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KARL MARX'S ECONOMIC THEORY

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I.— 1. INTRODUCTION. This paper is a long one. Considering, however, the ground it covers, it is no more than a birdseye view of Karl Marx's structure of Economic Theory; it is a summary of a series of lectures that I delivered both at Howard and the American Universities and it constitutes the third of a series of papers on the subject of the History of Economic Theory¹.

It is very difficult to deal with Marx and not be criticised either as reactionary for not doing justice to his work or as a leftist for attempting to say a good word in his behalf. I am attempting neither to belittle what he said nor to glorify his performance. I have tried to pull out of the chaos of «*The Capital*» what was his contribution in the development of Economic Theory.

In the Marxian performance we do not have a simple scientific refinement of economic analysis. The teleological approach of the Classical School, as formulated by John Stuart Mill, that we know all there is to know on the subject of value, and, the tendency towards the establishment of an equilibrated perfect order has been seriously challenged. The challenge has not being direct; it came in the form of a demand to reform the existing social structure, as a protest for the injustice at the expense of the labor force. Saint Simon² proclaimed the necessity

1. «Economic Stagnation and Contemporary Theory»; *Review of Economic and Political Science*, Vol. XV pp. 1-31; and «The Contribution of the Classical School in the Development of Economic Thought», *Ibid.*, Vol. XVI (1961) pp. 157-192.

2. Claude Henri de Rouvroy, *Compte de Saint-Simon (1760-1825)*.

for man to work but he observed that those who do the least, the idlers, get the most; he advocated the disappearance of the class struggle and he suggested that the government should interfere to arrange things and not to direct them¹. During this «underdeveloped» period we also observe the appearance of Fourier² and Owen³ besides Saint Simon.

All of them observed that there was some irregularity in the social structure. For Charles Fourier «efficiency should be organized into phalaxes ... (it) could be achieved through centralization»⁴. In England, Robert Owen established the co-operative movement and tried to show that industrialism did not need to stand on a foundation of labor abuse. He, like the others, wanted to change the world of his day but not to substitute it.

2. Marx⁵, on the other hand, did not have any intention neither to argue with John Stuart Mill, nor to subscribe to the reform movements recommended by those whom he called Utopians. His aims were different. For this reason he parted ways with them. Marx also attacked the Hegelian Principle of the priority of «the idea». He attacked the idea of the abstract man; the idea and concepts are, for Marx, connected with material activities and material relations of men. «Man's being is the real process of his life»⁶. Marx discarded the idealistic view according to which historical process is the outcome of the unsearchable purposes of God. Economic interests became the determinants of all happenings; economics became the motive force of history⁷. For this reason Marx had to study economics, the economics of his own day «the economics of industrial capitalism, in whose wombs socialism was developing»⁸.

3. Eagerness to satisfy the material needs of the stomach is not the driving force of history; the materialist conception of history arises out of the elementary recognition that human beings must have food before they interest themselves with politics, science, e.t.c.⁹. Those

1. Robert L. Heilbroner : *The Worldly Philosophers*; Simon and Schuster (New York, 1953) p. 113.

2. Charles Fourier (1772-1837).

3. Robert Owen (1771-1858).

4. Heilbroner, op. cit. p. 115.

5. Karl (1818-1883).

6. Otto Rühle : *Karl Marx*; translated by Eden and Cedar Paul; The Viking Press; (New York MCMXXIX) p. 106.

7. Ibid., 317;

8. Ibid., p. 318;

9. Ibid., p. 317;

who support the materialistic interpretation of history do not support the thesis that economic forces are the only forces that make history but they believe that, among the many factors involved, economic forces have the last word. The influence on the mind and the power of ideas is not denied, what is denied is that «absolute idea» should be regarded primarily and abstractly «the essential factor of historical evolution».

4. Socialism for Marx was not the realization of an «ethical demand, but the product of evolution. For the presocialists the establishment of the fact of existing exploitation was all. Marx had to discover whether from the evolution of capitalism would develop the conditions that would make the existence of socialism not only possible but also inevitable.

St Simon has been criticized as a dreamer. Marx turned more on him because he and the other Utopians advocate the disappearance of class struggles, the existence of which is the cornerstone of Marxian reasoning¹. For Marx, the ideas of early socialism are illusory because they do not advocate the downfall but the evolution of the bourgeois class. They look at the reformation of the existing order which Marx wants to destroy, or rather to prove that it will be destroyed.

Marx is convinced that «socialism is not the product of benevolent efforts of well disposed people, but that the evolution of society moves towards socialism ... independently of dreamers»². The Utopians did not concern themselves with critical analysis but with certain plans and the means of carrying them through, but these plans cannot stand scientific analysis³. An appeal to the sense of Justice could not bring miracles as the Utopians believed. Marx attacked blind ideologies, abstract ideologies without realizing that he was building the very thing that he was trying to destroy, an ideology⁴, but this time his own.

5. The first draft of «scientific socialism» is found in the Communist Manifesto. This document has been an attempt to give definite form to the specter of communism which was hunting Europe during the 19th century. According to the Manifesto the history of civilization is

1. Ibid., p. 113.

2. M. M. Bober: *Karl Marx's Interpretation of History*; second edition; Revised; Harvard University Press (Cambridge, 1948) p. 173.

3. Joseph A. Schumpeter: *History of Economic Analysis*; Oxford University Press (New York, 1955) p. 454.

4. Ibid., p. 384 n. 1.

a series of struggles, the latest of which, the bourgeois revolution, has not done away with new classes and new struggles.

The growth of needs led to the creation of modern industry and the industrial growth led to the creation of the world market. All forms of social and economic organizations of the past were replaced and a series of revolutions in the field of production and exchange led to the creation of the bourgeois class¹. Economic progress has been accompanied by growing political power. Self-interest has become the connecting rod among humans. The *sine qua non* of the bourgeois is the constant revolutionizing of the instruments of production, and with them the whole relations of society².

This process led to economic and political centralization and it created such forces that it cannot control them any more. An epidemic of overproduction has broken loose and destruction of means of production, creation of new markets and more intensive exploitation of old ones have been the instruments with which a remedy was attempted. These means, however, which were used as remedy measures of crises led to new and more severe crises.

The expansion of capital led to the growth of the proletariat; Labor has been subjected to the vicissitudes of the market and competition and the worker has become an appendix of the machine. «The cost of production of a workman is restricted almost entirely, to the means of subsistence that he requires for his maintenance, and for the propagation of his race»³.

From the hands of the industrialists as producers, the workers fall in the hands of merchants as consumers. Competition, crises, and improvement of machinery make the position of the workers more unstable. Reaction leads to greater and greater expansion of the power of the workers. Since the proletariat has nothing of its own to protect their mission is to destroy all previous securities for, and insurance of individual property⁴.

Capital is a social power and as such cannot be private property; it must be converted into property of all members of society. The communists, therefore, advocate the maintenance of the social character of capital. A victim of this change is the bourgeois family which is

1. Communist Manifesto.

2. Ibid.,

3. Ibid.,

4. Communist Manifesto.

based on capital and private gain and the proposal for the community of women is based on the assumption that women constitute social capital and as such must be relieved from being instruments of production. «The first step in the revolution of the working class is to raise the proletariat to the position of the ruling class, to win the battle of democracy»¹.

6. After expressing the aims of communists, the Communist Manifesto turns its wrath from the bourgeois class to those who first protested for the observed injustice at the expense of the working class. Sismondi² is considered as the leader of petty bourgeois socialists, the intermediate class. This group of socialists, while it pointed to the defects of the bourgeois class as a social system and «Dissected with great acuteness the contradictions in the conditions of modern production»³, it does not advocate the overthrow of the entire system but recommends corrections.

The so called true socialists in Germany constitute a camouflaging of French socialism with the difference that the movement in Germany has been more earnest; they also overlooked that they were advocating the continued existence of bourgeoisie.

As it was pointed out above, St. Simon, Owen and Fourier, also, see the problem of the workers but according to Marx and his friends they fail to treat the movement of the proletariat as an independent political movement. For them the proletarian class exists as the most suffering class but they reject political and revolutionary action and they look at the force of example as a means of success. Their proposals recommend the disappearance of class struggles which gives them a utopian character⁴.

The stand of these people has been characterized by Marx and the communists as reactionary. «They hold fast by the original views of their masters, in opposition to the progressive historical development of the proletariat»⁵. Everything that is not communist is reactionary. «Communists are the most advanced and resolute section of the working class parties of every country, that section that pushes forward all others; (and) they have over the great mass of the proletariat the advantage of clearly understanding the line of march, the conditions,

1. Ibid.,

2. Jean Charles Leonard Simonde de Sismondi (1773-1842).

3. Communist Manifesto.

4. Communist Manifesto.

5. Communist Manifesto.

and the ultimate general results of the proletarian movement»¹. This is the familiar doctrine, every non-Greek a barbarian; every non communist a reactionary.

It was the proof of the inevitable establishment of socialism as a social order which led Marx to investigations in the field of economics. In the process of these investigations, if nothing else happened, he opened the dead-end road and led to the building of a new highway that led economics as a science into unprecedented development. Further scientific analysis in the field of economics proved the vigor and the potentialities of the new science.

What follows refers to the scientific structure of Karl Marx in the field of Economic Theory. I am not interested in the «prophet» or the «sociologist» or the «social rabbish» built on inconsistency. My purpose is to present the economics of Karl Marx as a part in the development of thinking in economics. I have come to the conclusion that this objective will be served first with a close study of the work which became the scientific instrument aiming at the building of scientific foundations for the «new order». The Communist Manifesto ought to be strengthened by scientific groundwork. This work has been undertaken by Karl Marx and the product of his undertaking is *The Capital*.

The following three parts will be devoted to the three volumes of *Capital*.

II.—1. The task of preparing follows has not been an easy one. Engel's² editorial work, admirable as it may be, has been unable to lead to the preparation of an easy reading treatise in the form of the Marshallian *Principles*³. Where Marx is incomplete the editorial work leads to valuable suggestions but at the same time to innumerable questions that remain unanswered. Any improvement on the part of the reader in the present work is welcomed and much needed.

In the first Volume of *The Capital*⁴ Marx investigates the process of capitalist production and his analytical structure aims at proving that the traditional economists who support capitalist methods of

1. Communist Manifesto.

2. Friedrich Engels (1820-1895).

3. Alfred Marshall: *Principles of Economics*.

4. Karl Marx: *Capital*; Volume I. Translated from the third German edition by Samuel Moore and Edward Aveling; Revised and amplified according to the fourth German edition by Ernest Untermann. The Modern Library Edition, New York (1906).

production either do not understand them or the treatment of these methods as incomplete. This, according to Marx, is the case with Adam Smith and Ricardo.

The traditional economists disregard value use, and, also disregard that value in exchange is considered as a relative term and is expressed in terms of a common denominator. On the basis of this distinction wealth has meaning because of its value in use. The common denominator, in the case of exchange value, is unskilled, common labor. It is this kind of labor that gives value to commodities and measures this value. The time required for the production of the commodities measures the quantity of required labor, and the labor time required to produce the commodity determines its value. Increase or decrease of this time increases or decreases the value of the commodity. Productivity is inversely related with time required for production and maintains a straight relationship with its value in use.

For a commodity to have social value it must be produced not for the producer himself but for others. Labor, also, to be considered as such it must produce commodities that will be used by others. When labor has a specific aim, to produce suits for instance, it becomes useful. While productive activity without such an aim constitutes expenditure of labor power. Skilled labor is multiple abstract labor; it is this abstract labor that creates value for commodities; commodities are a warehouse of value; it is on the basis of this value and not their usefulness that commodities are compared with each other. But while labor creates value, it is not value itself; to become value it must be embodied in a commodity. Commodities as depositories of value are all the same, it is value in use that differentiates them.

The expression of a commodity in terms of another commodity does not mean creation of value, this value already exists and it is not the exchange of commodities that regulates their value but it is the value of these commodities that regulates the exchange proportions. When we express the value of a commodity in comparison with another in terms of money the result of this comparison gives us the price of the commodity. Through this expression we do not have value creation but a value is expressed in terms of money. The price of a commodity does not coincide with its value but it may be either above or below it¹,

2. Marx differentiates between money and money that is capital. In the case of money we sell a commodity and we buy another commo-

1. *Capital*: Vol. I pp. 68-155.

dity in the succession: Commodity-Money-Commodity (C-M-C); in the second case we buy a commodity with money and we sell it again for money in the succession M-C-M. In the first case we have circulation of commodities and in the second circulation of money. The purpose of the second process is money recovery. What is recovered is supposed to be greater from what is advanced and the difference is called surplus value. It is this expansion that transforms money into capital. The satisfaction of needs is not the purpose of circulation here as is the case in the first succession (C-M-C). In the second case circulation is an end in itself. In the case of the circulation of commodities both parties gain because through purchase of commodities they receive use values. In the second case no values are created because equal values are exchanged. We are not justified to look at this point of circulation for the source of surplus value. Sale at a higher price does not explain the creation and existence of surplus value because (by definition) the value does not change by means of the sale. Sale at a higher price means change in distribution but not increase in value. Thus, we cannot create capital through circulation.

To create value we must employ labor through consumption of the means of production. A person with money must find someone who sells labor; the value of labor is determined by the time required for labor's production or reproduction; for this production or reproduction labor requires means of subsistence and thus, the value of labor power is equal to the value of the means of subsistence necessary for maintenance or reproduction of the worker. Hence, to change money into capital is required labor; the value of labor power fluctuates with the value of the means of subsistence and its minimum limit is the value of the indispensable means of subsistence¹.

3. We must look elsewhere for the source of surplus value. The capitalist buys labor power through the hiring of workers, he wants to use their labor. The hired workers, with the help of instruments, use their labor power and produce use values which are created through consumption of the means of production by the labor of the workers. The result of this activity is a product that belongs to the capitalist in the same way the fruit of the tree of a rented farm belongs to the tenant. Out of all this process the capitalist receives a product which is a use value for sale. This product is also an exchange value in terms of abstract labor. The labor power used created a certain value which

1. Ibid., pp. 164-191.

in size is different. The capitalist purchased labor power because he was aiming at this difference; the origin of this difference is explained as follows: The worker, in a day, produces more than it is necessary for its subsistence, it produces more than it is equivalent; because of this the advance of money has been changed into capital; the value over and above of what is necessary to cover an equivalent value is called surplus value.

The new product incorporates the value of the means of production plus the value of the labor used to consume them. New value is created through the addition of new abstract labor; through labor the values of the means of production are preserved in the new product; what is produced, replaces, through sale, the capital advanced; but, the time required for this replacement is shorter than the time for which the capitalist hired the labor power of the worker; the worker will continue to work, unpaid, for the remaining time and what he produces belongs to the capitalist, it constitutes the surplus value.

The means of production constitute constant capital and the money used for the purchase of the labor force is equal to the variable capital. It is the variable capital that produces equivalent value for capital advanced plus surplus value. Thus, while at the beginning of the productive process we have $C = c + v$ (constant plus variable capital), at the end of the process we have $C = c + v + s$ where s is the surplus value. Surplus value, therefore is the difference between total capital C at the beginning and the end of the process. Since constant capital c is replaced through the reproduction of the value consumed it may be disregarded in the formula; s on the other hand is the extent of variation of the variable capital. As the result of the process of production is an increment in v . The ratio of the increase of variable capital is given by s/v which is the rate of surplus value.

The labor of the hired worker is divided into necessary labor used for the production of the means of subsistence and surplus labor for the creation of surplus value. Surplus labor depends on the length of the working day and the physical ability of the worker. Surplus value is equal to the surplus the worker produces in a day times the number of workers. The total surplus value is equal to the variable capital advanced times the rate of surplus value, that is:

$$S = V \cdot \frac{s}{v}$$

1. Ibid., pp. 191-332.

Marx, develops the following three «Laws» governing surplus value : first, the mass (S) of surplus value is equal to the variable capital advanced times the rate of surplus value. (see equation above). A decrease in variable capital may be compensated by a rise in the degree of exploitation of the workers or a decrease of employment and expansion of the working day. Second, given the working day, the mass of surplus value (S) depends on the mass of labor employed which again is determined by the mass of variable capital advanced. Constant capital appears only in the value of the product. Third, given the value and surplus value, and the degree of exploitation by different capitals being the same, the surplus value directly with the variation of the constituent parts of the different capitals. Given the population, the surplus value varies with the length of the working day; given the length of the working day only the limits of population may set limits to the production of surplus value.

In capitalist production where production of surplus value is the aim, it is the means of production that employ the laborer and not the reverse. The transformation of money into means of production gives title on the labor and surplus labor of the others ¹.

4. The necessary working time is assumed to be constant while the total working day is variable; to expand surplus value we must curtail the necessary labor time and to do it we must increase the productivity of necessary labor. Increase of surplus value through prolongation of the working day gives what Marx calls the absolute surplus value. If surplus value is either increased or created through reduction of the necessary labor time, then we have what Marx calls the relative surplus value. The value of labor power may be reduced through reduction of the cost of the means of subsistence or through increase in productivity. Value and productivity stand in inverse relationship, while relative surplus value, as defined above, is directly proportional to productivity. The value as such is of no interest to the capitalist, it is surplus value he is interested at. Increase in productivity does not lead in shortening of the working day; what is really aimed at is the shortening of the time the worker for his own benefit and the lengthening of the time devoted to the creation of the surplus value ².

1. Ibid., pp. 333-339.

2. Ibid., pp. 342-395.

Mass production changes the ratio $\frac{\text{Surplus Value}}{\text{Constant capital}}$;

increase of constant capital through the introduction of machines leads to increase of surplus labor through reduction of necessary time^e

5. Introduction of machine does not create employment as the Classical School maintains but increases the army unemployed at the mercy of capitalist. Ricardo does not ignore the existence of surplus value but he does not investigate its origin. He is interested at the causes that determine the magnitude of surplus value and not at the surplus value itself. Ricardo formulated the law that increase in labor productivity reduces the value of labor power and increases surplus value. Changes in surplus value are the result of change in the value of labor power and not the cause, the value of labor power is determined by the value of necessaries; Ricardo however, asserted proportional variation which is not the case. The length of the working day, the intensity of labor and labor productivity, under different assumptions, have different effects on the relative magnitude of the surplus value and on the price of labor¹.

6. The value of labor expressed in money terms constitutes its natural price around which the market price oscillates. The natural price is determined independently of the law of supply and demand. Value, according to the classics, is determined by the cost of production but the question is raised what is the cost of production of the worker? Value of labor is value of labor power which is different from labor; These two concepts, labor and value of labor power are being confused by the classics. Another error into which the classics fall is their assertion that wages cover the entire working day which eliminates the concept of surplus labor; for them all labor is paid labor².

7. To change money into capital we must first convert it into means of production and labor power; the means of production, through labor are converted into commodities the value of which must be greater than the value of the component parts. To achieve accumulation, the capitalist, must sell the commodities and change into capital the greater part of the money so received. Thus, accumulation becomes a part of the process of production and in capitalist production the process appears as selfexpansion of capital. Simple reproduction occurs when all surplus value is spent for the maintenance of the capitalist.

1. Ibid., pp. 444-458.

2. Ibid., pp. 586-605.

The reproduction period is determined by dividing the advanced capital by the surplus value annually consumed. After a number of years the capital value which the capitalist possesses is equal to the total annual surplus values and the total value of the capital annually consumed is equal to the capital originally advanced. Thus surplus value has been capitalized and the capital accumulated has been appropriated from the worker.

The product of labor is changed into means of subsistence for the worker, and into capital that controls the means of production. For the Classical School all surplus value that changes into capital becomes variable capital; for them, capitalization means the change of surplus value into labor power which is variable capital during the process of production; this means that they overlook the part which is converted into constant capital. But not all surplus value is turned into variable capital. It is used as revenue of the capitalist, in addition to being capitalized. The social capital is not a fixed quantity as the classics asserted, but a continuously fluctuating quantity due to the division of surplus value into revenue and additional capital¹.

Marx, distinguishes between organic or value composition of capital which is the ratio between the means of production or constant capital and variable capital or labor power; and technical composition which is the quantitative relationship between these two factors. Between the two compositions there is strict correlation. Each individual production process has its own composition².

For reasons of growth a part of surplus value must be converted into variable capital; the demand for labor increases proportionally with the increase of capital. For the capitalist, labor increase aims at the increase of surplus value. Increase in the demand for labor that leads to a price increase, causes slackening of accumulation because of weakening of the profit incentive; if it does not interfere with accumulation the price of labor keeps rising but on the other hand fall in the rise of accumulation leads to fall in the price of labor. Accumulation is the basis and not the result of the capitalist mode of production. Accumulated capitals are centralized and form the total social capital.

The increase of total capital is accompanied by an increase in the laboring population that counterbalances it. This increase is faster than the increase of variable capital and thus accumulation leads to

1. *Ibid.*, pp. 618-667.

2. *Ibid.*, pp. 667-671.

the formation of an industrial reserve army. Changes in the size of this army regulate the movement of wages. Thus, we observe the phenomenon that capital accumulation on the one hand increases the demand for labor and on the other increases the supply of laborers¹.

III.—1. In the second volume of *the Capital* Marx investigates the process of circulation. It has already been pointed out that the advanced capital buys means of production and labor. This action transforms money capital into productive capital; both, the means of production and labor appear as property of the capitalist who purchased them, who advanced his capital. The simple possession of capital does not produce commodities and labor away from the means of production cannot become useful².

The second stage of the process is that of transforming money capital into productive capital. Labor force becomes capital in the hands of the employer while in the hands of the worker is a commodity. Productive capital is transformed into commodities which have higher value and contain surplus value; the productive capital is consumed during the process of production.

The value of the commodities exceeds the value of capital by the amount of surplus value; this surplus value is born in the process of productive consumption and appears in the commodities market. This productive process interrupts the process of circulation of capital. After the productive process has been completed the change of commodities into money through sale follows. The Cycle Money-Commodities-Money (M-C-M) is now complete through the return of money into its original form. This circle constitutes the circulation of money capital; what changes in the final analysis is not the form but the magnitude of the advanced value. The sale of commodities separates the capital value from the surplus value and nothing has happened to the original capital; the role of surplus value is determined after its separation; its re-entry into circulation makes the difference between money capital and surplus value disappear.

Before productive consumption takes place we have money capital; after it has taken place we have commodity capital. Money capital value M is the starting point and utilized capital value M' is the terminal point. Money capital is money that generates more money. The circle may start all over again as increased money capital. The final

1. *Ibid.*, pp. 678-784.

2. *Ibid.*, pp. 32-39.

product is not produced for consumption by the capitalist himself but it is produced to be consumed by others than the capitalist.

A part of surplus value is spent by the capitalist for its own consumption; variable capital in the form of wages shows up again as money capital after wages are spent by the workers and as surplus value which may be spent for the personal consumption of the capitalist ¹.

Through rotation of productive capital, surplus value is periodically produced. The commodity capital contains C , the originally advanced quantity plus c surplus; then the commodity is sold and change to M' ; this change into M' , is the first step of circulation. After sale the surplus value enters the stream of general circulation of commodities. Surplus value becomes the income of the capitalist while the remaining is ready as capital value. The capital value advanced is the money expression of the part-labor. Money capital helps in the renewal of advanced capital through purchase of labor and productive means. Capital in the form of money does not produce new value but it remains money capital. The purchase of labor aims at the creation of surplus value and the purchase of the means of production makes possible the process of surplus value creation.

Surplus value is created through productive consumption; the part of the advanced money capital which is not spent for the purchase of the means of production and labor is held from circulation to be used at the proper moment and constitutes a hoard. Technical factors determine the expansion of the productive process; surplus value from which this expansion depends may be hoarded for purposes of accumulation necessary for technical reasons. Capital to be enlarged must be preserved.

Part of the surplus value is capitalized and thus we begin production again with a larger capital. The transformation of surplus value to capital takes place through accumulation depending on technical factors; until the required accumulation has been achieved surplus value exists as a growing hoard. This hoard sometimes is used as a reserve fund for avoiding difficulties arising from price disturbances ².

At the beginning of each process the commodity capital is smaller than at the end; this is due on the one hand to capitalization of surplus value and on the other to the fact that surplus value itself at the end of each process is greater than at the beginning.

1. Ibid., pp. 43-69.

1. Ibid., pp. 73-95.

Three circles have been established up to now: first, advance of money capital; second, change into productive capital and third, transformation into commodity capital; the last one through sales is transformed into money. The commodity capital includes the reproduced capital and the surplus value and the latter is used partly as revenue and partly as part of capital accumulation. Thus the product is divided between the worker and the capitalist and the part which the worker receives is used for productive consumption¹.

The three forms which the process takes rotate simultaneously and in this rotation difficulties in one section causes difficulties in other parts. The rotation must be continuous; through rotation all three phases exist at once but every phase passes from the three; thus capital must be continuously in motion. In this dancing, values maintain and increase themselves; employment depends on the relation between variable to total capital. On the other hand the value of what the capitalist buys is smaller from the commodity capital that he takes to the market. The ratio v/C becomes smaller and smaller; through increase of the surplus value the demand of the worker for consumption decreases².

Marx, makes the distinction between the time of production — during which the means of production take part in production — and labor time; In the latter he does not include the periods of interruption of work. During these pauses, neither value nor surplus value is created. Increase in productivity takes place through the decrease of the idle periods. This difference is responsible for variation in the time of circulation. Decrease of the time of circulation increases productivity and as a consequence increases surplus value; the classics on the contrary believe that increase in the time of circulation increases surplus value³.

The purchase and sale of commodities does not create value; neither the merchants nor the workers in this task create anything. They constitute expenses of circulation which do not enter the value of commodities; the stay in the market of the commodity capital is involuntary, it delays the process. Delay in the market causes expenses of circulation which increase the price of the commodity.

During the period of circulation the supply of commodities exists in the form of productive capital, in the form of funds for individual consumption and in the form of commodity capital. The last increases

1. Ibid., pp. 99-107.

2. Ibid., pp. 115-138.

3. Ibid., pp. 138-143.

with the development of the capitalist production; it is expansion and not needs that characterise capitalist production; this expansion requires greater commodity capital. Increase in commodity capital is also necessary for the increased number of worker who must find ready products.

The delay of circulation does not add anything to the value of commodities except that it creates either voluntary or involuntary accumulation; the latter occurs when sales are not easy. On the other hand the creation of inventories is necessary to insure continuity. Thus, while the expenses of circulation do not create value they help in the realization of value ¹.

2. The time of rotation includes the time of production and the time of circulation; it involves money capital, productive capital and commodity capital; commodity capital is not an advanced value but the advanced value is a part of commodity capital. The rotation of capital constitutes its turnover the duration of which is determined by the time required for production plus the time required for circulation. Turnover is a repetition of the process of self-expansion; each particular capital has its own turnover and the number of turnovers is determined by :

$$n = \frac{T}{t}$$

where T is one year and t the turnover of a particular capital ².

A part of the constant capital may be used for a longer period, for a number of turnovers. In each turnover this capital uses a part of its use value which is transferred to the value of the product. How much is transferred each time depends on its duration. This part of the constant capital is called fixed capital. The part of value of the fixed capital which is transferred to the product circulates with the supply of commodities. Each time by fixed capital we designate the part which is not worn out.

The traditional distinction between fixed and circulating capital is not correct. The immobility of capital is not the characteristic of fixed capital as it is asserted; it is not mobility but its function which characterizes it as fixed. The part of the fixed capital which is worn out to the product circulates as a part of the value of the product.

Constant capital, in addition to fixed capital, includes also auxi-

1. Ibid., pp. 149-169.

2. Ibid., pp. 169-177.

liary elements and raw material. On the other hand, productive capital includes constant capital and variable capital invested in labor force. Constant capital reappears in the value of the product, while labor reproduces variable capital and adds surplus value to the product. Labor and non-fixed constant capital constitute circulating capital as opposed to fixed as defined above.

What the capitalist consumes is labor power and not the means of its subsistence. The latter do not determine the character of circulating capital as opposed to fixed; it is turnover that constitutes the basis for distinction between fixed and circulating capital. Only productive capital may be divided into fixed and circulating. Money and commodity capitals are part of circulating but they are not the opposite of fixed. The characteristic of circulating capital is continuity of reproduction; this is not so with the fixed capital which is thrown in production at one time. Only the wornout part of the fixed capital which is transmitted to the value of the commodity must be reproduced every year. Fixed capital, in this way, is advanced at one and reproduced by small degrees. This annually reproducible part of fixed capital may be used for expansion purposes and this part of expansion is not due to the surplus value. This is reconversion of part of the fixed capital. Fixed capital requires maintenance capital which enters the product as an average expense over the average lifetime of fixed capital. Fixed capital flows back in the form of a sinking fund which through the credit system does not remain a hoard ¹.

The turnover of the advanced capital is the average turnover of the constituent parts. The part of fixed capital has its own turnover while the part which is transferred to the product has the turnover of the circulating capital. The capital value turned over during the year is greater than the value of the advanced capital because the circulating capital turns over more than once during the year, but the turnover of the advanced capital must be distinguished from the turnover of its constituent parts ².

Marx criticizes Adam Smith because his distinction between circulating and «primitive» advances proves that he is not clear on the subject. The basis of Adam Smith's distinction between fixed and circulating capital is the form of capital and not its different turnover. Smith, according to Marx, mixes up the process of production with

1. Ibid., pp. 178-200.

2. Ibid., pp. 208-211.

the process of circulation. Another error into which A. Smith falls, according to Marx, is that he derives surplus value from the process of circulation and this because surplus value is not realized until the product is sold. The creation of the surplus is attributed to the capitalist. Quesnay¹ is clearer on this matter than Smith, who has abandoned the distinction between constant and variable capital in favor of the distinction between fixed and circulating capital. Smith also fails to include labor power as one of the elements of productive capital. He confuses between «capital in circulation» and «circulating capital»². Fixed capital for Smith is derived from circulating capital because labor and raw materials are required for the making of machines³.

Ricardo makes the distinction between fixed and circulating capital the first consisting of instruments of labor and the latter of capital invested in labor, to «support labor», an idea which Marx calls «senseless». According to Marx, Ricardo confuses circulating capital with variable capital. Through the process of circulation the difference between variable and constant capital disappears and it is not revealed how surplus value is produced. Again, Marx insists, it is not durability that characterizes capital as fixed but its use as durable material.

Ricardo's distinction between fixed and circulating capital is based on whether it perishes slow or fast. Ricardo also fails to distinguish between values invested in instruments of labor and values invested in labor which is significant from the point of view of the speed at which the transfer of value takes place. It is not true, also, that all capital invested in wages is circulating capital⁴.

Working period is the time required for the same labor to complete the task. It may either be repeated for the production of lots of products or last longer until the product is completed. The work period plus the circulating period give the turnover. The prolongation of either period reduces turnover; because of this time difference the quantity of capital to be advanced in each case is different. To shorten the production period increased outlay for fixed capital is required. The other section of the turnover period, namely, the time of circulation it is subject to fluctuations. The selling time is an important part of the circulation period, it determines the time of circulation and therefore of turnover.

1. François Quesnay (1694-1774).

2. *Capital* : Vol. II. op. cit. p. 238.

3. *Ibid.*, pp. 215-238.

4. *Ibid.*, pp. 245-259.

If the commodity capital is the product of nine working weeks and if capital is equal to wages, raw material and auxiliary material, and if the time of circulation is three weeks, then the turnover period is twelve weeks. To begin the new production cycle we have to wait three weeks. To remove this idle period we must have capital available for twelve weeks. With capital available the second production period will begin at the end of nine weeks without waiting for the lapse of the idle-three-month period. There must be special speculating capital available; in case there is not, to secure continuity we must economize capital by reducing productive operations.

At this point Marx makes several assumptions: first, he assumes that the working period is equal to the period of circulation; second, it is greater than the period of circulation and third, the working period is smaller than the period of circulation. In each case the part of capital needed for a) production and b) circulation will be different. As the turnover is in process capital is released through sale of commodities. This released money is subject to demand and the demand is reduced through the development of the credit system. Prices and scale of production are assumed to be constant.

If the turnover and scale of production remain the same while prices of raw materials, auxiliaries and labor fluctuate, then if prices fall the result will be the reduction of money thrown into circulation while the released capital may lead to increased production and if prices are raised then we may have the opposite results. If everything remains the same while the price of the product fluctuates, the demand for capital will be affected¹.

It has been pointed out that circulating capital is divided into constant circulating and variable circulating. The latter goes to the workers. If $\frac{1}{2}$ of the working day consists of surplus labor, the ratio of surplus value produced during the year to the value of the advanced variable capital is the annual rate of surplus value. The quantity, not the rate, of surplus value is equal to the value of variable capital multiplied by the rate of surplus value. The annual rate of surplus value depends on the time the variable capital is actually employed. The relations between advanced capital and capital continuously employed are changing. Given the rate of surplus value, the annual quantity of surplus value depends on the capital employed, not the capital advanced. The quantity of surplus value is equal to the current rate of surplus

1. Ibid., pp. 260-326.

value times the variable capital employed for its production. The capital employed is equal to the capital advanced multiplied by the number of turnovers, that is

$$S' = \frac{s' vn}{v} = s' n$$

the annual rate of surplus value is equal to the present rate times the number of turnovers. If $n = 1$ then $S' = s' 1$.

The result of the use of labor power by the capitalist is the product which a) reproduced variable capital and b) newly produced surplus value. The surplus value is separated through the sale for money. The remaining of the product becomes variable capital and acts as such. This is not the advanced but the newly produced capital. The period of turnover exercises again its influence. The shorter the period of turnover the smaller the capital advanced and the greater the surplus value. This is so because the worker, in such cases is being used repeatedly.

If the demand for factors is continuous without an increase in supply, prices will increase and the cost of subsistence will become greater, but inevitably the available capital will come to an end, the crisis will take place, the reserve army will be without work and wages will be depressed to the minimum ².

Marx distinguishes between originally advanced capital and capitalized surplus value. Accumulation constitutes a process of reproduction on an enlarged scale, it constitutes conversion of surplus value to capital. With the expansion of surplus value, takes place accumulation of money which will be used later. With the growth of surplus value the proportion of money capital must also grow; this money concentrates in the hands of the capitalist and constitutes legal title on the future products of society. The hoarded money serves a kind of reserve fund.

The money for which surplus value is exchanged comes from the surplus capital of the capitalist. The capitalist throws in commodities of greater value made up of labor power and the means of production. The traditional economists do not understand his and therefore they do not understand where the surplus value comes from. While the capitalist is the source of the advanced capital his presence does not

1. Ibid., pp. 336-350.

2. Ibid., pp. 355-363.

seem to explain the surplus. It is surplus value from which he gets his consumption expenses. The surplus value of commodities is monetized through surplus value created in the process of fold production.

Hoard in capitalist production is needed but not before production begins. It is a matter of development. For reproduction on an enlarged scale money is provided by surplus value which is thrown into circulation as surplus capital. As to accumulation it may have its origin to portion of surplus value. Accumulation never takes place simultaneously.

3. We have examined the several forms that capital takes in its rotation and the concept of rotation itself. We also examined rotation as a periodical process, as a turnover. In all these cases we were examining the behavior of individual capital as a *part* of social capital. The movements of social capital constitute the aggregate of movements of individual capitals. But, the individual capitals are not examined here by themselves but as component parts of the social capital. Money capitals constitute a part of the aggregate social capital, they are the form of every capital before it begins the process. Money capital does not necessarily determines the expansion of production; if increase in productivity requires additional investment this is provided through conception in the hands of view capitalists. The duration of the turnover determines the money capital which is necessary to put productive capital into action¹.

The first correct approach to the interpretation of the capitalistic process is found in the physiocratic system. For the Physiocrats surplus value is found in the process of production not in the process of circulation. For Adam Smith the net revenue of the capitalist is his net profit; in the case of individual capitals, however, the circulating capital can never become a part of the individual's revenue but a part of the social circulating capital may become a part of individual's revenue. Adam Smith, calls circulating capital the annually produced commodity capital; fixed capital, according to Smith cannot become part of the revenue of neither individuals nor society.

For Smith price is made up of wages, profits and rent. Profits and rent are part of the surplus value (Marx); this is a correct idea about the component parts of the value of commodities but Adam Smith according to Marx, has the «ridiculous idea» that revenue is the source of all exchange value. To the value of commodities, Smith also

1. Ibid., pp. 404-413.

adds, the value of capital not invested in labor power. The value of the constant portion of capital, that is c , will ultimately resolve itself into $v + s$ according to Smith, but he does not explain the origin of the constant part of the productive capital. Surplus value, for Smith, is not the part of value for which the worker is not compensated; he confuses the value of the annual product, produced in previous years that serves as constant capital with the annual product value which is the product of labor of the current year.

Marx, on the other hand, points out that the capitalist does not spend, he makes advances of capital. These advances are produced for the capitalist by the worker. Labor force is a commodity in the hands of the worker and capital in the hands of the capitalist during the process of production. Labor power serves as a commodity first sold, and second as capital used. The laborer himself creates the fund out of which the capitalist pays him. Labor power is not revenue but it is source of revenue. Surplus value constitutes an expenditure not of income but of labor. Revenue is derived from commodities and the value of commodities is not derived from revenue as Smith asserts. The substance of value, Marx observes, is nothing but expanded labor power and the process during which this expenditure takes place is the production of values.

The commodity has a value measured by the quantity of labor spent in it and nothing more. A part of the value of the commodity is transferred to it and not produced during the process. Beyond these two values is the surplus value, which while it does not cost the capitalist anything, it becomes its revenue. According to Marx, Ricardo's and Mill's contribution on the subject is nothing but reproduction of Smith's argument¹.

The annual product includes the parts of the social product that reproduces capital and the parts that are devoted to individual consumption of the capitalists and the workers. One part of the value of the product is reconverted into capital, the other goes to consumption. The aggregate capital invested in each of the two groups constitutes a separate portion of the social capital. In each of the two groups we have constant and variable capital. Constant capital is divided into fixed and circulating capital.

The sale of commodities restores to the capitalist the variable capital which he may reinvest. Wages buy commodities of the same

1. Ibid., pp. 415-440.

from the capitalists and the capitalists buy again means of production and thus the cycle begins again. Surplus value is spent for means of consumption. In the case of simple reproduction $v + s$ must be equal to c . The first in the hands of the capitalists the second in the hands of those who possess the means of production.

We now proceed to the third volume of Marx's *Capital* to complete his theoretical analysis.

III.—A.—1. In the third volume Marx studies the forms which grow out of the movements of the capitalist production as a whole. In the formula $c + v + s = C$, $c + v$ represents the cost of production and s surplus value that does not cost the capitalist anything. The cost of the capitalist is not the cost of the commodity because the capitalist is not the producer as the traditional economists assert. The cost $c + v$ is different from the value of the commodity $c + v + s$. Beyond the cost price there is the excess over it, the surplus value; this excess is an increase returning to capital via circulation. For the traditional economists given that capital serves as the creator of values, surplus value is the product of the advanced capital and it becomes profit. For them the formula is as follows :

Value of the Commodity = Cost price plus profit and

Commodity price = Cost price plus profit.

The cost price is the minimum limit of the selling price; for the capitalists surplus value is not realized through sale but is born by sale. But, if profit is a part of the advanced capital it cannot be a surplus and thus, according to Marx the thinking of the traditional economists becomes contradictory¹.

2. The process which creates surplus value is capitalist production and this surplus value is realized through circulation. The profit of the capitalist comes out of selling something which did not cost him anything. It comes out of the surplus value. The capitalists confuse surplus value with profit. They consider as surplus value the difference between selling price and cost price without explaining the origin of this difference. By looking at the relation between this surplus value and *total capital* create the difference between this relation and the relation between surplus value and *variable capital*; And this difference is not understood by them².

1. *Capital*, Vol. III, translated from the first German edition by Ernest Untermann: Charles A. Kerr and Co. (1909) pp. 37-52.

2. *Ibid.*, pp. 53-61.

3. We established that $C = c + v + s$; from this we derive the rate of surplus value that is $s' = \frac{s}{v}$ and $s = s'v$; while profit is $p' = \frac{s}{c + v} = \frac{s'}{c/v + 1}$ when $s = s'v$ and $p' = \frac{s'v}{c + v}$; On the assumption that profit equals surplus value, that the value of money is constant, that the analysis covers the turnover period, that the productivity of labor is constant, that the length of the working day, the intensity of labor and wages are constant and that surplus value is constant; on these assumptions, p'/p'_1 , that is the rates of profit are proportional to one another as the variable capitals are proportional to one another, that is v/v_1 .

Marx examines the consequences of the following cases: first, s' and C constant, while v fluctuates; second, C changes because of variations in v ; third s' and v constant while c and C variable; fourth, s' constant while v , c and C variable. It is clear that the rate of profit may fluctuate while the rate of surplus value remains the same because the least variation in the proportion of v/c or v/C is sufficient to change the rate of profit. But if v/c fluctuates beyond a certain limit then s' must also become variable.

Then Marx examines variations of s' while v/C remains constant. Variations in surplus value may be the result of changes in wages, the length of the working day and the intensity of labor. Variations in the duration of the working day and the intensity of labor, influence surplus value and the rate of profit in the same direction. Then Marx examines the case when s' and v are variable while C constant. This variation may take place in opposite directions by the same amount, or in the same or opposite directions by different amount.

From the analysis of the different assumptions Marx concludes that: a) if s' remains constant any change in v/C causes a different rate of profit but, b) if s' varies magnitude, it requires an inverse change of v/C in order for the rate of profit to remain the same. Thus the rate of profit is determined by a) the rate of surplus value and b) the composition of the value of capital¹.

4. As far as the period of turnover and the rate of profit is concerned the former is inversely proportional to the latter².

1. Ibid., pp. 63-83.

2. Ibid., pp. 85-87.

5. The distinction has been made constant and variable capital; the increase of absolute surplus value reduces the value of constant as compared to variable capital; as far as the fixed part of the constant capital is concerned, it remains the same, independently of the duration of its service. Prolongation of the working day not requiring increased fixed capital increases profit. An increase in surplus value brings forth an increase in constant capital for exploitation of additional labor.

The method of production that led to the concentration of the means of production leads to economies through labor concentration and greater exploitation of the worker. Other factors that also lead to economies are the creation of byproducts and the improvement of machinery. Economies in constant capital lead to profit increase. In addition to economies that have their origin to the creation of constant capital we also have economies that originate in its operation. For the capitalist the means of production represent his capital with which labor just comes in touch. The capitalists do not seem to realize that they dispose labor. The economies which are realized are due to the capitalist mode of production and not the special function of the capitalist ¹.

6. Economies in constant capital affect the rate of profit but not the rate of surplus value. Since raw materials constitute a considerable part of c , fluctuations in their prices affect profit because $\frac{s}{c+v} =$

$\frac{s}{C}$ and $\frac{s}{c+v}$ is the rate of profit. There is an inverse relationship

between the rate of profit and raw materials; but, on the other hand, the price of the product is affected by the extent of the market. Increase in the value of raw material may be counterbalanced by an increase in the price of corresponding commodities.

As to variable capital, surplus value increases because of a fall in the value of the means of subsistence and the opposite. Variable capital may be released because of a reduction in the cost of reproduction of the labor power or increase in productivity, assuming that wages remain the same.

The mass of profit (otal profit) is equal to the mass (total) of the individual surplus values; the capitalist will not consider its profit identical with the surplus value and this because he believes that cir-

1. Ibid., pp. 93-109.

ulation is the source of surplus value; he considers his individual activities as part of the source ¹.

B.— 1. Marx proceeds on the assumption that the rate of surplus value and the length of the working day are unchanged. In such a case differences in the rates of profit are not due to differences in surplus value but to variations in the proportions of constant and variable capital. The factors that affect turnover may also affect the rate of profit. Thus, Marx, examines the differences observed in the organic composition of capital as well as differences in the number of times turnover takes place. Under constant rate of surplus value and constant length of working day, variable capital serves as an index of labor set in motion by the total capital. The relationship of the number of workers to the means of production constitutes the technical composition of capital which is the basis for its organic composition. A constant technical composition may be corresponding to different value (organic) composition.

Variable capital is not only an index of labor but also an index of surplus labor contained in it. Different organic compositions may lead to different rates of profit in different spheres of production.

Another reason for differences in the rates of profit is the difference in the time of turnover in the different spheres of production. The difference in composition between fixed and circulating capital does not affect the rate of profit. Great fixed capital simply proves that constant capital outweighs variable capital. On the other hand, cost prices among the different spheres of production, where equal capitals have been invested, regardless of the organic composition, do not show the difference between constant and variable capital and it is here where capitalist economists confuse the issues ².

2. The organic composition depends on technical factors and on the prices of the means of production. The different spheres of production enjoy different rates of profit due to the different organic composition of capital. If we add the average profit to the cost of different spheres we find that prices of production are equal to the cost price plus the average profit. Each capital, through competition, enjoys the same average rate of profit no matter what is its organic composition. Each capitalist receives a share of the total profit; the different capitals

1. Ibid., pp. 125-167.

2. Ibid., pp. 168-182.

are like stockholders among which the shares of profit are uniformly divided. The rate of profit of each capital does not depend on the profit realized by the capital but on the share allotted to it as part of the social capital. The average rate of profit is a weighted average.

The price of production which measures the value of commodities consumed in production may be different from the value of the final commodities, while the cost price is always smaller than its value. Cost price is equal to paid labor, while value refers to paid plus unpaid labor. Changes in the average rates of profits are of a long-run nature. In the short-run, changes in the prices of production are due to changes in labor required for their production. When surplus value is transformed into profit, the distinction between cost price and profit disappears and the capitalist loses sight of the fact that profit originates in the value of commodities. The capitalists do not believe that labor is the source of profit ¹.

3. The prices of production are changed forms of value and profits are portions of surplus values, proportional to the total capital employed in each sphere of production. The value at which commodities are supposed to be sold is the center around which prices gravitate and tend towards equilibrium. It is the law of value that dominates the movement of prices.

A general increase of average profit above the ratio :

$$\frac{\text{surplus value}}{\text{total invested capital}} = \frac{s}{C}$$

leads to an increase in wages and an increase in the prices of commodities that constitute the total capital. Supply and demand regulate the deviations of market price from market value. The market value regulates the center around which supply and demand cause the market price to fluctuate. Social demand depends on the proportion of total surplus value to wages and on the parts of surplus value that go to the different factors.

The market value of the mass of commodities is equal to the quantity of social labor necessary for their production. The individual cases fluctuate around this general case but in the final analysis they balance out. If demand and supply for the mass of commodities are equal, then the commodity will be sold at its market value. Changes in the market value may be due to changes in supply and demand.

1. Ibid., pp. 182-199.

Demand originates among the capitalists and its purpose is the production of surplus value. When supply and demand balance, they do not explain anything, they cannot explain the general laws of production, but they seldom balance.

Competition tends to reduce the total quantity of labor devoted to a commodity. In the capitalist process it is something more than simple exchange that takes place, it is advance of capital and realization of surplus value. The rate of profit dictates the movement of capitals; the speed at which equilibrium is achieved depends on the mobility of capital and labor power ¹.

Smith's natural price and Ricardo's cost of production is equivalent to Marx's price of production and includes the average profit. But the Classics and the Physiocrats have not demonstrated the difference between price of production and value. Deviation of the price of production from value is the result of adding to the cost price, not the surplus value contained in it, but of the average profit. The role of competition is not to show how value is determined ².

C.—1. Due to growing constant and therefore total capital the same rate of surplus value $\frac{s}{v}$ would lead to a falling rate of profit; this is the law of the falling tendency of the rate of profit. In a capitalist society the change in the relationship between constant and variable capital takes place because of a change in constant capital and thus thus labor is needed for the production of the same or more commodities. Reduction of the working force leads to a fall in surplus value as compared with the value of invested total capital. The expression $\frac{s}{C}$ refers to the rate of profit and since C is continuously increasing the rate of profit must continuously be decreasing. This has been a point of mystery for traditional economists since Adam Smith. But inspite the progressive fall in the rate of profit, the number of workers, the absolute surplus value, and the mass profit may increase.

Part of the capitalist process of production is the process of accumulation which implies that more people are needed for exploitation. Thus, on the one hand we have an increase in the absolute mass of profit and on the other a decrease in the rate of profit. The average

1. *Ibid.*, pp. 204-233.

2. *Ibid.*, pp. 240-244.

rate of profit is determined by the average composition of social capital. The relative decrease of variable capital requires more total capital; this increase of total capital leads to relative overpopulation and to a decrease in demand coming from an increasing population. Because of the decreasing rate in the use of variable capital, on order to employ more variable capital the total capital must grow faster than in proportion to its higher composition. An increasing capital is necessary to employ more labor and therefore the fall in the rate of profit is not the result of an increase in capital.

Due to the development of productive powers every commodity absorbs less labor from both constant and variable capital. The price of this commodity falls but the profits from individual commodities may increase if the rate of absolute surplus value grows. While a commodity may require and obtain less labor, the unpaid portion of it may grow; the mass, however, of unpaid labor, due to labor economy will decrease independently of the ratio between paid and unpaid labor. Fall in the price of a commodity does not prove anything about the rate of profit, only total capital invested in its production will determine this. The reduction in the price of commodities does not mean a reduction of profit as the traditional economists assert ¹.

2. The fall in the rate of profit is the result of the great expansion of fixed capital. But why profits do not fall any further? There are forces that change the fall of profits to a tendency to fill. These forces may be summarized as follows: a) maintenance of longer working days and increased intensity of work; b) the value of constant capital increases slower than its volume; c) reduction of wages below their value; d) overpopulation which while on the one hand cheapens labor, on the other, it is accompanied by new lines of production which use more labor; e) foreign trade has a tendency to lower the value of constant capital and raise the rate of profit. As a whole, according to Marx, the rate of profit falls because labor becomes more productive and not because wages rise ².

3. The rate of profit makes the rate of surplus value appear lower than it is. S , the total amount of surplus value tends to increase while $s : C$, the rate of profit is constantly declining because C grows faster than s . The limits of surplus value, given the existence of the means of production and the accumulation of capital, are established by the

1. *Ibid.*, pp. 248-281.

2. *Ibid.*, pp. 272-281.

working population. Surplus value is the first aim of the capitalist process; different forces determine the production of surplus value on the one hand, and its realization on the other. It is the productive power that determines the first, while the consuming power determines the second. The tendency to accumulate reduces consumption. The rate of profit falls, not because the worker is less exploited but because less labor is exploited in comparison to capital.

The productive power of labor becomes manifest through the absolute magnitude of the accumulated capital and the smallness of capital invested in wages in comparison to total capital. Surplus value is determined by its rate and the magnitude of variable capital, but the rate of surplus value rises while the number of workers falls. Through the counterbalancing factors the fall in the rate of profit can be reduced but it cannot be prevented entirely.

The expansion of capital depends on the expropriation and the impoverishment of the great mass of producers. With the fall in the rate of profit the minimum required capital grows and is followed by faster accumulation; increased accumulation leads to further fall in the rate of profit. The fall in the rate of profit could lead to an absolute decrease in the mass of profit if the labor force and therefore the surplus value could not be increased.

A competitive struggle between old and new capital takes place accompanied by a rise in wages and fall in profits. While there is overproduction, demand is not satisfied because the surplus product is not offered to consumption but it is transformed into capital for expansion purposes in favor of the capitalists.

Expansion or contraction takes place in comparison to profit and not to human needs. Production stops where there is no profit. Increase in productivity means that the share of past labor increases while of present labor decreases. Fall in the rate of profit does not occur because of capital accumulation but because of alterations in the organic composition of capital. The limit of the capitalist production is determined by the surplus time of laborers. What is of importance is not the magnitude of spare time but the increase in the surplus labor time.

Growing accumulation leads to growing concentration and growing control by the capitalists over the worker. All methods that lead to cheapening of commodities lead to reduction of labor absorbed by individual commodities ¹.

1. Ibid., pp. 282-311.

D.—1. Trading capital should not be confused with industrial capital. Total capital is distinguished into commodity capital and money in the market; both are ready to be converted to one another. The commodity capital in the process of circulation becomes commercial or financial capital; commercial capital is a section of circulating capital, it does not include buying and selling among industrialists. The merchant must own money capital; he operates in the process of circulation. If the merchant cannot sell, the manufacturer cannot proceed with production and stagnation is the outcome. What was an incidental function of the producer becomes the main function of the merchant. The merchant becomes an independent agent of circulation. This independence is achieved through the advance of money capital by the merchant. The money required by the capitalist after the intervention of the merchant is less; the merchant promotes turnover. The merchant does not produce surplus value but surplus value may be increased through the decrease of the time of circulation ¹.

2. Since circulation is a part of the reproduction process, the capital involved in it must have a share of profit which must be a part of the surplus value. In the case of the manufacturer we have the difference between the cost price and the value of the commodities being equal to the total quantity of labor minus the paid quantity of labor. The profit of the merchant comes as a share to his capital which is added to the industrial capital. The merchant shares in the profit by buying the commodities below their price of production. The difference between what he pays and this price is his share to the invested capital. What goes to the merchant as a profit is part of the average profit. The profit of the merchant is included in the price of production, the merchant's capital is part of the industrialist's capital. The merchant anticipates the consumer; the cost of circulation does not add anything to the value of the commodity. Expenses of circulation increase the share of profit of the merchant and decrease that of the capitalist. The value of the workers that the merchant uses is determined by their cost of reproduction and not by the product of their labor; they do not produce surplus value for the merchant. The workers which the merchant uses are paid on the basis of cost and not on what the merchant makes. These workers are the result and not the cause of increase of the surplus value ².

1. Ibid., pp. 314-330.

2. Ibid., pp. 331-355.

3. Merchant's turnover that involves buying and selling is slowed down by the slow process of production, it is also limited by the velocity and volume of individual consumption. It may be speeded up through credit disposal of commodities. The turnover also depends on the phase of the business cycle. Merchant's profit is determined by the magnitude of capital advanced by them¹.

4. The independence of commercial capital that takes over the circulation part of the reproduction process converts capital into financial capital. In the form of money it performs the financial operations of both the industrial and commercial capitalists. Financial capital is unemployed capital waiting to be put to work. It performs all technical operations and serves as a reserve, it is in the hands of money dealers.

E.— 1. Capital, thus, is invested either industrially in the field of production or commercially in the field of circulation; but, no matter how it is invested it earns annually the same average profit in proportion to its size.

Money enables the capitalist to extract an amount of unpaid labor, surplus value, from the worker and appropriate it to himself.

Money has a use value as money and also a use value in its capacity as capital. Interest is a part of profit. When the loaned money comes back to its owner it returns increased by a part of profit. Capital exists as capital only during the process of production when labor is exploited; in the case of interest earning, the owner of money makes a commodity of it; its alienation and return are the result of a legal transaction; the capital not only must be preserved but it must also increase by the rate of interest. The use of money capital is relinquished to the industrial capitalist; what is returned as interest is part of the profit that this capital is able of producing. The borrower buys a use value which after its use must be returned increased by interest.

Interest is not price because price is the use value of a certain commodity expressed in terms of money; while interest expresses the self expansion of money capital. There is no such a thing as natural rate of interest, this name is given to the rate of interest and it is considered as being determined by competition.

Interest is a part of profit which the industrial capitalist passes to the money capitalist. If there is constant relationship between profit

1. Ibid., pp. 357-368.

and interest then the movements of interest follow the movements of profit. A low rate of interest corresponds to prosperity conditions. The rise of the rate of interest during depressions is explained by the pressure to meet payments. The rate of interest has a tendency to fall for two reasons, first, increased savings and second, the development of the credit system. If the rate of interest is determined by the rate of profit this is the general rate of profit. The stability of the rate of interest is explained by the stability of the general rate of profit which varies only at long intervals.

In contrast to the average rate of interest there is the market rate which is determined by the supply of and the demand for loanable funds. The forces that determine the market rate of interest are different from those that determine the general rate of profit, namely, the proportion of surplus value to total capital; ¹.

2. The distinction between industrial and money capitalists transforms part of profit into interest. The rate of interest is created through competition between these two kinds of capitalists. Profit is divided into interest for the lender and whatever is left is the profit of the productive capitalist. If profit is given then the rate of profit is determined by the rate of interest. If all capital was in the hands of the industrial capitalist, there could be no rate of interest. Profit of enterprise does not stand opposite labor but opposite interest. Interest is a relation between two capitalists; this relationship makes profit look as wages of superindependence which makes it look identical to exploited labor and not as labor of exploitation. This confusion is attributed to the antagonism between surplus and interest; ².

3. Interest is not the product of social relation but a mere thing. Credit is the product of circulation of commodities between producers and traders, the other side of credit is when it appears as a function of bankers. Credit reduces the cost of circulation by eliminating money and by accelerating the circulation of the circulating medium. Through the concentration of capital in the hands of few, credit increases more and more the share of these few. Through the credit system, capitalist private enterprise is transformed into capitalist stock companies. Through credit the violent eruptions of antagonisms are accelerated and lead to disintegration of old methods of production ³.

1. Ibid., pp. 397-431.

2. Ibid., pp. 435-457.

3. Ibid., pp. 460-522.

4. In the process of production delays take place. The limit of commercial credit is determined by the needs created by these delays. In case of large scale production credit becomes indispensable; credit grows with the growth of industrial capital, it helps both production and circulation and it is contracted because of reproduction stops and lack of confidence in the process of reproduction, when the demand for credit decreases.

Not every accumulation of money capital indicates an expansion of the process of production. Increase of loanable capital in periods of crisis shows that industrial capital is idle, less currency is required, discounting decreases. Expansion of money capital does not mean growth of productive capital; it just keeps low the rates of interest. When prosperity comes, credit expands and the rate of interest is low because of abundance of loanable funds. Expansion of fixed capital causes increase in the rate of interest. When the new crisis comes, credit suddenly stops, payments are suspended, production is delayed, industrial capital remains unemployed and there is no loan capital¹.

5. To what extent accumulation of money capital coincides with actual accumulation, namely, «the expansion of the process of production»². After a crisis loan capital appears as unemployed; as expansion develops, employment of money becomes greater but at a very low rate of interest. When loanable funds are plentiful, this reflects stagnation of industrial capital and the system is independent from banking credit. Accumulation of loanable funds continues as long as the rate of interest has not reached the rate of profit. Thus loanable funds are independent of actual accumulation. The loan capital accumulates at the expense of both industrial and commercial capital. The source of accumulation of loanable funds is actual accumulation³.

6. Money capital, when considered independently of the process of reproduction, is loanable capital and as such is not reproducible. Money capital, for a certain period, is transformed into loanable money capital and the banker seems to be dispenser of blessings because capital does not appear as an advance on the part of the capitalist but as a loan on the part of the banker. Another source of accumulation of loanable capital is the fall of prices of the means of production; it also originates in the merchant when his business slow down; another

1. Ibid., pp. 559-579.

2. Ibid., p. 580.

3. Ibid., pp. 580-592.

source are the holdings of people retired from reproduction. The size of profits and the expansion of the process of production determine the rate of profits that will become loanable funds. Abundance of loanable funds proves that capitalist production has its limits.

A high rate of interest may prove a high rate of profit but it does not prove a high rate of profit of enterprise. In times of crisis the demand for money capital increases and with it the rate of interest but the demand for industrial capital falls. The demand for labor does not determine the rate of interest, the latter is determined by profit; the demand for labor leads to the demand for capital and to this extent it may lead to an increase of the rate of interest.

One of the prerequisites of capitalism is the subordination of interest bearing capital to the industrial capital. The creation of banking took away from the hands of the individual capitalist the distribution of capital but in its turn banking became the instrument of crisis and swindle¹.

F.—1. The sixth part of the third volume of capital is devoted to the explanation of how a part of the surplus value falls in the hands of the land-owner. Ownership of land and profit characterise the activities of the land-owner. Ownership is exercised on the basis of certain legal rights. Land capital is incorporated in the soil and it belongs in the group of fixed capitals. Interest on capital invested in land improvements should not be confused with ground-rent. Ground rent is land money paid to the landowner. Ground rent should also not be confused with surplus product, it is conditioned on the existence of private property; it should not be also confused with other forms of rent. Ground rent is the product of surplus labor, not a part of profit but a surplus over and above profit. It advances with social advance, it develops with the market of the products of the soil. It does not depend on farm population only but also on changes in the entire population².

2. The next form of rent is differential rent. Normal profit, not due to accidental fluctuations is the difference between the individual price of production and the general price of production. This surplus profit may be due either to greater size of capital employed or to its more improved application. In the case of agriculture, control over natural power may be the reason for increased productivity. The sur-

1. Ibid., pp. 593-718.

2. Ibid., pp. 720-749.

plus profit here becomes ground rent, it falls in the hands of the land-owner. This rent is differential because it does not enter the price of commodities but it is based on this price. It is the difference between the individual and the general price. The natural power is not the source of surplus profit but the basis which permits increase in the productivity of labor. Ownership does not create surplus value it just creates a claim.

The first case of differential rent appears as follows: Different lands of equal area each are cultivated. On each section equal quantities of capital are applied. The outcome is unequal results. The difference is due to difference fertility of each section and different location; (Ricardo case). The price of production of the worse soil is the regulating price. The source of differential rent here is difference in natural fertility.

Differential rent may develop not only through progress to worst soil, as Ricardo, Malthus and others indicate, but also through progress towards better soil; the general rule in differential rent is that market value stands always above the price of production of the mass of the product. Differential rent also depends on the number of acres of each soil under cultivation.

Differential rent appears also when different quantities of capital are applied on equal soil. Here, to different fertility, which appears in the previous case is added different distribution of capitals. In this case different fertility is due to different quantities of capital, applied on the same soil; in the previous case we have the same amount of capital applied on different soils of equal magnitude. The characteristic of differential rent in the second case is the decreasing fertility of successive investments of capital¹.

3. Differential rent is examined first under constant price of production, second, under falling price of production and third under increasing prices of production. In the first case, if the additional capital produces in any of several soils no more than the same capital invested on the worst soil, which means that there is no rent, then the effect of rent is zero. If the additional capital invested increases production in proportion to the magnitude of each soil, then production increases in proportion to the fertility of each soil. If we have surplus profits at a decreasing rate, additional investment will lead to additional profits at a decreasing rate. In the second case, the price of production may fall because of additional investment which either may not change

1. Ibid., pp. 787-799.

productivity or it may increase or decrease it. If productivity remains the same, then production increases in proportion to the increases of capital. If, as a result of increased capital investment we have increase in productivity, then the new capital will be invested to this marginal or better soils. If it decreases, then a part of ground under production will be abandoned. The third case, increasing price of production, presupposes decrease in productivity¹.

4. The worst soil does not produce ground rent. To have ground rent there must be a difference between the individual price of production and the price of production that regulates the market. Rent is neither wages nor reduction from the average profit of capital, it can appear only by selling the product above the price of production. This gives surplus profit which is kept by the tenant if there is no landlord.

The general price would be the price of production (including profit) plus rent. Ownership does not create ground rent but the owner may withdraw land from cultivation and hold it until it yields rent. Land will come back to production if the market price rises above the price of production. Selling above the price of production does not mean that we sell above the value of the commodity; we assume the existence of an excess value of agricultural products over their price of production. This, however, is not sufficient to explain ground rent, which has nothing to do with differential rent, but is independent of soil differentiation; ground rent is an absolute rent, it is justified by the institution of private property and for it to exist the product must be sold at a price which is higher than the price of production. The absolute rent is found in this difference. The limit of this difference is the value of agricultural products. Thus, absolute rent is the result of the excess of value over the price of production.

Absolute rent consists of different amount of surplus value produced by equally large capitals in different spheres of production on the basis of the capitals' average composition. Ground rent is a surplus, over surplus value, which is difficult to explain. It is an excess over the net products of other lines of industry².

G.— 1. Capital is not the sum of the means of production but means of production converted into capital. Land, is an unorganic

1. Ibid., pp. 800-844.

2. Ibid., pp. 867-930.

thing and value is labor. Wages, ground rent and interest are parts of value; land does not produce value.

The traditional economists do not understand that their point of departure is made up of three incombtable propositions : namely, first, land, a use value, is supposed to be proportional to rent which is an exchange value. Second, if coitali is the total of values, how interest which is above the total, appears? If it is a part of the total, how the same thing can be above this total? third, the expression price of labor contradicts both price and value because price is an expression of value. Reference to the price of labor indicates misunderstanding of the concept of value. Surplus labor is the characteristic of capitalistic production, it is the result of force, expropriated without the return of an equivalent.

Surplus value is divided among the capitalists on the basis of their invested capital; a portion of this surplus value is taken away from the capitalist by the landowner. Rent has not been deducted from profits, profits of capital and ground rent are particular constituents of surplus value. Labor receives a portion of his work which we call necessary labor. There are three revenues wages, interest and rent; labor, capital and land, appear as their respective sources. This is the approach of everyday economics. Labor capital and rent are considered as the sources of the value of the product. It is not understood that value and surplus value are the results of the process of production, it is believed that the point of their origin in the process of circulation. Surplus value is not associated with the capital advanced for production but with the total capital, an association which confuses the issue¹.

It has been pointed out that average profit plus rent are equal to the surplus value, they can be smaller but never larger. Wages on the other hand are equal to the variable portion of capital. Thus, we have the following formula :

$$\begin{aligned} \text{Total value} &= \text{value of wages} + \text{profit} \\ &(\text{interest} + \text{profit of enterprise}) + \text{rent.} \end{aligned}$$

This is divided into necessary labor and unpaid labor. Unpaid labor represents seurplus value which is equal to profit as defined above, (that is profit = interest + profit of enterprise) + rent. From this formula the value of the contant portion of capital is missing; the part which is missing is that part of the total value which is not reproduced

1. Ibid., pp. 948-964.

annually and therefore is missing from the part of total value which is created annually. Thus we must correct the formula which becomes :

$$\text{Total value} = \text{wages} + \text{profits} + \text{rent} + \text{portion of the value} \\ \text{used from the fixed capital}$$

Where the labor for the reproduction of this missing portion comes from? From the social point of view the national income includes wages plus profits plus rent which is equal to gross output. This gross output is equal to constant plus variable capital plus interest and profit.

Gross output minus the total output which replaces the total capital advanced and consumed in production is equal to gross income; and net income is equal to surplus value which is the output after the deduction of wages.

The traditional economists do not make any distinction between gross product and net income. The value of each product contains a part of constant capital consumed in its production, variable capital and surplus value.

Additional labor adds new value and preserves the old, without producing the old value again. This is not understood by traditional economists. The part of value representing the constant capital consumed is lost in their analysis. For the Classics, the value of commodities consists of the total of wages, profits and rents and these have to be determined by the value of commodities.

Of the additional labor only small part is used for the reproduction of constant capital. A part of the value of the new product is not a product of the new labor but the product of previously existing and consumed constant capital. Profit is not the source of new capital, this source is the surplus value and it is formed through a change of one form to another¹.

2. The value of commodities is equal to the portion that replaces constant capital, plus the portion replacing variable capital, plus surplus value. Wages, profits and rents are distinguished from the constant portion. These three forms are not independent constituents of value from which the value of commodities is derived. They alone do not constitute the price of production. The quantity of value to be distributed for wages, profits, and rents is given. Its limit is the quantity of unpaid labor. The price of each of the three parts is independently determined. The price of commodities is formed by the addition of

1. *Ibid.*, pp. 969-990.

these three independent magnitudes but the value of the commodities exists first.

The demand for labor originates in the supply of capital and capital consists of commodities the value of which is determined by wages. Wages are an element of the price of commodities; we cannot determine wages by the existence of capital because capital is determined in part by wages.

The price of commodities is determined by the necessary price of labor, and the average rate of profit. Competition affects the rate of profit to the extent it affects the price of commodities. Competition removes inequalities among the different rates of profit, profit must exist, it is not created by competition. Competition cannot explain, it must be explained.

Circulation cannot create profit, the value of the commodity is determined by the quantity of labor contained in it, while the value of wages is determined by the price of the necessities of life. For the traditional economists is not production (commodities) minus the means of production consumed which is divided into wages, profits and rents. For the traditional economists wages, rents and profits seem to originate in labor, land, and capital which is a mistaken idea the origin of which is traced in the institution of ownership¹.

3. What happens in the final analysis is that a new value is added and is divided into three forms of revenue distributed among the owners of the factors of production. This form of distribution is a mistaken statement; what really happens is that the product is assigned to capital and revenues. The basic characteristic of capitalistic production is that distribution is a condition of production and profit a condition of reproduction.

IV. CONCLUSION. The purpose of this article, which is part of a larger work, is to present Marxian economics as a sequence in the development of the science. It was very difficult to do it, in the case of Marx because of the way *Capital* is written. I attempted to present the line of thinking in such a way that it will be much easier to detect the deviations from, and additions to the existing doctrine (existing at the time of Marx's writing).

As we observed, in the first volume of the *Capital* Marx gave his interpretation of the origin of profit which led to the understanding

1. Ibid., pp. 992-1020.

of the general law of capitalist accumulation. The capitalist wealth is not explained either as a compensation of the capitalists for work done or as the result of cheating but as an exchange between capitalists and workers¹. The first volume is considered as containing the main features of Marx's scientific achievement.

In the second volume Marx discusses the process of circulation. He follows the capitalists in the shops and in the stock exchange. This part of the life of capitalist is spent in the sphere of commodity exchange.

The third volume deals with the concept of average profit. The answer also is given to the question how the distribution or the product of exploitation takes place among capitalists. Thus the second and third volumes of the *Vapital* are indispensable for the understanding of the Marxian system. The second and third volumes develop the embarrassing questions that are raised as a result of what was said in the first volume. Many times the criticism of the capitalist order leads to embarrassing dead ends to which Marx, the critic has pushed himself.

Socialists of all denominations are interested to the answers given in the first volume on basic questions such as «the origin of surplus value, and the socialization of the process of production»². It is not surprising that a knowledge of capital among the socialists of all ranks is restricted to the first volume.

During Marx's time a good deal of prevailing economics «was nothing but the ideologie of the industrial and commercial bourgeoisie»³. Marx, attacked what they seem to him to be blind ideologies without realizing that he was building the same thing he was trying to destroy, a blind ideology, and as Schumpeter puts it he did not do anything but camouflage his own ideology «in an atmosphere of prophetic trash» which makes it look different⁴.

We must recognise, however that his contribution is distinguished because he is the first to work out a model of the capitalist system. His analysis is evolutionary under the real meaning of the term that the period produced⁵.

Critics of the Marxian analysis have indicated several shortcomings-

1. Franz Mehring : *Karl Marx : The Story of His Life*; Translated by Edward Fitzgerald; Edited by Ruth and Heinz Norden, Covici - Friede Publishers (New York 1935) p. 391.

2. Rühle, op. cit., p. 358.

3. Schumpeter : *Economic Analysis*, pp. cit., p. 35.

4. Ibid., p. 384, note 1.

5. Ibid., p. 441.

such as it does not deal with the problem of demand; in the theory of value he does not deal with the problem of marginal analysis and, compared with contemporary analysis his theory is rudimentary indeed ¹.

All this may be true but the fundamental error of this criticism is that it is made at a stage where economic science is a mature science in comparison with the conditions which existed during Marx's time. The nature of this criticism takes us away from the main points of Marxian weaknesses as they develop in his theoretical structure.

He was attempting to establish scientifically the inevitability of socialism, and therefore his scientific planning was biased towards a foregone conclusion. It is at this point where we must look for all Marxian absurdities. But in the process of his investigations he made pregnant theoretical remarks, hints and criticism, the most valuable of them being the shaking up of the stagnating waters to which the work of the Classics had brought the science of economics.

Bethesda, January 1963

1. M. M. Bober: *Karl Marx's Interpretation of History*; Harvard University Press (1948) 2nd edition; p. 404.