CAPITAL

Volume 3

by Karl Marx

Summary

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Chapter 1: Cost Price and Profit

- Vol 1 described the immediate production process
- Vol 2 described the production process as intertwined with the circulation process
- Vol 3 *"the process of Capital's movement considered as a whole"*

$C = c + v + s$

…where C = value of any commodity, c = constant capital, v = variable capital, s = surplus value

The cost of a commodity from the point of view of the capitalist is *not* what the product actually cost to produce. Why…? How…?

…Because surplus-labor costs the capitalist nothing at all. Capitalists regard the entire production process as a cost – to them.

Typically, capitalists bundle the surplus-labor in with constant capital as if surplus-labor was a cost to them. Like "employing" people for longer than is necessary to break even is a cost that capitalists shoulder themselves.[1]

Value vs Source of Value

When advancing Capital at the outset, capitalists regard labor-power as a "value" i.e. a use-value to themselves. Fine. But during the production process the labor-power is more than that, much more in fact; it is the "source of value" in the commodity.[2]

Lest we forget…

The capitalist mode of production is founded on slavery.

Why does society tolerate it? In broad terms, because in a social order dominated by capitalist production, even non-capitalists are dominated by capitalist ways of thinking. In narrow terms, because if working people became involved in estimating the value of their input into the production process, the society is convinced that the price of commodities would rise. On the other hand, if cost price was in fact what capitalists assert it to be – cost price and nothing else, then

[1] Karl is constantly trying to tease out the source of surplus-labor from the equation in an effort to prompt us to consider surplus-labor as a social phenomenon, not just a magical phenomenon or even a technical phenomenon.

[2] …and that, in K.M.'s view is where all the economist hocus-pocus and mumbo-jumbo comes from: M' as a mystical qualitity that somehow comes out of nothing.

it would be hard to justify profit. Profit from a sale includes obviously more than the cost price; it includes surplus-labor.[3] – *The fly in the magical mysterious ointment.*

[3] Karl's problem here is not just that capitalists take the credit for surplus-labor for themselves in the form of profit, but that capitalists have us believe that exploitation of working people is necessary as a social function – to keep idle people from becoming immoral and so on… And that is where he makes the connection between wage-labor and slavery – it was a similar argument.

Chapter 2: The Rate of Profit

The "product" in which capitalists are actually interested is the sale-price of the product over and above the cost price. All things being equal, the only way capitalists can make the sale price higher than the material cost of investment is selling something embodied in the commodity for which they did not pay, namely the surplus-time of working people.

Conditions for the realization of profit

Two conditions:

Capitalists must control the conditions of production AND be able to confront the citizens of a society as mere owners of their labor-power. And that is a social set-up involving all the institutions of the society.[4]

A double calculation standard

The actual rate of surplus-value is measured against the wages paid relative to hours worked. In other words, the longer the hours and the smaller the wages, the quicker the profit. But capitalists measure surplus-value in relation to the Total capital advanced so that it is easier to conceal, generalize, dilute. So, a society in which the dominant mode of production is capitalist *must* disguise the actual detailed ratios and inner connections beneath a fictitious notion of the production process as neutral, necessary, good and so on…

Profit is proof of social exploitation

Profit is an alternative method for calculating surplus value. They are precisely the same thing. The trick being to remove any trace of profit back to human exploitation.

Chapter 3: Rate of Profit and Surplus-value[5]

$$p':s'= v:C;$$

Rate of profit is to rate of surplus value as variable capital is to total capital.[6]

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[4] Karl's major beef here is that we are talking about people here, not just things, and he reckons that a civilized society ought to distingusish between the exploitation of things for human benefit and humans for human benefit.

[5] This chapter is a relatively detailed accounting for the connection between profit, surplus-value and labor-time. It uses lots of algebra but it is all derived from a simple formula.

[6] So, Karl is considering the double-calculation standard mentioned in the previous chapter and taking a closer look.

Therefore, a rise in wages reduces surplus-value while a fall in wages or an extension of or greater intensity of the working day both increase it.[7]

Chapter 4: The Effect of Turnover on the Rate of Profit

As described in vol 2 Ch. 7, 9 and 16, not all of the available Capital can be invested all at once because the capitalist has to shift the goods produced by one production cycle and withhold some Capital in order to follow it up with another production cycle and so on… As a rule, any reduction in the rate of surplus-value to Capital invested will result in an increase in the rate of profit.

Industrial Progress (def.) wherever production time is reduced together with an increase in surplus-labor.[8] Advances in communication technology have greatly reduced the circulation time and therefore the turnover time, which in turn, means an increase in the rate of profit.

All things being equal, the rate of profit is inversely proportional to the turnover time. So, if turnover time is reduced by half, then the rate of profit doubles. [9]

Conclusion: P'= S' v/c

Where P' is rate of profit, S' is surplus-value, v is variable capital; and c is constant capital.

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[7] *Yeah like duh!* But unmentionable in a capitalist dominated society. – N.C.

[8] "progress" to be sure for Capital but hardly progress for working people in terms of wages, free-time and so on…

[9] Karl then provides a detailed numerical analysis to demonstrate the direct relationship between turnaround time and rate of profit.

Chapter 5: Economy in the Use of Constant Capital

We know that increasing the working day i.e. surplus-labor raises the rate of profit, it also uses up constant Capital – depreciation of machinery, necessity for light, heat and so on. So, how to make the best economic use of constant Capital…

General considerations

Typically, constant Capital has use-value, not exchange value for the capitalist. In general, the larger the scale of production, the more value for money Capital gets for its investment. For example, in relative terms, providing light and heat for 400 people working 10 hours a day in a factory does not cost much more than it would for 200 people working 8 hours per day. Of course, Capital sometimes skimps and scrapes on such costs but that is more at the extreme obsessive end of the scale, what we are considering here is how Capital goes about making investments of scale while ensuring a rise in the rate of profit.

Cut-backs

Typically, capital does that at the expense of working people by cutting back on…

1 … health and safety: such as sanitation in factories and ventilation in dangerous industries like coal-mining.

2 … space: cramming more and more people into the same-sized factories.

3 … waste: upgrading machines so that they produce less waste AND finding other use-values for waste products.

Social innovation

New inventions, such as machines that can function more quickly also help, and new inventions are a social product of knowledge through the ages, combined with hard work and co-operation for which Capital pays nothing.[10]

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[10] That is a point that Karl makes frequently in all three volumes, and that is why he takes a "social" view of the production process as *everything* to do with society.

For example, the Riverdance show – a huge success all over the world which involves generations of innovation, cooperation, mom's hard work and so on … and yet who owns it? Certainly not the dancers who are constantly struggling for higher wages.

Chapter 6: The Effect of Changes in Price

We are concerned here mainly with fluctuations in the prices of raw materials, which actually go into the process of production of use-values. Obviously, the rate of profit rises and falls in the opposite direction to fluctuations in the price of raw materials, but no other factor affects the rate of surplus-value than fluctuations in the price of raw materials.

The Importance to Capital of Foreign Trade

Foreign trade plays a huge role in mitigating the effects of price fluctuations. The reason is that raw materials, most of which come from agriculture, are subject to sharp fluctuations from year to year due to weather and other elements affecting harvest yields. So, Capital relies heavily on options to source raw materials from as many sources as possible through local, bilateral and multinational agreements. It is easy, therefore, to understand the importance to industry of state abolition or reduction of import duties on raw materials. The problem for the working population is that once Capital gets its way in one area, such as the repeal of the Corn Laws, which abolished duties on cotton and other raw materials, it uses that momentum to reduce costs in other areas such as wages. Once the Corn Laws were repealed, Capital then immediately made its most violent attack ever on the Ten Hours Bill.[11]

Where Price Rises Benefit Capital

Rises in the prices of raw materials can be of benefit to Capital in relation to the raw materials it either already has in stock or in the production process at the precise time of the rise. On the other hand, falls in prices can benefit Capital as it seeks takeover opportunities among businesses that have gone bankrupt. In which case, Capital moves in and buys the current fixed capital of the business at a knock-down price, freeing up revenue for the expansion of the business or developing a new product line and so on…

[11] It says something to the argument that Capital returns kindness with kindness, which is a bit of a misnomer when the institutional aim of all private corporations and hense, their chief executives is to maximise profits, regardless of sentiment. To understand that situation we might be better off looking to the laws of physics e.g. the laws of motion rather than looking to the personal qualities of this chief executive or that.

Chapter 7: Supplementary Remarks

The bourgeois will not conceive profit as surplus-value i.e. as unpaid surplus labour for two reasons:

- They forget about the production process as soon as they circulate products in the marketplace.
- They look to other reasons, any reasons, for the source of surplus-value, and most particularly to their own individual actions.

Chapter 8: Different Capitals and Rates of Profit

As we have seen, a certain quantity of labor-power set in motion on a certain quantity of raw materials and means of production, yields a certain amount of surplus-value for capitalists. And this surplus-value is in direct proportion to the quantity of objectified labor-time of working people i.e. the labor-time for which capitalists do not pay them. We have also seen the lengths to which Capitalists go to conceal or obscure that equation.

A fair day's work…

Capital would like us to believe that equal capital investments yield equal profits[12], and the success of the situation is attributable to the character traits of capitalists themselves. But goldsmiths, for example, while being paid more than day-laborers, yield at least an equivalent of their wages in profit for the capitalist. So, in that sense, it is not the equality between investment and profit we are looking at here, it is the equality of exploitation of different labor-powers that yields varying profits from equal capital investments.

Global equality

Also, economists such as Frédéric Bastiat (1801-1850) assert that equal capital investments yield equal profits in different parts of the world.[13]

[12] That was in Karl's day. By now it is well understood that the rate of profit in one sector may be far greater than the investment, but now we attribute it to "calculated risk" on the part of Capital, not exploitation of labor.

[13] Bastiat: "the most supervicial and thus successful representative of vulgar ecomonics." – K.M.

Chapter 9: The Formation of a General Rate of Profit

The particular rate of profit remains the same regardless of whether the total profit is 10 on 100 or 1000 on 10000. But the general rate of profit per 100 units of social capital can vary greatly.

Determining the General Rate of Profit

The general rate of profit is determined by two factors: i) the different rates of profit in particular spheres of production that the capitalist invests in; and ii) the relative share of the total capital invested in each sphere. However, the general rate of profit can change with the value of commodities remaining constant, if the level of exploitation of labor changes.

Still Confused

Because the rate of profit is measured against the total capital invested, the capitalist believes the profit to arise direction from that total capital. That is all the capitalist needs to know or wants to know. Economists ought to know better but they don't. They too accidently miss the fact that the rate of profit is directly related to unpaid labor, not invested capital.

Chapter 10: The Equalization of the General Rate of Profit

For any given commodity, there is always a market value as distinct from the individual value of that commodity. And the individual value of a commodity varies from one producer to the next depending on their relative exploitation of labor.

Competition

Market price is set when different producers compete, both to set the highest price possible on their individual commodities, and lower their labor costs. But while supply and demand regulate market value, market value regulates supply and demand. So, when conditions are favourable for Capital e.g. downward pressure on wages, commodities can be sold at lower than their market value, and if conditions are unfavourable e.g. upward pressure on wages, commodities get sold beneath their market value. However, these extremes in conditions from good to bad typically balance each other out in time.

The Demand=Supply Myth

What happens when demand and supply coincide? Do we get a stable market price? Do profits rise or fall? The answer is that demand and supply never coincide, and if they do, it is by chance. The reason that is the case is because there is a very thin line between over supply and under demand and vice-versa. As soon as Capital notices a fluctuation in demand, it responds immediately but almost never proportionally, and so the result is over-supply or under-supply. The fact that the demand and supply meet at some point along the trajectory is incidental, they are always in motion in opposite directions.

Monopoly on Labor as a Whole

Whatever the case, and no matter the state of competition between capitalists, all of them aim to exploit the working class to the maximum, and they do that, not just out of class sympathy with one another, but also directly in an economic sense. With the result, the average rate of profit depends on the level of exploitation of labor as a whole by Capital as a whole. They understand that none of them can profit unless they all exploit the working class in at least one of three ways: i) by exceptional overwork, ii) by reducing wages below the average; and iii) by exceptional productivity in the labor applied. So the capitalist class, no matter how little love is lost among them are nevertheless united by a free-masonry in relation to the working class as a whole.

Chapter 11: The Effect of General Fluctuations in Wages

A general rise in wages means a fall in the rate of profit because Capital cannot simply raise the price of individual commodities without losing market share. Of course, a general fall in wages leads to a general rise in profits.[14]

Chapter 12: Supplementary to Chapter 11

The cause of a change in the price of production

The price of production of a commodity can vary for one of just two reasons only: i) a change in the general rate of profit, which may cause a capitalist to either increase or reduce the price of the commodity; and ii) a change in the cost of

[14] Why does Karl keep reiterating the obvious? Probably because while we hear arguments re: profit and arguments re: wages in the media for example, we rarely, if ever hear a discussion about the correlation between the two.

production of a commodity. However a change in the price of commodity A can always be counterbalanced by a change in the price of commodity B.[15]

The production price of commodities of average composition

Workers must work for a greater or lesser amount of time in order to buy back the commodities they produce, not necessarily because prices are rising and falling, but because Capital has a monopoly on the production process and the intensity of labor.

The capitalists' grounds for compensation

While a branch of industry, such as cotton production, can yield extraordinarily high profits at one time, it may bring very low profits or even run a loss at another. Capitalists soon learn to reckon with this experience by using both situations to argue for higher compensation for themselves at the expense of workers. Any opportunity to increase profit is, for Capital, an argument for compensation – an argument that simply folds out from itself alone. And while capitalists prefer to entertain notions of their individual talents as the source of profit, it is always at the expense of the working class.

Chapter 13: The Law of Tendential Fall in the Rate of Profit

The rate of profit shows a clear tendency to fall when exploitation of labor remains constant. So, if we look at say 100 workers and a total wage outlay of 100 pounds each week for the sake of simplicity, then as total capital rises, the rate of profit actually falls! This law is illustrated below:

Capital Invested [C]	Wages [V]	Rate of Profit As V divided by C
50	100	$66_{2/3}$%
100	100	50% ↓
200	100	$33_{1/3}$%↓
300	100	25%↓
400	100	20%↓

15 Example: when we are shopping and we see a commodity reduced by a certain amount, we can be sure that the reduction is counterbalanced by a proportional increase in the price of one or more other commodities.

So, we have an increase in mass of profit with increased investment, but a falling rate of profit. And it is the rate of profit that concerns Capital most. While economists perceive this phenomenon, they torture themselves in their attempts to explain it, even though the whole political economy since Adam Smith revolves around this puzzle. But because the answer to this simple puzzle resides in the direct exploitation of labor, it ceases to be a puzzle for economists. Capital, this law says, must either exploit labor more, or else make do with less labor, which means exploiting current labor more. So, rather than reveal the bad news, economists have, in the past, pointed out to Capital, the glaringly obvious – that profit is indeed increasing as capital investment increases. As mentioned, Capital is concerned with the rate of profit, and so remains unsatisfied, not to mention slightly insulted by this answer.

Interestingly, the law predicts that the smaller capitalists will make higher rates of profit than the larger capitalists. The larger capitalists respond by deliberately reducing the rate of profit with reduced prices in order to drive the smaller capitalists from the field.

Conclusion: in the field of competition, everything presents a false upside-down appearance.

Chapter 14: Counteracting Factors

Given that the rate of profit falls in direct proportion to the increased capital investment, it is interesting to wonder why the fall is not greater or indeed faster. Counteracting influences must be at work, checking and cancelling the effect of the general law and giving it the simple character of a tendency. This chapter outlines the most general of these influences:

1. More intense exploitation of labor

This point has already been developed in Volume 1 but it is namely the prolongation of the working day that accounts for the counter-balancing effect on the falling rate of profit. The introduction of female and child labor into industry deserve a mention too.

2. Reduction of wages below their value

This is a simple empirical point.

3. Cheapening of the elements of constant capital

The amount of work a worker can do with a given amount of raw material has grown by a colossal amount while the price of raw materials have not grown anywhere near proportionally.

4. The relative surplus population

The cheapness and quantity of available or dismissed wage-labourers has increased.

5. Foreign trade

Both raw materials and workers can be bought more cheaply and sold in an ever-extending market. Capitalists in a more privileged part of the world can sell more cheaply than those in less developed countries.

6. The increase in share capital

The availability of options for Capital to invest in unrelated industry has expanded greatly. So, a capitalist whose primary business is textiles can also choose to withhold a portion of the capital and invest it in some growing industry.

Chapter 15: Development of the Law's Internal Contradictions

To reiterate – the rate of surplus-value, profit, falls in direct proportion to the capital invested, but only if the level of exploitation of labor remains unchanged. Therefore, accumulation and acquisition by Capital accelerates the fall in the rate of profit. Reflexively, Capital invests more and more, which only accelerates the fall. Eventually, Capital comes to realise the fact indirectly in the form of signs of overproduction and over-speculation.

The Forgetful Economist

Economists too are reminded that the capitalist mode of production is not necessarily an automatic vehicle for ever-increasing wealth.

But rather than address the problem, which it is their job to do, they point the finger at some superficial factor such as increasing ground-rent as the cause of the problem. This diagnosis helps neither Capital nor anyone else for that matter, it simply diverts attention from the source of the problem, which persists regardless of a stabilization in ground-rents. Economists ought not to forget that the sole purpose of Capital is the accumulation of more Capital as profit – the quicker the accumulation, the better. Economists would do better to examine the question as to why immediate exploitation and the opportunity to realise that exploitation are not the same thing. That would help solve the problems of Capital far more than speculating about factors, other than profit, that motivate Capital in the first place, which is none of the economists' business.

Extension of Production vs Valorization

The purpose of capitalist production is the valorization of capital i.e. the appropriation of surplus labor for the production of surplus-value – profit. And while forcing workers to work harder can mitigate against a falling rate of profit, it cannot cancel it out. By the same token, taking on more workers leads to a reduction in the surplus population, which puts upwards pressure on wages. And while capitalists can cooperate happily with one another in the exploitation of workers, they do so as long as their rate of profit is rising. Any stagnation or fall in the rate of profit changes everything, namely the mind set of capitalists from the notion of making a profit to a making a loss. This slow-down in the rate of profit – the "loss", from the point of view of Capital, must be passed on to someone else – usually another capitalist. Alternatively, Capital may, as a class, decide to go "on strike" – leaving a portion of their Capital lying idle until the conditions for investment improve – always at the expense of the working class. And around the cycle it goes again: Investment > rising rate of profit > stagnating rate of profit > falling rate of profit > withdrawal of investment > worsening conditions for workers > Investment…

The Best Economists Can Do

In a Capitalist production system, the best economists can do is to look for ways to help Capital maximize its investments. And while they might be accused of being cold-hearted and unconcerned with 'human beings', it is precisely when they are doing their job – in a capitalist production system. It is these economists we can rely on most to inform us about what is actually happening in the economy in the present and what is likely to happen next i.e. Capital is going to recover its "losses" by one desperate measure or another – always at the expense of workers.

Chapter 16: Commercial Capital

Merchant's or trading capital can be organized into two subcategories: i) commercial capital; and ii) money-dealing capital. Economists tend to lump the two together while overlooking the characteristic peculiarities of both. Commercial Capital is that which is invested in the production of commodities which circulate in the market place. Capitalists first appear in the marketplace as money-dealing capitalists – purchasing raw materials, which they can either sell again as merchants for a profit, or they can convert these raw materials into products in their role as commercial capitalists. [16]

Chapter 17: Commercial Profit

Commercial profit is just a nominal increase in the price of commodities above their value – so say the economists. But that is just an illusion and it is not the way commercial profit is realized. Rather, commercial profit accrues from the purchasing of commodities below their market value and selling them on, unchanged, for a price that is higher than the price paid for them but lower or equal to their market value.

[16] This chapter elaborates on the process of circulation of capital as already described as M-C-M, C-M-C and so on… in **Error! Reference source not found.** p311 and **Error! Reference source not found.** p314

All that is assumed here is that the final buyer will pay a certain price for the commodities, a price that is no higher than their market value.

Of course, sometimes a capitalist can find another capitalist who will pay higher than the market price but that is the exception, not the rule.[17] Commercial profit, therefore, accrues from the savings a capitalist can make between buying commodities and selling them on, unchanged, to other capitalists. So, the capitalist aims to minimize costs such as storage, transport, security and so on… and if capitalists can minimize these costs then they stand to maximize their profit. But if these costs are so high that capitalists must seek another capitalist who will pay over and above the market price, then they tend to regard themselves as "stuck" with the commodities until factors outside of their control change for the better. Of course, credit can help – a lot! A would-be capitalist can enter the marketplace with no existing capital, and if it is possible to acquire commodities on credit, then a profit is possible nonetheless. But to assume that a final buyer will pay more than the market price for a commodity is to indulge in speculation of a fantastical sort.

Economist lah-lah land

Regardless, economists continue to tell us that capitalists as rational players in the market place find other non-rational capitalists in the market place who are somehow oblivious to market prices. It is hard to reason whether economists actually believe in this fantasy, but they peddle it nonetheless.

A Workers Perspective

From the point of view of workers who are working for a capitalist engaged in the merchant business, the wage relation between worker and merchant is much more strained than that between workers and capitalists in the traditional production sphere. Firstly, because the workers in this case do not add value to the product, they simply store it, watch over it, and then transport it on to another capitalist. Therefore, they have little bargaining power in relation to wage negotiations. Secondly, the merchants' only source of profit is the savings that can be made by skimping here and there as the commodity passes through their ownership and

[17] This argument goes back to an earlier argument about the source of surplus-value i.e. profit and to the odd notion among many economists that all capitalists somehow make their profits by finding other naïve capitalists who will pay higher than the market price.

onwards to another capitalist. And wages, being the most expensive liability for Capital will always be first in line for “reconsideration”, especially whenever things don’t run as smoothly as planned.

Chapter 18: The Turnover of Commercial Capital: Prices

Remember M-C-M? A merchant buys commodities, transforming money into Capital, and then sells the commodities, transforming capital into money. What matters in the economy is that commodities keep circulating, because when they stop circulating we have a crisis. Crises rarely make their first appearance at the manufacturing end or the retail end. Rather, they show up first in the wholesale stage with wholesalers unable to find retailers who believe they can sell the commodities on to consumers. When that happens for long enough, the wholesalers eventually default on their loans to the bank and to other creditors, and so we have a crash.

Sale Price Limits

There are two limits of a sale price: i) the production price; and ii) the average rate of profit. The merchant, while being concerned with both of these factors, has control over neither of them. In other words, the price of a commodity does not depend on how much average profit the merchant would “like” to make this year, and if average profit is falling, the merchant cannot typically increase the sale price proportionally without risking being priced out of the market. However, prices can be far more arbitrary when a group of capitalists conspire to make a definite profit in the coming year, and that is how prices are set artificially.

Profit and Price

From the point of view of the buyer of the commodity, it does not matter how the price is determined, as long as it seems reasonable.

So, while two producers might sell a commodity at the same price, one of them might be gaining 30% more unpaid labor than the other, which means 30% lower wages, which translates into 30% more profit, even though the price of the commodity stays the same.

Upside-down economics

If economics is to be respected as a science then economists need to focus on the inner workings of the economy in the necessary amount of detail. It rarely happens. Rather, economists observe some phenomenon, and rather than look for the inner workings and inner contradictions that might explain the appearance of the phenomenon, they extrapolate outwards into the world, ending up with a conclusion that sounds like sheer nonsense to Capital and fantasy to everyone else.

In other words, if economists cannot get with the idea that a science is there to decipher the inner details of what appears on the surface then they will never be able to predict what is going to happen next, and are therefore of no use to anyone.

Chapter 19: Money-Dealing Capital

A definite part of total Capital exists as autonomous universal Capital – money. It is autonomous because it can be used to pay for anything, and it is universal because all other capitalists accept it as payment. But M', although it is the goal of Capital, is simply the end result of one phase of circulation and the start of another phase. In other words, a capitalist reinvests M' in order to grow more capital and the process continues.

The Money Trade

While gold and silver as commodities forms what is known as the bullion trade in the form of "world money", national currency is also traded in the exchange business as it moves in and out of circulation. One national currency is expressed in another e.g. 1 dollar buys 0.64 pounds sterling, but it the bullion trade that determines the meaning of these values.

Money Dealing

As we saw in Chapter 3: Money, a portion of Capital must always exist as a "reserve fund" of money to make purchases and pay debts; that is the first form of a "hoard". The second form of a hoard is more temporary – it is that part of Capital that exists as money but only because it has yet to be reinvested. It is the hoard of money, in general, that makes book-keeping necessary. Money-dealing is most fully-developed when it is traded in the form of credit. The bullion trade is the result of the commodity trade, which determines the rate of exchange and the rate of interest in various markets. Monetary circulation as a whole is but the mere result of commodity circulation. On the other hand, the money trade does not buy precious metals such as gold and silver, but rather mediates their distribution after the commodity trade has bought them.

Nothing Special

We looked at M-C-M' and C-M-C' as special forms of circulation where money or commodities are exchanged twice in order to realise their value. Money dealing on the other hand has no such special form. Rather, it expresses the general form of Capital – M-M', and the person advancing M receives M + a bit more. But this trade in money involves the technical aspects of trade and exchange, not the material aspects.[18] The mass of money that money-dealers trade in is but the circulating money of the merchants and industrialists. But where do the money-dealers get their profit? Well, since the money dealers are dealing in values already realized in the exchange of commodities for money, their profit is a further deduction from surplus-value. In a Capitalist mode of production, all traders – merchants, industrialists and money-dealers alike make a profit from surplus-labor, as opposed to profit simply falling out of the sky as the economists might have us believe.

Chapter 20: Historical Material on Merchant's Capital

Economists, almost universally, are unable to explain commercial profit and its characteristic features. Rather, they tell us that production in general and capitalist production in particular are one of the same. Clearly, trade is older than the capitalist mode of production, but whatever the mode of production, be it feudalism, slavery or capitalist, it in no way alters the character of the products themselves. However, it is capitalism that transforms products into commodities, and from then on, economists continue to describe the system as if the transformation had not taken place. But now that it has in fact taken place, the entire purpose of production is to increase the wealth of the producers, and not just wealth but social wealth; meaning that Capital can now use its wealth to have an ever-greater influence on the society, not least to secure its own wealth and increase it.

Profit Upon Alienation

Once workers are forced to alienate their labor from themselves, the alienation of their products they produce follows. Capital is both foreign to and independent of production by workers. It is trade that transforms the products into commodities. Production is therefore a precondition of trade, and profit can be made only by acquiring labor that is unpaid. It cannot be made by selling commodities at higher than their actual values because as a rule, Capitalists do not pay higher than that market value for any product; and the market value is measured by the labor time that went into producing the product. In order for trade among traders to be

[18] Much of what Karl is talking about here is obvious, but each section of his thesis lays the ground for the section that follows, and that is one reason why he makes the obvious really clear. Another reason is because he notices that economists often leave out the obvious or turn the obvious into the opposite.

understood and developed, products, as mentioned, must first be transformed into some alien thing – commodities. And from that point on, the source of profit as surplus-labor is, as described in Volume 1, misrepresented, disguised and typically forgotten by both Capital and its economists.

Controlling the Narrative

As mentioned previously, production is a precondition of capitalist trade but capitalists do not control this precondition anywhere near to the extent they would like. In other words, capitalists need workers to work for a portion of the day for free in order to make a profit. Essentially, they rely on workers as the sole source of their profits. What Capital does try to control is the relationship between profit and production, that is, by making production wholly dependent on profit. So, if Capital cannot make the profits it would like, then it reacts back, to a greater or lesser extent, to the community on which it relies. And if the community will not put up with further defrauding and cheating, Capital flees, leaving the community without means of survival. That is why economic globalization matters most to Capital – because it allows Capital to exploit differences between countries at the expense of workers living in those countries.[19]

A System of Plunder

Commercial Capital always seeks to dominate the factors that influence surplus-labor as its source of profit. In all cases, Capital becomes directly bound up in a system of plunder, whether it is violent plunder – piracy, taking slaves, or the subjugation of colonies; or cosmopolitan plunder. For Capital to survive and thrive, communities must be torn to pieces and either die or work for Capital. The trajectory, whatever economists might like us to believe, is always towards worsening conditions for workers. However, in modern capitalism, it is not necessarily the immediate owner of a company, say, that causes the conditions of workers to deteriorate; rather, it is the merchants higher up the food chain that pocket the greater amount of surplus-value. The immediate owner of the enterprise is simply the middleman between the worker and the capitalist world. Therefore, it is only when economists shift their focus from the sphere of circulation to the sphere of production that we can hope to develop economics as a modern science. For now, economists prefer to engage in polemics about the circulation process as the source of profit.

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[19] Globalization - 'A particular form of international economic integration; it's a mixture of liberalization and protectionism in the interests of the designers, not surprisingly, along with drastic provisions to enhance investor rights.' – N.C.

Chapter 21: Interest-Bearing Capital

The starting point of interest-bearing Capital aka money-lending is that A advances money to B. This can occur with or without security.

In B's hands the money really is transformed into Capital according to the equation M-C-M'. B then uses M' to repay the money back with interest, while reserving a portion of M' as profit. The motion is thus: M-M-C-M'-M'.

Money as Commodity

Money-lenders transform money into a commodity by alienating money from themselves in the process of lending it out. The money being lent is thus withdrawn from circulation by one capitalist, and lent to another capitalist where it then re-enters circulation in the usual M-C-M' equation. The use-value of money to the money-lender is the capacity of the money to create surplus-value for the borrower, a portion of which returns to the money-lender as interest. Proudhon, an 18th Century economist, in his paper Gratuité du credit makes a claim that money lending is an evil because it is not selling. And that is a nonsense since interest-bearing Capital lends it to a borrower without even receiving an equivalent. So how could it be more "evil" than the M-C-M' routine?[20]

A Consideration of Interest

In order to realize its use-value to the money-lender, the money lent out must realize its use-value to the borrower in the form of surplus-value so that both the premium and the interest can be returned to the money lender. In that sense, the money-lender alienates the money so that it can in fact be realized as average profit in the production system or whatever the borrower invests it in, which is of no concern to the money-lender as long as the money is returned with interest. In other words, the use-value of the Capital in the form of money can function for both the lender and the borrower by dividing the profit. The difference between money spent as money, from the point of view of the borrower, and money

[20] Karl appears to be contradicting something he emphasized in Volume 1: Chapter 5: Contradictions where he asserts, to paraphrase: "the money lenders are probably the most despised in society due to their particular formula for capitalism, namely M-M'; no commodity, just surplus-value on money itself." Although he is not making the statement himself, Karl seems to agree earlier with what he regards as society's view of money-lenders, which also seems to be Proundhon's view; all be it, taken to the extreme of "evil".

advanced as Capital, from the point of view of the lender, is mere “difference of application”. To say that there is a ‘natural’ rate of interest, which economists are fond of saying, is a misnomer; there are no natural laws that govern the rate of interest. The need of the borrower from the point of view of the lender is how the lender determines the rate of interest; the greater the need, the higher the interest rate. Adam Müller in his paper “Elemente der Staatskunt [Elements of Statecraft]”, Berlin, 1809 says, romantically: “in determining the price of things, time is unimportant; in determining interest, time is the principal thing involved”. He does not see how the rate of profit is determined by production time and circulation time, and vice-versa. His wisdom here is similar to that of many economists “who see clouds of dust on the surface, and pretentiously proclaim this dust to be something mysterious and significant.

Chapter 22: Division of Profit: The Rate of Interest

While a “natural” rate of interest is illusory, the maximum rate of interest would typically be the entire profit the borrower makes from investing the money lent; in which case there would be no profit for the borrower. We will start here from an assumption that the interest charged on the loan is agreed in proportion to the profit made by the borrower. So, the borrower will be able to pay a rate of interest that is “higher” or “lower” in direct proportion to the profit.

Consenting to a Rate of Interest

Consider the business cycle: inactivity, growth, animation, prosperity, overproduction, crash, stagnation, inactivity… Typically, the rate of interest rises in times of crisis – when profits are low, and is lower in times of prosperity – when profits are relatively high. It is the level of risk, in this case, that determines the rate of interest. However, despite what economists like to believe, the rate of interest to be charged on a loan is determined by the opinion of the lender and the borrower, right or wrong. On the other hand, the quality of security proffered for the loan is, certainly, another determining factor.

World Market Interest Rates

In any given country, the rate of interest is constant over a long period of time because the general rate of profit changes only in the long run. On the international markets the interest rate is derived from the ratio between supply and demand of loan Capital, and that can be determined at any given moment. In practice, the rate of interest is fixed every day by averaging out realistic loan interest rate estimates from various players in the world markets.[21] So, although the interest rate can fluctuate from moment to moment, it can be fixed on a daily basis because everyone plays by the same rules.

[21] LIBOR is how it is done, but each player needs to offer what is known as “pure information”, otherwise it will not work.

Chapter 23: Interest and Profit Enterprise

As we have seen, it is the division of capitalists into money capitalists and industrial capitalists that transforms a part of the profit into interest, and it is the competition between these two kinds of capitalist that creates the rate of interest. Neither the borrower nor the lender can make money unless they alienate the capital from themselves; the lender to the borrower and the borrower to the production process.

Industrial and Money Capitalism

The closer the rate of interest is to 1 per cent, the more capital borrowed stands at the same level as Capital actually owned. The majority of industrial capitalists operate with a mix of both their own Capital and borrowed Capital. And if an inappropriately large number of industrial capitalists sought to transform their Capital into money Capital, there would be a tremendous devaluation of money and there would be little or no interest to be made on it. In that instance, many money Capitalists would be compelled to make their money by entering directly into the production sphere. Interest-bearing Capital is more like Capital as “property” as opposed to Capital as “function”, and if Capital does not function in the production sphere and exploit labor then there will be no surplus-value and therefore no profit.

A Poor Deal For Labor

Workers are always in opposition to Supervisors, or at least they ought to be, because a portion of their unpaid labor goes to pay the wages of their supervisors. But the way Capitalism works, due to the bottom line of exploitation of workers for profit, the more opposition there is to supervision, the more supervisors Capital employs. It cannot really be any other way in a capitalist mode of production. The supervisory character of the capitalist mode of production reaches its high point in the slave system, but it is indispensable to the capitalist mode of production. In fact, any system of domination, be it economic or political, imposes on those in power a function of dominating. But because supervision is not very satisfying, in the most part, for Capital, as soon as they become wealthy enough they employ others to do it for them. As mentioned in Volume 1 Chapter 9: P-R-O-F-I-Ts, Capital justifies the state of affairs by insisting that without such domination, no-one would do anything and would be idling around causing problems for society; a chicken and egg argument.

Chapter 24: Interest-Bearing Capital[22]

As mentioned, here we have M-M' with nothing in between, and while commercial Capital valorizes itself by going through the production process M-C-M' in a series of social relations, here we have no social relation to speak of, just a mere thing – money, in and of itself. And now Capital in the form of money appears to go through a mysterious and self-creating source of more Capital.

Money Making Money – "mysteriously"

To the vulgar economists, this equation is a godsend because it shows that money makes money automatically, which is what they like to believe. So, while Capital is now a thing – money, the thing – money is also Capital. Interest accrues to this Capital regardless of whether it is asleep or awake, at home or abroad, by day or by night; and in that sense, the hoarder's most fervent wish gets realized.

Compound Interest

'One penny, put out at our Saviour's birth to 5 percent compound interest, would have increased to a greater sum than that would be contained in a hundred and fifty millions of earth's, all solid gold" – Dr. Richard Price: *An Appeal to the Public on the Subject of the National Debt*. That is a silly statement. Price is dazzled by the incredible figures that arise from geometric progression. He, like many economists, viewed Capital as a self-acting automaton, without regard to the production process. Rather, Capital must be 'elevated' and rendered poetic by one mystifying mode of expression or another. However, the process of having gone through M-C-M' and then reinvesting M' could be considered a form of compound interest where money does lead to more money – but with a complex set of social relations in between.

But even that does not run so geometrically because as we have seen in Chapter 10: The Equalization of the General Rate of Profit, the more Capital invested in a particular production cycle, the slower the rate of profit. So, Price's geometric analysis is based on the idea that the rate of profit does not decline, but speeds up. Also, there are so many other factors such as availability of labor, the length of the working day, and limits to the number of consecutive days that labor can be exploited. But Dr. Price considers none of these things, preferring instead to

[22] Chapter 21: Interest-Bearing Capital Nevermind.

entertain notions he extrapolates from geometry to fantasy without paying attention to what is actually going on.

Chapter 25: Credit and Fictitious Capital

With the development of trade and the capitalist mode of production, which produces for circulation only, the spontaneous basis for the credit system is expanded, generalized and elaborated.

Loan Repayment

For the sake of brevity, we can refer to all these promises to pay as "bills of exchange"; and as these promises to pay cancel each other out by the balancing of debts and claims, they function absolutely as money. 'Credit, in its most simple expression, is the confidence which, well, or ill-founded, leads a person to trust another with a certain amount of Capital.'- Tooke.

The Money Trade

The management of interest-bearing Capital, money, is the special function of the money-dealers, who make their profit simply by borrowing at a lower interest rate than they lend out. But all capitalists aim to keep as much money invested in the production process as possible, and so the 'social fund' available to the business community in the form of loans is always kept to a minimum. Banks accumulate small sums of money from many capitalists, and while these small sums are incapable of functioning as money Capital by themselves, they can be combined into great masses in the form of monetary power. So, the business of bankers can be organized into two distinct branches: *collecting* money from those who have no current need for it and *distributing* it to those who have need for it. In that sense, capitalists do not have to relate socially with one another, as it matters nothing to each of them who deposited the money in the bank that is now being lent to them.

Speculation Gone Haywire

'Whatever gives facilities to trade gives facilities to speculation' – Gilbert. The easier it is to acquire advances on unsold commodities, the more these advances are taken up, and the bigger the temptation to dump those commodities on distant markets – just to get the advance.

In other words, Capital borrows money because it can so that it can manufacture products that people do not need, which leads to a massive flooding of the markets and an eventual crash.

Chapter 26: Accumulation of Money Capital

For a long series of years around 1815, the greatest absorber of the surplus wealth of England was the public debt.[23] The increased demand for money has its origin in the production process itself, but whatever the cause for the increased demand, it is the demand itself that causes the rate of interest to rise.

Discounts as Necessity

Overstone, a self-satisfied logician, assumes that Capital gets bills discounted in order to expand its business. This is false. The ordinary capitalist seeks to get bills discounted in order to keep the business going, not to expand the business; but rather to balance the credit given to the credit received. The credit swindler on the other hand gets bills discounted in order to cover one squalid deal with another; not necessarily to make a profit, but to acquire other people's Capital.

Money in "Advance"

If a bank grants a loan to a capitalist simply based on personal credit rating, not on security provided, we can say that the bank has advanced money as Capital. But if the capitalist must provide security for the loan then we cannot call it an advance of Capital because the security provided, being Capital itself, is almost always far higher than the amount of the loan. So an "advance" is an advance only when it is one-sided for a certain period of time. Discounts on bills cannot be regarded as an "advance" because they are related directly to commodities sold. So, when Overstone and logicians like him, speak of discounts on bills as an "advance" of Capital they lazily lump one thing in with another, attempt to examine the mystery of the whole, and ultimately arrive at lazy conclusions. The reason, as mentioned throughout this thesis, that economists prefer to generalize about economic matters is because the answer to their wonderings about the source of profit is always staring directly at them. High profit arising from high exploitation of labor always increases the demand for more money-capital and therefore a higher interest rate on that Capital.

[23] As highlighted in Chapter 31: Industrialism - Sharing the National Wealth Debt, in the capitalist mode of production, profit is private while debt is public.

Chapter 27: The Role of Credit in Capitalist Production

The joint-stock companies of the financial "services" industry is a new financial aristocracy, which are parasites in the guise of company promoters, speculators and mere minimal directors. It is an entire system of swindling and cheating with respect to the issue of shares and share-dealings. Essentially, it is private production unchecked by private ownership, which abolishes the capitalist mode of production within the capitalist mode of production itself. These companies function entirely separately from capitalist ownership. As they spread themselves over new spheres of production, they destroy private industry by monopolising social Capital and social labor, using them as nothing more than a superstructure for credit. So, the speculative traders risk social capital, not their own, and they demand government help to do it.

Worker Co-operatives

Although worker co-operatives can be owned and managed by workers themselves – a good thing, they must still reproduce all the defects of the existing system – a bad thing. The credit that financial speculators are afforded to gobble up private companies could be used to afford workers the opportunity to buy up the companies they work for, eliminating the opposition to supervisors etc. And while workers would tend towards conservatism in the way they run their co-operatives, the financial speculators, having no real attachment to those enterprises, experience no anxiety in relation to their actions.

The End-game

So, while the credit system could be used in a more positive direction – nurturing free association and development within enterprises, it is becoming more associated, not just with exploitation of workers by Capital, but with financial swindlers and speculators, restricting evermore the already small fraction of wealthy individuals in society. In other words, it is being used to devour the capitalist mode of production itself, and in that sense, capitalism, as taken to its logical end-point, sows the seeds of its own destruction.

Chapter 28: Means of Circulation and Capital

As we have seen, money both mediates the commerce between individual consumers and traders, and it also mediates the transfer of Capital because it *is* Capital. So, what we have here is a distinction between money as revenue and money as a form of Capital. However, money retains its character as money regardless of what it is used for. In that sense, the laws that apply to the circulation of commodities also applies to money. In both cases, we are concerned with the turnover time, the mass of simultaneous sales and payments, and the settling of debts. All described in Vol 1: Chapter 3: Money.

Times of Prosperity

The amount of Capital circulating in production and trade expresses the speed of prosperity in the economy. Sometimes it can take years to sell commodities that have been produced in a month, but in prosperous times commodities are sold relatively quickly. The characteristics of prosperity include: great expansion of enterprise, full employment, sometimes a rise in wages, a rise in consumption, a rise in revenues; and a rise in commodity prices. However, the money spent on wages is, in turn, spent in the retail trade and returned to the banks as deposits by retailers. And at the same time of this brisk business, credit flows easy from banks to Capital. On the whole, the monetary circulation appears 'full' at this point in time; the retailer is certain to pay the wholesaler, the wholesaler is certain to pay the manufacturer, and the manufacturer is certain to pay for raw materials. But the banks sense danger as soon as their clients begin to deposit more bills of exchange i.e. "promises" to pay, than money.

Times of Crisis

It is not the strong demand for loans that distinguishes periods of economic growth from periods of stagnation. Rather, it is the ease with which loans can be granted that signals prosperity, or loan applications rejected that signals crisis. People apply for loans all the time, and sometimes the demand for loans can increase in times of crisis. Internationally, a balance of payments, in a time of crisis, is maintained by paying bills, perhaps using gold reserves. Once a national economy has to eat into its reserves of gold, we have a panic. Having said that, the circulation of money within the national economy can go unaffected, despite the depletion of gold reserves. But reserves of gold are supposed to back up the production of bank notes so the bank is faced with a dilemma of how to accommodate to the crisis without issuing more bank notes.[24]

Chapter 29: Banking Capital's Component Parts

Banking Capital consists of:

- Cash, in the form of gold or notes
- Securities:
    - Bills of exchange
    - Government bonds
    - Mortgages

Fantasy for Capital

The state has to pay its creditors a certain sum of interest each year for the Capital it borrows. And although the state has already used up this Capital, it can sell the title of ownership as a "promissory note" to its own creditors, which gives the creditor a claim on the state's annual reserve. The owner of the promissory note can then sell it on to whoever… But there is no Capital, as such, behind these promissory notes; the state has already spent it. So, what are promissory notes in the sense of Capital? They are fictitious Capital, an illusion of Capital. They are Capital in its most insane form – debts as "commodities", and it becomes clear that they are nothing but fantasy as soon as they become unsellable.

Reality for Workers

Workers, on the other hand, have no such stake in the commerce of fantasy; they cannot sell their labor-power to be used by someone else. They must, themselves, work in order to realise the value of their labor-power. Under the slave system, the worker had more Capital value – a purchase price, and a slave could be hired out to another capitalist. Workers in the modern industrial system rent themselves to Capital, which can decide on its own terms to jettison the worker.

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[24] "Quantitative easing" without suitable reserves of gold is the modern answer, with consequences of its own as mentioned in Vol. 1:Chapter 3: Money

“Capitalization”

The formation of fictitious Capital, such as promissory notes described above, is known as “Capitalization”. State “securities” such as promissory notes represent nothing but accumulated claims, legal titles and so on… to some future time, but they do not represent Capital at all. So, what does the state do when it cannot meet the payment promised in promissory notes? It must offer real state assets to the lender. But in the meantime, as these promissory notes are changing hands among Capital – financial institutions in particular, they appear in duplicate and even triplicate in the economy due to the fact that they appear in one guise or another on the books of each group. The money they are supposed to represent is a fiction that bankers use to balance non-existent credits against each other. These duplicates and triplicates require a special column in stock market reports, at least in London. But eventually the whole situation becomes unmanageable to the point where no one can figure out who owns which imaginary money, and then we have a financial meltdown. And when that happens, the state needs to sell public assets to keep the banks and other financial “services” afloat.

Chapter 30: Money Capital and Real Capital [1]

As mentioned, Capital in the form of promissory notes function as Capital only if they can be either sold on to someone else or they can be converted directly into money. On the other hand, ownership titles to fixed Capital such as railways, mines and so on… are genuine titles to real Capital. But rather than the actual portions of a railway or a mine changing hands as these titles are sold, what changes hands is the legal claim to a portion of the surplus value that these Capitals produce. However, the titles themselves can be duplicated and triplicated around the stock market with their "values" rising and falling quite independently of the actual value of the commodity – the railway or the mine they are supposed to represent. And that kind of imaginary wealth makes up not just the wealth of private individuals but also of banks.

Commercial Credit

When we speak of commercial credit we are talking about the credit that capitalists involved in the production process give one another. Each can pay the other once the goods they put on the market have been sold, and that depends on consumption i.e. workers who can afford to buy the goods. Commerce, however, still needs cash to pay things like wages, taxes and so on… because, one way or another, the bills must more or less balance.

The Effect of Globalized Markets

As markets expand and become further removed from the point of production, credit must be prolonged and hence the speculative element comes more and more into play. And while the development of the production process expands credit, credit expands the production process and all other commercial operations. At some point, bills of exchange, promissory notes and so on… must be converted back into money, and whoever is left holding the title must either wait to be paid or not be paid at all. However, as long as the production process is fluid, payments of bills remain assured, and that is known as "confidence". But when a crisis happens, everyone starts demanding cash payment only, because they are stuck with goods they cannot sell while owing someone else for the goods they bought on credit. And while economists blame one thing or another for the crisis, ultimately it is restricted consumption by the world's poor that is setting the limits.

A Two-way Street

Business always seems exaggeratedly healthy immediately before a crash – just as capitalists, economists and state-sponsors are all congratulating one another on the healthy state of affairs. Expansion of industry always coincides with a rise in interest on loans, until the expansion and the loan interest appear, for a moment, to correlate nicely, before passing each other out. In other words, the more loans that are made, the less money is available for loan, and the more scarce money is, the higher the interest rate climbs. It is when interest rates are at their lowest that fraudsters, mainly in the finance industry, enter the market with nothing except the credit they have been loaned.

Drawn-out Depressions

The problems arising from the monopolization of the economy by the financial "services" industry tends to have long, drawn out consequences for the economy as a whole. And no banking legislation, no matter what it is, seems to be able to get a handle on what is going on.[25] Sometimes the state and the banks try to help out the wider financial services industry without knowing what they are doing, and they end up intensifying the monetary crisis. While the problem ought to be simple – the simple fact that bills of exchange, which have fallen due, or are past their due date, need to be converted into money, the fact is that many of these claims are a product of fraudulent deals and the bullion, metal coins, notes and securities are nowhere to be seen. Crises usually break out in the countries that borrow the most e.g. America, and then spread everywhere else. But if we are looking to point the ultimate finger of blame, then we should consider the solvency of each of those capitalists who present themselves for payment. But even they will claim that limited liability means that they too exist on paper only.

[25] Probably because few people, even in the financial sector itself, know what is going on.

Chapter 31: Money Capital and Real Capital [2]

Gibberish from the Bank Committee, England, 1857: *Floating Capital is Circulating Capital, money is Capital and bullion is Capital, and banknotes are circulation, and Capital is a commodity, and debts are commodities, and fixed Capital is money invested in paper that is hard to sell.*

Dealing in Public Money

The depositors imagine that they are simply depositing with their bankers, and when the banker makes loans it is to private individuals who the banker knows. But what actually happens is that the banker puts these deposits at the disposal of a London billbroker, over whose operations neither the depositor nor the banker have the slightest control.

Accumulation of Money

Variations in the rate of interest depend on the supply of loan Capital; as distinct from the credit that industrial capitalists afford one another. But even the loan Capital provided by the bank is still different from and independent of the quantity of money in circulation.

Loan Capital accumulates at the expense of industrial and commercial capitalists, and in unfavourable times, a high rate of interest can swallow up profits entirely. At the same time, the prices of government paper and other securities fall, and that is when money capitalists buy up the paper and securities with the view to selling them later at a profit. Then they deposit this profit with a bank, which lends it out. At least when that happens, the accumulation of money is actually genuine.

Chapter 32: Money Capital and Real Capital [3]: conclusion

As mentioned, a portion of accumulated Capital in the form of profit is deposited with a bank, at least temporarily; and can be lent out as loan Capital. Also, if the production capitalist cannot find opportunities to expand a business despite having money, that money usually gets deposited with a bank to be lent out. But as these loans are given, there is, at the same time, a need to pursue the production process beyond its capitalist limits; and it eventually ends up as too much trade, too much production, and too little credit.

Private Speculation With Public Money

The industrial capitalists, rather than dispose of their own savings, simply dispose of the savings of others as a source of private enrichment. So, the illusion of the capitalist system – that Capital is the offspring of one's own hard work and savings, is thereby demolished.

Regardless, a large portion of money in the economy is merely fictitious and therefore cannot be converted into loan Capital because it does not exist as money, and never will. Problems arise when bankers put the deposits of the public at the disposal of speculators on a massive scale. And while the speculators might not be making profit from their endeavours, the interest on the loan can be paid back using the loan itself, and that can run on for a long time. Then, when the crash happens, everyone borrows in order to pay, not to invest.

The Inevitability of Crises

The rising demand for labor power that accompanies an economic boom always reduces profits in proportion to the amount of Capital invested, and that means more loan Capital must be sought to expand the business; and the cycle continues. Whenever speculators lose money and cannot repay their loans, they always at least try to convince the bank that not only should the debt be written off, but that they ought to be given even more money to continue their swindling in the guise of "keeping the economy going". So, as long as commodities are alienated from social labor and are viewed solely as a source of money, monetary crises are inevitable.

If the demand and supply of loan Capital was to correlate directly with demand and supply in the real economy, as Overstone and many economists believe; then interest rates would be both low and high at the same time.

Chapter 33: The Means of Circulation Under the Credit System

When we talk about the circulation of money, we are concerned specifically with the speed with which a banknote is used to make a purchase or a payment, and the note is eventually deposited in a bank so that it can be lent to someone else. So, the quantity of money circulating at any given time is determined by the price of commodities and the number of transactions - see Vol 1: Chapter 3: Money, and the same law applies in the case of banknote circulation. The biggest contributing factor to savings on the means of circulation has always been improvement in the means of communication – technology of one kind or another.

The Role of the Banks in the Circulation Process

While the banks do not have the power of their own volition to increase the amount of notes they issue, they can withdraw notes from circulation, and when they do it has violent effects in the society. – Thomas Tooke to the House of Lords Committee on Commercial Distress, 1848-57. Ordinarily, the banks issue an appropriate number of banknotes in relation to public need – J.C. Wright, or more precisely – what business needs.

The Circulation Process in the Real Economy

If there is a disturbance in the expansion of production, a crisis of credit emerges because it is more difficult to obtain goods on credit. Everyone has goods to sell that they cannot sell but they need to sell in order to pay, and so there is a glut of Capital caught up in the production process that cannot be realized as money. Factories stand idle, raw materials pile up and finished products flood the market as commodities. Economists tend to misdiagnose the problem as a lack of productive Capital – that firms cannot get the credit to continue their production. But why would firms need more credit for more production when they cannot shift the commodities they have already produced? The reason firms need credit at this stage, as mentioned, is to pay their creditors, not for production; and also because the creditors demand cash for everything because they have come to distrust any other form of payment. On the other hand, some capitalists may well have reserve funds to continue the production process, but they don't because the market is already flooded with commodities that people cannot afford to buy. So, why economists deem a financial crisis to be a crisis of production is anyone's guess. They are simply wrong. In summary, the ultimate reason for all real crises always remains the poverty and restricted consumption of the masses. And so it is the people who cannot afford to buy the goods already produced that sets limits on the forces of production.[26] The only case we could speak of where there is a genuine lack of production is in relation to general harvest failure where there is a very real lack of principle raw materials for industry.

Crises as Opportunities for Swindling

In times of crisis, Capital simply dispenses with the need for a strong reserve fund and actual returns on investment. They resort to “cooking the books”, fabricating bills of exchange, and making sure that their businesses appear brisk and merry – on paper. And that is why businesses often appear exaggeratedly healthy immediately before a collapse. Crises cannot be cured by having banks give all the swindlers the money they lack or by buying up bills that are the result of fraudulent deals, because the money is never going to come in. Everything appears upside down all of a sudden with a paper world of fraudulent bills and securities on one hand and nothing to back them up on the other.

The whole process becomes incomprehensible to economists, Capital and the banks; and that is when fraudsters and swindlers in the financial sector manage to bamboozle or frighten the banks into handing public money over to them. From that point on, the economists, financial sector and banks come to believe, amusingly, that the money they are now dealing with is not public money, but their money.

And at the same time they tell the public that they are using this money to “contain” the crisis, when in fact they are making the crisis even worse.

[26] Economists always try to convince us that the *profit* of capitalism is independent of people – both workers and consumers, but they have never told us what they think profit is dependent on. Karl illustrates that profit is dependent on workers and consumers, and it is in that sense, he insists, that capitalism is a social process, not some far-out imaginary profit-making mystery.

Chapter 34: The Currency Principle and the English Bank Legislation of 1844

In times of big economic crises i.e. multiple crises happening at the same time in multiple areas of the economy e.g. in currency markets AND depreciation of precious metals; economists frequently turn their attention to the most abstract and superficial sphere of the crisis – currency.

The Currency Dogma

This bad habit began at the end of the 18th century and the beginning of the 19th century, just as the economy was becoming more complex. And although bankers might have noticed that economic crises, from then on, were multi-faceted, they had little option but to subsume all problems with money circulation under the currency dogma offered by the economists, headed by Hume and Ricardo in particular. But with well-developed credit systems, it is clear that the issue or non-issue of bank notes is not particularly governed by the laws of metallic currency.

How the Currency Principle Works

It works something like this:

Insufficient Currency: an insufficient amount f currency brings about a fall in commodity prices. A fall in the price of commodities stimulates an export of commodities to other countries, which brings an influx of money to the home-country, which causes commodity prices to rise again.

Excess Currency: commodities are imported while money is exported.

Banks often try to mimic these laws of currency in order to artificially influence commodity prices. With precious metals a decline in the gold reserves causes interest rates to rise while an increase in reserves of gold lowers the interest rate. According to Overstone, the reason why commodities become dear is because there is too much money in the country. And that statement makes sense to Overstone who conveniently forgot that the price/value of a commodity and the current rate of interest are not the same thing. "Conveniently" in the sense that Overstone, like all vulgar economists train themselves not to notice crises in over-production. The unfortunate result is that the bankers who are listening to this nonsense try out the advise as an experiment on a national scale, and thus the banking legislation of 1844 slipped through.[27]

All this economic gibberish informs legislation and will continue to inform it until we reach a point where the entire world economy must collapse or the legislation must be revised. English MP to Overstone: “when money is dear, would you say that Capital should be cheap?”. Overstone: “Yes.”

So, there we have it – a high interest rate and dear Capital is the same thing!

[27] Economists often see it as their purpose in economic science to make-believe that crises in a Capitalist economy are impossible, and if crises happen to happen, then the economists try to prove that they shouldn’t have happened. And if the economists can successfully prove in theory that a crisis shouldn’t have happened then they can agree to ignore the crisis as a crisis.

Chapter 35: Precious Metal and Rate of Exchange

The credit system pivots around the central bank and the central bank pivots around the metal reserves. And so, when the credit system collapses it collapses into the monetary system. And while economists tend to look down on reserves of gold and silver as not “real Capital”, for the banks, gold and silver reserves are the capital for whose preservation every other form of capital and labor must be sacrificed. Having said that, all real wealth should, or is supposed to be able to be turned into gold and silver at the drop of a hat, but that is not feasible due to flaws within the system itself. In that sense, social wealth exists in parallel to wealth itself, which means that social wealth is unconvertible into real wealth and therefore, social wealth is an illusion that we believe in nonetheless.

Five principles to be noted about the inflow and outflow of precious metal:

1. Regions that import precious metal should be distinguished from regions that produce precious metal as a natural resources.
2. Precious metals, such as gold and silver, are constantly moving between countries that do not produce them as a natural resource.
3. The preponderance of imports over exports of precious metal can be measured by the increase or decrease in the metal reserves of the central bank.
4. The export of precious metal takes the form of a “drain” if the movement or decline persists over a long period. When that happens the natural reserve of a metal becomes significantly depressed below its average until something like its average minimum is reached.
5. The function of a metal reserve held by the central bank is threefold i) a reserve fund for international payments i.e. world money, ii) a reserve fund for alternately expanding and contracting domestic metal circulation; and iii) a reserve fund for the payment of deposits and the convertibility of notes.

Another four important points:

i. A real crisis breaks out once the import of precious metal exceeds export.

ii. As soon as the general crisis subsides, we again have a state of equilibrium – the gold or silver is again distributed in the proportions in which it once existed.

iii. A drain of metal is generally the symptom of an unfavourable change in the state of foreign trade, and it is advance warning that we are again approaching a state of crisis.

iv. A balance of payments can be in favour of Asia and against Europe and America.[28]

The Exchange Rate

The exchange rate is the barometer for international movement of money metals. So, if the bank of England say has to make more payments to America than America does to England, then in London, the price of the Dollar, as expressed in sterling, rises. While in New York, the price of Sterling, as expressed in Dollars, falls. In that instance, if England cannot balance the payments quickly enough, then it makes sense to precious metal to America as payment because bills of exchange will make matters worse for England. And if the imbalance of payments persists, the central bank in London will raise interest rates, thereby tightening the flow of credit in the money markets.

Three factors influencing foreign exchange rates

1. Then balance of payments, insofar as cash payments are made abroad.
2. The devaluation of money in a trading partner country.
3. The fluctuation of relative values of silver and gold when one country uses one metal and another trading partner uses another.

"The monetary system is essentially catholic while the credit system is essentially protestant" – K.M.[29]

It is belief that brings salvation...

- ...belief in money value
- ...belief in the current mode of production
- ...belief in the individual agents of production as Capital

[28] This last point appears to be another of Karl's tongue-in-cheek remarks.

[29] Not too sure what Karl means by that.

Chapter 36: Pre-capitalist relations

Usury Capital aka interest-bearing Capital long precedes capitalist society. And while money-hoarding has been around even longer, the professional hoarders become significant as a player only when they begin lending money out for interest. The money Capital that the hoarders lend out can then be converted into interest-bearing Capital as the borrower uses it to exploit workers.

The Stated Aim of Usury

The Usurers *par excellance* aim to impoverish the borrowers in order to acquire the property that the borrowers put up as collateral for the loans. We see that taken to extremes in the financial markets, where the players lend out money to entire nations in the hope that they will default on their payments and be left with no other choice but to sell off national assets to the lenders.[30]

Newman – Lectures on the political economy, London 1851, puts it inanely when he says that he usurers are despised because they lend to the rich while the bankers are liked because they lend to the poor. But the situation cannot be reduced to a matter of rich and poor because both the usurer and the banker both work to impoverish all and sundry by setting up a situation, deliberately, where the borrowers are more than likely to default on their loan repayments. Ultimately, therefore, the fate of wage-slaves i.e. workers, is debt-slavery.

The Inevitable Outcome of Usury

In short, usury aims to undermine both feudal wealth and the capitalist production process. And where the means of production are fragmented, as in a modern capitalist society, usury then sets itself to the task of controlling money wealth by centralizing it a source – just like the financial markets do. One would think that the financial markets would need to maintain the current production system in order to make money, and it does; it just makes the whole system for employers and workers more wretched.

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[30] Financial market players claim on the double by taking out insurance against the nation state being unable to repay on time. And that is a form of "corruption" of the markets where the lenders have a vested interest in the borrowers, nation states, defaulting on the loans.

Chapter 37: The Transformation of Surplus Profit into Ground-rent

The capitalist mode of production cuts off workers from the land and then it cuts them off from the means of production.

A Land Question

Adam Smith, in The Wealth of Nations, showed that ground-rent for capital applied both to the land and also to the produce of the land. Of course, what we mean here by "land" also includes water. Landed property presupposes the right of individuals to enjoy a monopoly on particular portions of the globe to the exclusion of everyone else. Nothing, as far as these individuals are concerned, is settled legally until they get the right, in legal terms, to impose their full will on the land they acquire, and on the wage-slaves who work it. As mentioned in *Volume 1 – Primitive Accumulation*, the producers on the land – tradesmen, serfs and slaves, are "freed" from their attachment to the soil to become mere appendages of the land as Capital. The monopoly on land is, therefore, the foundation on which exploitation of workers is founded. Because without land or their own, workers must enter into a contract of wage-slavery with the landowners.

Adding Value to Land

Labourers work for a farmer who in turn pays the landlord a fixed amount of money each year as "ground-rent".[31] Ground-rent, therefore is how property realises its value. As mentioned, Capital may also be fixed in the land in the form of fertilizer, irrigation ditches, farm buildings and so on... all upping the price of ground-rent.

A Role for Economists

Between 1867 and 1870 the whole of the West-end of London belonged to around half-a-dozen great landlords. Also, the more money the tenant makes from the produce of the land, the more it gives cause for the landowner to raise the ground-rent, even though this extra value added is due to the work of the tenant. Economists, meanwhile, attempt to transform these glaring antitheses into "harmonies" and "certainties" in the minds of the public. Their justification for landed property, like the privatization of all production, is the production process

[31] Karl uses agriculture as an example throughout, but as he says, the same principles apply to other industries such as mining, forestry, fisheries and so on...

itself; their claim being that without private ownership there would be no production process.

The Role of Credit

The landowner's loan for the original investment in the land generally comes with lower interest than loans for investment in other enterprises. That is because land is seen as a superior investment that increases in value over time. But to derive a justification for ground-rent from simply purchasing and selling land is meaningless; that would be like saying that ground-rent justifies the existence of ground-rent.

In Ireland in the 1800s, we saw a particular exploitation of tenants who had to pay almost all their surplus-product as ground-rent. The tenants were not entitled to compensation for improvements to the land. With the result, a landlord could rent potential agricultural land to a farmer who would proceed to make the land ready for tilling, only to be told, when the work is finished, that the lease is up and is not being renewed. Then landlord could then sell or rent the land as ripe for agricultural use for a much higher price. This dreadful state of affairs for farmers and labourers came about from a collaboration among the landlord class who put pressure on parliament to enact legislation to their benefit while exploiting an entire class of farmers.

An Inevitable Outcome

The ultimate aim of landowners and financiers is the enslavement of the farmers of their land so that they must give all their surplus-profit to the landlord except that which they begrudgingly allow the farmers for basic subsistence.

Chapter 38: Differential Rent in General

While most factories are powered by steam-engines, some can be powered by waterfall.

Monopolization of Natural Resources

The value of the commodities whose production is powered by waterfall would necessarily be lower than those produced as a result of steam because less labour is required to produce them. The monopolization of resources that increase labour-power is common to all industries. And although the use of natural resource, such as waterfall, affects the general rate of profit it does not cause a “divergence” from the general rate of profit in the way hat reduction in, say, cost-price would.

Natural Resources and Surplus Value Dilemma

Waterfalls, as the example we are using, appear in certain areas of land, which steam-power, on the other hand, gave an overwhelming advantage over waterfall, then water-power would not be in demand, would produce no surplus-value and, therefore, not be monopolized as a source of ground-rent. In that sense, the natural resource is not a source of profit but a basis for it whereby the owner can extract surplus-value from the pocket of the manufacturer. So, in having no value in and of itself, the natural resource cannot be objectified as money and, therefore, has no “price”. However, it is the “pricelessness” that is the source of money as capitalized ground-rent.

Chapter 39: The First Form of Capitalized Rent

Differential rent, as Ricardo rightly says, is the difference between the product obtained from two equal portions of Capital. So, while $100 could be invested in mining and another $100 invested in agricultural land.

Fertility and Location

The two factors most influential on the rent that can be extracted are: i) Fertility; and ii) Location.

So, a piece of land might be located ideally but be poorly fertilized or vice-versa. However, it is the production price of the least fertile land that governs the market price. When buying or renting land, the speculator looks to the most fertile land and only then looks to the less fertile. Differential rent, therefore, is concerned with the yield from the same investment in different qualities of land.

Harvest Time

At harvest time the landowner might raise or reduce the ground-rent depending on the quality of the harvest. And in that sense the pricing of land is a social act that occurs between owner and farmer, and has nothing to do with the soil, especially when a relatively high yield from relatively unfertilized land is due to the labour of the farmer, not the landowner. When prices of agricultural products drop due to overproduction, farmers tend to blame other farmers for over-producing; the economists meanwhile theorize the fact of overproduction out of their models.

Chapter 40: The Second Form of Differential Rent

The second form of differential rent is concerned with the investment of a piece of land over time – successively over, say, one to five years. So, the landowner can increase the rent on initially unfertilized land after, say, three years, and then increase it again after five years. Needless to say, this state of affairs gives rise to tensions between landowners and farmers, with landowners preferring short leases and farmers preferring long leases. The economists, as mentioned before, simply dress up these tensions for the wider pubic as “harmonies” and “certainties”. The Assessor of Rents must then perform the complex of estimating value added by the farmer to the land in proportion to the initial fertility of the soil – over a specified period of time (Morton – *Resources of Estates*).

Chapter 41: Differential Rent II - Price of Production Constant

In this case, the rent rises in proportion to the increase in Capital invested in the land.[32]

The assumption here that the Capital invested yields a product in proportion to the Capital invested, but not in a sense in the compound interest, say, would be calculated year-on-year – a common misunderstanding among economists. But as mentioned before, the more Capital invested, the slower the rate of profit, although profit grows absolutely as more Capital is invested. For the farmer, then, it is always cheaper to employ more constant Capital than variable Capital. In other words, farmers are better off using the Capital they have at their disposal to rent more land than to invest that Capital in the land they currently occupy. Ultimately, for the farmer, living labour becomes the most costly element of the enterprise, and the farmer aims to keep that cost to a minimum. But the farmer also prefers to ignore past labour that has added value to the land, and that is how "social wealth" increases illusorily.

[32] Get that! The more Capital a farmer invests in the land, the greater the product yield, and hence the justification for the landowner to raise the ground-rent.

Chapter 42: Differential Rent II - price of production falling

Production price on a particular piece of land may fall while the production price of other pieces of land may rise or remain constant. However, no land yields a product without Capital investment. In relation to agriculture, the return on investment gradually rises as gradually as improvements are made to the land year-on-year. So, if Capital invested makes land more fertile, the rent rises proportionally regardless of production price. And the lower the production price falls, the more Capital available to invest in the land, guaranteeing a rise in rent. And that is why farmers, as mentioned, benefit more from using their available Capital to invest in more land than the land they currently cultivate.

Chapter 43: Differential Rent II: rising price of production

A rising price of production presupposes a decline in productivity, but the reduced yield will become apparent over time only, given a constant Capital investment.

Chapter 44: Differential Rent on the Poorest Land Cultivated

Suffice it to say that the poorer the land, the greater the necessity for Capital investment required to yield a profit. It follows then that the price of commodities from relatively poor land increases.

Chapter 45: Absolute Ground Rent

As mentioned, legal ownership of land does not automatically give the owner any ground-rent. It does, however, give the owner the legal right to withhold land from cultivation until the right economic conditions prevail. Therefore, a relatively significant portion of the land in a country always remains uncultivated (Fourier). In agriculture we must consider both the labour-power that makes the land productive AND he natural conditions of the land on which the labour is carried on. Absolute rent, on first sight, appears to be a monopoly on price. The essence of absolute rent is this: equally large Capitals produce different amounts of surplus-value in different spheres of production, given equal exploitation of workers. The rent, therefore, increases the price of commodities, passing the cost onto the consumer, the landlord having taken a share earlier on in the production process.

Chapter 46: Rent of Building, Rent of Mines, Rent of Land

With regard to rent of land for building, Adam Smith specified how the basis of rent for this land is determined using land for agriculture as a benchmark.

Rent vs Right to Life

As mentioned, rent is the most shameless exploitation of poverty; when people, having been booted of the land by a landlord class with the help of government and state, they have to pay a monopoly price to work the land again. It turns out that the landowners make more money from plain land than they would out of mines! Put simply, one section of society, with the help of the state, demands from another a tribute for the right to live on the earth. The rising population and with it the growing need for housing pretty much guarantees land as an investment. Typically, the state gives land away to landowners, enshrines their rights as landowners in legislation and law, and then offers a monopoly price to the landowners in order to rent the land back for human activity.

Possessor vs Owner

It is always ground-rent, not the buildings themselves that forms the basis for speculative investment in land. Not forgetting of course that after ninety-nine years, the lease on the land ends and the land reverts back to the landowner. The society, though, is never the "owner" of the land. Rather, it is merely the possessor of the land, which it is supposed to return to subsequent generations in a better condition than the condition in which it found it. And of course, people who rent land from land "owners" quite often return the land back in a better condition, but not to the society, to the owner.

Rent Rises and Price Rises

The price of land can increase without any increase in rent. All that has to happen is for interest rates on loans for land to fall and he landowner can adjust the price of the land upwards, accordingly. Likewise, the price of land can increase because the rent increases. That is to say that the productive value of the land, as reflected in the rent also reflects directly on the price of the land. So, although a rise in the price of land does not always mean a rise in rent, a rise in rent always brings a rise in the price of land, even though the product capacity of the land does not rise.

The Preferential Option

As mentioned, the tenant can concentrate investment on a particular patch of land and therefore yield a higher produce from it and that automatically leads to a higher price for the land without the landowner doing anything at all! Ultimately, investment in the earth is always a win-win for landlords in the medium to long term. That is, as long as the earth is being cared for correctly. Because when the land is well-looked after, one Capital investment adds value to the earth on top of the previous investments. On the other hand, investment in factories with its accompanying depreciation of machinery and the like offers nowhere near the benefits of investment in plain land.

Chapter 47: The Genesis of Capitalist Ground-rent

The Physiocrats, as the first systematic interpreters of Capital, recognized rent and agricultural Capital as the only source of surplus-value. And although their theories seem relatively simple-minded today, they were, at least for the most part, accurate. The vulgar economists who came after the Physiocrats, sought to obscure surplus-value from its source – labour, and instead attribute it to something illusory happening in the interchange and exchanges occurring between capitalists in the marketplace.

Labour Rent

Working time of tenants gets divided between time working for themselves and statute labour-time for the landlord. Here, ground-rent not only is but appear as unpaid labour. Labour rent is therefore the most primitive form of rent in that it is paid directly with labour, and in that sense, appears as an open secret – labour time the workers give in exchange for basic survival. And although there was some measure of social-relation between landlord and tenant, it is in the interst of he landlord to have that social-relation transformed into a technical one in legislation and law.[33] It is important to remember also that this form of labour-rent arrangement also extended to domestic industry where servants could, at the behest of the landlord, their rent in kind...[34]

Rent-in-Kind

In this case, the labourers give some portion of the produce of work to the landlord. The labourers are at least free from the direct rule by the whip and are therefore responsible for coming up with the goods beyond the supervising master. It also has the benefit of freeing a peasant family from the whims of he market, which usually helps the family.

Money Rent

With money rent, the direct labour or product is no longer accepted; it must be turned into its natural form – money. The development of money rent happened sporadically and eventually got written into legislation and law.

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[33] It prevents haggling on the part of tenants while freeing up the landlords to end the lease whenever they wish.

[34] What could that possibly mean...?

Share-cropping

Here, the landlord provides some initial Capital, such as livestock, to farmers so that they can work with something and develop it in order to be able to pay their rent. Whether the share-croppers works for themselves or gets labourers to do the work is their own business as small capitalists. What matters here is the ultimate return to the landlord, which can take the form of interest on Capital borrowed or possibly even all of the product, leaving the farmer with enough for mere subsistence.

Small-scale Peasant Ownership

Here, the tenants are the small scale owners of a patch of land, which they work to sustain themselves and their households. As owners, the tenants must buy the land in the first place in order to work it independently of the landlord. The illusion still persists among economists that the land itself has a value of its own, independent of the work done to cultivate it; as if a machine or raw material could yield value in itself lying idle.

Chapter 48: The Trinity Formula

The three mysteries of the social production process:

1. Capital-profit
2. Land-ground rent
3. Labour-wages

... But as sources of wealth they bear no relation or analogy to one another; no more than lawyer's fees, beetroot and music. Capital, for example, is *not* the means of production. Rather, Capital is the means of production as transformed into Capital. The means of production just are what they are – the means of production, no more than they are the protestant means of production or the left-wing or right-wing means of production. Likewise, neither gold nor silver are money but we can, as a society, agree to conceive them as money.

As for Land, if value is labour then surplus-value is not earth, it is more labour. And so it is with Labour – it has a social form and a specific character, which Capital seeks to alienate from workers and in doing so, absorb it into the technical realm of markets while leaving workers to whom it belongs unsocialized and hence, unsocial.

Capital-Interest

The notion of Capital-interest is a nonsense – as if money, simply sitting there, makes more money. The vulgar economists prefer the notion of Capital-interest to the more real Capital-profit because profit can be traced somewhere – back to its original source – surplus-labour. And while Capital-interest might sound rational to the bourgeois mind, it carries with it no information. From the point of view of the economists – why understand something that the wealthy elite prefer to keep obscured from the public?

History in Process

The Capitalist production process is, as mentioned, the production process in a certain stage of historical development i.e. it is currently owned by Capital. And when a certain class of people own something, in this case the capitalist class owning the production process, they have the added privilege of attributing all successes of the system to themselves while attributing any woes or failures of the system to everyone else, namely the workers. And they do all that with the help of economists. So, however much labour might seem as a contractual “agreement” between worker and Capital, it is always wage-slavery as long as workers have no choice but to sign a so-called agreement with one or other capitalist. The capitalist class, in the meantime, sits idle while the workers produce all the profit for them in return for basic survival.

Chapter 49: On the Analysis of the Production Process

The total commodity value, as mentioned, is added by workers' labour and then breaks down into wages, profit and rent. More specifically, the workers pay for their own wages with their necessary labour and then their surplus labour is divided between profit for the capitalist, and rent for the landlord. But labour power used up in year one, say, must be replaced in year two and so on..., otherwise the means of production would not be transformed into reproduction and the inevitable overproduction that capitalism causes.

Some Definitions

Gross Profit = Constant Capital + Variable Capital + Profit + Rent

Gross Income = Wages + Profit + Rent

Of course, for reproduction to continue, Capital must reinvest a portion of surplus-value back into constant Capital, and this portion reinvested cannot ever be realised as profit.[35] So, what appears as revenue for one person appears as another form of Capital to another.

Five reasons why economists continually fall into absurdity:

1. They misunderstand the basic relationship between constant and variable capital.
2. They misunderstand how new value gets added in the production process to old value.
3. They misunderstand the interconnections within the production process.
4. They misidentify all that becomes invisible to the subjective capitalist, like the source of surplus-value.
5. They fail to distinguish between surplus-value on one hand and profit, and rent on the other.

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[35] In a state-sponsored Capitalist system, which is not a real capitalist system (N.C.), that is about the extent to which Capitalists risk their Capital – by reinvesting a portion of it that is necessary to sustain a production process that they run for themselves.

In other words, they prefer to speak in general terms so that they do not have to "go into" matters of specificity regarding surplus-labour as the source of surplus-value and hence, profit. The value of a commodity always has, factored into it, the surplus-labour for which the Capitalist paid nothing.

The “National” Economy or “Capitalist” Economy

When we hear of “national” in relation to the capitalist economy it simply ignores the fact that the production process of a nation is organized capitalistically into the bargain. But even if and when the capitalist system of production is abolished and social production prevails, the keeping of accounts in relation to prices and labour-time will become even more essential than ever before. In other words, workers like a fair deal for their labour and designing a fair deal over time has a lot to do with keeping detailed records.

Chapter 50: The Illusion Created by Competition

While market prices can rise and fall in relation to the costs of production, they eventually balance each other out. Monopoly prices, on the other hand, simply transfer a portion of the profit from other commodities and other capitalists. Being commodities themselves, gold and silver are priced in relation to wages, profit and rent. So, we cannot determine wages, profit and rent directly in terms of gold and silver because these entities are not, themselves, independent of wages, profit and rent. If we try, we end up saying that wages, profit and rent are equal to other wages, profit and rent. In that case, how are wages governed in the market? By the demand for labour, we are told. But what demand for labour are we talking about? Capital's demand? If so, then wages are governed by the supply of labour on offer to Capital. What about competition? Well, we find, if we look, that the price of wages is governed by the profit that Capital anticipates over a period of time – it is based on the whim of Capital. It has nothing to do with competition because the level of profit itself is independent of competition. However, if the price of the means of subsistence rises or falls then the price of labour rises and falls with it. By the same token, if the price of labour rises then, typically, the price of the means of subsistence rises too, independently. And although the price of the means of subsistence can fall with a fall in wages, it rarely happens anywhere near as fast as a rise. Ultimately, the price of wages is determined by the self-interest of Capital, it is nowhere near as much to do with competition as economists say they believe.

Chapter 51: Relation of Distribution and Relations of Production

Relations of distribution are concerned with where the money goes. So, profit goes to Capital, wages go to labour, and rent goes to land owners. And while these relations exist as social relations through time, the capitalist mode of production has a specific character of distribution within history.[36] Capitalism also presupposes a workforce dependent on Capital for survival; and in that sense, the closer capitalism can push workers towards desperation, the better for capitalism. In essence, it must do that because without an overly-dependent workforce, state-sponsored capitalism could not exist. However, the dependency that capital creates in the society causes the society to critique the system, questioning its veracity and so on..., just like every other system that has come before it. Two characteristics particular to capitalism are:

- The production of use values as commodities of Capital.
- The commodities serving one purpose only – profit-making.

So, capital provides the commodities it reckons will make capital a profit. The needs of the society are secondary with Capital reproducing itself in a closed loop in the interests of Capital. Moreover, it is not just that Capital sells commodities and happens to make a profit; rather, it produces commodities with the predefined goal of making a profit. The idea that things might be done differently for different reasons vanishes to the capitalist, with vulgar economists then regarding it as their duty to vanish it from the imagination of workers. That is always the case when one class rules over the rest of a society and it has never been different.

Chapter 52: Classes

The three main classes of a capitalist society are capitalists, wage-labourers and landowners. Capitalists aim to turn labour into wage-labourers and the means of production into the capitalist means of production. The landlord, meanwhile, aims to alienate both capitalists and workers from land. [at this point the manuscript breaks off – F. Engels]

[End of Volume 3]

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[36] When Karl talks about capitalism in a historical context he is saying simply that the production system, while remaining more or less constant in technical terms, changes hands from time to time throughout history e.g. from feudal lords to capitalists.

[End of Capital by Karl Marx]