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Introduction

1.1 Motivation

The global economic crisis that was triggered by the financial crisis in the United States in 2007 has revived political movements critical of many harmful aspects of the capitalist system, like income and wealth inequality, unjust burdens of student debt, disparity in access to housing and health care, racial oppression and discrimination of immigrants, unequal trade and investment treaties, and policies of economic austerity. Parallel with the growth of such political movements has been a growing interest – among activists, scholars and the general public – in currents of critical social and political thought that can make sense of such issues and offer alternatives to the unjust and exploitative capitalist-imperialist system. It is in this context that there has been a revival of interest in Marxism, one of the most consistently radical strands of critical social thought, one moreover, that offers a coherent and comprehensive framework for understanding the social world we live in.

Marxism is a creative synthesis of three strands of nineteenth-century European thought – classical German philosophy, British political economy and French socialism. It offers a theory of history, referred to as the materialist conception of history or historical materialism, which puts an understanding of the material conditions of life at the centre of historical analysis. To understand both the structure of society at a point in time and the logic of large-scale historical change, Marxism asks us to start from an understanding of how the production and reproduction of material life is
organized. In studying the production and reproduction of material life, Marxism pays attention to both technology, what it calls the forces of production, and the relationships people enter into during the process of production, which it calls the relations of production. Starting from the relations of production, it explains the structure of political and legal institutions of modern, bourgeois society; and, starting from the contradiction between the forces and relations of production, which is expressed through and in the conflicts of fundamental social classes, it explains large-scale historical change in the political and social domains of life.

Guided by this powerful theory of history, which he had developed in the first phase of his studies in the mid-nineteenth century, Marx spent the rest of his life developing a detailed analysis of the production and reproduction of material life in capitalist economies. The most complete and comprehensive picture of the results of this lifelong study of the structure and dynamics of capitalism is available in Marx’s mature economic writings, especially in the three volumes of Capital. In this work, conceived of and worked out over the span of more than a decade, we find a startlingly relevant analysis of capitalism. Its pages offer us a coherent framework to understand a range of contemporary issues – from exploitation of workers to globalization of production, from the centrality of relentless technological change in capitalism to the degradation of work and dehumanization of workers, from the brutalities of primary accumulation of capital to the speculative frenzies of the financial system, from the power of rentier interests to the despoliation of nature.

In this book, I present an exposition and extension of the argument developed by Marx in the three volumes of Capital. In presenting the exposition of Marx’s argument, I wish to attain two objectives simultaneously. First of all, I want to pay close attention to the text – the three volumes of Capital – so as to present the contours of Marx’s argument. But in my engagement with the text of Capital, the main goal is to draw out the analytical core of Marx’s arguments. Hence, while I follow the text closely and provide relevant quotations from the three volumes, this book is tilted far more in the direction of analysis than exegesis. Ultimately I am motivated, in my engagement with Marx’s text, by the need to reconstruct the logic of Marx’s argument, so that it becomes a tool for the analysis of contemporary capitalism. Hence, this book is not a contribution to the
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history of economic thought, but should be read instead as a contribution to contemporary political economic analysis from a Marxist perspective.

My second objective is to draw on the work of later Marxist scholars to extend, deepen and enrich Marx's political economy. As I develop the argument of the three volumes of Capital, at various points I will engage with work by later Marxist scholars to illuminate some important issues that Marx either did not discuss or discussed only partially. Three areas of work that have generated an enormous literature in Marxist economic theory over the past several decades will, in particular, be discussed in great detail: the relationship of value and price, which goes by the name of the so-called transformation problem; the relationship of technical change and profitability, which goes by the name of the Okishio theorem; and the theory of exploitation. I will also pause at different points and indicate to the reader some fruitful ways to engage with contemporary debates and discussions from within the framework of Marxist political economy. Here is a quick overview of some of these points.

• In Marx's argument in Volume I about surplus value and capital, an important place is held by an understanding of the value of the unique commodity labour-power. A very fruitful way to engage with feminism and to understand the oppression of women is to explore the Marxist–feminist literature on labour-power and social reproduction. I present a discussion of labour-power in section 3.3.3.

• Marx's argument in Volume I about the effect of capitalist social relations on the organization and technology of production offers a nice entry point for discussions of a range of contemporary issues: alienation of work, degradation of work and deskilling of workers; the roots of the contemporary ecological crisis; and commodification of knowledge and information. A discussion of the characteristics of production under capitalism is presented in section 3.4.

• Marx's discussion of primary accumulation of capital at the very end of Volume I finds resonance in contemporary debates over primitive accumulation and accumulation by dispossession under neoliberal capitalism. This discussion is especially relevant to popular struggles against dispossession in the periphery of the global capitalist system. For an introduction to the discussion of primitive accumulation of capital, see section 3.6.
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• Marx’s discussion of the circulation of capital in Volume II has the potential to become a framework for the analysis of problems of macro dynamics of capitalist economies – a framework that is different from both the neoclassical and the Keynesian frameworks. I discuss some of these issues in Chapter 4.

• Marx’s argument about the development of finance and fictitious capital in Volume III provides a useful framework to think about the growth of the financial sector and the attendant problems of financial instability and crisis in contemporary capitalism. An introduction to Marx’s ideas on interest income and fictitious capital can be found in section 5.5.

• Marx’s discussion about ground-rent in Volume III can be a very good entry point into the study of rent in contemporary capitalism and can be applied to the study of oil and natural gas sectors, real estate prices and the dynamics of the housing market. It can also throw some light into discussions of ‘rent’ in the knowledge sector. For an introduction to a novel presentation of Marx’s theory of ground-rent, see section 5.6.

1.2 Organization of the Book

This book is divided into two parts. The first part, called Foundations, presents the main argument developed by Marx in Volumes I, II and III of Capital; it consists of four chapters, Chapters 2 through 6. The second part, called Further Explorations in Political Economy, delves deeper into three important and long-standing debates in Marxist political economy: capitalism and technical change, value and prices, and exploitation and oppression. The second part comprises three chapters, Chapters 7 through 9.

1.2.1 Part I of the Book

Chapter 2 is the introductory chapter in the first part of the book. It acquaints readers with some methodological issues through a discussion of Marx’s route to political economy and the structure of his mature work, Capital. After completing his PhD in Philosophy in 1841, and unable to get an academic position due to his political activism, Marx turned to journalism. As a contributor to, and later editor of, the radical-democratic newspaper Rheinische Zeitung, Marx was confronted with issues of ‘material
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interest’. His previous training in literature, jurisprudence and philosophy had not prepared him well enough to deal with such issues. It was an acute awareness of this lack that propelled him to a lifelong engagement with political economy.

We can divide Marx’s scholarly life into two phases: the first spanning the early 1840s and the second running from the early 1850s to the end of his life in 1883. In the first phase of his initial engagement with political economy, Marx developed two important methodological ideas: the dialectical method and the materialist conception of history. In the second phase of his scholarly life, which was focused primarily on economic studies, these methodological ideas continued to guide his research and thinking. The importance of these methodological ideas come from their role in identifying both the object and method of study for the mature Marx. The materialist conception of history suggested the object of study: the structure and dynamics of capitalism. Dialectics suggested the method of study: unpacking the contradiction between capital and labour. But the object and method did not automatically suggest the best way to present the results of his research to the broader public.

Marx was clear that the presentation of his analysis would not necessarily follow the emergence of forms and relations of economic life in history. Rather, the correct presentation required him to uncover the relationships of economic life as they presented themselves in contemporary capitalist societies. His methodological researches suggested that the best way to present his research would be to pay attention to different levels of abstraction. This method of presentation is regularly used by scientists, where features of a complex entity are abstracted from, that is ignored as a first approximation, to uncover what the researcher thinks as the fundamental processes at work. In this abstracted form, the fundamental logic of the complex entity is explained. As a second step, the features that had been abstracted from are brought back into the analysis, and we then try to understand how the fundamental logic works in, or is modified by, the presence of these features.

Marx’s presentation follows this method. That is why his mature economic work, Capital, came to be organized at two levels of abstraction: (a) a high level of abstraction called ‘capital in general’, where competition between capitals and relations of credit are abstracted from – this is the level at which Volume I and II are located and (b) a more concrete level designated as ‘many capitals’,
which explicitly considers competition and credit – this is the level at which the analysis in Volume III resides. Within this layered structure and using surplus value as the central concept, we can see that Volumes I, II and III deal with, in turn, the generation, realization and distribution of surplus value. Taken together, the three volumes of Capital present an integrated, comprehensive argument about the structure and dynamics of capitalism.

Chapter 3 of this book develops the main argument of Volume I of Capital. Posed at the level of abstraction of ‘capital in general’, Marx investigates three big questions in Volume I: (a) What is the origin of surplus value? (b) What is the use of surplus value? (c) What is the logic of emergence of a system of social production that rests on the generation and accumulation of surplus value? To understand the generation of surplus value, we need to first understand value; and to understand value, we need to understand the commodity. That is why Marx begins Volume I of Capital with an investigation of the commodity – the basic form of wealth in a capitalist economy. The commodity presents two aspects: use-value and exchange value. Analysis of these two aspects leads to the concept of value and the development of the labour theory of value, which, in turn, gives rise to the concept of money. With an understanding of money, Marx is then able to pose the question of capital – which is just another way of posing the question of the generation of surplus value. One of the key arguments developed by Marx in Volume I is that surplus value is the monetary expression of the unpaid labour of workers – hence, capitalism rests on the exploitation of the working class. Once we understand how surplus value is generated, we are led to the question: What does the capitalist class do with the surplus value? The answer: recommit the surplus value into the generation of more surplus value, a process referred to by Marx as the accumulation of capital. Analysis of the accumulation of capital leads Marx to develop the important concept of the reserve army of labour, or what he calls the relative surplus population, and highlight the degrading effects of capitalist conditions of production on the workers. Once we have understood the generation and accumulation of surplus value, we can then pose the question that Marx investigates at the very end of Volume I: How does a system governed by the ceaseless interplay between the generation and accumulation of capital emerge in the first place? Marx offers the concept of ‘primary accumulation of capital’ to answer this question. At the heart of this process, argues Marx, lies the forcible separation of primary producers
(peasants) from their means of production (land) – a process we see being replicated in the periphery of the contemporary global capitalist system.

Chapter 3 has three appendices that deal with some important issues in the labour theory of value. In Appendix 3.A, I discuss the issue of the reduction of complex to simple labour. This is conceptually important because without a consistent procedure for comparing the labour of skilled and unskilled labour, a researcher will not be able to compute aggregate value magnitudes. In Appendix 3.B, I present a detailed discussion of an important concept that was developed in the main chapter: monetary expression of value. This is an important concept that Marx implicitly assumed in his economic analysis, and it is only later scholars like Duncan Foley who have highlighted its importance in Marxist economics. In Appendix 3.C, I return to a detailed discussion of the question: Why did Marx single out labour and use it as the foundation for the theory of value? I provide both negative and positive arguments in support of the claim that labour should be used as the (social) substance of value. I also present common critiques of the labour theory of value and offer Marxist responses to those critiques.

Chapter 4 of this book presents the main argument of Volume II of Capital. In analysing the generation and accumulation of surplus value in Volume I of Capital, Marx had abstracted from the question of aggregate demand, that is, under what conditions can the commodity that has been produced by the capitalist system sell for a price that realizes its full value (and surplus value)? Marx returns to this question about realization of value in Volume II of Capital. Since commodities realize their value through sale, Marx begins his analysis in Volume II of Capital with a general treatment of the circulation of capital, that is, sale and purchase of commodities as a means to realizing surplus value. The general treatment of circulation allows Marx to investigate two important questions – the temporal pattern of flow of value and the aggregate proportionalities between different branches of production that are needed to facilitate smooth reproduction of the whole capitalist system. In investigating the first issue, Marx develops the circuit of capital analysis; in addressing the second issue, Marx develops the reproduction schemas. In this chapter, I discuss the reproduction schemas in some detail. These schemas represent an elaboration of ideas about sectoral linkages that were first developed by the Physiocrats in eighteenth-century France. They highlight the proportional relationships that need to hold between branches producing means of production and means of
consumption to ensure smooth reproduction of the aggregate system. The analyses of both the circuit of capital and the reproduction schemas have proved fruitful entry points for analyses of crisis tendencies in capitalist economies. In Chapter 4, I provide an algebraic treatment of Marx's reproduction schemas and show how the numerical problems in the examples Marx used to study expanded reproduction, that is, an expanding capitalist economy, can be easily corrected.

Chapter 5 of this book presents the main argument of Volume III of Capital, which deals with the distribution of surplus value. Marx's argument about the distribution and redistribution of surplus value is developed in two steps. In the first step, Marx explains how the total surplus value generated in production and realized through sale is distributed across sectors of the economy involved in capitalist commodity production by the emergence of a uniform rate of profit and prices of production. The mechanism underlying this first step in the distribution of surplus value is the competition between capitals, manifested as the mobility of capital across sectors in search of higher rates of profit. The argument about the emergence of prices of production, in turn, moves through two levels of abstraction. In the higher level of abstraction, we will abstract from commercial capital, that is, capital only involved in trade but not in production (broadly understood). After developing the argument in this simplified set-up, we return to the argument and incorporate commercial capital into the analysis to see that the competitive process leads to the total surplus value being divided between industrial and commercial capital in the form of industrial profit and commercial profit, respectively. In the second step of the argument about the distribution of surplus value, Marx shows that the surplus value realized as industrial or commercial profit is further redistributed into two income streams. One part of the industrial (or commercial) profit is appropriated by money capitalists as interest, with the part of surplus value remaining with industrial capital known as profit of enterprise. Another part is appropriated by owners of nonreproducible resources, like land, in the form of ground-rent. In both cases, the key mechanism that facilitates these latter appropriations of surplus value by money capitalists (as interest) or resource owners (as ground-rent) is the process of bargaining between different factions of the ruling class.

By the end of Part I of this book, the reader would have become familiar with the details of Marx's argument in the three volumes of Capital. The
reader would be able to see that capitalism is an exploitative system, just like previous class-divided societies were, in the precise sense that Marx wanted us to understand. Exploitation in capitalism arises from the surplus, in the form of surplus value, being appropriated by a tiny section of society, the capitalist class, who then decide upon its disposition. The reader would be able to understand how the reserve army of labour is not an anomaly of capitalism, but that it is a necessary feature of capitalism. The reader would be able to see not only how capitalism might solve problems of aggregate demand by maintaining correct proportionality between branches of production but also that such solutions are temporary, so that crisis tendencies always loom large over the horizon. And finally, the reader would be able to distinguish surplus value from the different forms it takes, which will then help hammer home the point that no matter what form the income of the factions of the ruling class takes, profit, interest or rent, its ultimate source is surplus value, that is, the unpaid labour of the workers.

1.2.2 Part II of the Book

The second part of this book presents a detailed analysis of three important and long-standing debates in Marxist economic theory. Here the discussion moves beyond Marx’s own work in the three volumes of *Capital* and engages with the work of later Marxist scholars. This discussion is a little more technical than the presentation in the first part of the book. At many places, I use mathematical arguments to clarify ideas and substantiate claims.

In Chapter 6, the first chapter in the second part of the book, I discuss an issue that has generated long-lasting controversy and discussion: the law of the tendential fall in the rate of profit. In Volume III of *Capital*, Marx had argued that the progress of capitalist production will impart a downward tendency to the average rate of profit. It is widely believed in heterodox economic circles that the contribution of the Japanese scholar, Nobuo Okishio, in the early 1960s refuted Marx’s argument about the tendency for the rate of profit to fall over time – this result is known as the Okishio theorem. Drawing on work by Marxist scholars like Duncan Foley and David Laibman, I show that such a conclusion is misleading. In fact, depending on factors relating to the nature of technological change and changes in the labour market, the rate of profit might rise or fall. Hence, both Marx and Okishio can be accommodated in a more comprehensive theoretical framework.
In Chapter 7, I provide an account of the so-called transformation problem – understood by Marx as the process of redistribution of surplus value but which the later literature has identified with the vexed question of the relationship between value (Volume I) and long run, equilibrium prices (Volume III). It is widely believed that Marx's value theory is internally inconsistent because of a contradiction between his accounts in Volume I and III. I argue in this chapter that this belief is mistaken. While Marx's account does have some algebraic mistakes, they can be easily corrected, and with a redefinition of the value of labour-power, as proposed by the New Interpretation (developed independently in the late 1970s by Gérard Duménil and Duncan Foley), a consistent labour theory of value can be constructed.

Marx's numerical examples in Volume III of Capital about the transformation of value to prices of production had two errors: first, he had converted output from value to prices but had neglected doing the same for the inputs; and second, he had computed the rate of profit in value terms, whereas it should have been computed in terms of prices. These two problems can be easily addressed, as was shown by the work of Ladislaus von Bortkiewicz in 1907. Marxist scholars like Nobuo Okishio, Micho Morishima and Francis Seton extended the approach of von Bortkiewicz much further in the 1970s, which developed into the Standard Interpretation of Marx's value theory. While the Standard Interpretation demonstrated all of the key claims of Marx, it was nonetheless open to the criticism by Sraffian scholars that value magnitudes were redundant for the analysis of capitalism.

In Chapter 7 of this book, I provide a detailed account of the Standard Interpretation and highlight both its conceptual strengths and limitations. I explain the Sraffian critique and discuss various Marxist responses. I argue that the New Interpretation is the most consistent response to the Sraffian critique. After presenting the New Interpretation, I also present three other interpretations – Macro-monetary Interpretation, Temporal Single System Interpretation and Simultaneous Single System Interpretation – and argue why these are less appealing than the New Interpretation. By the end of this chapter, the reader would have become familiar with the details of the more than century long debate on the so-called transformation problem. The reader will be able to see that contrary to the widespread belief in mainstream