What Is Capital?

Two terms we encounter often in economic history are *capital* and *capitalism*. These are familiar words, but it is not always clear what they mean or how they are being used. Many writers, especially those in the Marxist tradition, use them in a specific way, which these notes explain.

Capital is a relationship between people. It is a way of organizing productive activity – a way of structuring our collective efforts to transform nature to meet human ends. We sometimes talk about a capitalist "mode of production'." As this phrase suggests, capital one of various ways that people have found to cooperate in producing things.

One way of thinking about this is that capital is a sort of game, whose rules we will discuss in a moment. Capital*ism*, then, is a setting or context in which this game is being played. We should not think of a whole country or time period or society as "being" capitalist. Capitalism always coexists with other ways of organizing human activity, or other modes of production.

Think of a concrete human need, like eating, or getting from place to place, or raising children. To satisfy these needs, people have to engage in various kinds of activity – cooking food, driving cars, etc. This activity is organized in various ways. Some of it people perform themselves to meet their own needs directly, individually or as a family. People may cook their own meals and drive themselves to work, and families perform much of the work of raising and caring for children. Some of this activity is organized by the government, as with public highways and transit for transportation, or public schools and daycares for children. And some of it is organized through capitalist businesses. What distinguishes this last way of organizing productive activity?

The answer is, capital is an ongoing *process* where:

- Money is used to acquire tools and raw materials – the "means of production"
- ... and to hire wage labor.
- The hired labor works with the tools and materials
- ... under the direction of the capitalist
- ... to make more goods for sale
- ... with the goal of acquiring more money.

People sometimes think of capital as money, or as machinery, buildings, etc.; but in this perspective it isn't either of those things.

Rather, it is the cycle going back and forth between one form and the other. What defines capital is that money is used to get authority over the production process, and production is then carried out to get more money. It may seem weirdly circular that someone should spend money with no goal except getting more money. But this circularity is a central part of what capital is.

From the list above, we can see that a number of conditions have to come together for capital to exist. First, we need private property and markets. Second, we need wage labor. Third, we need an employer who controls the production process. Fourth, we need goods produced for sale, rather than for the use of the producer. And finally, we need accumulation – the endless pursuit of more money – to be a goal in itself. We are used to most of these things, since we live in a society where capitalist production is the norm. But in a broader historical perspective, all of them the exception rather than the rule. I'll discuss teach of these prerequisites of capital more in a moment.

The Circuit of Capital

Capital, again, can be money, machines, the employer, the boss, and the person or organization who receives the money. (We are using the term in this last sense when, for instance, we talk about GDP national income being divided between labor and capital.) We can think of capital as a *circuit* or process looping between different steps. This is often summarized as follows:

$$
\begin{tikzcd}
 & L \arrow[dr] & & & \\
M \arrow[ur] \arrow[dr] & & P \arrow[r] & C' \arrow[r] & M' \arrow[llll, bend left] \\
 & C \arrow[ur] & & &
\end{tikzcd}
$$

Here M is the money at the start of the circuit, C is the commodities that contribute to production (tools and raw materials), L is labor, P is the production process, C′ is the commodities that result from production (finished goods or services), and M′ is the money the capitalist receives from the sale of those goods. For there to be a *surplus*, or profit, M′ must be greater than M. The final curved arrow shows that this new, greater amount of money is then reinvested to carry out a new production process on a larger scale.

Wherever we see this loop from money to goods to production to new goods and back to money, we can say there is capital. And wherever this is the main way that production is organized, we can say there is capitalism.

There are two other conditions that are not strictly necessary for capitalism to exist, but that have been very important historically for its rise and persistence. First, there needs to be *competition* between capitalists. Competition simply means that there are multiple capitalists trying to buy the same inputs, hire the same workers, and sell similar goods in the same markets. Competition ensures that the cycle continues. Without competition, a successful capitalist may decide to use more of the surplus fore their own consumption, or to pursue political power or some other goal. Competition forces capitalists to keep reinvesting and accumulating if they want to maintain their authority over production or their claim on the surplus. Competition also forces capitalists to constantly look for improvements in the production process, which brings us to the other condition. This is that production can be *industrialized* - transformed through the application of science and the use of more long-lived, specialized means of production.

In principle, it is possible for capitalist production to use the same techniques and operate at the same scale as non-capitalist modes of production. A coffee shop, for instance, might use the same kind of coffee maker you would use at home. But capitalist enterprises that limit themselves to the same techniques of production as other, preexisting modes of production are unlikely to displace those other modes, and may not have much of an impact if they do. A key condition for the rise of capitalism is that it has been possible to industrialize important areas of production, meaning that there are large gains from carrying them out on a larger scale, with more specialized, long-lasting tools and machines, based on the application of new technologies.

Historical examples of industrialization are the replacement of hand-sewing and spinning with textile factories using large, powered machines, or the replacement of people using their muscles to load and unload ships at a port with containers and cranes. We should stress that capitalist production does not *require* industrialization – both historically and today, there are plenty of examples of capitalist firms where the daily activity of the workers is very similar to that of independent craft producers. Conversely, it is possible to have industrialization without capitalism. Militaries, for example, have often pursued large-scale production and adopted new technologies, without any orientation toward profit. But there are many important cases historically where industry and capitalism have developed together.

In short, capitalism can exist without competition or industrialization. But without competition, capital may cease to be capital, and turn into some other kind of authority. Without industrialization, capital may continue existing in its own domain but is unlikely to revolutionize the rest of production and the larger society.

Another question we should think about is who gets the surplus. The commodities purchased by one capitalist are often being sold by another capitalist. Depending on the terms of this sale, the surplus claimed by one of the capitalists will be larger, and by the other smaller. We speak of this as a commodity chain; the bulk of the surplus usually ends up at the point in the chain where there is the most *market power* - something, like a monopoly, that allows a particular capitalist to dictate prices and other terms. Parts of the surplus may also be claimed by non-capitalists, for instance by the government as taxes, or, historically, by non-capitalist landlords.

Preconditions for Capital

Historically, a number of conditions had to be met for capital to become generalized:

1. **Money.** There has to be a universal equivalent that all different kinds of material goods and human activities are measured in terms of.

2. **Private property.** There has to be a legal system that assigns people exclusive rights to use certain resources or to engage in certain activities.

3. **Markets.** Both the means of production and the products have to be freely exchangeable for money, at prices that are not fixed by law or tradition.

4. **Commodification.** Goods must be produced primarily with the goal of selling them in markets, and not for some other purpose.

5. **Wage labor.** An important subset of the above two is that it has to be possible for human working-time has to be owned by someone else, and this working-time has to be available for sale.

6. **Authority over production.** The concrete activities of production have to be under the control of the employer, not the worker. This means both that the employer's authority in the workplace has to be recognized, and that the employer has to have the technical ability to direct the production process.

7. **Proletarianization.** Workers must lose independent access to the means to meet either their own needs (the *means of subsistence*) or the to carry out their work on their own (the *means of production*).

8. **Competition.** Multiple capitalists businesses must be in a position to buy the same labor and other means of production, and to sell equivalent commodities to the same buyers.

9. **Industry and technological change.** It must be possible to transform the production process by applying scientific knowledge and more extensive and specialized plant and equipment so as to produce more (or better) goods with the same amount of labor.

10. **Realization.** Producers must be reliably able *realize* the surplus by selling their finished goods – there must be both demand for them and sufficient money in the hands of purchasers.

11. **Reinvestment.** It must be possible for the money realized from the sale of commodities to be spent on new means of production and labor. In many settings, where the receivers of the profits are different from those actually carrying out the productive process, this will require that the money pass through the financial system.

12. **Accumulation.** Those in control of the production process must seek to accumulate more wealth without limit, as opposed to some other goal, and it must be possible for them to do so.

Many of these conditions are related, but distinct. For example, it is possible – and quite common historically – for wage labor to be available for sale, but for the employer not to fully control the labor they buy because the nature of the work doesn't allow them to effectively oversee the labor process, or because only the worker has the necessary knowledge to carry the process out.

Historically, we can find many cases that satisfy some but not all of these conditions. People sometimes debate which of these cases are "really" capitalism, but there's no need to get too worried about these debates. It's simpler to think of a core or pure concept of capitalism and various real world cases that never completely fit the concept, but get more or less close to it.

Since capital is a circuit, it can be broken at various points. As we look through the list above, we can imagine situations where almost any one of the conditions is not fulfilled, even though most of the others are.

If we go back to the figure showing the circuit of capital, we can think of all the places it might break down. The would-be capitalist might not be able to amass the money (M) they need to begin the circuit, perhaps because of some breakdown in the financial system, or simply because the money wealth of the society is all in someone else's hands. The means of production (C) required might not be available for sale, either at that moment, or at all. For instance, there have been many settings where capital could not get established in agriculture because there was no market for land. Wage labor (L) might not be available, either because people are generally unwilling to work for wages, or because the wage they are demanding is too high. Capitalists might fail to manage the production process (P) because their workers refuse to accept their authority, or perhaps for some other reason. The goods produced (C') might not be saleable at all, or at a high enough price to generate a surplus. The surplus might be claimed by someone else (the government, for example) rather than remaining in the capitalists' hands as profit (M'). Capitalists might choose to use the profit for their own purposes rather than reinvesting it. And even if capitalists find themselves with a profit in the form of money and wish to reinvest it, they might be unable to, either because the financial system fails to connect the individuals who receive the profit to the ones who would carry out the investment, or because there is no way to carry out the production process on a larger scale.

Any of these problems might interrupt the circuit of capital; if the interruption persists, the circuit breaks down and the capital ceases to be capital.

Other Modes of Production

Capitalism is only one of many ways that productive activity can be organized. There are also forms of capital that we can think of as partial or reduced versions of the circuit above.

An important alternative to capitalism is *subsistence* production. This describes an individual, family or other social unit producing for its own needs. Pure subsistence involves neither purchases of means of production, nor the use of wage labor, nor sale of the products in markets. Historically, most productive activity has been carried out as subsistence labor. Even today, much activity – for instance, around the raising of children – still takes place as subsistence. Much of children's needs are of course met through market purchases, but the most important contribution, the parents' labor, is not.

Note that subsistence production can still generate a surplus, if the producer is able to produce more than what is required to meet their own needs. This surplus may be *appropriated* (claimed or taken) by someone else. In this case, however, it will have to be appropriated directly, and not in the form of money.

In addition to subsistence, there are a number of modes of production – historical and existing – that share some but not all of the characteristics of capitalism:

- **Finance capital**, or money lenders. We can think of this as M –> M′, without any involvement with commodities or production. Arguably this is the oldest form of capital.
- **Merchant capital**, or trade. M –> C –> M′. Here money is accumulated via the purchase and sale of commodities, but without any involvement in the production process itself. Much of long distance trade in Europe and elsewhere was organized on this basis for centuries, with trade carried out by merchants pursuing profit, but with the goods themselves produced in other ways.
- **Slavery.** Historically slavery has meant many things. But in the Atlantic world, in modern times, it was associated with production of a handful of staple crops for profit. Slave owners were capitalists in the sense of using money to accumulate more money, via control of the production process and sale of commodities. In fact, these characteristic were well established in slave plantations while much of urban production was still being carried out on a craft or artisan basis. But slave plantations did not, obviously, use wage labor. Much of the debate about whether or to what extent slavery was "really" capitalist, focuses on how much it transformed the production process. Some historians also question how much slave owners were motivated by accumulation, as opposed to status or other goals.
- **Petty commodity production**, also referred to as craft or artisan production. These are enterprises, normally very small, that use market inputs to produce outputs for sale, using only the labor of the proprietor and their immediate family. They sell their output in the market not in order to grow the enterprise without limit, but to buy the inputs they need to reproduce the enterprise in its current form and to meet the needs of the owner and their family. We can think of this as C –> P –> C′ –> M –> C″. The craft worker buys raw materials, transforms them into finished products, sells those for money, and uses the money to buy their own means of subsistence as well as the next round of inputs. While craft producers may compete in the same markets as capitalist producers, they are not motivated by (or capable of) endless accumulation. Historically this was the normal form of urban production, and is still widespread in many sectors of the economy. Mainstream economic theory often imagines craft production as the normal case – i.e. that participants in the economy are motivated by their own

consumption needs rather than by the accumulation of money as an end in itself.

- **Nonprofits.** Large enterprises using wage labor and purchased inputs, but with the goal of producing some definite good or service rather than growth in the abstract.
- **Managerial corporations**. In modern corporations, there is no longer one capitalist. Rather, different people perform the function of capital at different stages of the circuit. The investor who finances an enterprise, the manager who oversees the production process, and the shareholder who receives the profits may all be different people. It may happen in this case that the managers become more oriented toward the growth of the enterprise for its own sake, rather than toward the accumulation of money. Many economists and social scientists believed this was the case for large American corporations in the mid-20th century, or at least that there was a tendency in this direction. Some even believed that the separation of ownership and control could lead corporations to "socialize themselves."
- **State capitalism**. This is a description that is sometimes applied to the old Soviet Union, by people who see the same pursuit of accumulation for its won sake there as in capitalism. There is much debate on this question, but arguably, Soviet enterprises – which did employ wage labor and bought and sold many of their inputs and final products on markets – did have some important characteristics in common with capitalist enterprises and especially with managerial corporations.

Historically there are many other variations that don't always fit neatly into this framework. For example, Sven Beckert speaks of *war capitalism*; this is not about a different kind of circuit, but rather emphasizes the role of organized violence in creating the preconditions for capitalism.