

# PRODUCTION AND MANAGEMENT: MARX'S DUAL THEORY OF LABOR

*Gérard DUMÉNIL and Dominique LÉVY*  
*MODEM-CNRS and CEPREMAP-CNRS*

---

*Version: May 10, 2005.*

*Address all mail to:* CEPREMAP-ENS, 48 bd Jourdan, 75014 Paris, France.  
Tel: 33 1 43 13 62 62, Fax: 33 1 43 13 62 59  
E-mail: dominique.levy@ens.fr, gerard.dumenil@u-paris10.fr  
Web Site: <http://www.jourdan.ens.fr/levy/>

## RÉSUMÉ

### PRODUCTION ET GESTION: LA THÉORIE DUALE DU TRAVAIL DE MARX

La théorie de la valeur et le problème de la transformation des valeurs en prix de production ont fait l'objet de beaucoup de recherches et de controverses depuis la publication du *Capital* de Marx. On soutient dans ce texte que la théorie du travail de Marx, est en fait duale. Aux côtés du travail productif, Marx décrit un second type de travaux qu'exige le contrôle de la reproduction du capital, par exemple l'imposition de la discipline aux travailleurs ou l'achat et la vente. Ces tâches sont fondamentalement improductives, bien qu'une composante productive fasse son apparition du fait de la participation du capitaliste au procès de travail, avec la subordination réelle du travail au capital. Loin d'être inutiles, ces tâches ont pour objet la maximisation du taux de profit. Leur importance s'est considérablement accrue depuis que Marx les a décrites dans *Le Capital*. A la suite de la séparation de la propriété et de la gestion (en particulier, depuis la révolution managériale), elles ont été déléguées à des travailleurs salariés. Bien que non rigoureusement, la distinction, entre les deux catégories de travaux est parente de la distinction contemporaine entre la production et la gestion au sens large. La théorie de la valeur travail (concernant le travail productif) est un élément clef de la caractérisation du capitalisme comme société de classe, dotée de ses propres mécanismes d'exploitation. Pourtant la théorie du travail de maximisation du taux de profit est désormais cruciale vis-à-vis de la compréhension de la structure de classe du capitalisme actuel (avec ses cadres et employés) ainsi que de la dynamique du changement technique et du capitalisme en général. Cette importance procède du fait que les progrès de gestion se sont révélés constituer la principale contretendance à la baisse du taux de profit.

## ABSTRACT

### PRODUCTION AND MANAGEMENT: MARX'S DUAL THEORY OF LABOR

The labor theory of value and the transformation problem have been the object of much investigation and controversy since the publication of Marx's *Capital*. This paper shows that Marx's analysis of labor is actually dual. Besides productive labor another category of workplace activity is described by Marx: the capitalist tasks required by the control of the reproduction of capital, for example disciplining labor or buying and selling. These activities are fundamentally unproductive, although a productive component is involved with the participation of the capitalist, as coordinator, in the labor process, under the real subsumption of labor. Far from being useless, the purpose of these tasks is to maximize the profit rate. Their importance has been growing considerably since Marx described them in *Capital*. Following the separation between production and management (in particular after the managerial revolution), they have been transferred to salaried workers. The distinction between the two categories of labor is amenable to the contemporary distinction between production and management in a broad sense. The labor theory of value (concerning productive labor) is a basic element in the understanding of capitalism as a class society with its own mechanisms of exploitation. However, the theory of a category of labor targeted to the maximizing of the profit rate is now crucial in the understanding of the new class patterns of capitalism (with managerial and clerical personnel) and the dynamics of technological change and capitalism in general. This importance comes from the fact that the rise of management appears to be the main countertendency to the falling profit rate.

---

MOTS CLEFS : Travail productif, travail improductif, procès de production, procès de circulation, théorie de la valeur, taux de profit, cadres et employés.

KEYWORDS : Productive labor, unproductive labor, production process, circulation process, labor theory of value, profit rates, managerial and clerical personnel.

J.E.L. Nomenclature: A10.

## Introduction

Yes, the labor theory of value is relevant to the analysis of contemporary capitalism. Apart from the so-called *transformation problem*, there are grounds for a discussion concerning the nature of various categories of labor such as productive and unproductive labor.

The thesis of this paper is that Marx actually put forward a dual theory of labor, of which the labor theory of value is only one aspect. Marx's identification of a second category of labor is consistent with the separation between productive and unproductive labor, though not equivalent to it. The potential modernity of this framework is underestimated. Although the correspondence is not complete and must be discussed in detail, this dual theory of labor refers to what is now labeled *production* and *management*. Clerical and managerial tasks are useful, in spite of their basic unproductive character. Within capitalism, their purpose is to maximize the profit rate, which relates to what can be called *management* in a broad sense. Their rising numbers point to new class patterns and technological trends. In our opinion, Marxist economists need to confront these issues rather than calculate hours of labor in the maze of industrial divisions.

The overall question raised in this paper can be summarized as follows: *Is Marx's dual theory of labor useful?* Or more precisely, *What can we learn about capitalism by referring to the labor theory of value and to the theory of profit-rate-maximizing (PRM) labor?*

This paper divides in three sections. The first section introduces the concept of PRM labor, as the tasks of the capitalist in the reproduction of capital. The transformation of PRM labor from the framework of the formal subsumption of labor under capital to that of real subsumption is discussed. The second section is devoted to the delegation of these tasks to managerial and clerical personnel. This is where the relationship is established between Marx's categories and the contemporary notion of *management*. The last section discusses the usefulness of the theory of labor value and of the theory of PRM labor, as two distinct and complementary theories.

It is noteworthy that the object of this paper is not the relationship between the labor theory of value and the theory of exchange, or the *transformation problem*, which has been at the origin of much confusion (box 1).

## 1 - Profit-Rate-Maximizing (PRM) labor

Central to our analysis is the fact that a capitalist performs specific *tasks*. These tasks are not useless, but are a necessary component of the reproduction of capital. Their purpose is the maximizing of the profit rate. Some difficulty is created in this analysis since the content and nature of some of the tasks of the capitalist change with the development of capitalist relations of production. The crucial distinction in this respect is between the formal and real subsumption of labor under capital.

We first consider all capitalist tasks related to circulation, for which this distinction is not relevant.

### 1 - Value, exchange, and price

The relationships between the concepts of value, exchange and price are difficult and controversial. Below, we simultaneously emphasize their congenial character and discuss the differences in content. Ultimately, we return briefly on the *transformation* controversy.

#### • Exchange in the definition of labor values

The value of a commodity is defined by Marx as the socially necessary labor time required for its production. This definition refers to production, but market mechanisms are also implied in the determination of *socially* necessary labor time. The overall idea is that, in a noncapitalist commodity-producing economy, the market would not recognize the specific features of the labor process as executed by one producer. In particular, such a producer cannot claim a price to reward his/her effort if it is inefficient.

The famous “abstraction” of labor, in particular the reduction of complex to simple labor, can only be realized by the process of exchange on the market and the mobility of producers between various activities. If market and social practices (since such mechanisms are highly dependent on power relations or uses) would not acknowledge the intensity and skilfulness of particular types of labor, producers would be discouraged to undertake these tasks; the deficient or excessive supply of particular goods would then modify behaviors. In other words, the process of abstraction of labor is the product of the behavior of economic agents in an economy. If this were not so, the concept of abstract labor would be an empty shell with no explanatory power.

Since the conditions of production (technology, wages, scarce resources, outputs...) are influenced by the capitalist features of the economy, the determination of values along the above lines rests on the idea of an impossible social experiment in which a number of social relations and mechanisms are set aside: a *fictional reference state*, used as a tool of analysis. In other words, we compute values rather than observe them.

#### • Laws of exchange

The labor theory of value—or the *law of value*, an expression that Marx scarcely uses—does not imply that commodities exchange at prices proportional to their values. Marx states two basic *laws of exchange*, which obviously do not sum up the entire complexity of exchange relations:

1. *The commodity law of exchange*: The exchange of commodities at prices proportional to their values. This relates to a noncapitalist commodity-producing economy. (Such a commodity noncapitalist economy is more a theoretical reference than the description of a geographically and historically identifiable situation.) This law of exchange is used by Marx as a simplifying assumption whenever a more complex framework is unnecessary (sometimes even when it is required).
2. *The capitalist law of exchange*: The exchange of commodities at prices proportional to hours of social labor reallocated to take account of the comparative sizes of the amounts of capital used in their production. These prices are called *prices of production*. This framework can be broadened to include the existence of rent for natural resources. This second law of exchange is more realistic than the previous one, whose purpose is fundamentally theoretical. (Only capitalist economies transform most products into commodities.)

Assuming that prices of production regulate exchange, the market will simultaneously acknowledge the quantities and qualities of labor, on the one hand, and capital invested, on the other.

#### • Values and prices - The price form of value

It is obvious from this analysis that the relevance of the labor theory of value does not rest on the actual exchange of commodities according to the first law of exchange. Any more complex law of exchange may prevail, or disequilibrium. Surplus-value can be realized according to more complex reallocation procedures (such as the payment of rent), without affecting the relevance of the labor theory of value, or *law of value*, as evident from the last sentence below:

.../...

*Apart from the confusion produced by the transformation of values into prices of production, a further confusion derives from the transformation of surplus-value into various separate, mutually independent forms related to the various elements of production, into profits and rents. It is forgotten that the values of commodities are the basis and that the breakdown of this commodity value into particular components [...], in no way alter the value determination and its law. Just as little is the law of value affected by the fact that the equalization of profit [...], gives rise to governing average prices for commodities that diverge from their individual values. (a)*

The individual values of commodities play no role in the determination of relative prices in a capitalist economies, where prices tend to gravitate around prices of production. However, the prices of commodities (contrary to the prices of land) are forms of value (b): either value (hours of socially necessary labor time) in the enterprises and industries where it has been created (as in the commodity law of exchange) or value as it has been reallocated (as in the capitalist law of exchange). The terminology “prices of production” is somewhat ambiguous, since the same relation holds between reallocated hours of socially necessary labor time and its price (its expression in money) in a capitalist economy, as between socially necessary labor time and its price expression in a pure commodity economy. What should we call prices of production: reallocated hours or their monetary form?

• **The transformation controversy**

The controversy around the so-called “transformation of values into prices of production” specifically addresses the issue of the redistribution of labor time in a capitalist economy recalled above. The problem hinges around the exact content given to this notion of “redistribution”, in relation to the equality between total values and total prices of production, and total surplus-value and total profits. Years ago, a “new” interpretation (new when it was formulated) was proposed (c). It suggests that only the hours of labor time expanded during the period are at stake, while the value of the commodities transferred from previous periods must be reassessed according to the present conditions of production (d). Correspondingly, the rate of surplus-value must be measured according to the purchasing power of workers in terms of such redistributed hours (thus, independently of what they actually consume).

In a discussion of the relevance of the labor theory of value in the analysis of contemporary capitalism, we judge such controversies as secondary technical issues, with little practical consequences if any. Far more relevant is the idea of the dual conceptualisation of labor in Marx’s analysis to which this paper is devoted.

---

(a) MARX K. 1894, Ch. 49, p.984-985. This last sentence shows that by “law of value” Marx does not mean the exchange of commodities at prices proportional to their individual values.

(b) Values refer to social relationships. The value of a commodity can only be expressed as a quantity of another commodity, as in the *exchange value*, or in a quantity of money, as in the *price form*.

(c) DUMÉNIL G. 1980; FOLEY D. 1982, and 1986; LIPIETZ A. 1982; EHRBAR H., GLICK M. 1986.

(d) From this latter element, follows the divergence with the already old but more recent interpretation which conserves the values of inputs transferred from previous periods independently of the possible alteration of their conditions of production (FREEMAN A., CARCHEDI G. 1996; DUMÉNIL G., LÉVY D. 2000). This divergence is completely alien to the prevalence of equilibrium or disequilibrium in the economy, contrary to what is often stated.

## 1.1 The tasks of the capitalist regarding circulation

Marx analyzes the *reproduction of capital* as the unity of the *production* and *circu-*

*lation processes* of capital. Production is simultaneously related to the labor process and the valorization process of capital. The second concept, *circulation*, refers to the metamorphoses of capital through its various social forms and the simultaneous existence of the fractions of capital under the three forms.

Capital is value taken in a movement through three “forms”: money capital, M, commodity capital, C, and productive capital (in the labor process), P. Each element of capital moves, at its own speed, through a process of metamorphoses through these three forms. To describe it, it does not matter if we begin in M, C, or P. For example, Marx writes:  $M—C...P...C—M$ .

Each steps of this circulation process of capital requires labor: (1) conserving money M (managing liquidities), (2) buying  $M—C$  and selling  $C—M$  (commercial activity and hiring of the labor force), stockpiling C (managing inventories), and (3) producing P (ensuring the provision of material and labor inputs, managing goods in process...); it is also necessary to (4) collect the necessary financing and (5) to control the entire circulation of capital, as in internal accounting.<sup>1</sup>

In Marx’s analysis, all circulation activities are originally part of the tasks or, equivalently, the functions of the capitalist. In particular, buying and selling are components of these tasks:

Just as the circulation time of capital forms a necessary part of its reproduction time, so the time during which the capitalist buys and sells, prowls around the market, forms a necessary part of the time in which he functions as a capitalist, i.e. as personified capital. It forms part of its business hours.<sup>2</sup>

Three ideas are combined in this passage: (1) Buying and selling require time-consuming activities; (2) These activities are a component of a broader set of activities; (3) They are the responsibility of the capitalist.

The distinction between production and circulation is related to the definition of productive and unproductive labor (box 2). Very clearly, in Marx’s framework, all circulation tasks are unproductive, and the agents who perform these acts are unproductive workers. All categories of labor performed within the production process, under the form P, are not productive. The labor that must be expended to impose discipline on the workers does not produce value (section 1.3). Thus, the two distinctions are not coextensive.

Far from being useless, unproductive labor has a well defined purpose: the circulation of capital. In particular, the aim of commercial activities is to ensure the passage from commodity-capital to money-capital,  $C—M$ , in order to guarantee the fastest *rotation* possible.

## 1.2 The formal and real subsumption of labor under capital

Marx distinguishes two historical stages in the evolution of the control that capitalists exercise in the labor process. In both cases, formal or real subsumption, the activity of the

---

1. “Besides the actual buying and selling, labour time is spent on book-keeping, which requires pens, ink, paper, desks and other office equipment as well as objectified labour. Thus it is spent in this function both as labour-power and as means of labour. In this connection, the same state of affairs obtains as with buying and selling time.” (MARX K. 1885, Ch. 6, p. 211).

2. MARX K. 1885, Ch. 6, p. 207.

## 2 - Productive and unproductive labor

All labor is not included in the definition of value, only productive labor. First, the product must be sold on the market. Labor spent to prepare foods or to produce cloth for the family is not productive labor in this sense; in a similar fashion, the work of a civil servant in a public administration is unproductive labor. Second, in a capitalist economy, where a more sophisticated division of labor prevails within each enterprise and among enterprises, a further broad category of labor is classified by Marx as unproductive. This is, for example, the case of all commercial activities: Buying and selling, although they demand actual work, are not component parts of productive labor and do not create value. Within the theory of commodity, productive labor creates values; within the theory of capital, productive labor creates surplus-value for the capitalist class. Marx treats this distinction as a straightforward outcome of the extension of the field of analysis:

*Only the labour which posits the variable capital and hence the total capital as  $C + \Delta C = C + \Delta v$  is productive. It is therefore labour which directly serves capital as the agency of its self-valorization, as means for the production of surplus-value.*

*The capitalist labour process does not cancel the general definitions of the labour process. It produces both product and commodity. Labour remains productive as long as it objectifies itself in commodities, as the unity of exchange-value and use-value. But the labour process is merely a means for the self-valorization of capital. Labour is productive, therefore, if it is converted into commodities, but when we consider individual commodity we find that a certain proportion of it represents unpaid labour, and when we take the mass of commodities as a whole, we find similarly that a certain proportion of that also represents unpaid labour. (a)*

---

(a) MARX K. 1867, Appendix, p. 1039.

capitalist is required but its content is altered. The formal subsumption of labor refers to the transfer under the sway of the capitalist owner of a basically unchanged labor process. In the second stage, the real subsumption, the labor process is thoroughly transformed in terms of (1) scale (largely increased), (2) technology (much more sophisticated), and (3) complexity, due to the increased division of tasks and through the application of science:

[...] capital subsumes the labour process as it finds it, that is to say, it takes over an *existing labour process*, developed by different and more archaic modes of production. For example, handicraft, a mode of agriculture corresponding to a small, independent peasant economy. [...] This stands in striking contrast to the development of a *specifically capitalist mode of production* (large scale industry, etc.) [*real subsumption*]; the latter [...] revolutionizes their [*of the agents of production*] actual mode of labour and the real nature of the labour process as a whole. It is in contradistinction to this last that we come to designate as the *formal subsumption of labour under capital* [...] the takeover by capital of a mode of labor developed before the emergence of capitalist relations.<sup>3</sup>

Marx links the distinction between formal and real subsumption of labor to the two patterns of growth of surplus-value: absolute and relative surplus-value. The relationship is straightforward, since the progress of labor productivity is a central feature of real subsumption and of the mechanism of the relative surplus-value:

---

3. MARX K. 1867, Appendix, p. 1021.

If the production of absolute surplus-value was the material expression of the formal subsumption of labour under capital, then the production of relative surplus-value may be viewed as its real subsumption.<sup>4</sup>

### 1.3 The tasks of the capitalist in production

#### 1.3.1 Formal subsumption

The tasks of the capitalist concerning circulation are not interrupted by the labor process, since capital still circulates under its form P: Raw materials cannot be wasted and labor must be expended with the required intensity and care. Thus, there appears a disciplinary component, which is already typical of formal subsumption, but obviously persists under real subsumption:

As far as the *old value* is concerned, namely the value of the constant portion, this depends for its maintenance on the value of the means of production entering the [*production*] process not being greater than necessary. The commodities of which they are made up should contain in objectified form, i.e. as buildings, machinery, etc., no more than the *socially necessary labour time* essential for their production. And it is the task of the capitalist to see to it when purchasing these means of production that their use-values have no more than the quality needed to manufacture the product. [...] He must also see to it that the work is performed in an orderly and methodological fashion and that the use-value he has in mind actually emerges *successfully* at the end of the process. At this point too, the capitalist's ability to *supervise* and enforce *discipline* is vital.<sup>5</sup>

This passage by Marx states clearly that the purpose of the activity of the capitalist that is to diminish the costs and reduce the necessary amount capital to a minimum for a given output.

As a result of the control exercised by the capitalist, it is not possible to state that formal subsumption does not modify the labor process in any respect. Marx insists, however, that the basic organizational and technical process remains fundamentally unchanged despite the control of the capitalist:

If changes occur in these traditional established *labour processes* [*under formal subsumption*] after their takeover by capital, these are nothing but the gradual consequences of that subsumption. The work may become more intensive, its duration may be extended, it may become more continuous or orderly under the eye of the interested capitalist, but in themselves these changes do not affect the character of the actual labour process, the actual mode of working.<sup>6</sup>

In contrast, the transformation of the labor process under real subsumption is of a different nature and has a considerably larger impact.

---

4. MARX K. 1867, Appendix, p. 1025.

5. MARX K. 1867, Appendix, p. 985.

6. MARX K. 1867, Appendix, p. 1021.



### 1.3.2 Real subsumption

In the real subsumption of labor under capital, the production process is revolutionized as capitalist relations of production acquire a social character:

With the real subsumption of labour under capital, all the changes in the process already discussed now become reality. The *social forces of production* of labour are now developed, and with large-scale production comes the direct application of science and technology. On the one hand, *capitalist production* now establishes itself as a mode of production *sui generis* and brings into being a new mode of material production. On the other hand, the latter itself forms the basis for the development of capitalist relations whose adequate form, therefore, presuppose a definite stage in the evolution of the productive forces of labour.<sup>7</sup>

A crucial element in the transformation of the labor process is the emergence of the *collective worker*. Marx explains how the labor process is organized, under real subsumption, in a manner reflecting the existence of various categories of tasks, such as manual and intellectual labor. Actually, the transformations of the labor process tend to *create* a “physical” separation between such components:

The knowledge, the judgement and will which, even though to a small extent, are exercised by the independent peasant or handicraftsman, [...] are faculties now required only for the workshop as a whole. The possibility of an intelligent direction of production expands in one direction, because it vanishes in many others. What is lost by the specialized workers is concentrated in the capital which confronts them. It is a result of the division of labour in manufacture that the worker is brought face to face with the intellectual potentialities of the material process of production as the property of another and as a power which rules over him. This process of separation starts in simple co-operation, where the capitalist represents to the individual worker the unity and the will of the whole body of social labour. It is developed in manufacture, which mutilates the worker, turning him into a fragment of himself. It is completed in large-scale industry, which makes science a potentiality for production which is distinct from labour and presses it into the service of capital.<sup>8</sup>

Capitalist relations of production transform the pattern in which intellectual and manual labor are combined. Along the succession of the various configurations (cooperation, manufacture, and industry), the organization of labor gradually displaces the intellectual component from the person of the worker toward an autonomous force (such as the will of the actual capitalist), independent from the individual worker—that actually dominates the worker and belongs to capital. This process coincides with the progress of organization, technology, and discipline within capitalism. Thus, the separation between the intellectual and manual components of the labor process gradually gains empirical relevance, while difficult in the early stages, it becomes an external feature of the labor process. The evolution of relations of production creates a separation that was not inherent to labor *per se*, as labor itself is transformed.

Within the *collective worker* discipline and the actual organization and coordination of production are difficult to disentangle:

---

7. MARX K. 1867, Appendix, p. 1035.

8. MARX K. 1867, Ch. 14, p. 482.

On the one hand, in all labour where many individuals cooperate, the interconnection and unity of the process is necessarily represented in a governing will, and in functions that concerned not the detailed work but rather the workplace and its activity as a whole, as with the conductor of an orchestra.<sup>9</sup>

Marx does not hesitate to describe these tasks of coordination, which belong to the capitalist as such, as productive. The next sentence is:

This is productive labour that has to be performed in any combined mode of production.<sup>10</sup>

*Thus, the production process under real subsumption introduces a new element: a productive contribution of the capitalist to the production process as coordinator (a task of conception, organization, and coordination). The control of production requires an increased involvement of the capitalist within the labor process. In addition to the control of circulation within production and to the discipline imposed on the worker, the capitalist now actually participates in production. Thus, part of his/her activity is now productive labor.*

#### 1.4 PRM labor in general

Thus, a broad category of tasks, concerning both circulation and production, is implied in Marx's analysis, whose purpose is the *maximizing of the profit rate*.

Recall that a profit rate is defined as the ratio of a measure of profits to a measure of capital. Many definitions can be used, however, depending on the purpose of the analysis.<sup>11</sup>

The maximizing of the profit rate requires contributions by numerous agents performing different activities, as well as a whole set of expenses and investments:

1. Considered independently of their functions these expenses and investments always diminish the profit rate (since they diminish the numerator and increase the denominator). What Marx denotes *circulation costs* affect negatively profits. For example, costs must be incurred to accelerate the sale of commodities; the store where commodities are sold is a fixed capital that gradually depreciates like any component of fixed capital used in production.
2. These expenses and investments are, however, required to diminishing other expenses and investments that would be higher, *i.e.*, to the maximizing of the profit rate. Discipline, for example, ensures that labor is performed with maximum intensity and efficiency. The enforcement of discipline has a cost, but the costs of the wages of productive workers are minimized and the outcome of labor is maximized. Other costs and investments (for example, required by the collection of information concerning markets) ensure that the

9. MARX K. 1894, Ch. 23, p. 507.

10. MARX K. 1894, Ch. 23, p. 507.

11. For example, in the analysis of the tendential features of technological change that command the tendency for the profit rate to fall, technology and wages are at issue. This leads to the selection of a broad measure of profits, such as the total product minus labor compensation, and a physical measure of capital, such as fixed capital or fixed capital plus inventories. When the emphasis is on the consequences of the falling profit rate, a measure closer to the management of firms is more adequate. Taxes and interest can be subtracted from profits, and a financial measure of capital may be used, notably net worth (total assets minus debt).

productive capacity of the firm is used at appropriate levels, so that as much possible output is obtained at adequate costs. These expenses and investments are substituted for others, assuming that the profit rate will be larger.

## 2 - The delegation of the tasks of the active capitalist

With the development of capitalism, the tasks of the capitalist increase in size. New institutional frameworks, such as corporations, also appear. This section is devoted to the delegation of the tasks of the active capitalist to salaried workers in the new framework of capitalist relations. The link is established with the notion of management.

### 2.1 The social framework of real subsumption and the active capitalist

Besides the transformation of organization and technology, Marx is aware that the real subsumption requires a dramatic rise of the scale of production:

[...] a definite and constantly *growing minimum of capital* is both the necessary precondition and the constant result of the *specifically* capitalist mode of production. The capitalist must be the owner or proprietor of the means of production on a *social* scale and in quantities that beggar comparison with the possible production of the individual and his family. The *minimum amount of capital* in an industry increases in proportion to its penetration by capitalist methods and the growth in the social productivity of labour within it. Capital must increase the value of its operations to the point where it assumes social dimensions, and so sheds its *individual* character entirely.<sup>12</sup>

Marx states very clearly in this quotation that the transformation of production under real subsumption cannot be separated from the establishment of a new framework of capitalists institutions. First, the increased size of production oversteps the limits of individual or family financing. Thus, the progress of real subsumption requires a credit and, potentially, a corporate economy in which large amount of capital can be more easily collected. In turn, the diffusion of these institutions is linked to the emergence of modern finance and the separation between ownership and management:

Joint-stock companies in general (developed with the credit system) have the tendency to separate this function of managerial work more and more from the possession of capital, whether one's own or borrowed; [...] the functioning capitalist confronts the mere owner of capital, the money capitalist, and with the development of credit this money capital itself assumes a social character, being concentrated in banks and loaned out by these, no longer by its direct proprietors [...].<sup>13</sup>

---

12. MARX K. 1867, Appendix, p. 1035.

13. MARX K. 1894, Ch. 23, p. 512.

Marx witnessed the first stages of these developments and understood their importance and significance.

It is noteworthy that, under the category of the lender, Marx also includes the shareholder who is not directly involved in the control of the functioning of the firm. (In the extract above, Marx uses the term *money capitalist*, but this terminology is misleading because of the possible confusion with the category of money-capital, one of the forms of capital in its circulation: Obviously, the money capitalist is not the owner of this fraction of capital!)

## 2.2 Salaried workers performing capitalist tasks

As apparent in the above extract, the delegation of the tasks of the active capitalist to salaried workers is an important component of Marx's analysis. Whenever he discusses the functions of the active capitalist, he is always mindful of their delegation to salaried workers. Marx refers to the substitution of a salaried manager for the active capitalist himself, to such a point that the capitalist disappears from the labor process:

[...] the mere manager, who does not possess capital under any title, neither by loan nor in any other way, takes care of all real functions that fall to the functioning capitalist as such, there remains only the functionary [*the one that assumes functions*], and the capitalist vanishes from the labor process as someone superfluous.<sup>14</sup>

But the manager is surrounded by a broad team of salaried aids. This is, for example, true of commercial tasks which are done by salaried employees. In his analysis of the collective worker, Marx also refers to a team of such salaried employees that carry out the tasks of organization and discipline. For example, concerning discipline:

Just as at first the capitalist is relieved from actual labor as soon as its capital has reached that minimum amount with which capitalist production, properly speaking, first begins, so now he hands over the work of direct and constant supervision of the individual workers and groups of workers to a special kind of wage-labourer. An industrial army of workers under the command of a capitalist requires, like a real army, officers (managers) and N.C.O.s (foremen, overseers), who command during the labour process in the name of capital. The work of supervision becomes their established and unique function.<sup>15</sup>

As a result of this delegation, the wages of these salaried workers forms an important component of the cost of maximizing the profit rate. In particular, Marx sometimes mentions the wages of the employees involved in circulation activities such as trade.

This delegation, which existed from the origin of capitalism but grew to dramatic proportions in contemporary capitalism, has important consequences concerning basic theoretical distinctions. Marx is primarily concerned with the fact that the delegation of capitalist tasks, or their realization within a specific industry (for example, commerce), does not transform an originally unproductive labor into productive labor:

[...] if we have a function which, although in and for itself unproductive, is nevertheless a necessary moment of reproduction, then when this is transformed,

14. MARX K. 1894, Ch. 23, p. 512.

15. MARX K. 1867, Ch. 13, p. 450.

through the division of labor, from the secondary activity of many into the exclusive activity of a few, into their special business, this does not change the character of the function itself.<sup>16</sup>

## 2.3 Delegation and polarization

Marx is aware of the broad spectrum of situations in which the delegation of the tasks of the active capitalist may result: from the rank-and-file employee to a salaried manager. He does not, however, elaborate much on this issue. In our opinion, this polarization is very similar to that described earlier concerning the separation of intellectual and manual activities in the labor process, since class patterns and relations of production are gradually manifested in the organizational and technical features of PRM labor.

Each component of the activities of the active capitalist requires initiative, authority, as well as routine and repetition. From the origin, these tasks were separated into various components and delegated to distinct categories of salaried workers. *The contents of the tasks were adjusted in order to match such a hierarchical separation.* The manager thinks, discusses, decides, etc., his/her secretary writes, classifies, initiates, contacts, etc. Accounting procedures are defined by managers, who also analyze the results; the accounts are established by accountants, etc. The sophistication of managerial labor followed specific lines tending to create or strengthen the polarization of the tasks.

Class patterns and relations of production are at issue both in the workshop and in the accomplishment of the tasks of the capitalist. This polar division of tasks, de facto, isolates the upper component of managerial tasks from the rest of the body of activities devoted to the maximizing of the profit rate. They create an increasingly visible division, as in the case of the labor process.

## 2.4 Production and management

The distinction between basic productive labor and PRM labor can be interpreted by reference to the contemporary notions of production and management. We first discuss this interpretation assuming that all activities other than the labor of the productive worker are performed by the active capitalist, and then in the context of their delegation to salaried workers. The content given to the usual notion of *management* is altered. (Note that the use that we make of the notion in reference to Marx's analysis is always broad, but to different degrees.)

### 2.4.1 Management in the broader sense

We assume that the bulk of the intellectual components (conception, organization) of production has been transferred, thanks to the practical way in which production is organized, to the person of the capitalist, who also enforces discipline. Relations of production blur some of these theoretical distinctions. Strictly speaking, some aspects of this activity may be part of productive labor but typically only secondarily. Most of such tasks

---

16. MARX K. 1885, Ch. 6, p. 209.

is unproductive. Nonetheless, all capitalist activity is targeted to the maximizing of the profit rate.

In as much as the maximizing of the profit rate is performed by the active capitalist, there is no difficulty in identifying it with what is now known as “management”. In this simple framework of analysis, the worker produces and the capitalist maximizes the profit rate, *i.e.*, manages the firm. It is possible to draw the following (simplified) correspondence:

<b>Production</b>		<b>Management</b>
Productive labor	$\leftrightarrow$	Unproductive labor
Creation of value		Maximizing of the profit rate

#### 2.4.2 *Management in a narrower sense*

The delegation of the tasks of the active capitalist to salaried workers does not alter their nature. The fact that some productive components may be realized by certain individuals does not modify either their position within relations of production.

Given this delegation, and due to the polarization of tasks, it becomes less obvious, however, to include all of these tasks under the general category of *management*, or the notion must be given the above very broad content (as we often do for simplicity). In the contemporary terminology, a cashier or employee of a supermarket is not performing management functions, although he/she is involved in a task of circulation. The notion of management, as it is now used, seems more appropriate to designate the tasks of the upper fraction of the salaried workers to which the tasks of the capitalist are delegated (including engineers, lawyers...). This is true at the upper levels of conception, coordination, as well as discipline, which relates to both production and circulation activities. A store must be organized as well as a workshop; discipline must be imposed in both contexts, etc.

## 3 - The usefulness of the theories of value and of PRM labor

The dual feature of Marx’s analysis of labor does not make the labor theory of value irrelevant. The two components must be combined in the analysis of contemporary capitalism.

### 3.1 The usefulness of the labor theory of value

It is important to assess the explanatory power of the labor theory of value and simultaneously recognize its limits: The labor theory of value explains a lot but not everything.

### 3.1.1 *The structural and collective character of exploitation*

The usefulness of the labor theory of value is the clarification of the nature of exploitation within capitalism. Marx's central contention in this respect can be summarized in three points: (1) capitalism is a class society where a fraction of the result of the labor of basic producers is appropriated by the owners of the means of production, in a relationship of exploitation; (2) this exploitation can be portrayed as *structural* (an expression that Marx does not utilize) in the sense that it does not violate the laws of exchange (exploitation is part of the normal functioning of capitalism); and (3) it is also *collective* in the sense that the total surplus-labor appropriated by capitalists is realized according to rules (according to the capitalist law of exchange, including rent, interest, or not...), that differ from the individual extraction of surplus-labor by individual capitalists (a capitalist does not realize the surplus-value extracted in his/her own enterprise).

Marx calls *exploitation* the process by which one group of people benefit from the outcome of the labor of others; these groups of people are called *classes*.<sup>17</sup> Note that this exploitation is one among many related either to other categories of labor, age, sex, ethnicity, etc.

The usefulness of the labor theory of value can be summarized in two points:

1. In the exposition of the *structural* character of exploitation in capitalism, Marx makes the simplifying assumption that commodities exchange at prices proportional to their values. He treats the labor force of the workers as a commodity, with a use and an exchange value. The labor force is purchased at its normal price, and workers buy commodities at such prices. Exploitation arises from the existence of surplus-labor. This is the well-known theory of surplus-value.
2. The *collective* character of exploitation is addressed within the theory of the capitalist law of exchanges, that of prices of production. This is where a concept of value is crucial. Under normal conditions, surplus-labor is appropriated by one firm (or industry) proportionally to the amount of productive labor expended. Exploitation cannot be measured in physical (quantity of product) or price terms. If it were, the rate of exploitation would structurally differ in each industry due to its technical features (the various compositions of capital). Quite the opposite, Marx points to a uniform rate of exploitation.<sup>18</sup> The social substance, socially necessary labor time, is realized by capitalists, still under normal conditions, proportionally to the socially required amount of capital. The appropriation of labor is made as within a single large enterprise covering all activities, and then shared (rather "antagonistically reallocated") by capitalists in the framework of competitive mechanisms.

This remarkable analysis has been made once for all by Marx, and we do not think that much must be added to it or subtracted. It does not have to be repeated.

### 3.1.2 *What the labor theory of value does not explain*

The interpretation of profits in terms of surplus-labor implies that surplus-value is created in each industry proportionally to the amount of productive labor (consequently no surplus-value is created within industries where no productive labor is used). However, this

17. The relationship with the labor theory of value is not straightforward: A noncommodity society (where a labor theory of value is irrelevant) can be a class society in this respect.

18. Obviously, rates of exploitation may differ among firms, industries, and categories of workers. Marx explores, however, structural properties of capitalism that lie beyond such individual traits.

theory has no consequences concerning the realization of surplus-value in various industries. Thus, the theory of labor value does not inform us concerning relative prices in a capitalist economy (box 1). Prices of production cannot be derived from values. Prices reflect costs and the amount of capital required for production in the long run, and disequilibria between supply and demand in the short run. A profit rate expressed in terms of value has no relevance concerning the functioning of capitalism.

None of the basic stylized facts of capitalism, like the tendency for the profit rate to fall, can be derived from the labor theory of value. This tendency is the expression of the entire dynamics of technological change and determination of wages.

### 3.2 The usefulness of the theory of PRM labor

#### 3.2.1 Managerial and clerical personnel

In a framework of analysis where all salaried labor is interpreted in terms of productive labor confronting capital—the traditional dual conception of the *Manifesto*—there is no way of conceptualizing the specific features of these intermediary classes of white collars.

Marx's actual framework of analysis is, however, more complex. PRM labor defines a specific social group, distinct from productive workers. The new intermediary classes of managerial and clerical personnel perform PRM labor, *i.e.*, delegated capitalist tasks; in addition, their wages appear as a deduction from profits. To that extent, they can be described as a new petty bourgeoisie.<sup>19</sup>

The acknowledgement of this specificity is, however, not sufficient. A new relation of production emerged from the polarization of PRM labor (as a historical process). The separation opposes managerial labor, on the one hand, and clerical labor, on the other, in a new class relation.<sup>20</sup>

From the coexistence of the two class contradictions (diagram 1): (1) capitalist / productive workers, and (2) managerial personnel / clerical personnel, derives a new pattern of class relations in which productive workers and clerical personnel tend to form a new dominated social entity. Besides capitalist owners, managers form a new component of ruling classes. Their relation to capitalists is simultaneously one of cooperation and rivalry.

#### 3.2.2 The dynamics of managerial capitalism

As well understood by Marx, the profit rate is a crucial variable in the analysis of capitalism. From this property derives the importance of the concept of PRM labor. The relative importance of PRM labor has been continuously growing over the history of capitalism. Marx's analysis of what we called earlier the social framework of the real subsumption anticipated on the revolution of capitalism in the US at the transition between the 19th and 20th century, with its three aspects, the corporate, financial, and managerial revolutions, that we often described.<sup>21</sup>

19. POULANTZAS N. 1974; DUMÉNIL G. 1975.

20. DUMÉNIL G. 1975; DUMÉNIL G., LÉVY D. 1994. Originally, Eric Olin Wright drew on the distinction between discipline and organization to distinguish various components among unproductive salaried workers (OLIN WRIGHT E. 1978). He later abandoned this distinction (OLIN WRIGHT E. 1997).

21. Recent accounts can be found in DUMÉNIL G., GLICK M., LÉVY D. 1997; DUMÉNIL G., LÉVY D. 2001(a), and 2001(b).



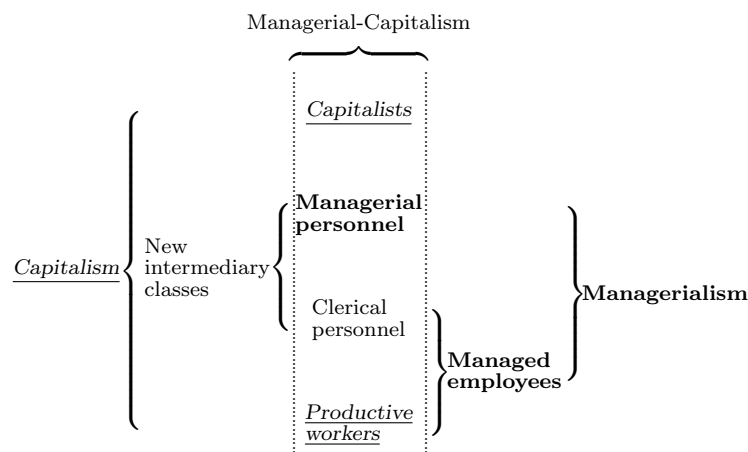


Diagram 1

The notion of *managerial revolution* (from the beginning of the 20th century) refers to a dramatic movement forward in this respect.<sup>22</sup> The more recent transformations of capitalism during the last decades echo these earlier evolutions, with the new progress of management, in particular with respect to financial activities.

The theoretical and empirical analysis of capitalism, as it can be conducted for the United States<sup>23</sup>, points to the progress of management as the main countertendency to the falling profit rate. In this sense, this progress was crucial to the evolution of capitalism.

During the last decades of the 19th century, the profit rate displayed a strong downward trend, from which resulted the structural crisis that culminated in the 1890s. In the context of the growing size of enterprises, this crisis was manifested in a crisis of competition, with the development of cartels and trusts. Besides the Sherman Act, the transformation of the laws governing incorporation opened the way to the large wave of incorporation and merger at the turn of the century. Simultaneously the new framework of modern finance emerged, and monetary and financial mechanisms underwent a considerable growth. A component of this assertion of the institutions of modern capitalism was the separation between ownership and management, and the corresponding managerial revolution, which can be interpreted as a dramatic rise of PRM expenses in general, and PRM labor in particular.

The outcome of this revolution was spectacular with respect to the features of technological change, introducing new trajectories in which the traditional unfavorable characteristics of technical change *à la Marx* (which we call the *difficulty to innovate*) were superseded. As in the assembly line, mechanization reached new heights, but labor was used so intensely and continuously by the machine that the composition of capital (the capital-labor ratio) grew at lower rates in comparison to previous decades. The profit rate entered a phase of growth, despite the larger growth rates of wages. This movement was apparently interrupted by the Great Depression, since the sharp contraction of activity

22. A classical reference is: CHANDLER A.D. 1977.

23. The extension to other countries is possible, but must take account of the process of catching-up that occurred in the most advanced capitalist countries, in particular after World War II.

diminished suddenly the profit rate, but it actually contributed to the generalization over the economy of the new technology and organization. In a sense, the boom of PRM labor ensured the survival of capitalism, although at the cost of a profound transformation, in particular the rise of the new intermediary classes of managerial and clerical workers.

The new configuration of capitalism progressively spread to the entire economy, between the late 1950s and late 1960s. Then, the traditional features *à la Marx* of technological change were reestablished, and the profit rate entered the new phase of decline leading to the structural crisis of the 1970s.

It is not the rise of PRM labor during these decades of hardship that caused the decline of the profit rate<sup>24</sup>, but rather what can be described as their declining efficiency. More was put in PRM labor, but with diminishing results. The growth of PRM labor (the progress of management) had been very efficient during the first half of the 20th century; they gradually lost efficiency.

It is difficult to identify PRM expenses within the available set of data. Even abstracting from expenses other than labor, the measurement of PRM labor costs is practically impossible because of a lack of appropriate data series. There is, in the US, a category of production labor, which actually corresponds to about 80% of total labor, but this variable cannot be considered as a proxy for productive labor in Marx's sense. This difficulty does not impact the measurement of the profit rate, which is the outcome of all expenses and investments. It prohibits, however, the investigation of an important aspect of the dynamics of capitalism: How much was spent in PRM activities? As for the measurement of the efficiency of PRM labor, it is hard to imagine how it could be assessed.

Although we cannot prove it empirically, we believe that the rise of the new technologies of information and communication, which are actually the technology of management, represents a crucial factors (among others) in the restoration of this capability of management to counteract the unfavorable features of technical change during the last two decades. They are, to some extent, responsible for the new underlying trends of technical change and profitability since the early 1980s.

Overall, the role of PRM labor in the history of capitalism, at least since the Civil War in the US, has been outstanding. The explanatory power of the theory of PRM labor is distinct from that of the labor theory of value, but now equally important.

---

24. In this respect, we differ with the thesis put forward in MOSELEY F. 1992. This disagreement must be understood in the context of the broad convergence of opinion with Moseley concerning the importance of the profit rate and its decline.

## References

- ALBRITTON R., ITOH M., WESTRA R., ZUEGE A. 2001 (eds.), *Phases of Capitalist Development: Booms, Crises, and Globalization*, Palgrave, London, Basingstoke.
- CHANDLER A.D. 1977, *The Visible Hand. The Managerial Revolution in American Business*, Harvard University Press, Cambridge, MA, London, England.
- DUMÉNIL G. 1975, *La position de classe des cadres et employés. La fonction capitaliste parcellaire*, Presses Universitaires de Grenoble, Grenoble.
- DUMÉNIL G. 1980, *De la valeur aux prix de production*, Économica, Paris.
- DUMÉNIL G., GLICK M., LÉVY D. 1997, "The History of Competition Policy as Economic History," *The Antitrust Bulletin*, Vol. XLII, #2, pp. 373-416.
- DUMÉNIL G., LÉVY D. 1994, The Emergence and Functions of Managerial and Clerical Personnel in Marx's Capital, pp. 61-81, in GARSTON N. 1994.
- DUMÉNIL G., LÉVY D. 2000, "The Conservation of Value. A Rejoinder to Alan Freeman," *Review of Radical Political Economy*, Vol. 32, #1, pp. 119-146.
- DUMÉNIL G., LÉVY D. 2001(a), Periodizing Capitalism. Technology, Institutions, and Relations of Production, pp. 141-162, Ch. 9, in ALBRITTON R., ITOH M., WESTRA R., ZUEGE A. 2001.
- DUMÉNIL G., LÉVY D. 2001(b), "Costs and Benefits of Neoliberalism. A class analysis," *Review of International Political Economy*, Vol. 8, #4, pp. 578-607.
- EHRBAR H., GLICK M. 1986, "The Labor Theory of Value and its Critics," *Science and Society*, Vol. L, #4, pp. 464-478.
- FOLEY D. 1982, "Value of Money, the Value of Labor Power and the Marxian Transformation Problem," *Review of Radical Political Economics*, Vol. 14, pp. 37-47.
- FOLEY D. 1986, *Understanding Capital, Marx's Economic Theory*, Harvard University Press, Cambridge, MA, London, England.
- FREEMAN A., CARCHEDI G. 1996 (eds.), *Marx and Non-Equilibrium Economics*, Edward Elgar, Aldershot, England.
- GARSTON N. 1994 (ed.), *Bureaucracy: Three Paradigms*, Kluwer Academic, Boston, Dordrecht, London.
- LIPIETZ A. 1982, "The So-Called 'Transformation Problem' Revisited," *Journal of Economic Theory*, Vol. 26, #1, pp. 59-88.
- MARX K. 1867, *Capital, Volume I*, First Vintage Book Edition, New York, 1977.
- MARX K. 1885, *Capital, Volume II*, First Vintage Book Edition, New York, 1978.
- MARX K. 1894, *Capital, Volume III*, First Vintage Book Edition, New York, 1981.
- MOSELEY F. 1992, *The Falling Rate of Profit in the Postwar United States Economy*, St. Martin's Press, New York.
- OLIN WRIGHT E. 1978, *Class, Crisis and the State*, New Left Books, London.
- OLIN WRIGHT E. 1997, *Class Counts. Comparative Studies in Class Analysis*, Cambridge University Press, Cambridge, UK.

POULANTZAS N. 1974, *Social Classes in Contemporary Capitalism*, New Left Review Press, London, 1974.

## Contents

<b>Introduction</b>	1
<b>1 - Profit-Rate-Maximizing (PRM) labor</b>	1
1.1 The tasks of the capitalist regarding circulation	2
1.2 The formal and real subsumption of labor under capital	4
1.3 The tasks of the capitalist in production	6
1.3.1 Formal subsumption	6
1.3.2 Real subsumption	7
1.4 PRM labor in general	8
<b>2 - The delegation of the tasks of the active capitalist</b>	9
2.1 The social framework of real subsumption and the active capitalist	9
2.2 Salaried workers performing capitalist tasks	10
2.3 Delegation and polarization	11
2.4 Production and management	11
2.4.1 Management in the broader sense	11
2.4.2 Management in a narrower sense	12
<b>3 - The usefulness of the theories of value and of PRM labor</b>	12
3.1 The usefulness of the labor theory of value	12
3.1.1 The structural and collective character of exploitation	13
3.1.2 What the labor theory of value does not explain	13
3.2 The usefulness of the theory of PRM labor	14
3.2.1 Managerial and clerical personnel	14
3.2.2 The dynamics of managerial capitalism	14
<b>References</b>	17