

# **THE ABC OF CAPITAL: A TEXTBOOK**

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## **SESSION I**

### **THE MISSION**

THE EXACT DEVELOPMENT OF THE CONCEPT OF CAPITAL IS NECESSARY SINCE IT IS THE FUNDAMENTAL CONCEPT OF MODERN ECONOMICS, JUST AS CAPITAL ITSELF IS THE FOUNDATION OF BOURGEOIS SOCIETY. THE SHARP FORMULATION OF THE PRESUPPOSITIONS OF THE (CAPITAL) RELATION MUST BRING OUT ALL THE CONTRADICTIONS OF BOURGEOIS PRODUCTION, AS WELL AS THE BOUNDARY WHERE IT DRIVES BEYOND ITSELF

KARL MARX: *THE GRUNDRISSE* (1857-8)

### **THE CONTEXT**

THERE HAVE STARTED INTO LIFE INDUSTRIAL AND SCIENTIFIC FORCES, WHICH NO EPOCH OF THE FORMER HUMAN HISTORY HAD EVER SUSPECTED. ON THE OTHER HAND, THERE EXIST SYMPTOMS OF DECAY, FAR SURPASSING THE HORRORS RECORDED OF THE LATTER TIMES OF THE ROMAN EMPIRE. IN OUR DAYS, EVERYTHING SEEMS PREGNANT WITH ITS CONTRARY: MACHINERY, GIFTED WITH THE WONDERFUL POWER OF SHORTENING AND FRUCTIFYING HUMAN LABOUR, WE BEHOLD STARVING AND OVERWORKING IT; THE NEWFANGLED SOURCES OF WEALTH, BY SOME STRANGE WEIRD SPELL, ARE TURNED INTO SOURCES OF WANT; THE VICTORIES OF ART SEEM BOUGHT BY THE LOSS OF CHARACTER. AT THE SAME PACE THAT MANKIND MASTERS NATURE, MAN SEEMS TO BECOME ENSLAVED TO OTHER MEN OR TO HIS OWN INFAMY. EVEN THE PURE LIGHT OF SCIENCE SEEMS UNABLE TO SHINE BUT ON THE DARK BACKGROUND OF IGNORANCE. ALL OUR INVENTION AND

PROGRESS SEEM TO RESULT IN ENDOWING MATERIAL FORCES WITH INTELLECTUAL LIFE,  
AND IN STULTIFYING HUMAN LIFE INTO A MATERIAL FORCE.

KARL MARX: *SPEECH AT ANNIVERSARY OF THE PEOPLE'S PAPER.* (1856) **PROLOGUE**

## **PROLOGUE**

### **A MAP OF THE INVESTIGATIVE TERRAIN**

If the mission is to construct an adequate representation of capital, replete with all of its contradictions, then an elaborate theory must be constructed that captures how capital works and what it does on the ground. This entails a certain strategy of enquiry, communication and presentation. In the absence of the controlled experimental methods available to the natural sciences, we have to rely upon the powers of abstraction and theory construction to accomplish this mission. Historical materialism is, as some doctors like to say about medicine, a science with a sample size of one (i.e. the historical geography of capital). Since the very mention of theory intimidates many readers and the necessity of working with abstractions is problematic, (the claim “it is too abstract” ends many conversations) I begin with simplified and, I hope, easily graspable pictures of what capital looks like as a working totality. This enables me to set up at the very outset a sense of how the elements or “moments” (as Marx prefers to call them) of the capitalist economic system, such as production, labour, wages, profit, consumption, exchange, realization and distribution hang together within the totality of what capital is all about. Marx prefers the language of “moments” in order to capture the transitoriness of everything that happens within the totality.

Conventional economics typically conceptualizes capital as a thing-like factor of production that capitalists use, when combined with land and labour, to make another thing that can be sold for a profit. Marx, on the other hand, defines capital as a process of circulation which, at various “moments”, takes on different material forms (such as money, commodities, production processes, and the like). Marx’s emphasis is upon the processes and the moments rather than on the things. The process-thing distinction will frequently return to animate the analysis in what follows. We live our lives as a process but the historical record and the state registers and depicts us as things.

While the idea of totality undoubtedly derives from Hegel, Marx re-works it and revolutionizes it (as he does with almost everything else taken from Hegel). For Marx the totality is an ever-changing network of historically specific social practices and relations

built and evolving, in this case, through human action. This network is constantly in the process of growth and transformation (perpetually “becoming” as Marx puts it) even as it exhibits certain proclivities towards solidity and permanence. Marx’s concept of totality is, therefore, open, evolving, self-replicating but in no sense self-sustaining, given its internal contradictions and its penchant for breakdowns. Capital creates a complex ecosystem of capital flows in continuous historical evolution and formation.

But Marx mainly limits his enquiries to what he calls the “inner structure” of the totality of capital (Figure 1). While capital may be the driving force, the foundational process within bourgeois society, Marx recognizes that it does not say everything that needs to be said about capitalism as a social formation. The theory of capital as a mode of production is one thing. The theory of capitalism as a social formation is quite another. Marx mainly focuses on the former. But he does surround his inner structure with critically important contextual conditions that link together conditions in the social formation with the dynamic laws of motion operating within the inner structure of the mode of production.

Depictions of this sort are not unusual even in the exact sciences. In *Marx, Capital and the Madness of Economic Reason* I used the hydrological cycle (Figure 2) as a useful analogy. The cyclical movement of H<sub>2</sub>O entails transformations of form rather like those that occur in the circulation of capital. Water in liquid form in the oceans evaporates with the heat of the sun and moves as a vapour upwards until it condenses out as the droplets that form clouds. As the particles merge and become heavier they fall to ground as precipitation (rain, fog, dew, snow, ice, hail, freezing rain). Once returned to the surface of the earth some of the H<sub>2</sub>O passes directly back into the oceans, some of it gets stuck on high ground or in cold regions as ice that moves extremely slowly if at all, while the rest flows downwards across the land as streams and rivers (with some water evaporating back into the atmosphere) or under the land as ground water back into the oceans. En route it is used by plants and animals that transpire and perspire to return some H<sub>2</sub>O directly to the atmosphere through evapo-transpiration. There are also large amounts of water stored in ice fields or underground aquifers. Like capital, not everything is in motion at the same pace. Glaciers move at the proverbial glacial pace, torrents rush down hill, groundwater sometimes takes many years to travel a few miles.

This model depicts H<sub>2</sub>O passing through different forms and states at different rates before returning to the oceans to start all over again. This is very similar to how capital moves. It begins as money capital before taking on commodity form passing through production systems and emerging as new commodities to be sold (monetized) in the market and the moneys are then distributed in different forms to different factions of claimants (in the forms of wages, interest, rent, taxes, profits) before returning to the role of money capital once more. There is, however, one very significant difference between the hydrological cycle and the circulation of capital. The driving force in the hydrological cycle is incoming energy from the sun and that is fairly constant (though it oscillates a bit). Its conversion into heat has in the past changed a great deal (plunging the earth into ice ages or phases of tropical heat). In recent times the heat has been increasing significantly due to entrapment by greenhouse gasses (largely arising out of fossil fuel use). The total volume of H<sub>2</sub>O circulating remains fairly constant or changes slowly (measured in historical as opposed to geological time) as ice caps melt and underground aquifers get drained dry by human uses. In the case of capital, the sources of energy, as we shall see, are more varied and the volume of capital in motion is constantly expanding at a compound rate because of a growth requirement that derives from profit making. The hydrological cycle is closer to a genuine cycle whereas the circulation of capital is, for reasons we will soon explain, a spiral in constant expansion. But the two totalities are in certain respects joined at the hip. The massive increases in the use of fossil fuels deriving from the requirement for endless growth and accumulation lies at the root of the increasing heat retention on planet earth which, if it continues at the present rate, will ultimately render the earth uninhabitable for most if not all forms of human activity, in part because of water deprivation and heat exhaustion in many regions.

The totality of capital is, in some respects, like a human body (though this analogy will ultimately prove misleading because an ecosystem comprises many organisms in relation to each other whereas the human body is just one organism amongst many). The human body circulates blood through the heart, oxygen through the lungs, ingests energy through the digestive system and the stomach, deals with waste through the liver and kidneys while coordination is exercised through the brain as a central nervous system. Each of these circulation processes is autonomous and independent and subject to specialised knowledge

in the forms of cardiology, neurology, gastro-enterology, urology, etc. But all of these circulation processes are subsumed within the logic of the human body and its laws of physical reproduction as a totality. It makes no sense to assign a hierarchical structure of importance or causality to the interactions and interrelations between these different circulation processes. The failure of any one of them threatens the life and existence of the human body. There are, as we will later see, multiple ways in which capital can collapse into crisis.

In the *Grundrisse*, Marx offers a description of the totality of capital as constituted by way of several different independent and autonomous circulation processes. Marx first looks at the circulation of commodities and money. Not all money is capital. Capital is money circulating in a particular way. Money becomes money capital through its encounter with and purchase of the capacity to labour as a commodity. Money capital is used to (1) purchase the capacity to labour (labour power) along with commodities that furnish material means of production (raw materials, partially manufactured components, plant and equipment, machinery, etc.); (2) these inputs are inserted into a labour process, the technology of which is under the control of capital, to produce a new commodity which is the property of capital; (3) the monetary value of the new commodity is realized through sale in the market that recoups the original monetary outlay but adds a profit for capital; and (4) the money realised has to be divided and distributed to different factions depending upon their claims. Some of it goes to workers in the form of wages, some is taken in the form of taxes going to the state, interest goes to the financiers, merchant profit goes to wholesalers and retailers as intermediaries, and rent flows to the landlord in return for the use of the land. The industrial capitalist who organizes production gets whatever is left over. This distributed money power can be used in two ways. A part of it will go to purchase commodities to consume so that the workers along with the capitalist factions and the state employees can live. The other part is brought back together (often with the help of banks and other financial institutions) to reinvest as money capital which then goes back through the circulation process all over again.

This gives us a picture of the inner structure, the distinctive circulation process for capital in general (Figure 1). This circulation process is not pre-given or pre-defined. It is not some ideal type waiting to be revealed or discovered, nor is it fixed and determinate with respect to its reach in space and time. It is something that has been and still is in the course of being historically constructed and reconstructed through continuous human social practices.

There is a far broader ecosystem within which this arbitrarily abstracted totality called “capital” has its being. Hence in Figure I we see the metabolic relation to nature and the construction of a second nature through urbanization and the building of physical infrastructures along with the production of space and place relations. These are all contextually significant to the more narrowly defined and bounded model of capital circulation within the inner structure. The same can be said of capital’s relation to human knowledge, social relations, culture and tradition in existing populations, to conditions of social reproduction and to the constant shaping and re-shaping of the wants, needs and desires of populations that get expressed through the diversity of human consumer preferences. What happens in the realm of social reproduction has huge implications for how the circulation of capital proceeds. But there is much that happens in the course of social reproduction that has little direct relation to the circulation of capital.

Lastly, the state’s role in accumulation cannot be ignored. Its tentacles stretch far and wide within the inner structure of capital and, as we shall see, a case can be made that the capitalist state (or at least significant elements within it) is a foundational form of capital itself. In other words, part of state power (as is also the case with social reproduction) is internal rather than external to the inner structure of the circulation of capital. There is a mythical account of capital being created purely by capitalists, collectively dragging reluctant states along behind them. But from Bismarck’s Germany, Meiji Japan, the military dictatorship in South Korea, the state led revivals through the MITI organization in 1960s Japan, state centered development in de Gaulle’s post-war France and the ord-neoliberalism of the post-war West German State; in all of these instances and many more, state-led capital accumulation has been and in many respects still is in the vanguard. Even in the United States, Hamiltonian politics and state-led initiatives on land distribution played a critical role. State sponsored capital accumulation in China since 1978 confirms the point.

Adam Smith's major treatise, recall, was *The Wealth of Nations* and not *The Wealth of Capital*. The wealth of the state, he argued, could best be achieved by allowing the free functioning of capitalists in a price-fixing market economy. Smith was giving advice to statesmen not to capitalists on how wealth could be created and captured by and within the state. It is in this context that the otherwise mysterious title of Giovanni Arrighi's *Adam Smith in Beijing* makes sense. It gestures to what happened in China after the liberation of market forces in 1978. The significance of state-led accumulation has not been without its contradictions, of course, and processes of class formation, racialization and gender discriminations within the state have just as easily led to arrested development of capital rather than accelerating growth. The innumerable state links and bridges to the institutions and life of civil society often produce antagonistic currents within the wielding of state powers that check and regulate rather than facilitate the ambitions of capital. The ambitions of nationalists, socialists and monopolists compete within the corridors of the state institutions with those of capitalists.

The totality of capital's inner structure exists within this much broader totality of capitalism as a social formation. Marx's reason for conceptualizing such a distinction is that he sees capital as the economic engine, the foundational power-house, the source of the abstract forces, to which all of us who live under the regime of capital are willy-nilly obligated and bound to some degree. The general form of capital's inner circulation within the social formation are depicted in Figure 1. This is the picture of the inner structure within the totality of the social formation. We need to keep this picture in our heads as we probe deeper and deeper into the details.

I here need to interject an important political comment. The Hegelian legacy has long posed a serious challenge in the history of Marxist thought, particularly with respect to the way we might view a concept like totality. In the Hegelian idealist (albeit dialectical) tradition, the totalizing forces make it difficult to imagine any socialist escape from the prison-house of bourgeois formulations and capitalist practices. The only option seems to be blowing up the whole system and starting from scratch, to build something totally different. Such revolutionary extremism appears neither feasible nor appealing, particularly in our day



and age. For this reason, some Marxist thinkers (such as Lukacs) gave up on the concept of totality entirely while others quietly buried it. But Marx's concept of totality as an ecosystem invites consideration of the internal mutations, the innumerable seeds of alternative practices, the openings at every level to doing things differently, establishing different social relations, cultivating alternative patches of human practices in Zapatista Chiapas, in Kurdish Rojava, in the recuperated factories of Argentina, in the communitarian and collective agrarian practices sprouting in all sorts of places around the world. There are plenty of abandoned spaces and places and derelict zones open throughout the world to experiment with anti-capitalist alternatives. While capitalist and bourgeois practices are overwhelmingly hegemonic, particularly in the centers of political and economic power, the possibility to cultivate alternatives is everywhere apparent. The seeds of an alternative socialism are liberally scattered around the world and from time to time they fall upon fertile ground. This would be virtually impossible within the constraints of the Hegelian conception. We have to lay to rest at the outset, therefore, the idea that the concept of totality is so totalizing and limiting as to make the construction of alternatives almost impossible. Strangely, this opening does not in itself threaten the perpetuation and dominance of the bourgeois and capitalist ecosystem. Indeed, the evidence suggests that the openness and the indeterminacy within the ecosystemic totality that is capital contributes mightily to its reproduction capacity and long-term survival. It allows for the cultivation of all manner of impulses towards renewal often accomplished through crises. Marx, for example, recognized that the perpetual renewal of the capitalist class by absorbing fresh and dynamic elements within itself from elsewhere, has played a critical role in the reproduction and perpetuation of capital's class power. While Henry Ford was a key figure in the 1920s, it is Jeff Bezos a century later. Many of the innovations for which the capitalist tradition is justly famous have their origins in the entrepreneurial openness of capital's ecosystem as well as in the socialist impulse to explore alternatives come what may. The evolution of social media, for example, was initially as much driven by emancipatory impulses from the left as by commercial or military concerns. This openness to all manner of innovation inevitably creates the cracks through which the light of a socialist or oligarchic alternative can perpetually shine.

Marx's *Grundrisse* is structured as an enquiry into the different circulation processes that produce and support capital as a totality. Elaborating on them, we have:

- 1 The Circulation of Commodities through Exchange
- 2 The Circulation of Money as Money (commodity moneys, coinage, fiat moneys regulated by the state, etc.).
- 3 The Circulation of Money as Capital (Figure 1)
- 4 The Circulation of Capacity to Labour (Figure 2)
- 5 The Circulation of Capital as Fixed Capital and the Consumption Fund (Figure 3)
- 6 The Circulation of Interest-Bearing Capital (private debt)
- 7 The Circulation of Tax Revenues and of State Debt.

The overall circulation process of capital can be disaggregated in other ways. In Volume 2 of *Capital*, Marx distinguishes between the circulation of capital as money, the circulation of capital as commodities, the circulation of capital through production and the circulation of all three forms taken together. Marx's point here is to show that the form capital takes opens up radically different possibilities and opportunities for the capitalist on the ground at the same time as it imposes certain constraints. When capital is in its money form it offers all sorts of open possibilities for redeployment and mobility across sectors and regions compared to when it is locked into acts of production that may require heavy investment in immobile plant and equipment that cannot be moved without the devaluation and destruction of capital. A capitalist industrialist may have a steel plant valued at ten million dollars but that is very different from a capitalist armed with ten million dollars in cash who can use it, as did George Soros, to bet on currency exchange rates so as to quadruple his money capital in one week. If money is the butterfly form of capital and commodities are the caterpillar form then production is the chrysalis form where value and surplus value are incubated.

In Volume 3 of *Capital*, these technical features are enriched by the emergence of class factions: merchant capitalists concentrate and specialise around the circulation of commodities in the market, finance capitalists and bankers concentrate on the money flows and industrialists concentrate on production much of which is locked into place by sunk investments. While it is true that the industrialists operate at the heart of the creation and production of value and surplus value the same cannot be said about appropriation.

Merchant capitalists can in certain circumstances dominate appropriation, exercising the power of monopsony, as do WalMart, IKEA, Home Depot and the major shoe and clothing brands. Even electronics operates this way. Apple, for example, dominates at the front end of design of product and operates in part as a merchant appropriating much if not most of the surplus value at the sales end. In between are Foxconn and a whole supply chain of part makers who produce most of the surplus value in Asia that Apple appropriates in the United States and Europe as well as in China. In automobiles, on the other hand, the producers hold the power, mobilizing a network of dealerships and financiers in their service. General Motors, for example, created a whole finance unit to extend credit which ultimately evolved into General Motors Acceptance Corporation as an independent bank.

The power relations between these factions are fluid and contingent depending upon sector and geographical situation. Plainly, since the 1970s capital in general has witnessed a shift in which the merchant and finance factions have expanded their power at the expense of industrial capital, though unevenly. One measure of this is to look closely at the sectors from which billionaires emanate today as opposed to yesteryear.

In Volume Two and the *Grundrisse*, Marx also examines the circulation of fixed capital (including infrastructures for production) and investment flows into the consumption fund (houses, hospitals, schools, etc). It is clear that these forms of circulation have become far more prominent in contemporary capitalism than was the case even in the 1970s. Marx also studies different working periods and turnover times, followed by chapters on the circulation of variable capital (as wages) and surplus value (as profit), culminating in the modelling of circulation relations between capital and labour in a macroeconomic setting. The reproduction schemas presented at the end of Volume Two, it is now acknowledged, were one of the first coherent attempts to build a macroeconomic model of the capitalist economy as a totality. Conventional economics only got around to modelling this in the 1930s.

The boundedness of the totality (both structurally and geographically) as Marx construes it is to some degree arbitrarily imposed by the investigator of the ecosystem even when there are strong concrete conditions that logically support a particular definition of boundedness. In the case of the human body, to follow on with this analogy, there are strong reasons to treat of it as a working totality for purposes of medical investigation, diagnosis

and analysis. But the general social conditions in which that body operates cannot be ignored in any approach to health conditions in society. While, for example, a cause of death might be very specific from the medical standpoint, the social context of substance abuse and opioid addictions, of alienation and social anomie, and all the economic and social reasons that lie behind these phenomena are of great significance to understanding recent trends in morbidity. The analogy of the human body within the social order usefully extends to the idea of sovereign state economies within which some hard and fairly fast rules are established for policy formation and the regulation of capital flow and labour provision within an open but bounded territorial organization of the inter-state system. It was only in the 1920s that data began to be collected as if there were such a thing as a national state economy. The behaviour of each sovereign state within the inter-state system depends upon political and economic conditions as well upon the forms of collective action organized for the defense of state interests which extend beyond simply that of accumulating economic wealth and power. The effects of inter-state competition and geopolitical strategizing upon the health and productivity of capital in general are of great significance.

In Marx's conception of capital's totality, the emphasis is upon the fluidity, instability and creativity of the processes that sustain and create it. In the *Grundrisse*, Marx strives to come to terms with this "becoming" of capital as a totality: "this organic system itself, as a totality, has its presuppositions, and its development to its totality consists precisely in subordinating all elements of society to itself or in creating out of it the organs, which it still lacks. This is historically how it becomes a totality. The process of becoming this totality forms a moment of its process of its development.....This society then seizes hold of a new territory, as e.g. the colonies...."(*Grundrisse* 278). The diffusion of capital's productive forces and social relations across the whole world then follows. The creation of the world market is thereby foundational within the capitalist imperative, no matter whether produced through colonial occupations and imperialist impositions or by way of the invisible threads of multiple networks of commercial interactions and money capital flows.

The crystallization out of various features within the totality can, on the other hand, guide, inhibit, imprison or exacerbate the processes that historically constitute it. This crystallization (objectification) can from time to time become downright sclerotic with

respect to ideas as well as practices. It then appears as if humanity has imprisoned itself in its own web of social (class) relations, ideological configurations and institutional arrangements (e.g. the law) and customary practices, to say nothing of remarkable built environments. It constantly finds itself straining to break the bonds and barriers that it itself creates. This is the foundational contradiction within the capitalist mode of production. It is the contradiction that invites the idea of a transition to an alternative socialist mode of production. It also invites us to consider the role of crises in the renewal of capital. Crises “are never more than momentary violent solutions for the existing contradictions, violent eruptions that re-establish the balance that has been disturbed.” (358)

There is one further foundational question that has to be posed. As we have already seen, capital takes on multiple forms (commodities, productive activity, money) as it circulates. This poses the question of what is it that these different forms (“moments”) have in common? What renders them commensurable and convertible into each other? Marx’s answer is that they all, in one way or another, reflect something important about the qualities and quantities of human labour applied in their creation. Marx calls this quality “value.” While all commodities exchanging in the market are valued in terms of their relation to human labour, not all products of human labour are commodities. If I prepare a tacos lunch for family and friends on Sunday then that entails the application of human labour. But it entails the production of a use value but not value. If I do exactly the same thing on Monday for sale in a restaurant, then the tacos have potentially both a use and exchange value. Their value is realised through a sale to a customer. “Labour *with the same content* can therefore be both productive and unproductive.”

There is, as Marx points out, plenty of room for ambivalence in this distinction. “Milton, for example, who did *Paradise Lost*, was an unproductive worker. In contrast to this, the writer who delivers hackwork for his publisher is a productive worker. Milton produced *Paradise Lost* in the way that a silkworm produces silk, as the expression of *his own* nature. Later on he sold the product for £5 and to that extent became a dealer in a commodity. But the Leipzig literary proletarian who produces books, e.g. compendia on political economy, at the instructions of his publisher is roughly speaking a productive worker, in so far as his production is subsumed under capital and only takes place for the purpose of the latter’s valorisation. A singer who sings like a bird is an unproductive worker.

If she sells her singing for money, she is to that extent a wage labourer or a commodity dealer. But the same singer, when engaged by an entrepreneur who has her sing in order to make money, is a productive worker, for she directly *produces* capital. A schoolmaster who educates others is not a productive worker. But a schoolmaster who is engaged as a wage labourer in an institution along with others, in order through his labour to valorise the money of the entrepreneur of the knowledge-mongering institution, is a productive worker.” In writing this text, I am an unproductive worker and I can claim the same imperative that leads the silkworm to produce silk. It is in my nature! But when a publisher takes this content and turns it into a book for sale in the market then I may receive a royalty for permitting the publisher to use my content to generate surplus value (profit).

Value gets created in the first instance through the application of living labour in production for sale in the market at a profit. It gets represented and realized in circulation and consumption. Value courses through all the different moments. Its initial measure is given as socially necessary labour time. i.e. the time on average taken by labour to produce a commodity ready for market. This definition of value needs, at this point, to be taken on faith. It is immaterial in the sense that it is impossible to cut a commodity open and extract the value from it. Yet it is objective because if I take a commodity to market and no one buys it then the labour embodied in it is socially unnecessary and hence not-value. Value is a conceptual abstraction of the sort familiar across the sciences and social sciences. We cannot measure gravity directly but infer its existence from its effects. We cannot measure the political power of someone like Donald Trump directly, but we can infer its existence because of its effects. Capital is not an objectified thing (as in conventional economics) but a process of value in motion. It passes through the different moments of money, commodity, production, consumption and distribution before once again appearing as money capital. The speed of its motion is constantly changing. In the course of its motion, capital exhibits the capacity to expand itself, to be the fount of the profit, the lust for which powers the whole system ever onwards.

This leaves us with the final conundrum: where does the increment in value – the surplus value - come from? This is what grounds the profit which capital appropriates.