By selling its product to a wholesaler at less than the market price, a capitalist firm foregoes a portion of the surplus value it could potentially appropriate; the wholesaler then captures that portion of the surplus value by reselling the product at the market price.)

Hence the M – C – M′ formula is misleading at best. It describes a process of self-expanding value, but its depiction of how value self-expands cannot possibly be correct.[9] So how, in fact, *does* value self-expand?

4.1 The Expanded Circuit of Capital

Marx's answer can be explained in terms of an expanded circuit of capital (Marx [1885] 1992:109):

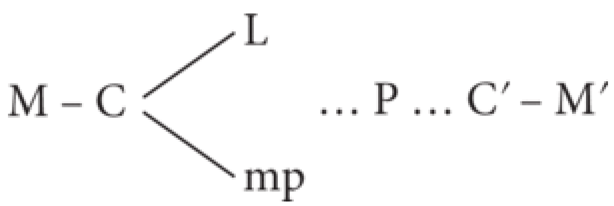

Figure 1. Expanded Circuit of Capital.

The additional symbols are

L	labor-power
mp	means of production
P	the process of production
C′	commodities that contain surplus-value
...	interruption of exchange process

For surplus value to arise, some of the initial investment of money capital, M, must be an investment of what Marx calls *variable capital.* It purchases labor-power (workers' ability to work). And some must be an investment of what he calls *constant capital*, which purchases means of production (Marx [1867] 1990a, chapter 8). Since Marx has shown that assuming non-equivalent exchange does not help to explain how surplus value arises, he instead assumes equivalent exchange: the sellers of labor power (the workers) and the sellers of means of production are paid what their commodities are really worth.

The labor power and means of production then enter into the workplace (the workers must unfortunately accompany their labor power, since it cannot go to work on its own). The capitalists use the means of production and the labor power to produce commodities.

But to use workers' labor power, their ability to work, is to make them work. Hence, it is means of production and *labor*—not labor power—that together produce commodities. The commodities that emerge from the production process, C′, are worth more than the initial C (the combined worth of the labor-power and means of production). They contain surplus value. And the circuit of capital concludes with another equivalent exchange (by assumption); the capitalists sell the newly produced commodities, C′, for what they are worth, M′.

4.2 Why C′ Exceeds C

Thus far, this is only a partial explanation of how value can self-expand even though equivalent amounts of value are exchanged. It was stated that the C′ commodities are worth more than the C commodities, but there has been no justification for that statement. Marx justified it in the following way.

First, although both means of production and labor jointly produce the new commodities in a physical sense, they play different roles in the creation of these commodities' value. No commodity, whether means of production, or labor power, or anything else, creates value; it already has a definite value, and *value does not actually have the power to self-expand*. Marx's references to capital being "self-expanding value" are thus ironic; they mock notions that capital is productive of value, that a sum of money grows into a bigger sum through the magic of compound interest, and so forth.[10] Means of production therefore do not add additional value, on top of their own value, to the commodities they produce. Instead, the price of the means of production is "transferred" to the product. Thus, if a $100 motherboard is inserted into a computer, this contributes $100 to the computer's value.

But the labor's contribution to the formation of value differs, because labor is not a commodity; it is an activity. According to the value theory that Marx took over, albeit with some important modifications, from classical economists such as Adam Smith and David Ricardo, "living" (newly performed) labor is the sole source of new value.

Second, Marx contends that what capitalists purchase from workers is not their labor but only their *ability* to labor (labor power). In support of this claim, we may note that the amount of work that capitalists manage to get out of workers is not determined in the labor market. In exchange for their wages, workers are committed to doing "a fair day's work," but that is a rather indefinite commitment. There is a long history of workers' struggles over the length of the workday. To lessen this indeterminacy, employers often pay hourly wages or piece rates rather than daily or weekly wages, but the success of these methods is limited. There is also a long history of struggles of the following kinds: workers contest the speed at which the production line flows; they contest the length of mealtimes and breaks; they engage in "work-to-rule" actions, doing only the minimum required by contract; and they engage in various informal means of restricting output, to keep redundant workers from being laid off and to prevent the raising of production quotas and the lowering of piece rates (Mathewson 1931).

Marx assumes for simplicity that the workers are paid the full value of their labor power. The value of labor power is determined by the cost of the consumer goods and services they need to reproduce their ability to work and to raise a new generation of the working class to replace them. The capitalist's expenditure on labor power does not contribute to the value of the products (because, to repeat, value lacks the power to self-expand). Nor is it "transferred" to the products, because labor power, in contrast to means of production, plays no role in production. The money is simply received by the worker.

But *labor* does add new value to the product. If $50 of new value is created during each hour of living labor, and the worker works an eight-hour day, she produces $400 of new value.

Let us also assume that she was paid $150, the full value of one day of her labor power. She has therefore created $400 – $150 = $250 of surplus value for the capitalist. Or, viewing the matter in terms of labor time, she works eight hours but receives wages and benefits that are the equivalent of only $150/($50/hr) = 3 hours. So she performs 8 – 3 = 5 hours of surplus labor (see note 6).

The value of the product is the sum of the $400 of new value added by living labor and the value "transferred" to the product from used-up means of production, say $600. All else being equal, this $600 is the same amount of money that the capitalist invested, as constant capital, to acquire these means of production. The variable capital investment is the $150 that was used to hire the worker. Thus, if the product is sold at its value of $400 + $600 = $1000, the capitalist recoups the $600 + $150 = $750 that was invested as constant and variable capital. He also appropriates an additional $1000 – $750 = $250, the surplus value created by the worker.

It is clear that Marx's assumption that workers are paid the full value of their labor power is not critical to his explanation of how value self-expands. If wages and benefits are greater or less than the value of labor power, this will affect only the amount of surplus value that is created, not the existence of surplus value. What *is* critical to Marx's explanation is that workers are made to perform more labor than the amount of labor that is equivalent to the wages and benefits they receive.

Although he believed the worker to be exploited in the sense that she performs a certain amount of work for which she is paid no equivalent, Marx ([1867] 1990a:729–733) argued that the capitalist has not cheated her. What she sold was her labor power, not her labor, and the capitalist paid her (by assumption) the full value of her labor-power. Nor did the capitalist rob her of her property. The labor-market contract did not give her ownership rights to any of the product, so none of it has been taken away from her. Her "property" is her labor power, and the capitalist paid her just enough to keep the value of her labor power intact.

Whether this explanation of why the C′ commodities are worth more than the C commodities is correct—and thus, whether Marx correctly explained how value self-expands—reduces to two questions. First, do capitalists in fact purchase workers' labor-power instead of their labor? Second, is living labor in fact the sole source of new value? Previously this article provided grounds for an affirmative answer to the first question. The second question is exceedingly controversial, which is not surprising when one considers its politically charged implications. This is not the place to try to answer it.[11]

5. Reproduction and Accumulation of Capital

For the valorization process to continue in an ongoing manner, the process itself must repeatedly "reproduce" the initial conditions with which it begins. That is, it must be a process in which money capital ends up in the hands of capitalists, enabling them to invest capital once again; in which appropriate quantities and types of new means of production have been produced and can be purchased with constant capital; and in which labor-power is reproduced *as a commodity,* available on the market once again to be purchased with variable capital.

Volume II of *Capital* discusses the complexities of the first two conditions in great detail. Yet in Marx's view, the last condition—the reproduction of labor power as a commodity—is by far the most important, for two reasons. First, the existence of labor power as a commodity is the distinguishing feature of the capitalist mode of production and capitalist society. Capital "arises is only when the owner of the means of production and subsistence finds the free worker available, on the market, as the seller of his own labour-power. And this one historical pre-condition comprises a world's history" (Marx [1867] 1990a:274).

Second, capital and wage-labor are not two distinct things but two sides of the same coin:

> *Capital … presupposes wage-labor; wage-labor presupposes capital. They condition each other; each brings the other into existence*…. Capital can multiply itself only by exchanging itself for labor-power … The labor-power of the worker can exchange itself for capital only by increasing capital …. *[C]apital and wage-labor are two sides of one and the same relation.*[12]

Marx was convinced, partly because of the historical record (Marx [1867] 1990a, chapter 33) that workers who had access to their own means of production, or who owned sufficient property, would assiduously avoid working under the domination of capital. He therefore argued that the continual re-appearance of labor power as a commodity requires that workers perpetually be "free and rightless"—"free from, unencumbered by, any means of production of their own" and without property rights to the commodities they produce (Marx [1867] 1990a:895, 847).

One thing that serves to perpetuate workers' dependence on capital is the labor market contract, which gives them no ownership rights to the product. The main factor, however, is that wages and benefits never rise to levels high enough to allow more than a small fraction of the working class to acquire its own means of production or otherwise avoid working under the domination of capital. Marx argued that the vicissitudes of the business cycle ensure that wages and benefits never rise to such levels. Once an increase in workers' pay is great enough to seriously cut into profits, capitalists respond by curtailing new investment and the hiring of additional workers, which counteracts the rising trend of wages and benefits. "The rise of wages is therefore confined within limits that … leave intact the foundations of the capitalist system" (Marx [1867] 1990a:771).

Although recurrent economic downturns are an important feature of capitalist production, over the long term the volume of output it produces has increased, as has employment. In terms of value, this expansion requires ongoing *accumulation of capital*; in physical terms, it requires the *expanded reproduction of capital*, employment of a greater volume of means of production and labor power. Capital is accumulated when a capitalist does not spend the entire surplus-value received by his business as *revenue*—to purchase consumption goods and services "for his esteemed self and family" (Marx [1885] 1992:146), to pay dividends to shareholders, and so forth—but transforms a portion of the surplus value into additional *capital* that purchases additional means of production and labor power. All new capital is therefore *capitalized* surplus value.

Marx ([1867] 1990a:741) suggests that capitalists face "a Faustian conflict between the passion for accumulation and the desire for enjoyment," and thus a conflict between capitalizing surplus value and consuming it as revenue. Yet they function as true representatives of capital, as "capital personified," only to the extent that the former motive predominates. Marx ([1867] 1990a:741) contends that it does generally predominate, since the pressure of competition "compels [the capitalist] to keep extending his capital, so as to preserve it." Businesses that fail to expand will tend to be swallowed up by those that do.

In his exploration of accumulation and reproduction of capital, Marx employed the term *capital* in many additional ways. For example, he correctly anticipated continuing *concentration and centralization of capital*; the former refers to the increasing size of capitalistic businesses, the latter to a diminution of the number of units among which capital is dispersed, as a result of bankruptcies, mergers, and acquisitions. The *composition of capital* measures how the total advanced capital is allocated between means of production and labor power; Marx ([1867] 1990a:762) regarded it as "the most important factor" for understanding the "influence of the growth of capital on the fate of the working class." He correctly anticipated that continuing technological revolutions would cause an increasing share of total capital to be constant rather than variable capital, so that, additional investments of capital of a given size would create fewer and fewer additional jobs over time. And when discussing the reproduction of capital, Marx employed the classical economists' distinction between *circulating or fluid capital* and *fixed capital*.[13] The former are used-up in one period of production and thus need to be replaced each period; the latter last more than one period, so the funds needed for their eventual replacement must be accumulated gradually.

6. Financial Capital

When discussing the division of surplus-value in *Capital,* Volume III, Marx distinguished different kinds of capital in terms of their function. *Industrial capital* is the capital of businesses that produce the surplus value; they received the portion of surplus value he calls industrial profit. *Commercial capital* is the capital of businesses that buy and sell commodities produced by industrial capitals; they receive commercial profit. *Interest-bearing capital* consists of loans and other credit instruments such as bonds; the lenders receive interest. Marx also made some additional distinctions pertaining to the capital of the financial sector.

Among the most important of the latter is the distinction between *real capital* and *fictitious capital.* Marx ([1894] 1991:594–595) regarded all securities—bonds, shares of stock, mortgage loans, and so forth—as fictitious capital. The reason is not that they are overvalued (though they sometimes are) but that they are not actually capital at all. A corporation’s 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” ([1894] 1991:597). Only the latter is genuine capital. Stock share and other securities are instead just ownership titles to flows of income that are expected in the future. They have prices, not because they represent capital in the here and now but simply because investors are willing to pay for the right to appropriate expected future flows of income.

For example, if a security entitles its owner to receive a flow of $500 per year, and the going rate of interest is 5%, the security is worth $10,000, since annual interest of $500 on a $10,000 investment yields the investor a 5% return. This process of determining securities’ prices, already well-established in Marx’s ([1894] 1991:597) day, is known as *capitalization*, the conversion of a flow of income into an amount of (fictitious) capital.

7. Constant Capital Versus the Value of the Means of Production

Marx ([1867] 1990:320) defined *constant capital* as “the sum of money laid out on [i.e., advanced for, invested in] means of production.” However, many writers have employed the term loosely, to refer to the value of the means of production and/or the means of production themselves. This has proven to have unfortunate consequences. In particular, charges that Marx’s value theory is logically inconsistent, and that his falling-rate-of-profit theory cannot possibly be correct, are based partly on a failure to understand or rigorously respect the difference between constant capital and the value of means of production.

There are two main reasons that constant capital differs from the value of means of production. First, means of production (like commodities generally) are almost always purchased at prices that differ from their values. Second, technological and other changes cause continual changes in the value of any particular means of production, but the sum of money that a company invested in that means of production can obviously never change after the fact.

Marx drew attention to the first reason in a passage that discusses *cost price*, the term he used in *Capital* to refer to the portion of a commodity's value that "replaces the price of the means of production consumed and the labour-power employed" (Marx [1867] 1991: 118)—that is, the sum of the constant-capital and variable-capital portions of its value. He issued the following warning:

> It was originally assumed that the cost price of a commodity equalled the *value* of the commodities consumed in its production. But ... [just as] the price of production of a commodity can diverge from its value, so [can] the cost price of a commodity .... It is necessary to bear in mind this modified significance of the cost price, and therefore to bear in mind too that if the cost price of a commodity is equated with the value of the means of production used up in producing it, it is always possible to go wrong.
>
> [Marx 1991: 264–265, emphasis in original][14]

This warning is of critical importance for an understanding of Marx's ([1894] 1991, chapter 9) account of the "transformation of commodity values into prices of production."[15] For more than a century, many Marxist and non-Marxist authors have alleged that Marx's account of the "transformation" is internally inconsistent. They charge that he transformed the value of outputs (products) into prices of production but "forgot" to transform the values of the inputs (means of production and labor power). And when this supposed error is "corrected," it seems that Marx's value theory cannot explain real-world prices and profits: contrary to what he maintained, the economy-wide rate of profit that results from real-world price determination differs from the theory's value-determined rate of profit; and either total profit differs from total surplus value or the total price of output differs from its total value.

However, while the critics' attempted demonstrations of internal inconsistency claim that Marx's account starts with the "untransformed" values of means of production and labor power, his actual text starts with commodities' cost prices and investments of constant and variable capital. If one takes seriously his warning about the difference between the value of the means of production and the cost price (and construes it as a warning), there is no internal inconsistency in his account, nothing in need of correction. Because their magnitudes are determined by the prices, not the values, of the physical inputs, the cost prices and capital investments do not need to be "transformed."[16]

The second reason for the difference between the value of means of production and the constant capital that was invested—the former continually changes while the latter cannot—is especially pertinent to Marx's falling-rate-of-profit theory. He and the classical economists who preceded him regarded the rate of profit's tendency to fall as an established fact. Marx's ([1894] 1991, chapters 13–15) "law of the tendential fall in the rate of profit" is his explanation of this fact and a crucial component of his understanding of capitalism’s economic crises and downturns. Roughly speaking, the law is that labor-saving technological change under capitalism tends to depress the rate of profit because it causes an ever-decreasing share of capital investment to be directed toward the hiring of workers whose surplus labor is the exclusive source of surplus value (profit).

“Okishio’s theorem” says that this law cannot possibly be correct. Okishio (1961) supposedly proved that, if firms introduce only those new technologies that boost their expected rate of profit (as estimated on the basis of current prices and wages), technological advances can *never* cause the economy-wide equilibrium rate of profit to fall.[17] For decades, this result was widely taken to be conclusive.

However, Okishio’s “rate of profit” is not a rate of profit in the normal sense. What business people and investors refer to—and what Marx’s law refers to—when they employ the term *rate of profit* is profit as a percentage of the actual capital that was invested *in the past*. But Okishio was referring to profit as a percentage of the *current* cost of the means of production (plus workers’ means of subsistence). Although labor-saving technological change cannot cause the latter rate to fall under the conditions that Okishio assumed, it can certainly cause a fall in what is normally called the rate of profit.[18]

8. Interest as a “Return to Capital”

Marx argued that interest on capital, along with the other forms of property income (industrial and commercial profit, rental income, etc.), is a portion of the surplus value created in the production process of capital. This differs from the dominant view of interest in current mainstream economic theory.

According to the general equilibrium models of neoclassical economics, which are commonly regarded as the most rigorous formulations of the dominant view, the rate of interest on financial capital depends on preferences for consuming goods and services now instead of in the future, and interest is the compensation that lenders receive in return for abstaining from consumption—lending funds instead of spending them immediately on consumption goods and services. In addition, the rate of interest on any means of production is determined by the value of its marginal product (the increase in the value of output that stems from the employment of an extra unit of the means of production). In a state of general equilibrium, all of these rates of interest are equal.

Although this theory clearly differs from Marx’s, it is not obvious that the two theories are *opposed*. They might instead be *incommensurable* (Oberheim and Hoyningen-Huene 2016) because they are not addressing the same issue. This clearly seems to have been Marx’s view of the difference between his theory and the abstinence-from-consumption theory. He argued that, while his theory explains the origin of surplus-value, how it arises, the abstinence theory and bourgeois conceptions of other forms of property income only *appear* to explain this. In actual fact, they simply assume that the surplus-value exists;

and then they offer explanations for how and why it is divided among different kinds of capitalist in a particular way:[19]

> [G]rounds of compensation which go to determine the division of surplus-value are turned, in the capitalist's way of conceiving things, into grounds for the (subjective) justification of profit as such.
>
> [Marx [1894] 1991:507]
>
> The ratio in which profit [or surplus-value] is divided, and the different legal titles by which this division takes place, already assume that profit is ready-made and pre-suppose its existence…. The basis for the division of the profit between two kinds of capitalist is thus transformed imperceptibly into the basis of existence of the profit or surplus-value to be divided…. But profit is produced before this division takes place, and before there can be any talk of it.
>
> [Marx [1894] 1991:504–505]

If this view is correct, then the dominant theory does not differ from Marx's by providing a different explanation of how interest income arises or by contending that something other than living labor can create value and surplus value. The difference is instead that, according to the dominant theory, value is not *created* by anything at all. It arises in the market, and its magnitude depends on prices determined by supply and demand.

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Notes:

([1]) Although *Verwertung* is a common German word, Marx’s use of it is neologistic. “Valorization” preserves the neologistic character, while “self-expansion of value” more closely conveys what Marx intended—a process in which value “begets” additional value (see Marx [1867] 1990a:256).

([2]) Such independent owner-operators appropriate all of the new value they create. They do not create surplus value because, by definition, surplus value is the portion of newly created value that the direct producer does not appropriate. However, Marx ([1894] 1991 :571) held that legally independent owner-operators who exploit themselves do create surplus value.

([3]) These remarks are part of Marx’s discussion of the fetish character of commodities in the first chapter of *Capital*. A distinct concept, *capital fetish*, which does involve misunderstanding of the facts, appears elsewhere in the work (Marx [1894] 1991:516, 968). Specifically, the nature of capitalist production misleadingly makes it appear that capital is value that creates value, and economists present this appearance as fact. Marx uses the term “capital fetish” to refer to both the misleading appearance and its theoretical representation. The existence of this distinct concept does not negate the fact that Marx regarded the transfer of power from people to capital as real.

([4]) Although we typically use terms like “purpose” only in connection with conscious, intentional agents, Marx’s usage has a long history. For example, Aristotle held that the purpose (*telos*) of an acorn’s developmental process is to become an oak tree. See note 5.

([5]) Though his text lacks a citation here, Marx was evidently drawing on Hegel’s ([1807] 1977, para. 22, emphases in original) description of “purpose” in the preface to his *Phenomenology of Spirit: “*in the sense in which Aristotle, too, defines Nature as purposive activity, purpose is what is immediate and *at rest*, the unmoved which is also *self-moving*, and as such is Subject.”

([6]) *Surplus labor* is Marx’s ([1867] 1990a:325) term for labor that working classes perform in excess of the amount to labor needed to produce the goods and services they consume (i.e., labor performed for the benefit of the exploiting classes).

([7]) This has been the taken-for-granted assumption among economists, both before and after Marx. It might even be true by definition. The *Macmillan Dictionary* defines *exchange* as “a situation in which one person gives another person something and receives something else of a similar type or value in return.”

([8]) Kliman (2011:186–188) shows that these demonstrations do not depend upon the assumption that commodities exchange at their values. They instead follow from Marx’s ([1867] 1990:360) premise that commodities have determinate prices, as well as values, before they enter the market.

([9]) This is why I previously described this depiction of the circuit of capital as provisional.

([10]) See note 3 on the concept of *capital fetish*.

([11]) Attempts to prove Marx’s value theory to be logically flawed have failed (see Kliman 2007). It is immune to many of the simpler attempts to refute it empirically, which rest on elementary misunderstandings of what the theory says and doesn’t say, such as what Cooney (2010) has called the “MudPie argument”: although labor is used to produce mudpies, they have no value. I consider the theory to be an empirical one and, as such, incapable of being either proven or disproven by deductive arguments. (I do not think that Marx tried to prove it deductively.) But there cannot be *direct* empirical evidence either for or against the proposition that living labor is the sole source of new value. The appropriate test is instead whether theories that employ this proposition can explain the phenomena they are meant to explain. I do not know of any credible evidence that they are not.

([12]) Marx ([1849] 1902:40–41, emphases in original). The original version of this 1847 lecture referred to “labor” instead of “labor-power,” a concept Marx did not develop until the late 1850s.

([13]) However, Marx rejected the classical economists’ conflation of this distinction with the distinction between what he called variable capital and constant capital. He also corrected confusions in previous writers’ attempts to distinguish between circulating and fixed capital.

([14]) This passage (from the uncorrected manuscript of Volume III of *Capital*) does not mention the price of the labor power employed, which is part of the cost price. Marx was implicitly either including it as part of the price of “means of production” or discussing only the constant-capital portion of the cost price.

([15]) *Price of production* is Marx’s term for the hypothetical sales price that provides the seller an average rate of profit.

([16]) See Kliman (2007, chapters 8 and 9) for further discussion of these issues.

([17]) Okishio did not deny that the rate of profit can fall if some other change, such as a rise in real wages or an economic downturn, accompanies technological innovation. But in such cases, his “theorem” implies that the other change, not the technological innovation, is the *cause* of the fall in the rate of profit.

([18]) See Kliman (2007, chapter 7) for further discussion of this issue.

([19]) The marginal productivity theory, which Marx seems never to have commented on directly, is often misinterpreted as an explanation of the origin of interest: means of production *create* additional value that is appropriated as interest. Actually, however, the theory says that the value of the product is a determinant of the marginal productivity, not vice versa.

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