The Accumulation of Capital in a Social Complementarity Framework

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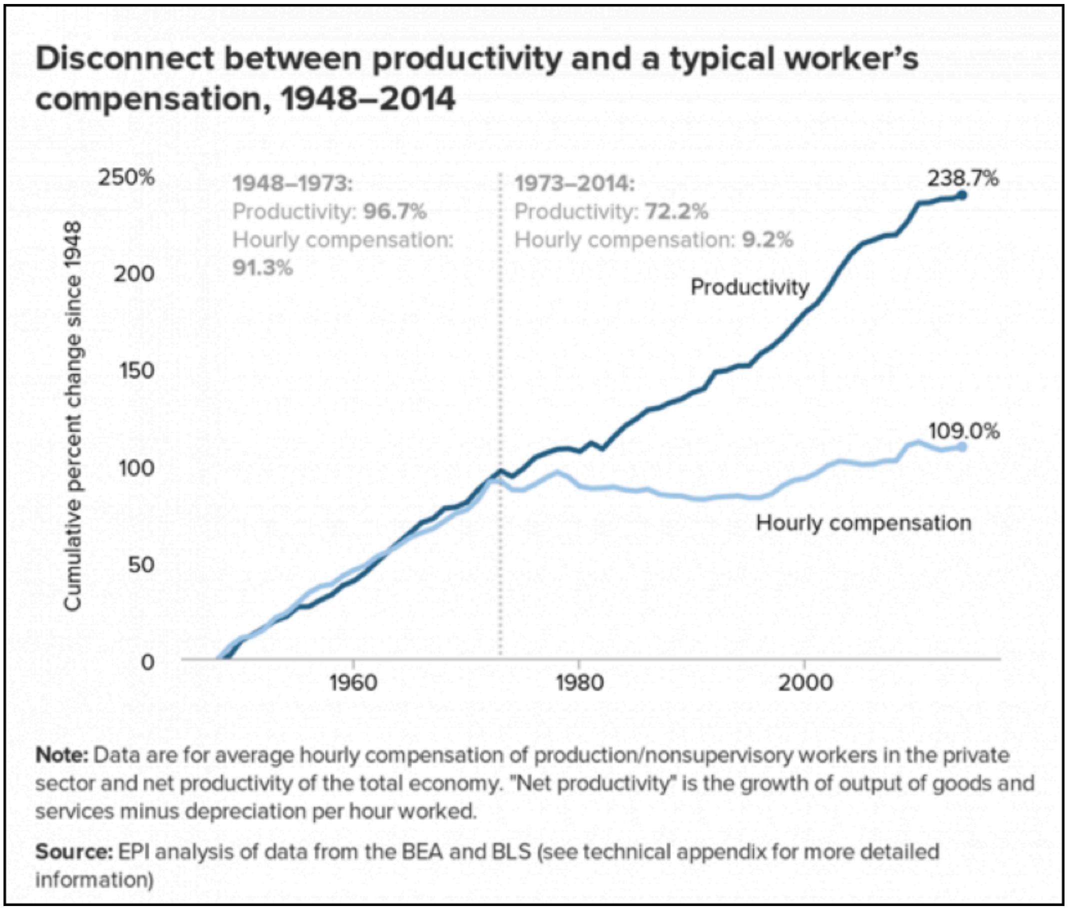
- In order to study a social system one needs a methodological approach. This is a fundamental concept about how the systems interactions take place, fit into larger patterns, and make logical sense.
- By the end of the nineteenth century, two competing paradigm of economics had emerged, neoclassical economics and Marxism.
- Neoclassical economics (NE) was based on methodological individualism. That implies that economics events for the purpose of study can be seen as constructed by actions by rational individuals in competitive markets. While seldom explicitly saying so, expositions appeared to assume that NE had universal validity. Modern mainstream economics remains a direct descendent of NE.
- In contrast, the fundamental assumption of Marxism was historical materialism. This contended that the economy of a society was given by the social structures that evolve out of path-dependent historical developments. Accordingly. the industrial revolution had shifted Western society from a late feudal mode into a new socio-economic phase of capitalism, differentiated by primitive reproduction versus enhanced reproduction.
- This meant the emergence of a set of entirely new social structures. Fundamental to the new structures was the contradiction between workers and capitalists that characterized the developing factory system of production. Moreover, industrialization had created urban settings where all economic exchanges were monetized.
- The main consequence of this contradiction is that it enables the capitalists to take advantage of the necessitous condition of workers to force down their wages. This contrasts to the neoclassical view that rational agents operating in competitive markets ensure that workers receive the whole value of their product.
- The difference between these arguments is a key difference between Marxian and neoclassical economics. However, both Marx and the neoclassical economists were hampered in their theorizing by common problems. Due to Newton's concepts of the physical world, which were generally accepted during the nineteenth century, they believed in continuity and direct causality linkage between economic micro and macro event.
- The neoclassical economists wanted to make their science an exact one by emulating the use of mathematics in physical sciences. "A mathematical law is in theory always continuous, so that the doses (of economic factors) considered are indefinitely small and indefinitely numerous." Jevons "Political economy", p. 214.
- This approach overlooks that economic events are taking place in the social world and therefore are framed as discrete social facts. Social facts that influence economic events includes: general social norms, power relations, the individual agents' habits, social skills,

etc. Under such conditions, economic events must be understood as discrete events that can only be aggregated by statistical probabilities, based on data sampling.

- The NE assumption that they can be aggregated strictly according to economic laws is therefore false. That is not to say that we cannot discover trends in the collected economic data, but such trends are always expressions of the given social structures that the present sum of social facts constitutes.
- In other words, socio-economic trends cannot be assumed to be impermanent across cultural and historical divides. Marx' discovery of historical materialism reflects an intuitive understanding of this fact. The prominent feature of capitalism, as he saw it, was that the capitalists could exploit the workers, i.e. pay them less than the value they created.
- This would lead to accumulation of capital and if we look at the picture that modern empirical studies show, we see that this still is the case. Marx, however, working with the labour theory of value as his primary theory of value formation tried to prove that all created economic value could be derived from labour inputs only. Moreover, the ratio between the wage fund and surplus value would tend to equalize to average values.
- The problem is that the capitalists' profit (another name for surplus value) can be shown empirically to trend towards average values. These two values can only both trend toward averages if there is a constant ratio between labour factors and other productive factors.
- Marx' attempts in Capital 3 to solve this unsolvable problem traps him into a line of argumentation that resembles the neoclassical mechanical assumptions. In particular, sales prices are not directly derivable from cost prices no matter how these are calculated.
- A capitalist economy requires mechanisms for monetary expansion according to the formula for effective money = quantity x velocity. On the other hand, if effective money expands, enhanced reproduction must take place, or said differently, added value must materialize somewhere in the economy.
- The basic difference between primitive reproduction and enhanced reproduction is the added value, or social surplus. If that is divided to the advantage of capital owners, constant over-accumulation of money will occur since they have lower propensities to consume than workers. Moreover, the real economy—due to risk factors—do not attract investments that diverge vastly from its current rate of growth.
- The combination of these basic structures of capitalist economies inexorably cause asset inflation. The question then becomes if and how capital owners are able to extract payments for rising assets values. This is a major theme in modern economies and means that the effective disposable incomes of lower and middle incomes groups have been hollowed out by rising payments for the use of assets.
- We must separate Marx' fruitful fundamental ideas of historical materialism and accumulation of capital from his later failed attempts to show how labour values transform into market prices. In particular, the accumulation of capital, as he laid it out, is a basic structure of capitalism that still operates in full force. This was recently shown with extensive documentation in "Capital in the 21st Century" by Thomas Piketty.

Appendix: Some economic trends.



Percent shares of gross domestic income: Corporate profits with inventory valuation and capital consumption adjustments, domestic industries, 1948-2017.