Essays on globalization: a journey to a possibly new stage of capitalism
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4 The circuit of social capital

The internationalization of trade and finance is generally taken into account in measuring or comparing degrees of economic globalization, but there is a third component that also has to be considered. This necessity can be illuminated by introducing the concept and dynamics of the circuit of social capital, an analytical tool that Marx first used to make sense of the movements of capital.

This chapter's first section defines the meaning of circuits of capital. The second section then deals with the (asymmetrical) internationalization of circuits of capital.

4.1 Three circuits of capital

In mainstream economics 'capital' is usually analyzed in one dimension: that of 'physical capital' in neoclassical economics, or of 'money capital' in financial economics. Volume II of Marx's *Capital*, which appeared posthumously in 1884, edited by Engels from Marx's manuscript, is divided into three main parts. In the first part, Marx analyzes the metamorphosis capital undergoes in its circuit, as money capital, productive capital and commodity capital.¹ The notion that capital assumes three different forms – and mutates from one to another – is a major contribution. In Marx's own words:

'It should generally be noted (...) that the economists are much inclined to forget not only that a part of the capital needed in a business is constantly passing alternately through the three forms of money capital, productive capital and commodity capital, but that it is always different portions of this that possess these forms alongside each other, even if the relative magnitudes of these portions are in constant flux' (Marx 1884: 333).

¹ On the background to this volume of *Capital see Arthur and Reuten 1998*. 
As Arthur (1998: 95) states, the importance of the introduction of this idea 'cannot be overestimated. Whereas neoclassicals explicitly, and the classicals for the most part (if implicitly), as well as many Marxists, all deploy as a key analytical construct the notion of equilibrium, for Marx it is the concept of a circuit that characterizes his grasp of capital. Furthermore, except in a special case, the circuit does not return to the beginning but is part of a spiral of accumulation, theoretically therefore much more appropriate to the study of the real world, which knows no equilibrium but is strongly marked by growth.'

Harvey (1986: 69-71) characterizes the circulation process that begins with money capital and ends with money capital plus profit as the 'paradigm form of circulation.' Marx 'depicted the process of expansion of value as passing through a sequence of metamorphoses – changes of state.' With money capital (M), brought into circulation to earn more money (M’ = M + Δm), the commodities (C) labor power (LP) and means of production (MP) are purchased as inputs for the production process (P) of commodities (C’), which have to be sold on the market.

Schematically the circulation of capital can be summarized as follows:

M – C {LP & MP} ... P ... C’ – M’ – C’ {LP’ & MP’} ... P’ ... C”’ (etc.)

At the end of the production process P ... C’, the capital value in the shape of commodities as outputs (C’) is greater than the capital value in the shape of commodities that were used as inputs for the production process (C {LP & MP} ... P, or C ... P). Similarly the capital in the shape of money at the ‘end’ (M’) is greater than the capital in this shape at the

2 Arthur and Reuten (1998b: 5) compare the circuits of capital in the following way with so-called ‘modern orthodox economics’: ‘In the jargon of modern orthodox economics, by this Marx apparently takes the analysis into “macroeconomics”. Indeed he does so, and Marx may therefore be considered a founder of a particular macroeconomics (...). Nevertheless to see merely that would be to miss important conceptual differences between Marx and modern orthodox economics, for much of Capital II, especially Part Two on the turnover of capital, would nowadays be classified as business economics. And to further complicate the comparison, much of that same part – together with the other two – would nowadays be classified as monetary economics.’
Both $M - C$ and $C' - M'$ are transformations brought about by buying and selling, whereas the production process $P$ involves a material transformation of the product. As Foley (1986: 66) describes it: 'We can think of the circuit of social capital as the combined circuits of all the individual capitals that make up the whole. Then it is natural to think of the capitalist production process as a closed circuit, with the different forms of capital – financial capital, production capital, and commercial capital – at the three main nodes.' Because circulation is normally a continuous process we can break the overall circuit of social capital down into three circuits:

$$M - C \{LP & MP\} \ldots P \ldots C' - M' \quad (\textit{circuit of money capital})$$

$$P \ldots C' - M' - C \{LP & MP\} \ldots P \quad (\textit{circuit of production capital})$$

$$C' - M' - C \{LP & MP\} \ldots P \ldots C' \quad (\textit{circuit of commodity capital})$$

Since we are describing a circuit there is of course no 'start' and 'end'. We may envisage reference points however.

Marx (1884: 132-3) defines the term 'circuit' as follows: 'Let us now consider the total movement $M - C \ldots P \ldots C' - M' (\ldots)$. Here capital appears as a value that passes through a sequence of connected and mutually determined transformations, a series of metamorphoses that form so many phases or stages of a total process. Two of these phases belong to the circulation sphere, one to the sphere of production. In each of these phases the capital value is to be found in a different form, corresponding to a different and special function. Within this movement the value advanced not only maintains itself, but it grows, increases its magnitude. Finally, in the concluding stage, it returns to the same form in which it appeared at the outset of the total process. This total process is therefore a circuit.'

Arthur (1998: 119-120) discovered a surprising feature of an earlier manuscript for Volume II of Capital. At one point Marx divided the circuit into four aspects: 'In addition to the three with which we are familiar (\ldots) he interposed a circuit he designated as that of "the factors of the labour process" (\ldots). More exactly, it is that of the commodities that in their use-value form serve as factors of the labour process, with their differentiation into means of production and labour power. In the first attempt at differentiating circuits he had not done this, stating quite clearly that there were three phases to be considered of "the reproduction process". This same view is resumed in Volume Two as we have it.' Arthur does not know when and why Marx dropped this experiment, but this may be discovered in the future as more drafts are published.
Each of the three circuits ‘describes the movement of an individual capital and an aspect, or component, of the circuit of total social capital’ (Bryan 1995a: 70). Companies can specialize in one (or two) of the circuits, but there are also conglomerates that unify all three. Moreover, tendencies of specialization and of integration can be identified in different historical periods. Because the conditions and concerns regulating the circulation of the three forms differ, there is reason for specialization. Each of the phases of the process for example costs time: between the purchase of inputs for production and the emergence of finished products (production lag), before commodities are sold (realization lag), and before money is recommitted to the production process in the form of capital advances (finance lag). Merchant (or commodity) capitalists (C ... C’) therefore specialize in transforming commodities into money, money capitalists (M ... M’) in the circulation of money, and production capitalists (P ... P’) in production. The three time lags are the turnover times of the phases of capitalist production. Entrepreneurs in the different sectors obviously have

6 See also Reuten 2001.

7 Marx analyzes this in parts 4 and 5 of Volume III of Capital (1894), where he develops ‘capital in general’ into the actual shapes of industrial capital (or production capital), merchant capital (or commodity capital) and money capital (or finance capital). See Reuten 2001 for a review of these texts and an exposition of the potential conflicts among these fractions of capital.

8 As Van der Pijl (1998: 53) notes, ‘one can hypothesize a specific phenomenology. The perspective of the trade, which prioritizes the profitable movement of goods and compares potential markets in terms of their capacity to absorb particular commodities; the rentier perspective of money capital, for which the money return is the sole decisive reference and which also, on account of its capacity to “totalize” and arbitrate competing productive and commercial ventures, redistributes capital between them; and finally, the productive capitalist, concentrated on securing the specific human and material inputs of the next, expanded round of production.’ See also Van der Pijl 2001.

9 Marx develops the problems and consequences of these time lags and turnover times in detail in part 2 of Volume II of Capital (1884), at the level of capital in general (see Smith 1998).
an interest in reducing the time that their capital is tied up as much as possible, so that they can reinvest it more quickly and make more money.¹⁰

As a whole, to sum up, the process is a dynamic one, in which ‘each of the nodes of the circuit of capital corresponds to a stock of value tied up in the form corresponding to that node; and between each of the nodes is a continuous flow of value moving from one form to the next. The flow between financial capital and production capital is the flow of capital outlays. The flow between production capital and commercial capital is the flow of finished commodities emerging from the production process. The flow between commercial capital and financial capital is the flow of sales of commodities’ (Foley 1986: 68). When differentiating among the three forms, one should not lose sight of the whole. All three circuits, Arthur (1998: 110) argues, ‘carry with them the possibility of some kind of reductionism. So the appropriate thing to say is that all three versions of the circuit express something valid but limited.’

4.2 The asymmetrical internationalization of the circuits

From the – in itself rather non-controversial – notion that capitalism has always been international to some degree, it follows logically that statements about ‘newer’ or ‘higher’ levels of internationalization have to be carefully qualified.¹¹ The differentiation just sketched out among the

¹⁰ ‘(C)apitalism is under the impulsion to accelerate turnover time, to speed up the circulation of capital and, consequently, to revolutionize the time horizons of development’ (Harvey 1995: 6).

¹¹ Bryan (1995a: 12-3) for example argues: ‘International movement of capital, in the form of commodity trade and usury or credit, pre-dated and indeed was the precondition of the development of capitalism (…). Moreover, capitalist class relations have been internationalizing at least since the beginnings of European colonialism. Hence when internationalization is depicted as a distinct, recent development of capitalism, particularly in the period since the 1970s, there is need for clarification, for any perceived transformation should not be overstated. We must be aware that changes which may seem monumental at the time can appear much less decisive in retrospect. Moreover, there is the danger that the proclamation of internationalization as a “new era” of capitalism can use newness (the image of a “clean slate”) as a means to avoid analyzing and explaining development within the “old”.’
three circuits of capital, which together form the total circuit of social capital, can be of great use for such refinements. This is all the more the case since there is no a priori reason to assume that the three circuits, which each have their specific characteristics, will follow the same trajectory over time. Historically in fact the three circuits have not internationalized uniformly or even together.

In a remarkable, rather neglected, contribution, Palloix (1977) points out the historically consecutive internationalization of trade, finance and production. He begins from the notion that commodity capital was the first circuit to be internationalized: ‘In the so-called “competitive capitalism” stage or phase, the process of self-expansion, the reproduction of capital, was supported by the internationalization of commodity capital.’ After trade finance was the next circuit to internationalize: ‘With the stage of imperialism which Lenin analyzed internationalization extended to the circuit of money capital.’ Only more recently, Palloix noted, has production begun to internationalize as well:

‘Today, internationalization has spread not only to the circuits of commodity capital and of money capital, but it has reached its final stage, the internationalization of productive capital. This is usually called the internationalization of production. The consolidation of multinational firms is only the final result at the firm level of this progressive movement of the internationalization of capital; the internationalization of production is the ultimate phase of this movement.’

12 See also Palloix 1975 and Mandel 1972. Since then many others have come to the same conclusion about this periodization, as for example Fine and Harris (1979: 147-8): ‘Thus commodity capital is the first form of capital to be internationalized, and this can be taken as the index of the first stage of the world economy. The development of the credit system which accompanies the predominance of the production of relative surplus value facilitates the internationalization of finance capital, and this may be considered as its second stage. The intensified production of relative surplus value gives rise to a third stage in which productive capital itself has internationalized with multinational corporations controlling production processes which cross national boundaries. At each of these three stages, the formation of the capitalists’ class interest through the national state represents different internal conflicts as the external forces of competition are transformed.’
Since Palloix wrote this in 1977, the internationalization of production has accelerated immensely, as is documented for example in the *World Investment Report* series compiled and published annually by UNCTAD. For Fine and Harris (1979: 151-2), writing at the end of the 1970s, the internationalization of production signified a qualitative shift towards a new stage of capitalism in which production capital in multinational or transnational companies (TNCs) is dominant. But less than two decades later finance capital is generally seen as dominant. This change of emphasis – that is, from the dominance of production to the dominance of finance – in a relatively short interval underlines the danger of impressionistic generalizations, and most importantly the necessity of never losing sight of the whole circuit of social capital.

Bryan, while noting the ‘leadership of money within recent internationalization’ (1995a: 61), comments for example that it has ‘become common to equate internationalization with the growth of TNCs [transnational companies].’ But as he correctly points out, multinational companies should not be equated solely with the internationalization of the circuit of production capital, as they so often are:

‘(T)he circuit of productive capital is just the circuit of industrial capital viewed from a particular perspective (that is, the circuit “starts” and “ends” with productive capital), but along the way, capital passes through all three forms. TNCs are engaged in the international movement of money and commodity capital, as well as the relocation of productive capital’ (Bryan 1995b: 427).

By arguing that TNCs are involved in all three circuits of capital, however, Bryan bends the stick too far in the other direction. There is no reason why companies operating internationally necessarily have to be engaged in international trade, international capital flows and international production. Theoretically it is also possible to undertake just one or two

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13 The authors counterpose this dominance of production capital to the dominance of commodity capital and finance capital at the beginning of the twentieth century.

14 See e.g. Boyer 2000a; Chesnais 1997a; Chesnais 1997b; Gowan 1998; Robinson and Harris 2000.

15 For the ‘capital fractions approach’ in International Political Economy, which is often associated with the ‘Amsterdam Group’ (of e.g. Van der Pijl and Overbeek), merchant houses, financial firms and industry are representatives or embodiments of commodity capital, money capital and productive capital respectively (see
of such cross-border activities, and in fact – as for example outsourcing of parts of the production chain by many companies shows – that is exactly what is often happening.

The point that multinationals cannot be equated with the internationalization of productive capital, however, is well taken. In statements such as the one criticized by Bryan, two dimensions that cannot be reduced to each other have often been confused. On the one hand, the extent to which circuits of capital transcend national borders is a measure of the level of internationalization of economic activities, with divergent implications for the possibility of influencing or regulating capital.\(^\text{16}\) The number and economic weight of companies operating internationally, on the other hand, is rather a measure of the international concentration and centralization of capital. While the two are often linked, they cannot be reduced to each other. It would not make life easier for managers and shareholders, but it is quite possible for capital to become more concentrated and centralized internationally while international trade, capital flows or production are being severely curtailed.

**Summary and conclusion**

Trade and capital flows are generally taken into account in comparisons of economic internationalization in different historical periods, but there is an important third component that has to be considered. As Marx laid out for the first time in his analysis of the circuit of social capital, capital assumes three different forms – commodity capital, money capital, and production capital – and mutates from one to the other.

The circuit of social capital can be thought of as the combined circuits of all the individual capitals that make up the whole. The capitalist production process is thus a closed circuit, which can itself be broken down into three circuits: the circuit of commodity capital, the circuit of money capital, and the circuit of production capital. Companies can

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\(^\text{16}\) To give an example: one consequence of the increasing internationalization of production is that regulators, trade unions, consumers and non-governmental organizations have a much harder time monitoring – let alone influencing – the application of environmental and social standards during the production of goods.
specialize in one (or two) of the circuits, but there are also conglomerates that unify all three.

There is no a priori reason to assume that the three circuits, which each have their specific characteristics, will follow the same trajectory over time. Historically in fact the three circuits have internationalized in a very uneven way. At the risk of schematizing too much, we can note historically increasing levels of internationalization of capital, through the sequential cross-border extension of the circuits of commodity capital, money capital, and production capital.