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PURE CAPITALISM AND THE DISAPPEARANCE OF THE MIDDLE CLASS

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I. A RECONSIDERATION OF MARX'S MIDDLE-CLASS THESIS NECESSARY

THE contemporary importance of the middle-class in the politics of democratic no less than Fascist states serves to call up for re-examination the famous Marxian thesis concerning its disappearance. That Marx failed to make due allowance for the growth of the middle class is today one of the chief criticisms of his theory of economic development. The reason for this failure has been attributed to Marx's limited conception of social classes.

According to the criticism, Marx's conception of social classes was based upon English capitalism of the late eighteenth and early nineteenth centuries. At that time the modern corporation with its numberless white-collar employees, in addition to industrial wage-earners, had just begun to make its appearance. In consequence, the classes as Marx knew them comprised only the industrial capitalists (the bourgeoisie), the petite bourgeoisie (the middle class of shopkeepers, independent farmers, and artisans), the industrial workers (the proletarian class), and the landowning aristocracy. Marx was thus compelled to project his theory of economic change on the basis of a much simpler class structure of society than that which developed in the decades after his death in 1883. His primitive conception of society's class structure caused him to reason that with the accumulation of capital, the increased competition between the great capitalists for markets, and the corresponding growth in large-scale production, the petty bourgeoisie disappears, that is, it slips down into the proletariat. Thus the conflict that is to end in the dissolution of capitalism and the dictatorship of the proletariat becomes for all practical pur-

poses a conflict between two great classes: the industrial capitalists and the industrial proletariat.

When Marx's thesis is stated in this exceedingly broad way, devoid of his qualifications or any statement of the dialectics of economic movement as conceived by him, it is too simple and quite unrealistic. It is true that this oversimplified statement of the role of the middle class is to be found in the *Communist Manifesto*. But the *Manifesto* account is in decided conflict with Marx's treatment elsewhere. For example, in one of his numerous criticisms of Ricardo, Marx observed:

These are the contradictions from which Ricardo struggles to free himself. . . . What he forgets to emphasize is the increase of those standing between the workers, on the one side, and the capitalists and landowners, on the other, who are chiefly paid directly by the industrial capitalists from the revenue in contradistinction to capital and who weigh as a load on the labor foundation and increase the social security and power of the upper ten thousand.¹

Again, in stating the assumptions and qualifying the conditions under which he carried forward his analysis of capitalism, Marx made the following comment:

We have to consider simply the form that capital undergoes in its different progressive transformations. There are thus not developed the real relationships within which the real productive process proceeds. It is always assumed that the commodity is sold at its real value. The competition of capital is not considered, still less the existence of credit, still less the real constitution of society which in no way simply consists of the working class and the industrial capitalists. . . .²

If one takes the theory of class struggle and the conception of social classes underlying it in the bold and simple form in which they are presented in the *Communist Manifesto*, one is bound to arrive at an extremely naïve interpretation of these ideas. The *Manifesto* is a revolutionary document but not a scientific treatise. It is neither a *Critique of Political Economy* nor a *Theorien ueber den Mehrwert*, but what its name implies—a manifesto of political principles, not an organized body of economic doctrine. This does

¹ Karl Marx, *Theorien ueber den Mehrwert*, herausgegeben von Karl Kautsky (Stuttgart, 1905), Band II, Theil II, S. 368.

² *Ibid.*, S. 263-64.

not mean that the work of Marx can be divided into mutually exclusive categories of scientific analysis, on the one hand, and of revolutionary action, on the other. The separation of theory from practice was wholly foreign to Marx's nature. But it is not too much to insist that Marx's purpose in the *Manifesto* was to impel men to action and not to analyze society, scientifically. While most of his ideas appear in the *Manifesto*, they are of necessity presented there in the broadest and most striking manner. They are not clearly defined nor elaborated as in *Capital*. Moreover, the philosophical assumptions underlying the ideas are not set forth as in the earlier *Heilige Familie* and the *Deutsche Ideologie*. Compare, for example, the concept of "increasing misery," which parallels that of the "disappearance of the middle class," as it is presented in the *Manifesto*, with its refinements in Marx's later scientific work. In the *Manifesto* Marx stated:

The serf, in the period of serfdom, raised himself to membership in the commune, just as the petty bourgeois, under the yoke of feudal absolutism, managed to develop into a bourgeois. The modern laborer, on the contrary, instead of rising with the progress of industry sinks deeper and deeper below the conditions of existence of his own class. He becomes a pauper, and pauperism develops more rapidly than population and wealth.³

On the basis of this and other statements in the *Manifesto*, supporters as well as critics of Marx have imputed to him an all too simple theory of "increasing physical misery" which is to be measured by the progressive decline in working-class income. Yet, in *Value, Price, and Profit* we find the following statement:

When capital is increasing fast, wages may rise, but the profit of capital will rise much faster. The material position of the laborer has improved, but it is at the expense of his social position. The social gulf which separates him from the capitalist has widened. Finally, the meaning of the most favorable condition of wage-labor . . . that is, the quickest possible increase of productive capital—is merely this: The faster the working classes enlarge and extend the hostile power that dominates over them, the better will be the conditions under which they will be allowed to labor for the further increase of bourgeois wealth and for the wider extension of the power of capital, and thus contentedly to forge for themselves the golden chains by which the bourgeoisie drags them in its train.⁴

³ Marx and Engels, "The Communist Manifesto," *The Essentials of Marx*, ed. Algernon Lee (New York, 1926), p. 43.

⁴ Marx, "Value, Price, and Profit," in Lee, *op. cit.*, pp. 103-4.

Furthermore, in *Capital* he wrote in the same tenor:

. . . . Within the capitalist system all methods for raising the social productiveness of labour are brought about at the cost of the individual labourer; all means for the development of production transform themselves into means of domination over, and exploitation of, the producers; they mutilate the labourer into a fragment of a man, degrade him to the level of an appendage of a machine, destroy every remnant of charm in his work and turn it into a hated toil; they estrange him from the intellectual potentialities of the labour process in the same proportion as science is incorporated in it as an independent power; they distort the conditions under which he works, subject him during the labour-process to a despotism the more hateful for its meanness; they transform his life-time into working-time, and drag his wife and child beneath the wheels of the Juggernaut of capital. . . . It follows therefore that in proportion as capital accumulates, the lot of the labour, be his payment high or low, must grow worse.⁵

From these citations it is evident that (1) "increasing misery" does not necessarily mean an absolute decline in the material well-being of the working class and (2) it has a much more complicated meaning than the progressive worsening of working-class material status as stated in the *Manifesto*. One arrives at a wholly different conception of "increasing misery" by studying it within the framework of the whole body of Marx's teachings. By following the same procedure, one likewise arrives at a different view of the "disappearance of the middle class" from that stated in the *Manifesto*. If one would understand Marx, or for that matter any other thinker, one must study his work as a whole and in the spirit in which he wrote rather than mechanically and literally follow his generalizations.

At best a theory can only outline the main or controlling features of society and approximately embrace the ramified complexities of life. This by no means diminishes its importance as a guide to our knowledge of the social world and our efforts to control it. And we think that in formulating his theories Marx sought to portray not the detailed facts of life which he admitted would change but the dominant and inherent forces of capitalist economy. To facilitate this portrayal he was forced, like any other investigator, to conduct his inquiry under numerous provisional assumptions in which only idealized relationships were taken into

⁵ *Capital*, ed. Kerr (Chicago, 1906), I, 708-9. Also, see p. 573.

account. No one was more aware than Marx of his obligation as a scientist to qualify the results of such a procedure in order to make his theories as realistic a picture as possible of the concrete facts of life. But he was certainly under no such obligation in his day-to-day leadership of the labor struggle. In fact, political prudence dictated that he proclaim his principles in a pure and unqualified form. A leader who waters down his principles and hedges them in by numerous "ifs" and "buts" may be able to gather a coterie of intellectual followers about him, but he would hardly be able to build an effective mass movement in this way. Yet no student of society is in a position either to affirm or to deny the validity of Marx's theories until he knows how Marx qualified them and the methodological assumptions and preconceptions on which the theories rest. Thus we think that Marx's thesis of the disappearance of the middle class should be examined (1) from the standpoint of the method he employed to show the dominant forces of a capitalist economy and (2) in the light of his qualifications of abstract concepts and principles.

II. PURE CAPITALISM: THE MIDDLE CLASS⁶ EXCLUDED

The three dominant classes in modern society, according to Marx in the third volume of *Capital*, are the landowners, the industrial capitalists, and the industrial proletariat. In his words, "the owners of mere labor-power, the owners of capital, and the landlords, whose respective sources of income are wages, profit, and ground rent, in other words, wage-laborers, capitalists, and

⁶ To avoid confusion over the use of the term "middle class," it should be noted: Historically, the middle class, or the bourgeoisie, as it is frequently called, denotes the present capitalist class of bankers, financiers, and industrialists who own the means of production. In Marx's day this class was called the middle class because it stood between the aristocratic landowning class, on the one hand, and the working class, on the other. Today, however, with the disappearance of the landowning aristocracy, as a distinct class, the capitalist class is no longer a middle class as it was at the time Marx wrote. What we now call "middle class" is Marx's petty bourgeoisie which comprises the small businessman, the small independent farmer, and the white-collar employee. This middle class occupies an intermediate position between the great financiers and industrialists, on the one hand, and the industrial workers, on the other.

landlords, form the three great classes of modern society resting upon the capitalist mode of production.”⁷

In adopting this threefold class division as the mechanism of economic change, Marx follows the classification established by Smith and Ricardo and accepted in a slightly modified form by the modern theoretical economists. Marx, however, thought that with the expansion of the capitalist system the distinction between land and capital, and, therefore, between the landowning and capitalist classes, disappears. This takes place as the result of the increasing application of capital to land, the breakup of feudal estates, and the organization of agriculture on a business or capitalistic basis. According to Marx, landed property thus becomes transformed into a form of property appropriate to the capitalist mode of production.

In predicting the disappearance of the distinction between land and capital, Marx anticipated the position which later “bourgeois” economists were to take. These economists denied that any clear-cut difference could be made between land and capital as factors of production. From this premise they concluded that it was illogical to separate rent and interest into mutually exclusive categories of income associated with land and capital, respectively. This, however, was not the main conclusion that Marx drew. For him the absorption of the landlords by the capitalists did not merely mean an identification of what Ricardo and the whole classical school regarded as separate types of income. It meant the fusion of two classes. It expressed the absolute tendency of capitalism to divide society into two classes.

Marx knew in 1844, as he did in the sixties when he began work on the third volume of *Capital*, that society was not actually divided into two classes. Although the absorption of the landowners by the industrial capitalists was progressing on a grand scale during his lifetime, the complete fusion of the two classes had not actually taken place. Marx was aware not only of this but also of the existence of other social groups that made a threefold class stratification, to say nothing of a twofold one, an imperfect picture of the real class structure of society. For, after he

⁷ *Capital*, ed. Kerr (Chicago, 1909), III, 1031.

stated that society is divided into three dominant classes, he added:

In England, modern society is indisputably developed most highly and classically in its economic structure. Nevertheless the stratification of classes does not appear in its pure form, even there. Middle and transition stages obliterate even here all definite boundaries, although much less in the rural districts than in the cities.⁸

This reference to the "imperfect" stratification of the classes and to the existence of "middle and transition stages" was not an afterthought that Marx lugged into his analysis. In his early philosophical as well as his political writings he referred again and again to these "middle layers" of society. In the *18th Brumaire of Louis Bonaparte* he stated:

The bourgeois republic was victorious. There rallied to its support the financial aristocracy, the industrial bourgeoisie, the middle class, the petty bourgeoisie, the army, the intellectuals, the clergy, and the rural population. The Parisian proletariat stood alone.⁹

Then again, in *Die deutsche Ideologie*, he wrote:

Trade and commerce create the great bourgeoisie. The small burgher, who no longer as earlier rules the town but must submit to the mastery of the great merchants and manufacturers, is concentrated in the handicraft trades.¹⁰

Above these sentences Marx wrote the following words: "small burgher, middle ranks, great bourgeoisie." He thought that in spite of their dwindling industrial importance the small burgher and the middle ranks of society constitute "an important class in every modern body politic." The fact that these middle classes or transient layers actually exist in society and prevent the division of it into two or even three great classes¹¹ was of utmost political importance to Marx. But he observed that this "is immaterial for our analysis"¹² of the capitalist process.

⁸ *Ibid.*

⁹ Translated from the German by Eden and Cedar Paul (New York, 1926), p. 32.

¹⁰ Marx and Engels, "Die deutsche Ideologie," *Gesamtausgabe*, herausgegeben von V. Adoratsky (Moscow, 1932), Abt. I, Band V, S. 46.

¹¹ *Capital*, III, 1031.

¹² *Ibid.*

THE CAPITALIST PROCESS

Marx's analysis of the capitalist process of production rests on two spheres of production: large-scale manufacturing and agriculture. The emphasis, though, is on manufacturing. Although he enumerates two other spheres of production—the extractive industries and transportation and communication¹³—he brings them into his analysis only incidentally. Manufacturing industry embodies, par excellence, the characteristic features and relations of the capitalist process. In this process natural objects and materials are transformed into commodities by labor. On one side of the process is to be found the capitalist class which owns the instruments of production including the land. On the other side is to be found the wage-earning or working class which owns nothing but its labor power. The working class sells its labor power to the capitalist class in order to live. With the money paid it in the form of wages, and with the instruments of production and the raw materials advanced it by the capitalist class, the working class creates a new product which includes wages advanced and a surplus which goes to the capitalist.

This process tends to encompass all spheres of production. With the expansion and development of the process, property is increasingly concentrated in fewer hands and society is more and more divided into two classes: the propertyless and the propertied, the capitalist and the laboring classes. If, then, all the spheres of production of society were conducted on the basis of the capitalist process, the character of its economic life would be as follows: All labor would be wage labor divorced from the ownership of land and from the means of production. All property would be concentrated in the hands of a relatively few capitalists. Such a complete dominance of economic life by the capitalist process would mean the annihilation of all "noncapitalist" spheres of production. The artisan and farmer, the shopkeeper and the small merchant, would lose even the semblance of independence they now derive from the ownership of their small capital and the exploitation of their own labor power. They and, likewise, the doctors, lawyers, actors, artisans, and teachers would become

¹³ *Mehrwert*, I, 427, and *Capital*, ed. Kerr (Chicago, 1909), II, 172.

members of the working class. Society would then be divided into two classes only: capitalists and wage-earners. A society of this kind would conform to one of the conditions of pure capitalism, that is, a twofold class structure.

In the real life of capitalist society no such exclusive dominance of the capitalist process, with the twofold class division that it tends to create, is to be found. Yet from Marx's standpoint this exclusive dominance must be provisionally assumed if the inherent characteristics of capitalist production and the forces that bring about its collapse are to be seen in their pure form, unobstructed by countervailing influences.

THE CONCEPT: PURE CAPITALISM

Marx's method of analysis is best described by the term "pure capitalism," although he never used it. The first person to use the term was Henryk Grossman in his *Das Akkumulations- und Zusammenbruchsgesetz des kapitalistischen Systems* ("The Law of Accumulation and Collapse of the Capitalist System" [Leipzig, 1929]). As employed here the term denotes the simplified conditions and assumptions under which Marx projected his theory of economic development. These conditions and assumptions help to reveal the laws of capitalist production in their ideal form. But before we discuss what pure capitalism involves and why it eliminates the middle class, let us, for purposes of analysis, ascertain the justification for describing Marx's method in this way.

The justification for using the term "pure capitalism" is to be found in numerous passages in which are hidden Marx's statements of his assumptions and methodology. In one place he said it must be assumed that "the laws of capitalist production evolve in their pure form" although in real life they are obstructed by practical frictions and therefore only tend to be realized. He stated:

Such a general rate of surplus-value—as a tendency, like all other economic laws—has been assumed by us for the sake of theoretical simplification. But in reality it is an actual premise of the capitalist mode of production, although it is more or less obstructed by practical frictions causing more or less considerable differences locally, such as the settlement laws for English farm laborers. But in theory it is the custom to assume that the laws of

capitalist production evolve in their pure form. In reality, however, there is always but an approximation. Still, this approximation is so much greater to the extent that the capitalist mode of production is normally developed, and to the extent that its adulteration and amalgamation with remains of former economic conditions is outgrown.¹⁴

This assumption that "the laws of capitalist production evolve in their pure form" is fundamental in Marx's method of analysis. The validity of the assumption is based on the fact that all non-capitalist spheres of production tend either to be eliminated by the expansion of capitalist production or to be subordinated to it. Nevertheless, at any given time there actually exist in economic life "numerous and large spheres of production which are not operated on a capitalist basis (such as farming by small farmers),"¹⁵ and which "are interpolated between the capitalist spheres and interrelated with them."¹⁶ The existence of these noncapitalist spheres masks the real forces that are at work in capitalist society. If, then, one wishes to understand the inner secrets of a society based upon the capitalist mode of production and of the forces that lead to the collapse of this society, one must provisionally exclude all those conditions that mask or counteract the normal tendencies of capitalism or the manifestation of its laws in their pure form. Marx explained:

And while the compensation of wages and working days, and thereby of the rates of surplus-value, between the different spheres of production, or even different investments of capital in the same sphere of production, is checked by many local obstacles, it is nevertheless accomplished at an increasing degree with the advance of capitalist production and the subordination of all economic conditions under this mode of production. The study of such frictions, while quite important for any special work . . . , may be dispensed with as being accidental and unessential in a general analysis of capitalist production. In such a general analysis it is always assumed that the actual conditions correspond to the terms used to express them, or, in other words, that actual conditions are represented only to the extent that they are typical of their own case.¹⁷

In the economic movement the "normal," "typical," or "socially necessary" relationships are to be seen only under theoretically simplified and "frictionless" conditions. It is only under these

¹⁴ *Capital*, III, 206. ¹⁵ *Ibid.*, p. 231. ¹⁶ *Ibid.* ¹⁷ *Ibid.*, pp. 168-69.

conditions that the deviations from the norm are equalized and the accidental or occasional departures from it lose their significance. Thus in comparing the methods of the physical and social sciences, Marx observed:

The physicist either observes physical phenomena where they occur in their most typical form and most free from disturbing influence, or, wherever possible, he makes experiments under conditions that assure the occurrence of the phenomenon in its normality.¹⁸

Like the physicist, the economist must investigate his data so as to discover their "typical" relationships. But since "in the analysis of economic forms, neither microscopes nor chemical reagents are of use, the force of abstraction must replace both."¹⁹ Thus, if the economic inquiry is to "trace out the inner connection of the forms of development," it must of necessity be conducted under numerous suppositions and provisional assumptions until the phenomena are understood in their pure and typical form. Pure capitalism is one of these provisional assumptions under which Marx conducted his inquiry. It is a methodological device which makes possible a theoretical demonstration of the normal course of capitalist development. Under the assumption of pure capitalism the analysis begins with the most elementary or simplified conditions in order to portray the typical relationships, the real nature, of more complicated and varied conditions which are gradually brought within the scope of the inquiry.

The fact that pure capitalism does not coincide with reality does not mean that it is a fiction. It is a conceptual tool of analysis. And the words of Engels in his defense of Marx's labor theory of value as a concept are applicable here in regard to pure capitalism. In his letter to Schmidt, Engels said:

The reproaches you make against the law of value apply to *all* concepts, regarded from the standpoint of reality. The identity of thought and being, to express myself in Hegelian fashion, everywhere coincides with your example of the circle and the polygon. Or the two of them, the concept of a thing and its reality, run side by side like two asymptotes, always approaching each other yet never meeting. This difference between the two is the very difference which prevents the concept from being directly and immediately reality and reality from being immediately its own concept. But although a

¹⁸ *Ibid.*, I, 12-13.

¹⁹ *Ibid.*, p. 12.

concept has the essential nature of a concept and cannot therefore *prima facie* directly coincide with reality, from which it must first be abstracted, it is still something more than a fiction, unless you are going to declare all the results of thought fictions because reality has to go a long way round before it corresponds to them, and even then only corresponds to them with asymptotic approximation.²⁰

The function of the concept of pure capitalism is to set forth the theoretical backbone of knowledge of the dominant and controlling economic process. Once this is accomplished the facts of theory must be brought into harmony with empirical reality. Thus the exclusion of the middle class under conditions of pure capitalism does not mean that this class is nonexistent at any given time in the life of society. But it does mean that the middle class is unimportant so far as the basic economic process is concerned and that it tends to disappear under the impact of the process. Now, if we are to understand why the middle class tends to lose its status as a class, we must first discover the forces of the capitalist process which bring about this condition. In brief, we must first study the capitalist process as if the middle class did not actually exist, if we are to understand the historic destiny of this class. Only on the basis of an understanding of the historical role of the middle class are we able to know its social and political significance at any given time in the world of empirical reality.

THE EXCLUSION OF THE MIDDLE CLASS

We have noted that although Marx stated that "the real constitution of society in no way simply consists of the working class and the industrial capitalists," his analysis is premised on a two-fold class structure of society. Apart from the capitalist class, he said, "there is according to our assumption—the general and exclusive domination of capitalist production—no other class but the working class."²¹ All *dritte personen* (third persons) are excluded.

Dritte personen is a term which Marx used to designate two different but more or less related categories of people. The first

²⁰ Marx and Engels, *Selected Correspondence* (New York: International Publishers, n.d.), pp. 527-29.

²¹ *Capital*, II, 401.

category includes such independent producers as small farmers, independent handicraftsmen, and all other hangovers of an earlier mode of production who function outside the capitalist process proper. The second category includes two groups: (1) priests, shopkeepers, lawyers, state officials, professors, artists, teachers, physicians, and soldiers, who exist on the basis of the capitalist process but who do not participate in it; and (2) merchants, middlemen, speculators, commercial laborers (white-collar employees), managers, foremen, and all other officials who "command in the name of capital."

Why should these categories of so-called third persons be provisionally excluded from the analysis? First, let us take up the independent farmers and handicraftsmen. According to Marx, the independent farmer and handicraftsman possess a twofold productive character in capitalist society.²² As the owners of their means of production, they are capitalists. As the owners of their labor power, they are wage-earners. Thus, they pay themselves wages as capitalists and derive profit from their capital. They, in other words, exploit themselves as wage-laborers and pay themselves the tribute in surplus products which capital customarily appropriates from labor. Marx stated that although these two forms of production exist outside the capitalist process they assume the character of the process. It is generally true that social relationships which are far removed from the dominant character of a society are impressed with the basic features of that society. Thus, under feudalism, the simple money relations between usurer and borrower, while in no way involving the reciprocal personal services of lord and vassal, were looked upon as if they did. It was likewise thought that the small peasant owned his goods as a fief. These fictions were characteristic of a society of graded mastery and servitude. To understand why peasant ownership or the debtor-creditor relationship in feudal society assumed a feudal character, one must study feudalism itself, not the peasant farmer and the usurer. Similarly, to understand why under capitalism the independent farmer or handicraftsman unites within himself the productive functions of two classes but eventually

²² *Mehrwert*, I, 423-24.

loses this character by becoming either a worker or a capitalist, one must concentrate his attention not upon small-scale farming and handicraft production but upon the dominant productive process in capitalist society and the typical class relations created by the process. Marx stated:

It is accordingly the law, that the economic development divides the functions between different persons, and the handworker or farmer, who produces with his own means of production is eventually either transformed into a small capitalist who exploits other people's labor, or he is deprived of his means of production (this may happen first, although he remains the nominal owner . . .) and is transformed into a wage-laborer. This is the tendency of the form of society in which the capitalist mode of production is dominant. In considering the essential relations of capitalist production it can be thus assumed (because this happens to be more and more approximated, that the principal goal, the productive power of labor, can only under these circumstances, be developed to the highest point) that the whole world of commodities, all spheres of material production—the production of material wealth—have been subjected, formally or really, to the capitalist mode of production. In this assumption, which expresses the goal of capitalism, and which thus constantly approaches it more and more exactly, all labor concerned with the production of commodities is wage-labor, and the means of production confront this labor as capital in all spheres of production.²³

The position of the other category of "third persons"—artists, physicians, professors, etc.—is analogous to that of the independent farmers and handicraftsmen. They, likewise, contribute nothing to our knowledge of the essential character of the capitalist process. The process involves the sale of labor to the owners of the means of production. This labor incorporates itself in commodities and produces a surplus-product. Although the service of these "third persons" is considered important by society, it does not incorporate itself in commodities and, therefore, does not give rise to a surplus-product. It is unproductive labor which is performed outside the process of capitalist production. As unproductive laborers these "third persons" must receive their income from the expenditure of one of the two dominant classes involved in production.

The unproductive character of the labor of these "third persons" does not arise from the fact that the product of their service

²³ *Ibid.*, S. 424.

is intangible. For the distinction between unproductive and productive labor, as Marx conceived it, does not turn upon whether the products of labor are physical or nonphysical. Marx stated that "in and of itself, this distinction between productive and unproductive labor has nothing to do with the particular specialization of labor or with the particular use-value in which this specialized labor is incorporated."²⁴ To be productive means, according to Marx, to be productive "in the capitalistic sense." In this sense productive labor is that type of labor which not only replaces the old value advanced it by the capitalist in the form of wages but which also adds something to it; in other words, creates a new value in the form of a surplus product. Productive labor, then, objectifies more labor time in the new product than that which is contained in the product on which the working laborer subsists.²⁵ Accordingly, a cook and a waiter in a public hotel are productive workers in so far as their labor transforms itself into a surplus product (profit) for the hotel owner. But the same persons are unproductive laborers when employed as menial servants.²⁶ In like manner, "an actor or even a clown is a productive worker, if he works in the service of a capitalist (or an entrepreneur) to whom he gives more labor time than is contained in the wages received from him. But a bushelman who goes to the house of a capitalist and repairs his trousers, creates for the capitalist simply a use-value and is, therefore, an unproductive laborer."²⁷

If the worker-capitalist relation spreads to medical service, amusements, and education, the physician, the artist, and the professor are reduced to the status of wage labor.²⁸ And the labor of these "third persons" is no longer unproductive. But until this happens these persons play no part in the capitalist process of production and must, therefore, be excluded from the analysis of the essential character of that process. For whether the process is considered from the standpoint of the production of commodities or from that of the distribution of income, "there are only two points of departure: The capitalist and the laborer. All third

²⁴ *Ibid.*, S. 263.

²⁵ *Ibid.*, S. 253-54.

²⁶ *Ibid.*, S. 261.

²⁷ *Ibid.*, S. 259-60.

²⁸ *Ibid.*, S. 425-27.

classes or persons must either receive money for their services from these two classes, or, to the extent that they receive it without any equivalent services, they are joint owners of the surplus-value in the form of rent, interest, etc."²⁹

All members of society not directly engaged in reproduction, with or without labor, can obtain their share of the annual product of commodities—in other words, their articles of consumption—primarily only out of the hands of those classes who are the first to handle the product, that is to say, productive laborers, industrial capitalists, and real estate owners. To that extent their revenues are substantially derived from wages (of the productive laborers), profit, and ground rent, and appear as indirect derivations when compared to these primary sources of revenue. But, on the other hand, the recipients of these revenues, thus indirectly derived, draw them by grace of their social functions, for instance that of a king, priest, professor, prostitute, soldier, etc., and they may regard these functions as the primary source of their revenue.³⁰

FUNCTIONARIES IN TRADE AND MARKETING—EXCLUDED

Wholesale merchants, middlemen, brokers, speculators, commercial laborers (bookkeepers, clerks, selling agents, cashiers, etc.), and other functionaries engaged in marketing and trade, are also provisionally excluded from the basic analysis of the capitalist process.

The work of these economic groups as defined by Marx is to "circulate" commodities after they have been produced. He admitted that this work of buying and selling commodities is necessary in capitalist society. But he held that the essential relations between capital and labor are obscured in the purchase and sale of commodities. It must accordingly be assumed that commodities are bought and sold without the intervention of middlemen, merchants, and their employees. He pointed out:

Capitalist production does not only imply production on a large scale, but also necessarily sale on a large scale, in other words, sale to the dealer, not to the individual consumer. . . . Trading in commodities as a function of merchant's capital is the premise of capitalist production and develops more and more in the course of development of this mode of production. Therefore we use it occasionally for the illustration of various aspects of the process of capitalist circulation; but in the general analysis of this process, we assume

²⁹ *Capital*, II, 384.

³⁰ *Ibid.*, p. 429.

that commodities are sold directly without the intervention of the merchant, because this intervention obscures various points of the movement.³¹

WHAT THE CONCEPT OF PURE CAPITALISM SHOWS

By excluding all those factors and conditions that obscure the essential or normal character of the productive and exchange relations between capital and labor, the concept of pure capitalism reveals (1) Marx's fundamental thesis that the basic conflict in modern economic society is between the proletarian and capitalist classes and (2) the absolute tendencies of the objective conditions that continually bring capitalist production to the point of collapse and that sooner or later cause the capital-labor antagonism to result in the overthrow of the system.

The progressive accumulation of capital leads to the employment of capital on an ever widening scale or to an increasing investment. On one side, the increased investment of capital expresses itself in the concentration of capital and in "its centralization," that is, "a devouring of small capitalists by the great capitalist and the decapitalization of the former."³² On the other side, it expresses itself in the disproportionate employment of constant capital as compared with the variable. This increase of the constant capital at the expense of the variable hems in the expansion of the productive power by restricting the power of consumption. It produces a relative "surplus population" through the displacement of labor and causes the rate of profit to sink. These are the expressions of the "historical tendency of capitalist accumulation," which pure capitalism reveals. But Marx stated that this "absolute, general law of capitalist accumulation," like all other laws, "is modified in its working by many circumstances, the analysis of which does not concern us here."³³ Furthermore, "this process," he said, "would bring about the collapse of capitalist production if it were not for counteracting tendencies which continually have a decentralizing effect by the side of centripetal ones."³⁴

The analysis of these "modifying circumstances" and "counter-

³¹ *Ibid.*, p. 126.

³³ *Ibid.*, I, 707.

³² *Ibid.*, III, 288.

³⁴ *Ibid.*, III, 289.

acting tendencies," found in different sections of the third volume of *Capital*, and, likewise, in *Theorien ueber den Mehrwert*, is not the task of a study of pure capitalism. But any realistic study of capitalism must bring these "modifying circumstances" into the scope of the inquiry. Foremost among these modifying conditions is the existence of spheres of production into which small capitals enter when pushed to the wall by large industry. Next to this is the rise of new industries which are created by the growth of luxury, the refinement of wants and the creation of new ones, and the general expansion of commerce and trade. These new industries, the cause and effect of the expansion of labor's productivity, absorb displaced labor and check the declining rate of return on invested capital. The new industries also create employment for the middle class and for numerous types of unproductive laborers. By creating middle class and unproductive employments they modify the twofold class division as seen in the perspective of pure capitalism. Although the rise of new industries, the expansion of old and the creation of new wants, etc., prevent the manifestation of the laws of the capitalist economy in their pure form, they do not fundamentally alter the basic features and the nature of the economy.

III. WHY THE MIDDLE CLASS HAS NOT DISAPPEARED

The absolute tendency of the accumulation of capital is to weed out the small businessmen and to concentrate production in large establishments owned by a few great capitalists. Although the process of concentration has proceeded extensively during the last half-century, it has not brought about the disappearance of the shopkeeper, small merchant, and independent farmer. This is due to the "imperfect subjugation" of the various spheres of business by the capitalist process. The "imperfect subjugation" was attributed by Marx to "the greater resistance, which some lines of production, by their nature, oppose to a transformation of manufacture [handicraft production] into machine production."³⁵ The small capitals, therefore, crowd into these "noncapitalistic" spheres of production. In Marx's words

³⁵ *Ibid.*, p. 277.

The battle of competition is fought by cheapening of commodities. . . . The cheapness of commodities depends, *caeteris paribus*, on the productiveness of labour, and this again on the scale of production. Therefore, the larger capitals beat the smaller. It will further be remembered that, with the development of the capitalist mode of production, there is an increase in the minimum amount of individual capital necessary to carry on a business under its normal conditions. The smaller capitals, therefore, crowd into spheres of production which Modern Industry has only sporadically or incompletely got hold of. Here competition ranges in direct proportion to the number, and in inverse proportion to the magnitudes, of the antagonistic capitals. It always ends in the ruin of many small capitalists, whose capitals partly pass into the hands of their conquerors, partly vanish.³⁶

The foregoing quotation pertains to the "old" middle class, not to the "new" middle class of "unproductive laborers," managers, executives, superintendents, foremen, salesmen, clerks, and stenographers. The old middle class arose under individualistic conditions of capital accumulation while the new is a product of corporate ownership and monopoly. In the third volume of *Capital* Marx discusses the changes in the conditions of capital accumulation and in the character of property and ownership. It is with these changes that the rise of this new middle class was associated by him.

By the time that Marx had begun to write the third volume of *Capital*, "monopoly and modern finance capital" had begun to appear. Under these conditions the accumulation of capital shifted from an "individualistic" to a "social" basis. The shift was brought about by the joint-stock company and the credit and banking system. With the appearance of these new institutions the accumulation of capital no longer rests upon the thrift and savings of the individual entrepreneur, but upon the savings of the community as a whole, including the workers. Commenting upon this change, Marx observed:

Apart from this, with capitalist production an altogether new force comes into play—the credit system. . . .³⁷ The loans of the industrials and merchants among one another go hand in hand with loans made to them by the banker and money lender in the form of money. In the discounting of bills of exchange the loan is but nominal. A manufacturer sells his product for a bill of exchange and gets this bill discounted at some bill broker's. In reality

³⁶ *Ibid.*, I, 686.

³⁷ *Ibid.*, p. 687.

this broker loans only the credit of his bank, and this banker loans to the broker the money of his depositors, made up of the industrial capitalists and merchants themselves, of drawers of ground rent and other unproductive classes, but also of laborers (in savings banks). In this way every industrial manufacturer and merchant gets around the necessity of keeping a large reserve fund and being dependent upon his actual returns.³⁸

The banking and credit system thus abolishes the private character of capital.

This social character of capital is promoted and fully realised by the complete development of the credit and banking system. On the other hand this goes still farther. It places at the disposal of the industrial and commercial capitalists all the available, or even potential, capital of society, so far as it has not been actively invested, so that neither the lender nor the user of such capital are its real owners or producers. This does away with the private character of capital and implies in itself, to that extent, the abolition of capital. By means of the banking system the distribution of capital as a special business, as a social function, is taken out of the hands of the private capitalists and usurers. But at the same time banking and credit thus become the most effective means of driving capitalist production beyond its own boundaries, and one of the most potent instruments of crises and swindle.³⁹

Since the joint-stock company is an integral part of the credit and investment system, it helps further to develop the social character of capital and, at the same time, to change the character of property and ownership. Under individualistic accumulation ownership and management were vested in the individual proprietor. But under social accumulation property takes on a corporate form which separates ownership from management and control. In his remarks on the "formation of joint stock companies" Marx said:

By means of these: . . . Transformation of the actually functioning capitalist into a mere manager, an administrator of other people's capital, and of the owners of capital into mere owners, mere money-capitalists. Even if the dividends, which they receive, include the interest and profits of enterprise, that is, the total profit (for the salary of the manager is, or is supposed to be, a mere wage of a certain kind of skilled labor, the price of which is regulated in the labormarket, like that of any other labor), this total profit is henceforth received only in the form of interest, that is, in the form of a mere compensation of the ownership of capital, which is now separated from its

³⁸ *Ibid.*, III, 569.

³⁹ *Ibid.*, pp. 712-13.

function in the actual process of reproduction in the same way in which this function, in the person of the manager, is separated from the ownership of capital.⁴⁰

In producing these changes in the conditions of capital accumulation and in the nature of property, the corporation and the banking system exercise a profound influence over the class structure of society. They make possible (1) the rise of men without wealth into the capitalist class and (2) the creation of new employments that are essentially middle class in character.

The first condition is primarily the result of banking and credit which "secures the supremacy of capital itself" and "enables it to recruit ever new forces for itself out of the lower layers of society." Marx described the influence in these words:

Even in cases where a man without wealth receives credit in his capacity as an industrial[ist] or merchant, it is done [with] the confident expectation, that he will perform the function of a capitalist and appropriate some unpaid labor with the borrowed capital. He receives credit in his capacity as a potential capitalist. This circumstance, that a man without wealth, but with energy, solidity, ability and business sense may become a capitalist in this way, is very much admired by the apologists of the capitalist system, and the commercial value of each individual is pretty accurately estimated under the capitalist mode of production. Although this circumstance continually brings an unwelcome number of new soldiers of fortune into the field and into competition with the already existing individual capitalists, it also secures the supremacy of capital itself, expands its basis, and enables it to recruit ever new forces for itself out of the lower layers of society. In a similar way the circumstance, that the Catholic Church in the Middle Ages formed its hierarchy out of the best brains of the people without regard to estate, birth, or wealth, was one of the principal means of fortifying priest rule and suppressing the laity. The more a ruling class is able to assimilate the most prominent men of a ruled class, the more solid and dangerous is its rule.⁴¹

The second condition, the creation of middle-class occupations, is produced by the joint-stock company. In separating ownership from management the joint-stock company gives rise to a new category of occupations which Marx classified as the "labor of superintendence." He thought that the "stock companies in general, developed with the credit system, have a tendency to sepa-

⁴⁰ *Ibid.*, pp. 516-17.

⁴¹ *Ibid.*, pp. 705-6.

rate this labor of management as a function more and more from ownership of capital, whether it be self-owned, or borrowed."⁴² This labor of superintendence, comprising an army of "officers (managers), and sergeants (foremen, overlookers), who, while the work is being done, command in the name of the capitalist"⁴³ relieves the capitalist of the necessity of directly participating in production. But these managerial, supervisory, and executive positions are not the only middle-class occupations produced by the change in the character of private property and the accumulation of capital.

The joint-stock company and the banking and credit system were in Marx's conception the means of lengthening the process of production,⁴⁴ which in turn "accelerates the material development of the forces of production and the establishment of the world market."⁴⁵ The lengthening of the process of production accompanied by the expansion of the market prolongs the interval between purchase and sale and, thus, "serves as a basis for speculation."⁴⁶ As a result the importance of trade and, in consequence, that of "commercial agents, such as buyers, sellers, and travelers"⁴⁷ is increased. As stated by Marx:

. . . . It is clear that commercial operations increase to the extent that the scale of production is enlarged. These are operations, which must be continually performed for the circulation of the industrial capital, in order to sell the product existing in the shape of commodities, to convert the money so received once more into means of production, and to keep account of the whole. The calculation of prices, bookkeeping, managing funds [accounting], carrying on the correspondence, all these belong under this head. The more developed the scale of production is, the greater, if not in proportion, will be the commercial operations of industrial capital, and consequently the labor and other costs of circulation for the realization of value and surplus-value. This necessitates the employment of commercial wage workers, who form the office staff.⁴⁸

While the expansion of the market increases the importance of commercial workers, who are frequently "paid a share in the

⁴² *Ibid.*, p. 456.

⁴³ *Ibid.*, I, 364.

⁴⁴ *Ibid.*, II, 412.

⁴⁵ *Ibid.*, III, 522.

⁴⁶ *Ibid.*, p. 516.

⁴⁷ *Ibid.*, p. 342.

⁴⁸ *Ibid.*, p. 352; also II, 151.

profits,"⁴⁹ the acceleration of the productive forces makes possible the absorption of labor in "unproductive" forms. The acceleration of the productive forces leads to the diversification of industry with the result that "new lines of production are opened up, especially for the production of luxuries."⁵⁰ These new lines of production create new opportunities for the investment of capital, thereby causing the number of capitalists and the occupations devoted to nonmaterial production to increase.⁵¹

The increase in these nonmaterial occupations is especially connected with the change in the consumptive habits of the bourgeois class. From the seventeenth century to the end of the eighteenth, capital was relatively scarce and the accumulation of it depended upon the "thrift and savings" of the individual capitalist. Luxury and extravagance were frowned upon. "Parsimony" and "abstinence" were considered to be the virtues of the capitalist and "individual consumption" was looked upon "as a sin against the capitalist's function."⁵² But toward the end of the eighteenth century this attitude began to change. And by the middle of the nineteenth century the bourgeoisie had completely shed the miserly habits of the parvenue and adopted those of a leisure class.

The change was produced by two closely related circumstances. It was the result, first, of the enormous expansion in the productivity of labor which was reflected in an unprecedented accumulation of wealth and in the refinement and growth of consumption. Second, it was the result of the development of the joint-stock company and the banking system which gave a "continually growing control [to] the industrial[ists] and merchants over the money savings of all classes of society."⁵³ The accumulation of capital thus became a function of collective savings and was freed from the limitations of individual thrift.

Furthermore, there developed within the capitalist class an increasing number of persons who played no active part in production but lived on the interest of invested capital.⁵⁴ More and more

⁴⁹ *Ibid.*, III, p. 353.

⁵⁰ *Ibid.*, p. 277; also *Mehrwert*, Band II, Theil II, S. 351.

⁵¹ *Mehrwert*, II, S. 325 ff.

⁵³ *Ibid.*, III, 425.

⁵² *Capital*, I, 650.

⁵⁴ *Ibid.*

these persons, and, to no less a degree, the actively functioning capitalists, became habituated to luxurious living. In consequence, "prodigality" gradually took precedence over "parsimony" as a social convention. Marx described this transformation in the consumptive habits of the bourgeoisie as follows:

At the historical dawn of capitalist production,—and every capitalist upstart has personally to go through this historical stage—avarice, and desire to get rich, are the ruling passions. But the progress of capitalist production not only creates a world of delights; it lays open, in speculation and the credit system, a thousand sources of sudden enrichment. When a certain stage of development has been reached, a conventional degree of prodigality which is also an exhibition of wealth, and consequently a source of credit, becomes a business necessity to the "unfortunate" capitalist. Luxury enters into capital's expenses of representation. . . . [The] prodigality of the capitalist never possesses the bona-fide character of the open-handed feudal lord's prodigality, but, on the contrary, has always lurking behind it the most sordid avarice and the most anxious calculation, yet his expenditure grows with his accumulation, without the one necessarily restricting the other. But along with this growth, there is at the same time developed in his breast a Faustian conflict between the passion for accumulation, and the desire for enjoyment.⁵⁵

The increasing "lavishness" of the bourgeoisie introduced into modern society a system of retainers which corresponded to the "lackeys" and "domestic slaves" of feudal and ancient times. According to Marx,

Although the bourgeoisie is originally very parsimonious, it develops, with the growing productivity of capital, that is to say, of labor, a *system of retainers* corresponding to that of feudalism. According to the last report (1861) on manufactures, the total number of those employed in manufacture proper, in the United Kingdom amounted to only 775,534 (the persons in managerial capacities included) while the number of female servants in England alone amounted to a million. What a beautiful state of affairs, which permits a manufacturing woman to sweat 12 hours in the factory so that the factory master, with a great part of her unpaid labor, can take her sister as a maid, and her brother as a groom and her father as a soldier or policeman into his personal service.⁵⁶

This class of unproductive laborers is further augmented by the parasitical castes of church and state. In its revolutionary period

⁵⁵ *Ibid.*, I, 650-51.

⁵⁶ *Mehrwert*, I, 304; and, also, *Capital*, I, 486-87.

the "parsimonious" bourgeoisie opposed the state machinery, the army, and the "transcendent orders" of clergy and the state. These employments were looked upon as uneconomic. Besides, they were the political bulwark of the old regime. Yet as soon as the bourgeoisie gained mastery over society, the "ideological orders," the officials of church and state, multiply and are coordinated with it.

It is a common belief that the American economist, Thorstein Veblen, was the first to call attention to the growth of conspicuous consumption and, along with it, the increase of "predatory" functions. Of course it cannot be denied that Veblen was the first person who systematically and comprehensively fitted the leisure class and the parasitical castes into a theory of society. Yet the following statement reveals that Marx, as early as 1870, was not merely aware of the development of conspicuous luxury among the capitalist class and of the growth of domestic and "public" servants, but that he knew these developments to be an integral part of capitalist expansion:

Political economy in its classical period, just as the bourgeoisie, itself, in its parvenu period, vigorously and critically opposed the state machinery and so forth. . . .⁵⁷ This expresses the position of the still revolutionary bourgeoisie to whom the whole society, state, etc., has not as yet yielded itself. These transcendent and revered occupations—sovereigns, officials, parsons, professors, magistrates, and so forth, the whole of the old ideological orders which they create—become economically coordinated (*gleichgestellt*) with the multitude of its own lackeys and retainers since the bourgeoisie and the idle wealthy (landed nobility and idle capitalists) support them. They are simply servants of the public, as are the others their servants. . . . State, church, and so forth, are justified simply in so far as they are a committee for the management and administration of the social interests of the productive bourgeoisie. . . . As soon as the bourgeoisie . . . has conquered the land, in part by taking possession of the state, in part by making a compromise with the old rulers of the state, the ideological orders are known as flesh of its own flesh and they are assimilated in conformity with their functions; . . . as soon as it is sufficiently developed, to be not wholly occupied with production, but also desires to develop consumption, just so soon are the spiritual workers increasingly occupied in performing its services. The tables are now turned and the bourgeoisie seeks, economically, to justify from its own standpoint what it formerly struggled against, critically.⁵⁸

⁵⁷ *Mehrwert*, I, 285.

⁵⁸ *Ibid.*, pp. 405-6.

Although the shift from private ownership to social property and from individual to collective accumulation via banks and corporations alters the habits of the bourgeoisie, causes the absorption of labor in "unproductive" capacities, and creates new spheres of employment—commercial laborers, managers, salesmen, cashiers, and merchants—it does not change the inherent character of capitalist development. According to Marx the depreciation of labor affects not only the industrial workers but also the better-paid commercial laborers, the "unproductive" servants, the superintendents, managers, and executives. Like industrial labor, the commercial workers, the domestic and public servants, and the managers and superintendents are affected by the cyclical nature of business. The continued employment of servants is contingent upon a constant flow of revenue to the capitalist class. A recession in business in producing a change in the amount of revenue which goes to this class will naturally cause unemployment of servants. In like manner a contraction of the market and the slowing up of production throw the superintendents, the salesmen, and the office staff "on the pavements." Furthermore, the "unproductive" laborers, whether servants, or functionaries of church and state, add nothing to material production. Their maintenance is a necessary but unsound (*faux frais*) cost of production. Although they "secure the political power of the upper ten thousand," the capitalist class strives to reduce their cost to the "indispensable minimum." Thus while these unproductive laborers possess a higher degree of culture than formerly, the poorly paid members among them increase. As put by Marx,

State, church, and so forth . . . and their cost, since they actually belong to the *faux frais* of production, must be reduced to the indispensable minimum. . . .⁵⁹ It can be assumed, that with the exception of the common household servants, the soldiers, sailors, clerical employees, policemen, mistresses, clowns, and jugglers—these unproductive workers, who on the whole possess a higher degree of culture than earlier and, especially the poorly paid artists, musicians, lawyers, physicians, professors, schoolmasters, inventors, and so forth, will increase.⁶⁰

⁵⁹ *Ibid.*, p. 405.

⁶⁰ *Ibid.*, p. 325.

Just as the introduction of machinery lessens the importance of industrial labor, and cheapens it, the division of labor in the office and the growth of public education depreciates the value of the white-collar employee. Marx describes this increasing proletarianization of the commercial laborers as follows:

The commercial laborer, in the strict meaning of the term, belongs to the better paid classes of wage workers; he belongs to the class of skilled laborers, which is above the average. However, wages have a tendency to fall, even in proportion to the average labor, with the advance of capitalist mode of production. This is due to the fact that in the first place, division of labor in the office is introduced; this means that only a one sided development of the laboring capacity is required. . . . In the second place, the necessary preparation, such as the learning of commercial details, languages, etc., is more and more rapidly, easily, generally, cheaply reproduced with the progress of science and popular education, to the extent that the capitalist mode of production organises the methods of teaching, etc., in a practical manner. The generalisation of public education makes it possible to recruit this line of laborers from classes that had formerly no access to such education and that were accustomed to a lower scale of living. At the same time this generalisation of education increases the supply and thus competition. With a few exceptions, the labor-power of this line of laborers is therefore depreciated with the progress of capitalist development. Their wages fall, while their ability increases.⁶¹

The position of the "labor of superintendence"—managers, foremen, etc.—is hardly more enviable than that of the commercial laborers, the poorly paid artists, inventors, professors, school-teachers, and lawyers. Under capitalism the labor of superintendence is separated from the collective laborers and is, indeed, hostile to them. But this type of labor must be performed in all societies, socialist as well as capitalist. In reality it is a function of co-operative labor. It occupies in the workshop a position that is analogous to that of an orchestra leader in the world of music.⁶² And it demonstrates the superfluous nature of the capitalist owner. Like industrial and other forms of labor it is purchased in the market and suffers the same competition, depreciation, and cyclical unemployment:

The capitalist mode of production itself has brought matters to such a point, that the labor of superintendence, entirely separated from the ownership of capital, walks the street. . . .⁶³ The wages of superintendence, both

⁶¹ *Capital*, III, 354.

⁶² *Ibid.*, pp. 451-52 ff.

⁶³ *Ibid.*, p. 455.

for the commercial and industrial manager, appear completely separated from the profits of enterprise in the co-operative factories of the laborers as well as in capitalistic stock companies. The separation of the wages of superintendence from the profits of enterprise, which is at other times accidental, is here constant. . . .⁶⁴ These wages of superintendence, like all other wages, found on the one hand their level and fixed market-price to the extent that a numerous class of industrial and commercial superintendents was formed, while on the other hand these wages fell, like all wages for skilled labor, with the general development, which reduces the cost of production of specifically trained labor-power.⁶⁵

The depreciation of labor in all its forms is paralleled by that other immanent tendency of capitalist production, viz., "the separation of labor from ownership of productive property." According to Marx, the white-collar workers—the managers, foremen, and superintendents—no less than the industrial and agricultural proletariat, are propertyless men employed by capitalists. By concentrating the control of social wealth in the hands of a few, the joint-stock company and the banks, instead of counteracting the separation of labor from property, have served to accentuate and accelerate it. The savings of the workers and, to use a modern phrase, the diffusion of stock ownership, may create the illusion of ownership among the lower classes, but the actual power and the ownership of the instruments of production vest in the great financiers and industrialists. The concentration of ownership, and, thus, the expropriation of labor from the means of production, is brought about not simply by industrial combination and monopoly⁶⁶ but through the financial trusts (holding companies),⁶⁷ promotions, speculation, the manipulation of stock, the plundering of stockholders by the directors, and the bank failures in which the lower classes lose their savings.⁶⁸ The role of credit (banking and corporation finance) in the continued expropriation of labor was described by Marx as follows:

It establishes a monopoly in certain spheres and thereby challenges the interference of the state. It reproduces a new aristocracy of finance, a new sort of parasite in the shape of promoters, speculators and merely nominal directors; a whole system of swindling and cheating by means of corporation juggling, stock jobbing, and stock speculation. . . .⁶⁹ On the basis of capitalist production, a new swindle develops in stock enterprises. . . . It con-

⁶⁴ *Ibid.*, p. 456.

⁶⁶ *Ibid.*, p. 518.

⁶⁸ *Ibid.*, pp. 520-21 and 596-97.

⁶⁵ *Ibid.*, pp. 457-58.

⁶⁷ *Ibid.*, p. 553, n. 95.

⁶⁹ *Ibid.*, p. 519.

sists in placing above the actual director a board of managers or directors, for whom superintendence and management serve in reality only as a pretext for plundering stockholders and amassing wealth. . . .⁷⁰ Two natures, then, are immanent in the credit system. On one side, it develops the incentives of capitalist production, the accumulation of wealth by the appropriation and exploitation of the labor of others, to the purest and most colossal form of gambling and swindling, and reduces more and more the number of those who exploit the social wealth. On the other side, it constitutes a transition to a new mode of production.⁷¹

Marx's treatment of the middle class in his extensive analysis of capitalism seems to be in decided conflict with the thesis of its disappearance proclaimed by him in the *Manifesto*. Since the question as to whether the two accounts can be harmonized lies beyond the scope of this essay, only some of the general features of the conflict can be noted here. The *Manifesto* sets forth in bold and dramatic outline Marx's conception of the dynamics of social progress. According to this conception the process of production places two dominant classes, the proletariat and capitalist, in the center of economic movement. Thus in Marx's equation of change only these two dominant classes are constant. For him the struggle between them is the great lever of modern history and of social transformation. Viewed in this perspective the middle class is an unstable socioeconomic group tending to dissolve under the impact of economic changes. Its opposition to the great capitalist class is motivated by its frustrated desire to rise or, at least, to save the basis of its independence from annihilation. This explains its "vacillations" and its constant shift of loyalty in the class struggle, now to the side of the working class, now to that of the capitalist. It possesses neither the "will" nor the "power" to transform society. Yet while holding the capitalist and proletariat classes to be the determining factors in the ultimate outcome of the class struggle, Marx in his detailed examination of the capitalist economy was forced to recognize the middle class as a concrete reality. Whether he thought that it would eventually disappear and leave society with only two classes is doubtful. But that he did not foresee the political importance which the middle class possesses today is quite evident.

⁷⁰ *Ibid.*, p. 458.

⁷¹ *Ibid.*, p. 522.