

Capital

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If asked, a Wall Street banker would likely equate their 'capital' with money available for investment. In its physical form, this notion of capital would amount to pieces of paper or digits on a computer screen organised to maximise the return for investors. 'Make your money work for you' is a common refrain from investment bankers to those fortunate enough to live off their assets. For your average manufacturer, capital may refer to the machinery, transport vehicles and stock in their warehouses. In this case, capital is the physical assets used by the manufacturer to make a profit. For your typical landlord, capital takes the form of land and buildings let out to make a rent. All of this fits nicely with the prejudices of bourgeois economics, moreover, which argues that production only happens when the owners of these various factors (land, labour, capitals and enterprise) bring them together. From this perspective, there are four *independent* factors of production each with a given contribution and each entitled to a given income.

Marx's aim is to smash through these various illusions by showing the differences between labour and the other factors. His point is that physical items (paper, metals, bricks and mortar) cannot *create* new profits, but they can allow the bourgeoisie to *capture* profits from working people. A billion euro would be useless on a deserted island for example, but achieves the seemingly occult property of delivering profits in a society based on hiring workers. It is as if money multiplies itself by itself, profits come directly from machinery and rents are pulled up out of the soil when in fact, they come from the exploitation of human labour power. Marx parodies the bourgeois perspective in his critique of the so-called 'Trinity Formula', before

showing that it is via the ownership of their property that capitalists get a portion of other people's labour.¹

In one of the most famous sections of *Capital Volume One*, he also points out the effects of the bourgeois economy on peoples' conceptions. Under exclusively bourgeois conditions, economic relationships between people become mediated through the relationships between their products.² This has the important psychological effect that people often credit these commodities with magical powers – they fetishise them – including the ability to create new profits.

Capital is a Social Relation

Volume 1 of *Capital* starts with an analysis of commodities. This is partly to highlight the dangers of fetishism and partly to develop the categories needed to explain the social roots of the capital-wage labour relationship. Adam Smith and David Ricardo created important staging posts for scientific economics by developing earlier versions of the *Labour Theory of Value*.³ Yet despite his achievement, Smith's analysis actually moves in what Marx calls 'a perpetual contradiction'.⁴ In his better moments, Smith traces the inner connections between the classes by rooting the incomes of landowners and industrialists in deductions from value created by labour. This is the correct – non-fetishised – way to understand these relations. But Smith also wanted to argue that under capitalist conditions, industrialists and bankers provided a service and deserved to be paid. This opened the door to later apologists, by making it look like the incomes of the bourgeoisie are arrived at independently of their workers.⁵

On this question at least, Ricardo's analysis is more consistent. He insists on rooting the incomes of the other classes in value created by labour – even accepting that this leads to class based conflict over its distribution.⁶ But at the same time, Ricardo remained

unable to explain how firms with *different amounts of labour* and capital all make the same rate of profit.⁷ This threatened the credibility of classical political economy and with it, the scientific basis of economic theory. To explain these phenomena properly, Marx begins with the relationship between bosses and their workers. In the early sections of *Capital* volume 1, he accepts that all participants meet as equals in the market place. This throws up a puzzle however, as the owners of capital continually get richer from a process that starts with buying commodities at their proper (labour) values and selling them on at their proper values. The secret to this is the interaction between capital and wage labour *in production*, but before he gets there, Marx looks at their interaction *in the labour market*. Unlike the utopian socialists he refuses to see this exchange as based on theft or outright swindling. That said, there is a power asymmetry that helps to set the terms of the contract. The bourgeoisie enter labour markets equipped with monopoly ownership of the means of production. This gives them the power to hire wage labourer's who are forced to sell their ability to work in order to survive.

Despite this vulnerability, Marx argues that workers generally receive the full value for their labour power, based on the amount of goods and services they need to reproduce themselves (and their family) on a daily basis. But labour power now becomes the property of a capitalist who consumes it in a factory, warehouse or office block. At this point the shallowness of the formal equality reveals itself, as capitalist workplaces are deeply hierarchical and highly authoritarian. Marx registers this shift in power dynamics by arguing that as they enter production 'the money owner strides out in front smirking with an air of importance, whilst the worker holds back like one who is bringing his own hide to market and has nothing to expect but – a hiding'.⁸ Marx's next job is to show exactly how this hiding is administered. Although the worker is paid the full value of their labour power, there is nothing in the legal code that prevents the capitalist from keeping them at work for more hours than those needed for the boss to recover this initial investment. On the contrary, capitalism only makes sense if the employer can make more money than they start with – achieved by extending the working day beyond that necessary to pay for labour power and other forms of capital investment. Labour power in use creates

more value than it costs in exchange with the capitalist classes pocketing the difference. Marx goes into much greater detail, but the essence of his argument is that the entire surplus value, from which wages, rents, profits and interest are paid, comes from the initial value created by the working classes. This leads to two extremely important conclusions. The first is that 'capital' is best understood as money used to create more money by employing the services of the working classes. In other words, capital is *a historically specific social relationship*. The second, is that capitalism is an inherently exploitative system, characterised by one class doing all the work and another class benefitting economically and politically.

Accumulate, accumulate!

The central logic of capitalism is accumulation. Private firms produce goods and services in order to make a profit, which in turn, is used to restart production with a higher level of investment. Marx captures this ceaseless chasing after profitable investment with the following symbols

M....C....P....C....M (plus m)

M'....C'....P'....M (plus m) etc.

Where: (M) = Money (C) = Commodities (P) =

Production, and (M') = More Money.⁹

In earlier societies, people produced to meet various social needs, but under capitalism production takes on a logic of its own. To explain this historically novel situation, Marx highlights two central aspects of the capitalist economy. From an individual perspective, successful accumulation promises vast power, wealth and influence. This is enough to attract plenty of people into business, but there is a more powerful social drive that Marx wants to emphasise. Capitalism is an inherently competitive system with multiple employers all fighting to exploit the labour of the working classes. Making profits is essential to remain in business, but so too is the drive to increase investment on an ongoing basis. Firms that don't accumulate capital risk going under, as their rivals will eventually make superior goods more efficiently. Corporate profits must be re-invested and this creates the central drive of a capitalist economy. It is to capture the insanity of production for production's sake that Marx writes his famous words 'Accumulate, Accumulation – This is Moses and the Prophets'.¹⁰ The

upshot is a relentless process that increasingly re-organises the experiences of people under capitalism – starting with their lives in the factory or the office. For Marx the obvious struggles between workers and employers is made intelligible by the fact that capitalism creates a clash between two sets of rights – the right of the employer to use the commodity they have paid for and the right of the worker to sustain her labour power from overwork and exhaustion.¹¹

In a clash of rights, power prevails and so the class struggle was originally extremely sharp around the hours and intensity of the working day. If capitalists extend the working day beyond the amount of time needed to reproduce labour power (say the first 6 hours) they benefit from what Marx defines as *absolute surplus value*.¹² If they reduce the amount of time during the day needed to reproduce the value of labour power (say from the first 6 hours to 3 hours) Marx argues that the reward is *relative surplus value*.¹³ Capitalists have an incentive to do both, but as the system developed there has been much more focus on creating relative surplus value by making workers completely subservient to capitalist machinery.

In the early phase of capitalist development the owners of capital set out to collect their workers under one roof. They also supplied them with basic tools to ensure a labour process capable of creating surplus value. This phase was characterised by a division of labour and handicraft manufacturing but not yet the widespread use of modern machinery.¹⁴ For Marx, capitalism really only finds its feet with the introduction of machinery and large-scale industry. This helped to strip the working classes of their skills and made them more interchangeable in the labour process. It also increased the intensity of work and made labour increasingly productive.¹⁵ The drive to accumulate included making workers subservient to the tools of the capitalist, but there can be no mistake that this is a social relationship between classes of people mediated through machinery and money. To protect themselves workers fought back, organising into unions and creating political parties that would push their rights in the national legislature. Thus continued the struggle between the major classes, with capital hell bent on accumulation and workers out to protect their lives, limbs and personal liberty.

Breakdown and capitalist crises

If Volume 1 of *Capital* centres on the relationship between capital and wage labour, Volume Two focuses on the various categories of capitalists (industrial, merchant, financial) relating to one another through the market.¹⁶ Marx takes it for granted that surplus value is pumped out of the working classes at the point of production, but the process is not successfully completed until the goods and services that carry this value are sold on the market.¹⁷

Capitalists must enter the market with more value than they originally spent before realising this value through the process of exchange. So long as it hasn't been sold for example, a farmer risks losing the value of (souring) milk whereas her counterpart who has made a sale can reinvest and accumulate capital. There is thus an unbreakable unity between the production of value, the circulation of commodities, the realization of value and the accumulation of further capital.¹⁸ Understanding this enriches Marx's concept of capital as a system of competitive relations and class based social struggles.

Once Marx has outlined the difficult course that commodities have to travel, he turns to the possibility of breakdown and crisis. Volume Three of *Capital* is focused on major themes that have not yet been dealt with – the tendency for profit rates to fall, the place of land and landlords in a capitalist economy and the distribution of the surplus value between the various groups of capitalist parasites.¹⁹ Volume 3 is simultaneously the most concrete conception that Marx has of capital and the most subversive.

Against the various cheerleaders of the system, Marx argues that the heart and soul of the capitalist system – accumulation – is increasingly hobbled by a contradiction. The capitalist classes, taken as a whole, must exploit as much human labour power as possible if accumulation is to continue. The difference between the value of labour power and the value created by the labourer is the *only source of surplus value*, but the pressure of competition means that each individual unit of capital is incentivised to favour new technologies over new employees. Adding machinery makes the existing workers more productive. This increases the competitiveness of the most advanced corporations who can thereby claim part of the surplus value of their rivals.

New machinery simultaneously increases the amount of surplus value captured by those who introduce them and reduces the overall surplus value available in the system. This eventually puts a drag on the rate of profit and undermines the possibility of future accumulation.²⁰ A rise in the overall productivity of labour inadvertently causes falling profitability, economic crises and recurrent working class unemployment. This is the madness of a capitalist system that Marx implores the working class to overthrow by finally ‘expropriating their expropriators’.²¹

Conclusion

Marx’s achievement in his monumental investigation of the capitalist mode of production is threefold. In the first place he shows the reader who is willing to learn, that the common conceptions that we have of capitalism are often mistaken. Like all great scientists, Marx takes the surface appearances of his object of investigation and subjects them to relentless interrogation. This throws up his analysis of commodity fetishism and his insistence that, despite appearances, capital is a social relationship. Marx’s second great achievement is to scientifically explain the mechanisms of working class exploitation. Like no other book before or since, *Capital* reveals the need for a class conscious working class to get itself properly organised. This was the book’s single greatest merit, as Marx explained in the Afterword to the Second German Edition of Volume One, ‘the appreciation which *Das Capital* rapidly gained in the wide circles of the working-class is the best reward for my labours’.²² Marx’s final achievement is to show that as it develops, capitalism grows increasingly crisis prone and degenerative. Capitalism is built on an exploitative relationship that only sharpens as the system ages. This may have taken longer than Marx originally expected, but over the last thirty years or so, there is mounting evidence that capitalism is failing more and more people. The system is becoming increasingly unable to provide even the basics and the question for working people remains the same as it was in Marx’s day – will they put through the revolution capable of emancipating the whole of humanity or will we slip ever further into barbarism.

Notes

- 1 Karl Marx, *Capital: A Critique of Political Economy Volume Three*, London. Penguin Classics, 1981, p953.
- 2 Karl Marx, *Capital: A Critique of Political Economy Volume One*, Moscow, Progress Publishers, 1986. p76.
- 3 Adam Smith, *The Wealth of Nations Books I –III*, London, Penguin Classics, 1999; David Ricardo, *The Principles of Political Economy and Taxation*, New York, Dover Publications, 2004.
- 4 Karl Marx, *Theories of Surplus Value*, Vol IV of Capital: Part Two, Moscow, Progress Publishers, 1968, p165.
- 5 Ibid, p165.
- 6 David Ricardo, as above p81.
- 7 Ibid, p23.
- 8 Karl Marx, as above *Capital* Vol 2, p172.
- 9 Karl Marx. *ibid*, p125.
- 10 Karl Marx. as above, *Capital*, Vol1, p558.
- 11 Ibid, p225.
- 12 Ibid, p476.
- 13 Ibid, p476
- 14 Ibid, p318
- 15 Ibid, p351.
- 16 Karl Marx. *Capital, A Critique of Political Economy Volume 2*, London, Penguin Classics, 1992.
- 17 Ibid, p144.
- 18 Ibid, p15.
- 19 Karl Marx. *Capital. A Critique of Political Economy Volume 3*. London. Penguin Classics. 1981.
- 20 Ibid, p. 317.
- 21 Karl Marx, *Capital: A Critique of Political Economy Volume 1*, Moscow. Progress Publishers, 1986, p715.
- 22 Ibid, p22.