

# Surplus Value & Income Distribution

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## Introduction

I think the most important subjects of Marx's *Capital* are ① the elucidation of the source of surplus-value, and ② the analysis concerning the effect of capital accumulation. The former will be discussed in 1. 1.~2. 3., and the latter in 3. 1.~3. 2.

I think his theory of surplus-value is unacceptable. But it is worthy to consider his theory concerning capital accumulation and income

distribution, even when his theory of surplus-value is rejected.

## 1. Marx's Theory of Surplus-Value

To understand Marx's elucidation of the source of surplus-value, we must investigate 9 key concepts; (i) use-value, (ii) exchange-value, (iii) surplus-value, (iv) exchange-value of labour-power, (v) expenditure of labour-power, (vi) variable capital, (vii) constant capital, (viii) rate of surplus-value, and (ix) rate of profit. In 1. 1.~2. 3., examining these 9 concepts, I will try to clarify the gist of Marx's theory of surplus-value and its implications.

### 1. 1. Use-Value and Exchange-Value

Marx's *Capital*, Vol. I begins with the chapter on 'commodity.' Marx states:

"The wealth of those societies in which the capitalist mode of production prevails, presents itself as 'an immense accumulation of commodities,' its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity.<sup>(1)</sup>"

According to Marx, a commodity is, in the first place, an object outside us, a thing that by the consumption of its properties satisfies human wants of some sort or other. These properties of a thing, namely, the utility of a thing make it a *use-value* (Gebrauchswert) [this is the first key concept]. In addition to use-value, a commodity can be

(1) Marx, K.: *Capital—A Critical Analysis of Capitalist Production*, translated from the third German edition by Samuel Moore and Edward Aveling and edited by Frederick Engels, Foreign Languages Publishing House, Moscow, Vol. I, 1961, p. 35.

said to have *exchange-value* (Tauschwert) [this is the second key concept], since instead of being consumed, it can be exchanged for some other commodity. In order to understand what the capitalistic mode of production is, exchange-value must be thoroughly investigated. Exchange-value has characteristics as follows:<sup>(2)</sup>

- 1 exchange-value presents itself as a quantitative relation, as the proportion in which values in use of one sort are exchanged for those of another sort;
- 2 the relation is constantly changing with time and place.

That being the case, 'an exchange-value that is inseparably connected with a commodity' seems to be a contradiction in terms.

But, at this point, Marx seems to dodge the issue. He tries to determine the exchange-value of a commodity without referring to the exchange-value of any other commodities. He connects the exchange-value of a commodity with the quantity of labour embodied in it.

"A use-value, or useful article, therefore, has value only because human labour in the abstract has been embodied or materialised in it. How, then, is the magnitude of this value to be measured? Plainly, by the quantity of the value-creating substance, the labour, contained in the article. The quantity of labour, however, is measured by its duration, and labour-time in its turn finds its standard in weeks, days, and hours."<sup>(3)</sup>

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(2) Marx, K., *ibid.*, p. 36.

(3) Marx, K., *ibid.*, p. 38.

This procedure of Marx's implies ① that labour (-power), too, is taken for a commodity, and ② that a special role is assigned to labour.

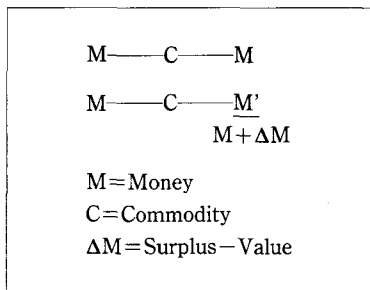
## 1. 2. Surplus-Value

### 1. 2. 1. Definition of Surplus-Value

According to Marx, the capitalist produces commodities to get *surplus-value* (Mehrwert) [this is the third key concept]. What, then, is surplus-value?

Under the capitalistic mode of production, money and commodities are constantly exchanged. Let's take a capitalist and observe him. When a capitalist who possesses money as capital buys a commodity (C), *e. g.* cotton for £ 100 (M) and then resells it again for £ 100, this process (M-C-M) does not produce any surplus-value. However if the capitalist who bought the cotton for £ 100 could resell it for £ 110 (M'), an increment in value would be added. Marx calls this increment or excess over the original value, surplus-value.

Figure-1 Definition of Surplus-Value



“The character and tendency of the process M-C-M, is therefore not due to any qualitative difference between its extremes, both being money, but solely to their quantitative difference. More money is withdrawn from circulation at the finish than was thrown into it at the start. The cotton that was bought for £ 100 is perhaps resold for £ 100 + £ 10 or £ 110. The exact form of this process is

therefore  $M-C-M'$ , where  $M'=M+\Delta M$ =the original sum advanced, plus an increment. This increment or excess over the original value I call 'suplus value.'<sup>(4)</sup>

### 1. 2. 2. Surplus-Value Does Not Derive from the Circulation of Commodities

Where and how, then, is surplus-value created? Does it derive from the circulation of commodities? Marx's answer is 'no.' As far as use-value is concerned, it is possible that both parties involved in a transaction exchanging some commodity for money obtain an excess of use-value over the original use-value. But it is impossible that both parties obtain the excess of exchange-value over the original exchange-value; in other words, no surplus-value can derive from the circulation of commodities. Marx insists that this conclusion is applicable to both equivalent exchange and non-equivalent exchange.

"If equivalents are exchanged, no surplus-value results, and if non-equivalents are exchanged, still no surplus-value. Circulation, or the exchange of commodities,<sup>(5)</sup> begets no value."

If we accept this conclusion of Marx's, we are inevitably led to another conclusion: a merchant is a parasitic being.

"Since, however, it is impossible, by circulation alone, to account for the conversion of money into capital, for the formation of surplus-value, it would appear, that merchants' capital is an im-

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(4) Marx, K., *ibid.*, p. 150.

(5) Marx, K., *ibid.*, p. 163.

possibility, so long as equivalents are exchanged; that, therefore, it can only have its origin in the two-fold advantage gained, over both the selling and the buying producers, by the merchant who parasitically shoves himself in between them. It is in this sense that Franklin says, ‘war is robbery and commerce is generally cheating.’”<sup>(6)</sup>

### 1. 2. 3. Surplus-Value Derives from the Consumption of Labour-Power

If surplus-value is not derived from the circulation of commodities, then where is it derived from? According to Marx, it is generated in the production process. The production process requires two kinds of elements: ① the means of production and ② labour-power. Marx says that the former cannot be the source of surplus-value, and that surplus-value can be derived only from the consumption of labour-power. Labour-power as a specific commodity is consumed in the process of production, and this consumption of labour-power produces exchange-value. But, if the process of production is continued beyond a certain point, the consumption of labour-power produces an excess over the original exchange-value of labour-power; this excess Marx terms “surplus-value.” At this point, we must take notice of the fact that Marx distinguishes the *exchange-value of labour-power* (Tauschwert der Arbeitskraft) [this is the fourth key concept] from the *expenditure of labour-power* (Verausgabung der Arbeitskraft) [this is the fifth key concept].

#### 1. 2. 3. 1. The Exchange-Value of Labour-Power

Exchange-value of a commodity = the quantity of labour-power em-

(6) Marx, K., *ibid.*, p. 164.

bodied in it—this equation is applicable to labour-power, too.

“The [exchange—] value of labour-power is determined, as in the case of every other commodity, by the labour-time necessary for the production, and consequently also the reproduction, of this special article.”<sup>(7)</sup>

Marx’s statement ‘the exchange-value of labour-power is determined by *the labour-time necessary for the production (and reproduction) of labour-power*’ can be interpreted to mean: the exchange-value of labour-power is determined by *the minimum labour-time necessary for the production of the necessities consumed by the worker to keep him alive*, i. e. the value of a workman is his subsistence wages.

### 1. 2. 3. 2. The Expenditure of Labour-Power

On the other hand, if a capitalist, who gets an employment contract with workers, can force them to work longer than a certain number of hours, and force them to continue the ‘expenditure of labour-power,’ he can get some exchange-value, even after he pays workers wages equal to the exchange-value of their labour-power.

“the past labour that is embodied in the labour-power, and the living labour that it can call into action; the daily cost of maintaining it, and its daily expenditure in work, are two totally different things. The former determines the exchange-value of the labour-power, the latter is its use-value. The fact that half a day’s labour is necessary to keep the labourer alive during 24 hours, does not in any way pre-

(7) Marx, K., *ibid.*, pp. 170-171.

vent him from working a whole day.”<sup>(8)</sup>

We can summarize Marx's above argument as follows:

$$\begin{aligned} \text{exchange-value of labour-power} &= \text{maintenance cost of} \\ &\quad \text{labour-power} = \text{wages} = 6 \text{ labour-hours} \\ \text{expenditure of labour-power} & (= \text{the number of hours worked}) \\ &= 12 \text{ labour-hours} \end{aligned}$$

The equation ‘exchange-value of labour-power=maintenance cost of labour-power’ is only a version of another, more generic, equation ‘exchange-value of a commodity=the quantity of labour-power embodied in it.’ Even if we accept these equations, we need not necessarily accept the equation ‘maintenance cost of labour-power=wages.’ Because wages can exceed the maintenance cost of labour-power. However for the time being, let us assume that wages are equal to the maintenance cost of labour-power. The possibility that wages exceed the maintenance cost of labour-power will be discussed in 3.1.~3.2.

If we accept the equation ‘wages=maintenance cost of labour-power,’ surplus-value is generated like this: a worker needs goods whose exchange-value equals 6 labour-hours; but a capitalist who employs the worker can force him to work for 12 hours; that being the case, the capitalist obtains surplus-value equal to 6 labour-hours.

### 1. 3. Variable Capital and Constant Capital

As we have seen in 1.2.3., Marx insists that the means of produc-

(8) Marx, K., *ibid.*, p. 193.



tion cannot be the source of surplus-value, and that the consumption of labour-power is the only source of surplus-value. This idea entails a distinction between different types of capital. Marx divides capital into *variable capital* (variables Kapital) [this is the sixth key concept] and *constant capital* (konstantes Kapital) [this is the seventh key concept].

### 1. 3. 1. Variable Capital

When a capitalist engages himself in the production of a commodity, he must both ① employ workers and ② buy the means of production such as raw materials, instruments, machinery and so on. Marx defines that part of capital which is invested into employing workers as *variable capital*.

“that part of capital, represented by labour-power, does, in the process of production, undergo an alternation of value. It both reproduces the equivalent of its own value, and also produces an excess, a surplus-value, which may itself vary, may be more or less according to circumstances. This part of capital is continually being transformed from a constant into a variable magnitude. I therefore call it the variable part of capital, or, shortly, *variable capital*.<sup>(9)</sup>”

### 1. 3. 2. Constant Capital

On the other hand, that part of capital, which is invested into buying raw materials, instruments, machinery and so on, Marx calls *constant capital*. The value of raw materials, instruments, machinery and so on (or the means of production), he says, does not vary in the process of

(9) Marx, K., *ibid.*, p. 209.

production.

“The value of the means of production is therefore preserved, by being transferred to the product.”<sup>(10)</sup>

“That part of capital then, which is represented by the means of production, by the raw material, auxiliary material and the instruments of labour, does not, in the process of production, undergo any quantitative alternation of value. I therefore call it the constant part of capital, or, more shortly, *constant capital*.”<sup>(11)</sup>

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To summarize the arguments in 1. 1.~1. 3.

① Marx insists that neither ‘the circulation of commodities’ nor ‘the means of production’ produce surplus-value, and that ‘the consumption of labour-power’ is the only source of surplus-value.

② Surplus-value is equivalent to the difference between ‘the exchange-value of labour-power’ and ‘the expenditure of labour-power.’

$$[\text{surplus-value}] = [\text{expenditure of labour-power}] - [\text{exchange-value of labour-power}]$$

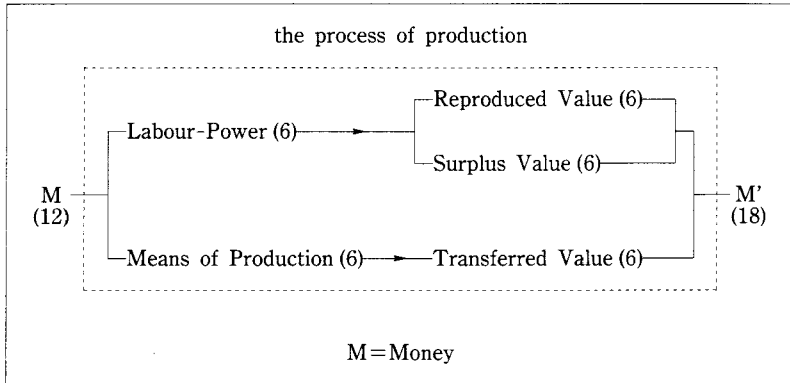
Let’s employ a simple example. A capitalist invest 12 units of money into the process of production. He buys 6 units of labour-power and 6 units of the means of production. Labour-power doubles its value. On the other hand, the value of the means of production is only transferred to the product. When the capitalist sells his product, he

<sup>(10)</sup> Marx, K., *ibid.*, p. 199.

<sup>(11)</sup> Marx, K., *ibid.*, p. 209.

gets 6 units of surplus-value. [see, Figure-2]

Figure-2 The Creation of Surplus-Value



## 2. Implications of Marx's Theory of Surplus-Value

### 2. 1. First Implication—Exploitation

Almost all people, who read *Capital*, will get the impression that Marx criticizes private property, and that he urges its abolishment.

If it is only labour-power that produces surplus-value, it is easy to conclude that the acquisition of surplus-value by anybody other than the workers (*i. e.*, the acquisition of rent by landowners and the acquisition of profits and interest by capitalists) is unjust, and that the system which allows such injustice, or *exploitation*, ought to be abolished.

### 2. 2. Second Implication—Deviation of Price from Value

#### 2. 2 .1. Rate of Surplus-Value and Rate of Profit

We must now clarify the defect contained in the labour theory of value. In Vol. I, Chap. 9 of *Capital*, Marx introduces *the rate of surplus-value* (Rate des Mehrwerts) [this is the eighth key concept], which represents the relationship between surplus-value and variable

capital.

“the increase per cent of the variable capital, is determined, it is plain, by the ratio of the surplus-value to the variable capital, or is expressed by  $s/v$ ... This relative increase in the value of the variable capital, or the relative magnitude of the surplus-value, I call, ‘The rate of surplus-value.’”<sup>(12)</sup>

$$\text{the rate of surplus-value} = \frac{\text{surplus-value (s)}}{\text{variable capital (v)}}$$

Under the assumption that labour-power is the only source of surplus-value, the rate of surplus-value expresses the degree of exploitation.

“The rate of surplus-value is therefore an exact expression for the degree of exploitation of labour-power by capital, or of the labourer by the capitalist.”<sup>(13)</sup>

The capitalist, however, takes no interest in the rate of surplus-value. He pays attention only to *the rate of profit* (Profitrate) [this is the ninth key concept]. The rate of profit is defined as follows:<sup>(14)</sup>

$$\text{the rate of profit} = \frac{\text{surplus-value (s)}}{\text{constant capital (c) + variable capital (v)}}$$

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(12) Marx, K., *ibid.*, p. 216.

(13) Marx, K., *ibid.*, p. 218.

(14) Marx, K., *Capital*, Vol. III, 1959, p. 42.

### 2. 2. 2. Computers, Gold Bars, and Bread

Now we reach the core of Marx's theory of surplus-value. To explain it, I employ a three-sectors model.

Let us suppose that a capitalist is searching for the most profitable investment opportunity and that there are three possible objects for investment; these are the production and sale of ① computers, ② gold bars, or ③ bread. By assuming that the capitalist in question is engaged not only in production, but also in sales, we can neglect the merchants and the rewards paid to them. Moreover, in order to neglect rent and interest, let us assume that the capitalist has both the land and the money necessary for production, and that he pays no attention to the opportunity costs of his land and money.

Let us suppose that the ratios between constant capital (c) and variable capital (v) in these three sectors vary as follow:

The production and sale of computers :  $99c + 1v$

The production and sale of gold bars :  $50c + 50v$

The production and sale of bread :  $1c + 99v$

Let us also assume that the turnover time of capital (i. e. the period between the production of a good and its sale) in all three sectors is identical. Therefore, the ratio of the quantities of labour-power employed in the three sectors is 1 to 50 to 99.

#### 2. 2. 2. 1. Difference in the Rate of Profit

We must deal with three factors: ① the rate of surplus-value, ② the rate of profit, and ③ the relationship between the price of a commodity and its exchange-value. The focal point of our argument lies in the

relationship between the price of a commodity and its exchange-value. But, for the time being, let us assume that the price of a commodity is equal to its exchange-value.

Next, the rate of surplus-value. It is evident that there is a certain limit to the rate of surplus-value, because no worker can work longer than 24 hours a day. Following Marx's example, we can assume the rate of surplus-value to be 100%.

If so, the rates of profit in the three sectors must differ.

	the rate of surplus-value	exchange- value	price of commodity	the rate of profit
computer	100%	101	101	1/100.....1 %
gold bar	100%	150	150	50/100.....50%
bread	100%	199	199	99/100.....99%

#### 2. 2. 2. 2. Deviation of Price from Exchange-Value

If there is competition between capitalists, the rates of profit in the different sectors will tend to converge. Marx states:

“There is no doubt...that aside from unessential, incidental and mutually compensating distinctions, differences in the average rate of profit in the various branches of industry do not exist in reality, and could not exist without abolishing the entire system of capitalist production.”<sup>(15)</sup>

To reconcile these two contradictory results, Marx introduces a concept: *a general rate of profit* (*Capital*, Vol. III, Chap. 9). According to our model, this can be defined as follows:

(15) Marx, K., *ibid.*, p. 151.

the general rate of profit=

$$\frac{\text{total quantity of surplus-value (150)}}{\text{total quantity of capital (300)}} \times 100 = 50 \text{ (\%)}$$

If we preserve the assumption that the rate of surplus-value is 100%, and if we accept the fact that the rates of profit in different sectors tend to converge, it must follow that there is *a deviation of the price of a commodity from its exchange-value*.

	the rate of surplus-value	the rate of profit	price of commodity	price minus exchange-value
computer	100%	50%	150	150 - 101 = 49
gold bar	100%	50%	150	150 - 150 = 0
bread	100%	50%	150	150 - 199 = -49

### 2. 3. Third Implication — Capitalist Corporation

The second implication of Marx's theory of surplus-value leads us to the third implication. Marx's theory implies that the capitalist in the *variable-capital-intensive* sector (the producer of bread in our model) must sell his product at a rate cheaper than its exchange-value to allow the capitalist in the *constant-capital-intensive* sector (the producer of computers in our model) to acquire enough profit. Marx states:

"So far as profits are concerned, the various capitalists are just so many stockholders in a stock company in which the shares of profit are uniformly divided per 100, so that profits differ in the case of the individual capitalists only in accordance with the amount of capital invested by each in the aggregate enterprise, i. e., according to his investment in social production as a whole, according to the number of his shares."<sup>(16)</sup>

<sup>(16)</sup> Marx, K., *ibid.*, p. 156.

Can this idea be compatible with the following statement ?

“as soon as the capitalist mode of production stands on its own feet, then the further socialisation of labour and further transformation of the land and other means of production into socially exploited and, therefore, common means of production, as well as the further expropriation of private proprietors, takes a new form. That which is now to be expropriated is no longer the labourer working for himself, but the capitalist exploiting many labourers. This expropriation is accomplished by the action of the immanent laws of capitalistic production itself, by the centralisation of capital. One capitalist always kills many.<sup>(17)</sup>”

Why must the producer of bread devote himself to the producer of computers who intends to kill him ?

### 3. Capital Accumulation and Income Distribution

#### 3. 1. The Effect of Capital Accumulation

Let's turn to another aspect of *Capital*. In 1. 2. 3. 2., we accepted not only the equation 'exchange-value of labour-power=maintenance cost of labour-power' but also the equation 'maintenance cost of labour-power=wages.' Now I deal with the latter equation.

##### 3. 1. 1. An Endurable Form of Dependence

According to Marx, the capitalist, unlike the feudal lord who dissipates his income on luxury goods, re-invests his income back into his company in an effort to ensure company growth. That is to say,

<sup>(17)</sup> Marx, K., *Capital*, Vol. I, pp. 762-763.



the capitalist reconverts the surplus-value acquired by the exploitation of workers back into capital.

The main subject in Vol. I, Chap. 25 of *Capital*, is the question of how the reconversion of surplus-value into capital, or capital accumulation, affects the lot of the working class. The most important factor in this inquiry is the ratio between variable capital and constant capital measured in terms of the quantity of exchange-value.

Marx's analysis is divided into two stages. In the first stage, it is assumed that the ratio between variable capital and constant capital remains unchanged in the process of capital accumulation. Under this condition, the total quantity of variable capital grows as capital accumulation proceeds. If the number of workers who share the total variable capital does not increase in proportion to that growth in total variable capital, in other words, if the growth rate of variable capital exceeds the growth rate of the supply of labour-power, wages increase. The following relationship then emerges:

exchange-value of labour-power =

maintenance cost of labour-power < wages

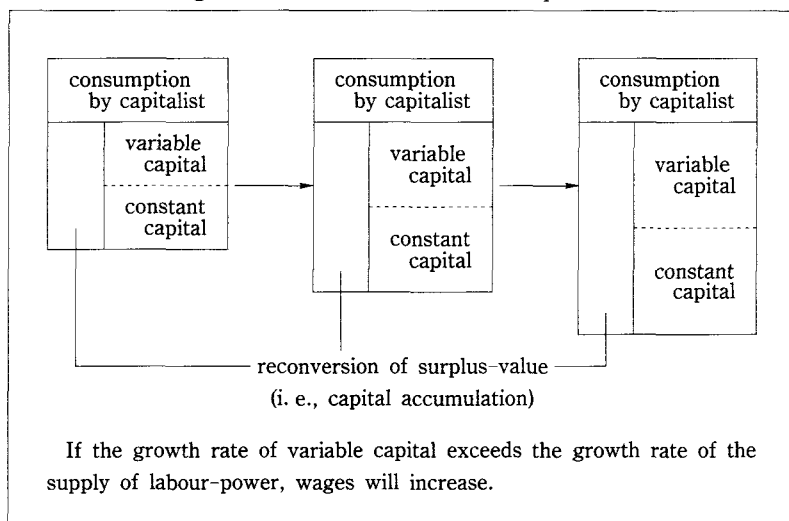
If so, the worker will receive sufficient wages to ensure a greater than subsistence standard of living, and his dependence upon the capitalist, thus, takes on 'an enduring form' [see, Figure-3].

"Under the conditions of accumulation supposed thus far, which conditions are those most favourable to the labourers, their relation of dependence upon capital takes on a form enduring"<sup>(18)</sup>

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(18) Marx, K., *ibid.*, p. 617.

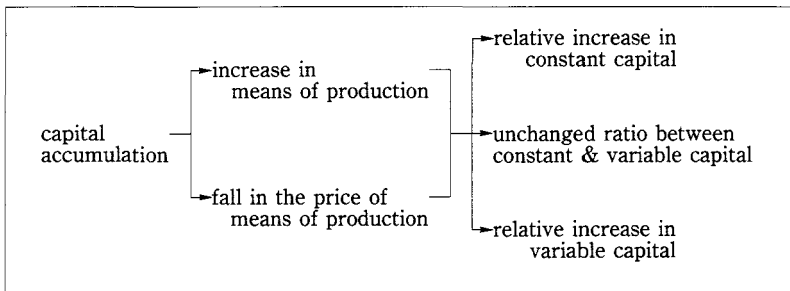
Figure-3 An Endurable Form of Dependence



### 3. 1. 2. Increase in the Ratio of Constant Capital to Variable Capital

Let's turn to the second stage of Marx's analysis. In 3. 1. 1., we assumed that the ratio between variable and constant capital remains unchanged in the process of capital accumulation. We must now examine this assumption. Capital accumulation brings about two results: ① an increase in the quantity of the means of production, and ② a rise in the productivity of labour and a fall in the price of the means of production. How do these factors affect the ratio between variable and constant capital? We cannot determine *a priori* which of the following possible results will occur: ① a rise in the ratio of constant capital, ② a rise in the ratio of variable capital, or ③ an unchanged ratio [see, Figure-4].

Figure-4 Results of Capital Accumulation



But, without presenting firm grounds, Marx concludes that the ratio of variable capital to constant capital falls as capital accumulation proceeds.

“With the accumulation of capital, therefore, the specifically capitalistic mode of production develops, and with the capitalist mode of production the accumulation of capital. Both these economic factors bring about, in the compound ratio of the impulses they reciprocally give one another, that change in the technical composition of capital by which the variable constituent becomes always smaller and smaller as compared with the constant.”<sup>(19)</sup>

If the ratio of variable capital to constant capital falls dramatically, in other words, if the growth rate of the supply of labour-power exceeds the growth rate of variable capital, it is inevitable that either one of two results—① a fall in wages, ② an increase in unemployment—will occur. [Of course, it is possible that both will happen simultaneously.] Under these conditions, it is likely that wages will fall to the level of the maintenance cost of labour power [see, Figure-5]. Thus, the

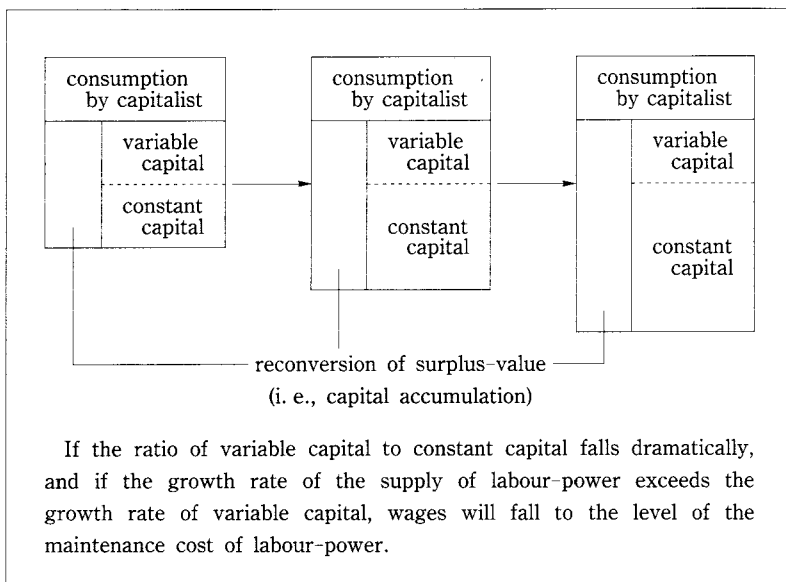
(19) Marx, K., *ibid.*, p. 624.

following relationship emerges:

exchange-value of labour-power =

maintenance cost of labour-power = wages

Figure-5 Relative Increase in Constant Capital



### 3. 2. Fall in the Rate of Profit

#### 3. 2. 1. Why Doesn't the Capitalist Adopt Constant-Capital-Saving Innovation ?

As we have seen in 2. 2. 1., the rate of profit is defined as follows:

$$\text{the rate of profit} = \frac{\text{surplus-value}}{\text{constant capital} + \text{variable capital}}$$

If we preserve the assumption that the rate of surplus-value is 100% [see, 2. 2. 2. 1.], and if we accept Marx's hypothesis that the ratio of variable capital falls as capital accumulation proceeds, we will be led to

According to Marx, only labour-power produces surplus-value. Therefore, the relative decrease in variable capital, inevitably, leads to a fall in the rate of profit. What can the capitalist do to fend off a fall in the rate of profit? He has two alternatives: ① to increase the rate of surplus-value, ② to achieve constant-capital-saving innovation.

If variable capital is the only source of surplus-value, why doesn't the capitalist adopt constant-capital-saving innovation?

If the growth rate of the supply of labour-power is very high, doesn't the capitalist (or entrepreneur) tend to adopt labour-intensive methods of production (or, constant-capital-saving innovation)? I think he does. Because, if competition works, the capitalist, who does not try to cut his costs of production, will be forced out of the market.

rise in wages  $\rightarrow$  decrease in demand for labour-power  $\rightarrow$   
 $\rightarrow$  labour-saving (or variable-capital-saving) innovation  
 fall in wages  $\rightarrow$  increase in demand for labour-power  $\rightarrow$   
 $\rightarrow$  capital-saving (or constant-capital-saving) innovation

In the market, I think, competition works both ways. But, Marx emphasizes only the former process [i. e., rise in wages—>decrease in demand for labour-power—>labour-saving (or variable-capital-saving) innovation]. I think this is an unacceptable oversight.

### (1) Marx's Theory of Surplus-Value

When trying to defend Marx's theory of surplus-value, it is

necessary to accept the second and third implications of his theory: i. e. *the deviation of the price of a commodity from its exchange-value* [see, 2. 2.] and *the devotion of the capitalist in the variable-capital-intensive sector to the capitalist in the constant-capital-intensive sector* [see, 2. 3.].

After considering these implications, I believe that Marx's theory of surplus-value becomes untenable and should be abandoned.

## (2) Marx's Theory of Capital Accumulation and Income Distribution

It remains unclear how best to interpret Marx's theory of capital accumulation and income distribution. If we abandon the core hypothesis that the ratio of variable capital to constant capital falls as capital accumulation proceeds, what is left in Marx's theory? What can we learn from his theory? I must confess that I have no clear answer to these questions, at least now.

\*I wish to express my appreciation to Mr. J. A. S. Wild for correcting my manuscript and giving me several useful advices.