A New Theory of Market and Capitalism

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Dedicated to Lida

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FOREWORD

> "The moral of the story is simply this: it takes a new theory, and not just the destructive exposure of assumptions or the collection of new facts, to beat an old theory."
> - Mark Blaug[1]

An essentially new theory of market and capitalism is proposed to the readers. The theory is delivered in a concise and schematic manner dwelling on key points and general logic. Notably, the terms "market" and "capitalism" are not the same in our understanding. In particular, capitalism is a specific case in the market, its superior form, whereas a commodity market is perceived as the elementary form.

Why has a need arisen for one more "new" theory?

The classical political economy (including Marxism) contained a number of errors and internal contradictions. Nevertheless, it also introduced an immense achievement—the Marxian concept of two "forms of circulation." The neoclassical theory, having originated from the theory of marginalism, disregarded this achievement. In fact, Schumpeter's overall adequate market typology was discarded. As a result, having obtained a myriad of useful results in selected applied areas, economic science (both "orthodox" and "heterodox") found itself in a deadlock, where it has remained for over a century.

The proposed theory is designed to bring economics out of this impasse and outline new approaches. Basing our theory on the classical principle (and correcting its mistakes), we critically use the most important principle of marginalism—the subjective nature of the cost (value). Schumpeter's theory of economic development serves as another backbone.

The theory being put forward is highly critical of the neo-classical and other modern concepts (including the unorthodox) illustrated in the university textbooks, scientific monographs, and public policies. Our theory enables us to figure out the basic laws of existence and development of the market and capitalism. The findings can be successfully applied on both state and business levels.

Our theory, inter alia, *enables us to realize the most common cause of the capitalist crisis—the recurrent zeroing out of profit as a result of reaching general market equilibrium*, which many economists (neoclassical and others) consider the optimal point of economy. Putting it figuratively, whatever is normally seen as "very good" is considered by the theory as "very bad" and vice versa. With undeniable logic and simplicity, the given theory introduces recommendations for state anti-crisis policies and anti-crisis behaviors for the market subjects.

Almost all the definitions, arguments, and conclusions of the book claim, to a certain extent, to introduce a scientific novelty. The final and, at the same time, the main part, called "Capitalism," is definitely the most peculiar part! The previously known information is brought to a minimum level necessary to understand the novelties.

The book does not intend to deliver a deep comprehensive exploration of the topic. We give only a general outline of the theory with its key points and pivotal aspects while relatively minor points are showcased briefly. The book is intended for both non-specialist readers and educated (but not biased) economists. It will also be useful for entrepreneurs trying to find the answers to questions such as "Why does the crisis last so long?" and "Why am I so unlucky?".

In the briefest possible way, the new theory of the market and capitalism (with an emphasis on the theory of capitalism) was outlined in our article "A New Theory of Capitalism: Key Moments and General Logic," published in the *Eastern European Business and Economics Journal*. The Russian-language analogue, entitled "The New Theory of Capitalism: The Key Moments and General Logic," is deposited in the Munich Personal RePEc Archive.

The book consists of three parts:

1) **"Market,"**
2) **"Value,"**
3) **"Capitalism."**

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[1] Blaug, p. 711 (See the general list of references at the end of the book for the complete information regarding the mentioned and cited literature).

The first part, “Market,” leads the reader into the world of market economy by providing the initial concepts and classifications.

In "Value,” a conceptual and functional apparatus is developed and explained, while general market laws are identified and dissected.

In “Capitalism,” the most detailed and unique part, the reader will find a new theory of capitalism; new in both substance and methodology. The main feature *is that the normal state of a capitalist market is recognized as imbalance* (while in other theories, balance is recognized as a normal state of the market in one way or another). Accordingly, crisis is viewed as the result of a balance, while in other theories the causes of crises are the various imbalances.

Comparisons with alternative theories are reduced to a minimum and concentrated in special sections in each part. A detailed analysis and criticism of alternative theories can be found on our website "Sociohum (rus)" in the following "personal" (commentary) files:

- "Böhm-Bawerk "
- "Braudel"
- "Kirzner"
- "Kondratiev"
- "McConnell and Bru"
- "Marx (Capital)"
- "Marx-Engels"
- "Marshall"
- "Night"
- "Pindijk and Rabinfeld"
- "Ricardo"
- "Samuelson"
- "Smith"
- "Heyne"
- "Schumpeter (KSD)"
- "Schumpeter (TER)"

The files are not interrelated in any way, i.e., they can be read or viewed in any order. However, at least general knowledge of the concepts laid out by the commenting authors is recommended. At the end of the book, there is a glossary of the concepts and terms used. There is also a list of used and quoted literature.

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-Kharkov-Tymchenki
1989 – 2016

PART 1:

MARKET

Abstract

The given book puts forward a new theory of market and its key aspects. The theory is based on the distinction between two market types—the simple commodity market and the capitalist one. The book also provides market definitions and each of their types, along with a logical analysis of transition from the former type to the latter. A comparison with alternative theories is also presented.

Keywords

Market; simple commodity market; capitalist market

1. Introduction

A new theory of markets is brought to the readers' attention. It is fundamentally different from the modern "orthodox" and "heterodox" theories that traditionally distinguish two market types—the simple commodity market(C-M-C) and the capitalist market (M-C-M).

The theory is presented concisely and systematically, with its focal points and general logic highlighted. It can be regarded as an introduction to the new theory of markets and capitalism developed in the second and third chapters of the book.

In the present chapter, the key aspects of the stated theory will be discussed:

- The definition of "market"
- Market structure
- Market attributes
- Quasi-markets and pseudo-markets
- The typology of the markets
- The historical dynamics of the market

The well-known notions of the market scattered over a multitude of monographs, reference books, and textbooks are systemized and summarized in sections 2-8. Consequently, essentially new results are obtained, particularly the scientific definition of the market and the scientific description of its structure.

The section called "Simple and Capitalist Markets" develops the Marxist concept of two "forms of circulation." The section "The Internal Logic of Market Development" claims to be a complete novelty.

2. Definition of "market"

Before an understanding of the market structure and the laws of its functioning and development can be obtained, it is necessary to clearly define what "market" is[2]. Let's start with the following axiomatic definition:

[2] Strangely enough, there is currently no scientific definition of "market". The definitions given in monographs, textbooks, and reference books have a descriptive, vague character. In many cases, they are incomplete or, in contrast, redundant. Here are examples of such "definitions":
«A market is simply a mechanism or arrangement which brings the buyers or "demanders" and the sellers or "suppliers" of a good or service into contact with one another» (McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies. 11th ed*. McGraw-Hill/Irwin, New York, p. 40).
«*A market* is a collection of buyers and sellers that interact, resulting in the possibility for exchange» (Pindyck R. S., Rubinfeld D. L., (2013), *Microeconomics, 8th ed*., Prentice Hall, New Jersey, p. 7).

A market is a system of commodity-money relationships between competitive and economically separate producers and consumers.

In our definition, unlike many other ones, only the main attributive features of the market are grouped (the ones well known for a long time). These features are necessary and, when combined, represent a system that can be called a "market." In other words, a system qualifies as a "market" on condition that the subjects of the economic system are:

a) economically separate from one another (the producers and the consumers),
b) connected with each other in a commodity-money relationship, and
c) in a competitive relationship.

3. Market structure

The competitive commodity-money relationships in the market system are network relationships (not hierarchical ones), i.e., each of the market subjects, whether a producer or a consumer, is connected with numerous other subjects. This means, among other things, that a break in a relatively small number of commodity-money and competitive relationships does not affect the overall integrity of the market. In a real market economy, some ties (relationships) are constantly being broken while new ones arise.

Money-commodity relationships bind producers and consumers while competition thrusts one producer against another and separates one consumer from another. Thus, in a market economy, separation (economic isolation) is combined with that which is shared. The latter is implemented in the form of both mutual attraction and mutual repulsion.

The essential difference between a market economy and any non-market economy lies in separability and, at the same time, in the specific inner interconnection of its subjects.

In the non-market economy, either there is no separation (and, therefore, there is no such interconnection), or, if there is a separation, there is no connection ("command-administrative system" and "natural economy," respectively).

The separation (detachment) of economic entities characterizes the market structure while their internal interconnection (commodity-money and competitive relations) characterizes its functioning.

The functional subsystems of a market are presented here in order of importance:

1) commodity-money relations between the producers and the consumers;
2) *competitive relations between different producers*;
3) competitive relations between different consumers.

The commodity-money relations between the producers and the consumers are direct while the competitive relations between the producers are mediated by the consumers (in the absence of consumers, competition between producers loses its meaning). Similarly, competitive relationships between consumers are mediated by producers (in the absence of producers, competition between consumers loses meaning).

It should be emphasized that the commodity-money and competitive relations in the market system are inter-subject, i.e., inter-human and personal. People, as is known, have their own needs, beliefs, and attitudes. Consequently, the study of market *must* also represent humanities and social sciences. At the same time, given the quantitative nature of market objects (commodity and money), market science can and should apply the methods of the natural sciences (for example, build graphs and solve equations).

The market system has a very complex and dynamic network structure. The nodes of the structure are people and their needs, beliefs, and attitudes.

«*Market*. M*echanism* by which *buyers* and *sellers* interact to determine the price and quantity of a good or service» (Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed.* McGraw-Hill/Irwin, New York, p. 744).
«*The market economy* is the social system of the division of labor under private ownership of the means of production» (Von Mises, L., (1998), *Human Action: A Treatise on Economics. Scholar's Edition.* The Ludwig von Mises Institute, Auburn, p. 258).

4. Market and freedom

The existence and functioning of a market require a number of external conditions, e.g., political, ideological, etc. The main, and necessary, external condition for the normal existence and functioning of a market is the freedom of entrepreneurship and trade, i.e., freedom to produce, sell, resell, buy, and consume. This freedom initiative comes not only from the state but also from individuals.

Freedom of entrepreneurship and trade implies: a) freedom of movement for producers and consumers, b) freedom of movement of commodities, c) free competition, d) free pricing, and e) free exchange of commodities for money and money for commodities.

The limitation of the freedom of entrepreneurship and trade distorts the market and creates various pseudo forms. Examples include Nazi Germany, post-Soviet Russia, and many Latin American states[3].

Other freedoms (including personal freedom) are not generally mandatory (for example, Chile under Pinochet), i.e., *a market economy (liberal in its essence) may exist in a non-free society* (including a slave society)[4]. *However, the internal logic of market development (in the absence of counteracting factors) sooner or later leads to a free society* [5].

To conclude, it should be noted that the freedom of entrepreneurship and trade is never absolute in practice. Natural restrictions can be connected with the production and sale of certain commodities (e.g., drugs).

5. Market attributes

Now we can examine the distinct attributes of a market in more detail.

In accordance with the definition of the market and the main external conditions for its existence, there are *essential and inherent properties (signs)*. These are:

1) producers have private property for the means and goods of production (private ownership by consumers for purchased products, as a rule, is not so relevant),
2) free *commodity-money relationships* between producers and consumers,
3) free *competition* between producers (competition among consumers, as a rule, is not so relevant).

The scientific definition of market attributes is not part of our task. We will understand them in accordance with generally accepted notions, which are far from perfect but, in the first approximation, satisfactory. Necessary explanations and clarifications will be made if the need arises in the chapters "Cost" and "Capitalism."

Here we will confine ourselves to the following clarifications and remarks.

Private property:

a) private ownership of the means of production must be real, i.e., it must give the owner a practical opportunity to not only use and own but also dispose of their property (i.e., to sell, to donate, to bequeath, etc.);

b) private ownership of products of production means, inter alia, free pricing at the discretion of the producer;

c) private property can be either personal, i.e., belonging to a single person, or group-owned, i.e., belonging to many people collectively.

d) *collective* ownership may exist as a family business (as in the case of farmers), as corporate ownership, or other. The number and the hierarchy of the co-owners do not matter. Something that does matter is the economic and legal distinction and separation of this ("particular") group from the state, other similar groups, and private individuals.

[3] For more details, see "Quasi- and pseudo-forms of the market."
[4] See the section "Capitalism and freedom, capitalism and slavery" (in "Capitalism").
[5] See the section "Internal logic of market development."

The commodity-money relationship is a developed form of economic exchange. It is opposed to barter (natural, i.e., impecunious and, as a rule, episodic exchange). In our book, barter is not separately examined, i.e., it is assumed that any economic exchange normally has a commodity-money character.

Commodity-money relations are possible when, first, there is someone willing to exchange (i.e., if there are private owners); second, there is something to exchange (i.e., if there is a social division of labor and surplus, in relation to the needs of specific producers, the product); third, there are social terms of exchange (i.e., real freedom of entrepreneurship and trade); and fourth, there is a mechanism of exchange (transport, communications, trading platforms, universal measures).

Competition:

a) free competition should be distinguished from "perfect" competition. Free competition means above all that entrepreneurs are free from state and criminal pressure; and perfect competition means above all the absence of economic obstacles to a rapid entry into the market (such an obstacle, for example, may be a high initial investment that hinders the influx of potential competitors)[6];

b) monopolies, formed as a result of free competition, are quite possible[7].

The listed market attributes form *a large market triad* (our term).

Real private property +
Free commodity-money relations +
Free competition =
Large market triad

Therefore, a market economy is, first of all, a liberal economy[8] and only afterwards

1) *privately-owned*
2) *commodity-money*
3) *competitive*.

Hence, a market economy is at best:

a. spontaneous (unplanned)[9]
b. highly specialized
c. effective (high labor productivity, abundant, diverse, and high-quality commodities)
d. susceptible to technological, scientific, and organizational innovations[10].

6. Market and society

However, not everything in a market economy is as smooth as it may seem after reading the previous (essentially introductory) sections.

Thus, private property and competition have a controversial relationship: private owners—as producers—are not interested in competition, which they actually generate themselves in the presence of commodity-money relations. At the same time, private owners are interested in competition as consumers of the means of production and consumer goods. Therefore, competition needs state protection.

Moreover, competition and other components of the market triad do not work at all outside the legal environment created by the state. The market interaction of many independent entities requires the

[6] For more details about the perfect competition, see the "Value" chapter (Section: "The law of equilibrium").
[7] Looking ahead, we can note that in capitalism, a monopoly is not only possible but also necessary (see the section “Philosophy of capitalism”, subsection: “Competition and monopoly” (in “Capitalism”).
[8] Once again, let’s note that the market economy—in itself a free one—can also exist in a non-free society (see the section "Market and freedom").
[9] Unplanned in the scale of society; in the scale of individual producers and consumers, as a rule, it is planned. We add that the absence of a single management center is perfectly replenished in the market economy by a natural competitive price mechanism of sequencing (see the sections "Price", "The law of equilibrium," and "Balancing (balancing) the market" in "Cost").
[10] This particularly applies to the capitalist market (see "Trends and prospects of capitalism" in "Capitalism").

observance of various rules and an unbiased judge capable of resolving disputes and punishing violators.

Real private property, free commodity-money relations, and free competition are possible only in such states where the rule-of-law prevails[11].

Nevertheless, even such states are not in a position to maintain market relations if the public morals (closely related to ethnic mentality and ethnic culture) are of an anti-market nature. If society strongly opposes private property, commodity-money exchange, and competition, a market economy either does not appear at all or, having appeared (for example, as a result of deceptive or violent reforms), will be immediately deformed or utterly destroyed.

Real private property, free commodity-money relations, and free competition are possible only in a society with market morality (market mentality and market culture)[12].

As we see, the market economy does not exist in a vacuum; it is closely related to other spheres of public life—political institutions, ideology, traditions, and so on. Accordingly, market science should closely associate with other social and humanitarian sciences such as sociology, culturology, and ethnology.

A market economy is an integral part of social life.

A market theory built in isolation from humanities and social sciences is fundamentally flawed.

7. Quasi and pseudo forms of market

Let us dwell on the quasi and pseudo forms of a market. The existence of such forms is associated with the "fallout" of certain components of the market triad.

If there is only one component of the triad, for instance, private property, the economy is natural *and non-market* (the producer is also the consumer so there is no economic exchange and, consequently, no competition).

When there are only the first and second components (private property and commodity-money relations without competition), we are dealing with a *quasi-market monopolistic economy* (the guild system in medieval Western Europe serves as an example).

Combinations {1 + 3} (private property and competition without commodity-money relations) and {2 + 3} (commodity-money relations and competition without private property) are impossible. Finally, the second and third components alone cannot implement themselves.

Private property may exist without commodity-money relations and competition; however, the reverse is impossible.

In addition, the components of the market triad, while retaining their external forms, can be restricted and deformed by outside-market forces. Furthermore, the deformation of one of the components, as a rule, entails the deformation of the other components. A combination of unreal (nominal) private property, unfree commodity-money relations, and unfree competition produces a *pseudo-market economy*.

If private property, commodity-money relationships, and competition are limited (deformed) by the state, the economy shall be considered a *pseudo-market or semi-state economy* (Nazi Germany, fascist Italy).

If private ownership, commodity-money relations, and competition are limited (deformed) by criminals, such an economy is understood as *pseudo-market or criminal* (Russia in the 1990s)[13].

If the components of the triad are limited (deformed) by both the state and the criminals, the economy becomes a *pseudo-market, semi-state, and criminal* (Russia at the present time).

Further, only "pure" forms of the market will be discussed[14].

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[11] The role of the state in the formation and maintenance of market relations is an important topic requiring separate consideration. The role of the state in preventing and mitigating capitalist crises is discussed in detail in the section "Capitalism" (section: "Anti-crisis policy and anti-crisis behavior").

[12] The role of public morality in the formation and maintenance of market relations is also an important topic requiring separate consideration. In this book, this topic will be only touched upon (in "Cost", the sections "Labor value" and "Logic and market dynamics").

[13] See my popular science article "The Life and Death of T-bills" (section "GKO lessons", subsection "Common causes: The criminal economy of Russia"), as well as journalistic articles "GKO Mark on His Chest" and "Destructive Force of Russia's Treasury Bonds ".

[14] Quasi- and pseudo-forms of capitalism will be briefly considered in on "Capitalism" (in the sections "Anti-crisis policy and anti-crisis behavior" and "Capitalism and freedom, capitalism and slavery").

8. The types of markets

Normal (free) markets can be classified by their attributes.

In terms of *private ownership*, markets differ in terms of their subjects. Primarily, the mentioned difference refers to different subjects of ownership of the production means. Subjects of ownership, by their internal structure, can be simple (single) and complex (collective). In the first case, the object has one owner, while in the second case, the object belongs to several or many co-owners. From the standpoint of law, the subjects of ownership can be physical or legal persons. Legal entities in the United States include partnerships and corporations[15]; in Russia, they include all kinds of partnerships and societies (including joint-stock companies)[16].

In terms of competition, we can distinguish between perfect and imperfect markets. In the former, competition does not encounter economic obstacles: there are many sellers and buyers, buyers have enough money, and sellers have enough goods. Information in the market spreads quite rapidly; entering the market as well as leaving it is simple and not expensive. In the latter, there are economic barriers, i.e., not enough sellers or buyers, sellers do not have enough commodities, and buyers' purchasing power is small. Information spreads slowly within the market and entering and leaving the market are technically difficult and expensive. Markets with imperfect competition, in turn, differ in terms of the nature and level of imperfection[17].

In terms of commodity-money relationships, markets are traditionally classified based on the object of purchase and sale. From this standpoint, markets are distinguished according to:

a) means of production (land, raw materials, equipment, energy, information)
b) consumer goods (housing, food, medicine, weapons)
c) labor (services)
d) money (including the foreign exchange market)
e) securities (the stock market).

From a theoretical point of view, classification in bigger groups is more consistent:

1) *commodity market* – purchase and sale of products of labor (and products of nature);
2) *labor market* (including the services market) – the purchase and sale of the labor itself.

Let us now analyze the peculiarities of the labor markets.

Any product of labor is ultimately a product of nature (all the labor products are created using natural substances and natural forces). However, not every product of nature is ipso facto a product of labor (such products include pristine natural resources, primarily the untouched soils).

Any sold work is a service. However, in practice, "labor" usually means something that the employee sells to the entrepreneur and "service" is something that an entrepreneur (directly or with the help of employees) sells to their clients.

When the labor products are sold, the goods separate from producers spatially and time-wise, while in the case of selling the labor itself, the product is inseparable from the worker. Therefore, the labor market (especially when the seller-buyer relationship is direct and unmediated) provokes unfreedom and even slavery (the sale of labor in the absence or ineffectiveness of the relevant legal norms can easily turn into the sale of labor and even actual self-sale). As an example, an agricultural worker is much more dependent on the farmer than a farmer on the regular buyer of his products.

In recent decades, the relative fraction of the service market in developed countries has grown, which in some cases revives elements of the personal dependence of workers on both employers and service buyers (which is, however, opposed by the viable rule-of-law state). For example, a seller, a hairdresser, and a doctor are potentially dependent on the owner of the store, hairdressing saloon, and clinic, respectively, and their customers.

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[15] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies. 11th ed.* McGraw-Hill/Irwin, New York, p. 103–105.
[16] Russia (Federation), Peter B. Maggs, Zhiltsov A, (1997). *The Civil Code of the Russian Federation: Parts 1 and 2*, M. E. Sharpe, New York, p. 29–47.
[17] See in "Value," the section "imbalanced (unequilibrated) markets."

9. Simple and capitalist markets

Along with the market types listed in the previous section, which are similar in essence, there are also two essentially different types of market: *a simple market* (often referred to as a simple commodity market) and a *capitalist market* (which might be called a complex monetary one[18]). Historically, a simple commodity market predates the capitalistic one but does not completely disappear, even under the most developed capitalism.

This typology, which dates back to Aristotle[19], was scientifically embodied in Marx's famous *Capital*[20]. Our concept of "two markets" corrects this typology and complements it with new content[21].

A simplified description of the simple and capitalistic markets is presented below.

Simple commodity market

The entrepreneur sells specific commodities (C_1) in exchange for money (M), a universal and abstract commodity. The earned money is used to buy other specific commodities (C_2), which are irrevocably consumed. The sellers of commodities C_2 do the same, i.e., the money is converted into other commodities (C_3), which are consumed again. As a result, some commodities are exchanged for equivalent commodities; money has the intermediary role in the process of circulation of commodities. The mechanism of a simple commodity market can thus be expressed in the following formula $C_1 \rightarrow M \rightarrow C_2$, where C_1 and C_2 are quantitatively equivalent (have the same monetary measure) but differ from each other in their consumer qualities (which is why they are exchanged).

Capitalist market

A capitalistic market may exist in one of the following forms.

1) *Banking (usurious) capitalism*. The entrepreneur lends someone money with the aim of increasing it after some time: $M_1 \rightarrow M_2$, where $M_2 > M_1$.
2) *Trading capitalism*. The entrepreneur buys a commodity and resells it (in another place or at another time) for more money: $M_1 \rightarrow C \rightarrow M_2$, where $M_2 > M_1$.
3) *Productive capitalism*. The entrepreneur buys various commodities (raw materials, energy, equipment, etc.) and produces (independently or with the help of the hired labor) a new product, which they then sell in order to earn more money than initially invested: $M_1 \rightarrow C_1 \rightarrow C_2 \rightarrow M_2$ (Simplified: $M_1 \rightarrow C \rightarrow M_2$), where, again, M2 > M1. If the enterprise succeeds, a large portion of M_2 is reinvested in the purchase of new production goods (including labor), and the process is cyclically repeated (cycles are also inherent to the first two types of capitalism).

As we can see, in all three cases, the market cycle starts and ends with money. It should be noted that there is supposed to be more money at the end of the cycle than the initial investment (seed capital that enters the cycle). *Money*, therefore, *under capitalism is not a means* (as in a simple market) but *a goal*: money is produced but (mostly) is not consumed; it is reinvested, reproduced in larger quantities, and thus is accumulated (i.e., the invested amount grows with each new turnover). *The quantitative inequality between the initial and final points of exchange fundamentally distinguishes the capitalist market from the simple commodity one*. This difference generates many far-reaching consequences, which are discussed in detail in "Capitalism."

Now let us use these features to draw the following definitions:

A simple commodity market is a market based on the indirect exchange of equivalent goods.

A capitalist market is a market based on the indirect exchange of smaller amounts of money for bigger amounts.

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[18] Not to be confused with the "money market" in applied understanding, i.e., the market of loan capital.

[19] Aristotle (1853). *Politics and Economics*. Translated, with notes, original and selected, and analyses, to which are prefixed an introductory essay and the life of Aristotle by Dr. Gillies. By Edward Walford, London, Bohn, p. 17–28.

[20] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 104–108.

[21] A detailed comparison of our concept with the concept of Marx is given in the section "Comparison with some other theories."

In the simple commodity market, money is used as an intermediary in transactions, whereas in the capitalistic market, different commodities are the mediators, i.e., a certain commodity is bought and another is sold. In the case of commercial capitalism, the very same product has a mediatory function as well as the distance (or the time) between the purchase and the sale points. Finally, in banking capitalism, only time (between the date of issue of the loan and the date of its repayment) had a mediatory function. Hereby, productive capitalism is structurally more complex than the commercial one (a different commodity in the case of the former, the same commodity in the latter case). Similarly, commercial capitalism is structurally more complex than the banking one (the presence of a particular commodity in case of the former, and its absence in the latter).

By simplifying the data above, we can draw the following universal definitions:

A simple commodity market is a market based on the indirect exchange of commodity equivalents.

The capitalist market is a market based on the indirect exchange of monetary nonequivalents.

Both pairs of definitions are valid; however, the second pair (the one in the frame) is preferable due to its internal symmetry.

The equivalence of exchange in a simple commodity market and the nonequivalence of exchange in the capitalist market are directly linked with the commodity-specific nature of the former and monetary (abstract) nature of the latter. While specific goods can basically be exchanged for other goods with an equivalent value but different properties, only smaller amounts of money can be exchanged for bigger amounts. It is impossible to think of any other difference between the initial money and the gained money other than the amount. (The difference between the initial and the final money is only quantitative. No other differences can exist).

The main features of a simple commodity market and the capitalist market are showcased in table 1.1[22]. In the following chapter, you will learn how the former is transformed into the latter.

Table 1.1 Simple and capitalist markets

		Market	
		Simple commodity (commodity-money-commodity)	*Capitalist* ("Complex monetary," or money-commodity-money)
Market definition		Market based on the indirect exchange of *commodity equivalents*	Market based on the indirect exchange of the *monetary equivalents*
Classification *Market formula*		$C_1 \rightarrow M \rightarrow C_2$, where C_1 and C_2 are equivalent regardless of the performance qualities (consumer appeal)	$M_1 \rightarrow C \rightarrow M_2$, (in a simple case $M_1 \rightarrow M_2$), where $M_2 > M_1$
Goal of a market activity	Direct	Production of private, specific commodities to be exchanged for other private, specific commodities	Production of a universal abstract commodity – money
	Permanent	*Consumption* of private, specific commodities	*Accumulation* of the universal abstract goods[23] – money
Role of money		Universal means	Universal goal[24]

[22] For more details on the role of money under capitalism, see "Internal logic of market development."
[23] For more details on the purpose of capitalist entrepreneurship, see "Internal logic of market development".
[24] For more details on the role of money under capitalism, see "Internal logic of market development."

Along with markets that are unequivocally either simple or capitalistic, there are ambiguous markets, i.e., both simple and capitalist at the same time (simple for the sellers, capitalistic for the buyers). For example, the labor market is both simple and capitalist at the same time: for the employee, the labor market is a simple market ($C_1 \rightarrow M \rightarrow C_2$, where C_1 is the labor sold, M is the salary, and C_2 is commodity purchased at the expense of the wages), while for the employer it is a capitalist market ($M_1 \rightarrow C \rightarrow M_2$, where M_1 is the salary of the employee, C is the work to be purchased, and M_2 is the price of the product of labor)[25].

Basically, such ambiguity is inherent to any market where the seller converts commodities (inherited, granted, or created through their own labor with no initial investment) into money. The buyer uses this product to multiply the money paid for it (resells, rents, sublets, produces new products). For example, a landlord sells or rents out their land to the farmer, who, using hired labor, organizes agricultural production on this land. Another example is a peasant selling milk, vegetables, and fruits to a wholesaler, who resells or recycles them (for sale). A local sells an apartment or the semi-finished products made at home to the entrepreneur, who turns the apartment into an office or a warehouse, or the semi-finished products into new products with the involvement of labor. In these examples, the seller either spends the money gained on their daily life or purchases or turns it into treasure, not relying on the banks, whereas the buyer seeks to make the obtained goods generate a bigger profit.

Nowadays, the markets described in this section (simple, capitalistic, and "ambiguous") coexist, forming a motley mosaic of interrelated forms transitioning smoothly, one into the other[26]. Likewise, all kinds of capitalist markets—banking, trade and production—coexist and flow into each other.

To conclude, we should note that the suggested *dual classification refers only to one component of the large market triad—commodity-money relations*. Other components of the triad (private ownership and competition) are not included in the mentioned classification. Previously, another "commodity-money" classification was presented, based on the object of purchase and sale. One may note that the "object-based" typology characterizes the anatomy of the market, while the typology of this section singles out the two types of market physiology. And, if from the viewpoint of anatomy there are no fundamental differences between the markets, the commodity-money-commodity and money-commodity-money physiologies are fundamentally different. This distinction (as has already been and will be further illustrated) allows us to make meaningful and far-reaching conclusions.

"Anatomy" of commodity-money relations: things that are sold and bought (means of production, commodities, labor).

"Physiology" of commodity-money relations: what the exchange process begins and ends with (commodity or money).

Only "physiological" differences have fundamental differences.

10. The inner logic of market development

Below is a schematic description of the inner logic of market development—from the simple commodity market to the capitalist market.

This logic works properly under the following conditions:

a) The social psychology and culture do not hinder the existence and development of market relations (both simple commodity and capitalist); and

b) There are no other serious obstacles of a non-economic nature (natural, political, military, etc.).

Only Western Europe and Japan (with certain nuances) succeeded in the implementation of the described logic completely and independently (from 0–4 phases inclusive). North America, Australia, and New Zealand joined the process at the intermediate stages as a result of European colonization.

[25] Means of production, for simplicity, are omitted.
[26] See the section "Small business and capitalism" (part of "Capitalism").

The stages of market development

Stage 0. Prerequisites for a simple (commodity) market: a cash-free quasi-market

Material production for the sake of material consumption

1) Due to the differences in natural conditions and the variety of social and personal circumstances, the social division of labor leads to the growth of labor productivity and the emergence of a product surplus for the individual producer. Such surplus turns into a commodity and is directly (without money) exchanged for the surplus products of another manufacturer.

Thus, there is a direct (non-monetary) exchange (barter). Clearly, a moneyless exchange is possible only if the variety of goods is not too great.

$C_1 \rightarrow C_2$ *(The formula of the moneyless quasi-market)*

C_1 is produced independently (with the help of self-made tools), and C_2 is unproductively consumed ("eaten away").

Stage 1. Simple commodity market

Material production for the sake of material consumption

2) Further labor division leads to an ever-increasing variety of commodities, which makes direct exchange difficult. There is an obvious need for a *universal* commodity standard (the "common denominator" of all the commodities). Such a standard loses the properties of a particular (concrete) commodity and turns into *money*.

The direct (moneyless) exchange of commodities is replaced by a mediated exchange, with money playing the role of the universal intermediary. A simple commodity market arises:

$C_1 \rightarrow M \rightarrow C_2$ *(The formula of the simple market)*

Specific C_1s are produced independently (or with the help of the non-free employees) and are sold (i.e., exchanged for money). The obtained money helps to purchase various concrete C_2s, including (sporadic) tools and other means of production. The bulk part of the C_2 is still unproductively consumed.

3) The growth of labor productivity leads to an increase in C1, the growth of C_1 to the growth of M, and the growth of M to the growth of C_2. As a result, succeeding commodity producers and their closest associates enjoy a growth in unproductive consumption.

Stage 2. A simple (commodity) market as a prerequisite of capitalism

Material production for the sake of accumulation

4) A further growth of labor productivity leads again to an increase in C1, while an increase in C_1 leads to an increase in M, and, finally, an increase in M results in an increase in C_2. However, unproductive consumption, as a rule, has a natural and cultural limit. This way, C_2 grows much slower than M (or even remains unchanged). As a result, M does not fully convert into commodities and accumulates (in the form of treasure).

Stage 3. Transformation of the simple (commodity) market into the capitalist market

Transformation of material production for the sake of accumulation into accumulation for the sake of material production

5) With the further growth of M, some of the more enterprising producers turn the accumulated (not consumed) part of M into additional means of production and additional labor, which is, as a rule, not free:

$C_1 \rightarrow M + \Delta M$, where M stands for the "necessary" money, and ΔM means "excessive" money;

$M \rightarrow C_2$ (commodities);

$\Delta M \rightarrow C_3$ (the means of production and the labor involved) $\rightarrow C_4$ (the product of production intended

for sale).

Along with the use of the excessive (accumulated) money for production, at this stage it is possible (and even likely) to use it for loan or trade capital. In other words, a simple commodity market might be transformed, depending on a variety of economic and non-economic circumstances, into any of the types of capitalistic market (or all types at once). In particular, right up to the Industrial Revolution (from the late 18th century to the first half of the 19th century), "simple" types of capitalism (usurious and commercial) prevailed over the "complex" type (production), and only in the mid-19th century did industrial capitalism prevail in the developed countries of Europe and in America. However, in order to not complicate our scheme, we omit the intermediate intercapitalist stages and cycles (such as the transition from commercial capitalism to usurious and backwards) and conditionally reduce them to a direct transition from a simple commodity market to productive capitalism[27].

6) Further growth of M leads to an ever-increasing conversion of (a part of) M into additional means of production and the additional labor this involves. Likewise, an increasing part of the product is converted into new M:

$C_1 \rightarrow M + \Delta M \rightarrow C_2$ (consumption) + C_3 (production assets and labor) → C_4 (product of production) → M + growing ΔM.

7) *Gradual transformation of M into an independent priority production factor as compared to C_1:*

M → C_3 (means of production and labor) → C_4 (product of production) → M + ΔM, or, in short,

M → *C* (means of production and labor) → *C* (output) → *M + ΔM*,

Or, even more briefly,

M → C → M + ΔM (the formula of the capitalist market)

The simple market formula $C_1 \rightarrow M \rightarrow C_2$ has evolved into the capital market formula M → T → M + ΔM as a result of:

a) the conversion of the greater part of M into means of production and the involved labor

b) the relative smallness of C_2

c) C_1 falling out of the commodity-money chain (it becomes unnecessary, meaning the entrepreneur does not need to start with the production of a certain commodity. The earlier accumulated money is enough for their usage in production).

Thus, in stage 3, *there is a transition from the production and consumption of a specific commodity to the production and accumulation of the universal commodity, money, which is invested in the production of the new specific commodity for the sake of production and the accumulation of new money, and so on.*

At stage 3, the role of the entrepreneur (producer) essentially changes:

a) the share of the entrepreneur's own labor (in terms of money) drops sharply compared to both the involved labor and the total amount of invested resources, and

b) the entrepreneur shifts from being a simple worker (master or seller) to an organizer of production and trade (or even withdraws from the business, becoming an investor capitalist).

There are also other qualitative changes, which are reflected in table 3.2.

The transformation of a simple commodity market into a capitalist market occurs when the "surplus" money gained by the entrepreneurs as a result of commodity sales is mostly not eaten away nor preserved as a treasure but is invested in business instead. In a nutshell, money is turned into a means of production and employed labor (at intermediate stages, money is lent or invested in trade).

The necessary conditions for such a transformation are sufficiently high labor productivity and the absence of significant counter factors of a non-economic nature (psychological, cultural, political, and other).

[27] The genesis and interaction of different types of capitalism, their intertwining and overflowing into each other, are described in detail in the fundamental work of Braudel, *Civilization and Capitalism, 15th – 18th Century* (vol. 1, p. 562–563; vol. 2, p. 231–232, 238–239, 247–249, 365–337, 379–388, 432–433; vol. 3, p. 601–604, 620–621). Based on the vast historical material, Braudel concludes that in developed countries, production capitalism began to prevail over usurious and commercial relatively late, only after the victory of the Industrial Revolution (vol. 2, p. 372–373).

Stage 4. The capitalist (material) market

Accumulation for the sake of material production—for the sake of a new accumulation—for the sake of a new material production— …

8) At the beginning of stage 4 (partly already in phase 3), unlike in the first and the second steps, the market formula becomes cyclical and infinite:

M → *C* (means of production and labor) → *C* (product of production) → *M* + *ΔM* →

C (more powerful means of production and the additional labor involved) → *C* (product of extended production) → *D* + large *ΔD* → ... → ...

Money plays a dual role in this cyclic infinite formula:

a) On the one hand, money is a necessary intermediate link between two concrete commodities: the product of production of the n-th cycle and the product of production (n + 1)-th cycle.

b) On the other hand*, money (as a universal product) is an unambiguous criterion for the success of entrepreneurial activity*: an increase in M (i.e., positive ΔM) indicates success (profitability of the business), while a decrease in M (negative ΔM) indicates a failure (loss). If M is constant (zero ΔM), entrepreneurship is meaningless.

Paragraph b) turns monetary profit (ΔD) into the main and, in fact, sole goal of entrepreneurial activity (the ultimate goal of each cycle, an intermediate goal in an endless series of monetary-commodity-monetary transformations).

Money, unlike any specific product, is never too much! However, profit—even a small one—is not guaranteed at all for the capitalist entrepreneur![28]

In simple market conditions, the purpose of the entrepreneur-worker is rather specific and tangible—to buy a particular commodity with the proceeds (and use it). An incomplete achievement of the goal (when the amount of the purchased commodity is smaller than expected and, accordingly, consumption is reduced) may also be acceptable. The goal of a capitalist entrepreneur is abstract and elusive[29] (the more money the better). On the other hand, there is a hard-to-reach minimum (zero profit is acceptable only in the short term). In other words, in a simple market, the entrepreneur's goal extends from one particular size to another, while in the capitalistic market, the entrepreneur's goal extends from a specific value to infinity. In particular, where the demands and aspirations of the entrepreneur-worker practically end (the monetary equivalence of the commodities sold and bought), the needs of the capitalist-entrepreneur are just beginning.

Both occur not because of any particular capitalistic greed but due to the objective logic of the capitalist market[30].

Thus, while moving from a simple market to the complex (capitalist) one, the entrepreneur's demands increase sharply, and the ways of satisfying them are reduced in principle. Therefore, economic development in the transition to capitalism sharply accelerates: The division of labor and its productivity grow at an unprecedented pace, while manufactories begin to play the main role in production (which appear already at stage 3).

Finally (in the 18th century), the first machines appear and *factory production* develops rapidly (in the first half of the 19th century).

9) The extensive use of complex machines under conditions of severe competition leads to the capitalists abandoning the unprofitable labor of semi-free workers and preferring the labor of free-hired workers[31]. The salary of the free workers gradually increases; the profit gained through the exploitation of workers falls[32].

10) Capitalists seek other sources of profit—current market disparities, new markets, new products[33].

11) The last, practically inexhaustible, source of profit is technical, technological, scientific, and

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[28] See the chapter "Capitalism", section "Profit and its sources", subsection "Extracting profit (conclusions and generalizations)", conclusion 3.

[29] The concepts of "entrepreneur-worker" and "entrepreneur-capitalist" do not carry an ethical load. Thus, a "hard worker" can also be a cruel slaveholder and a "capitalist" an advocate of freedom and democracy.

[30] For more details, see "Capitalism" (section "Philosophy of capitalism", subsection "Balances and imbalances").

[31] For more details, see “Capitalism” (section “Capitalism and freedom, capitalism and slavery”, subsection “liberation of capitalism”.

[32] See details in "Capitalism" (section "Profit and its sources", subsection "Source 3").

[33] See details in "Capitalism" (section "Profit and its sources").

organizational progress[34]. For this source to work, a constant influx of new information is needed.

Here the story ends and futurology begins[35].

Stage 5. Capitalistic (information) market

Accumulation for the sake of information production—for the sake of new accumulation—for the sake of producing new information— ...

12) Information becomes the main means and the main product of production:

M → *C* (information as the main means of production + skilled labor force) → C (new information as the main product of production) →

M + *ΔM* → ... → *M* + large *ΔM* → ...

Money in this formula (as in stage 4) plays a dual role:

a) On the one hand, money is an intermediary link between two commodities: the information product of the n cycle production and the information product of the (n + 1) production cycle;

b) On the other hand, money (the only universal product) is still an unambiguous criterion for the success of entrepreneurial activity (different amounts of different-quality information as well as different amounts of different-quality material products can be compared only through money).

Paragraph b) maintains monetary profit as the sole purpose of entrepreneurial activity, i.e., *the transition from material production to mainly informational does not make any fundamental changes either in the motives of the entrepreneurial activity or in the very essence of capitalism*.

However, an important qualitative change occurs in the motives of labor activity. While hired workers engaged in material production work solely for the sake of a salary (they do not care much about the final product), information production can allure the majority of employees not only with the salary but also the intrinsic value of the product itself. This radically changes the attitude towards the work. *Labor ceases to be a forced necessity for an increasing number of hired workers—it becomes an independent demand*[36].

Information, like money and unlike any tangible product, is never too much!

However,

a) the profit of the capitalist is still not guaranteed (as before, it is achieved as a result of stiff competition with other capitalists);

b) and certainly *new information is not guaranteed for the interested employees*.

It is not guaranteed due to the very nature of the information production. Besides, new information is obtained in competition with the hired workers of other capitalists and "freelancers".

As a result, all the processes accelerate dramatically.

13) We observe a *transition to an "information society."* It is too early to talk about the distinctive features of the mentioned society. However, it can be stated with a great deal of certainty *that the economy of an information society will remain market and capitalistic.* At the same time, the aforementioned retraction of many hired workers to the market and to capitalism somehow modifies both. The properties of the information itself become a reason for market and capitalism modifications. Moreover, private ownership (the first and main component of the market triad) in the information society undergoes and will undergo trials[37].

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[34] For details, see "Capitalism" (section "Profit and its sources", subsection "Source 1").

[35] These are the most developed capitalist countries (Western Europe, North America, Japan, Australia, New Zealand). Many countries are at the previous stages. Most of the countries of the world (including Russia) develop on other, non-market paths. However, a simple market—in a relatively effective way—in command-administrative, pseudo-market, etc. Economies, as a rule, exist. Thus, "developed socialism" in the USSR was legally supplemented by the commodity-money-commodity market of peasant households. In the pseudo-market post-Soviet Russia, a significant portion of food is also produced on peasant household plots and the "cottages" of townspeople. A simple market is well combined with a non-capitalist economy. But capitalism, growing from a simple market, also largely destroys it through the low prices of its goods. That indirectly indicates the high efficiency of the capitalist economy in comparison with the command-administrative, pseudo-market, and others. (For the specific role of the simple market under capitalism, see "Capitalism", section "Small business and capitalism").

[36] Marx and Engels associated this process with the transformation of property (from the private to the "whole people"). The problem, however, is not in the nature of property but in the nature of labor as such: interesting (even if very hard) labor can attract a slave; uninteresting and, moreover, hard labor disgusts even the freest worker.

[37] On the specific problems of the "new (information) economy", see, for example, Samuelson P. A., Nordhaus W. D., (2005), *Economics.* 18th ed. McGraw-Hill / Irwin, New York, p. 194–196, 470.

On the other hand, "traditional" (industrial) capitalism is not going to weaken. Material production will not disappear in an information society. It will continue its accelerated development. Firstly, the most important needs of people can only be satisfied through material commodities. Secondly, the very production of information is impossible without complicated and expensive material production (instruments and other scientific equipment, computer hardware, communication equipment, and many other things)[38].

The internal logic of market development sooner or later (in the absence of strong counteracting factors) leads to a free industrial and, later, to a free information society.

An information society exists within the frames of a market and capitalist economy.

The emergence of new modifications of markets and capitalism in the future is possible and even quite likely.

The above-mentioned non-economic factors may slow down and even block market development. Notably, *these factors are particularly critical at stage 3*, i.e., while transitioning from a simple market to a capitalistic one. A historical example is the conspicuous consumption peculiar to many non-Western societies[39]. Conspicuous consumption (as well as the accumulation of treasures) takes the surplus money out of market turnover, preventing it from transforming into an independent factor of production.

There are also accelerating factors of a non-economic nature. They play a special role, again, at stage 3. The most important historical examples are the following: the Protestant ethic, which generates the "spirit of capitalism"[40], and various methods of initial accumulation (including colonial robbery) that allow some entrepreneurs to start making a capitalist turnover from scratch, bypassing the simple market stage[41].

However, an analysis of non-economic factors that hinder or accelerate development does not lie within the scope of our study. It was important for us to show that this development has its own internal and continuous logic and can be explained as self-contained.

Market development, including the transition from its simple commodity form to a complex capitalistic one, occurs under the influence of intra-economic market factors.

At the same time, non-economic factors of a different nature can brake (block) or (dramatically) accelerate such development.

11. Comparisons with some other theories

In this section, as in similar sections of the subsequent parts of the book, we compare our theory with alternative ones. We identify similarities and differences, showing the benefits and the advantages of our theory (special attention is paid to predecessors Marx and Schumpeter). However, a critical analysis of the alternative economic theories—widely known and well-studied—is not within the scope of our task[42]. Quotations from the predecessors and the opponents, if given, serve solely for illustrative (and not evidentiary) purposes. The necessary explanations and comments can be found in the footnotes.

11.1 The concept of the two "forms of circulation" by Marx[43]

The aforementioned concept of two market systems (simple commodity and capitalist market) is based on the two "forms of circulation" by Marx.

The main differences are summarized in table 1.2.

[38] On information capitalism, see also "Capitalism" (section "Trends and prospects of capitalism" and Appendix 3).
[39] Veblen T., (2000), *The Theory of the Leisure Class*, Transaction Publishers, New Jersey, p. 60–80.
[40] Weber M. (2005), *The Protestant Ethic and the Spirit of Capitalism*, Taylor & Francis e-Library, p. 13–39.
[41] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 507–543 (including the "primitive accumulation" in the colonies, p. 533–535).
[42] A detailed analysis of the main economic theories of the past and present can be found in Blaug's *Economic Thought in Retrospect* and Avtonomov's *History of Economic Doctrines*.
[43] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 71–108.

Table 1.2. The main differences between the two "forms of circulation" by Marx and our concept of two market systems

		The concept of two "forms of circulation" by Marx	*Our concept of the two market systems*
The name of the market systems	The inferior form	"Simple circulation of commodities"	Simple commodity market
	The superior form	"Circulation of capital" "Circulation of money as capital," "Circulation of money as capital "	Capitalist ("complex money") market
The role of the internal factors in the transformation of the lower form into a higher one		Undervalued[44]	Recognized as basic
The market norm for the highest form		Circulation of capital flows, normally under the conditions of *market equilibrium* See in "Capitalism" (section "Comparison with some other theories," subsection "Marx's political economy")	The functional norm of the capitalist market is disequilibrium See section "Capitalism" (section "Philosophy of capitalism," subsection "Balances and imbalances")

The principal difference, as we see, *is only the discrepancy in the understanding of the "capitalist norm." However, this discrepancy has far-reaching consequences* (see section "Capitalism," section "Comparison with some other theories," subsection "Marx's political economy").

11.2 Schumpeter's theory of economic development[45]

Schumpeter, like Marx, distinguished two types of market economy, namely "(economic) circuit" *and "(capitalist) development."*

The Schumpeterian circuit can be compared with a simple commodity market, while his development can be compared with capitalism.

A detailed comparison of the Schumpeterian theory with ours can be found in "Capitalism" (chapter "Comparison with some other theories").

11.3 The modern economists

Strangely enough, for hundreds of years of its existence, economic science has not created a generally acceptable and stable economic theory. It should also be noted that despite the emergence of a number of "synthetic" theories, the discrepancy between different directions and schools deepens. Some economists seriously believe that there is nothing wrong with such pluralism[46]. From our point of view, the abundance of competing schools speaks for the immaturity of economic science. Moreover, it is a sign of the dead end economics is in currently[47].

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[44] Marx explains the transition from "simple commodity circulation" to "circulation of money as capital" through mainly external, socio-political factors. Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 507–543.

[45] Schumpeter, J. A. (1934), *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle,* Transaction Publishers, New Jersey, p. 3–94.

[46] "One of the major obstacles to understanding modern economics is the proliferation of contesting schools of macroeconomics. Teachers often wonder how students can understand the subject when macroeconomists themselves are so divided. While many people fret about the divisiveness of modern macroeconomics, we think it is a sign of health and prefer lively debate to complacent consensus." Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, Preface, xix.

[47] The condition of modern economic science is described in a famous book by Blaug (p. 697–712), article by Libman, and report by Khudokormov.

Modern economic theories (from the second half of the 20th to the early 21st centuries) can be divided into the following directions:

1) "Orthodox mainstream" (actually reduced to the "neoclassical synthesis" of Samuelson[48]);

2) "Heterodox" (unorthodox) directions, i.e., the alternative to mainstream current (post-Keynesianism, neo-Marxism, evolutionism, institutionalism, and many others);

3) The "Neo-Austrian" school, which shares similarities with both orthodoxy and heterodoxy (Ludwig von Mises, Israel Kirzner, Murray Rothbard).

The representatives of these directions have different, sometimes opposite, views on the key aspects of economic theory. *However, they see eye to eye on one issue: "Orthodox," "heterodox," and "Austrians" do not see any difference between the simple market (commodity-money-commodity) and the capitalist market (money-commodity-money), thus generally likening capitalism with market in general.*

Here are some typical examples of such identification.

«People naturally ask, Are incomes in *market capitalism* fair and just?» [Italics are ours – A. Z.][49]; «The United States is a *"capitalist"* economy. By this we mean that most of the country's capital and other assets are privately owned»[50]; «The United States is fundamentally a *market* economy»[51]; «*Capitalism*. An economic system in which most property (land and capital) is privately owned. In such an economy, private markets are the primary vehicles used to allocate resources and generate incomes»[52]; «*Market.* An arrangement whereby buyers and sellers interact to determine the prices and quantities of a commodity»[53]; «*Market economy*. An economy in which the what, how, and for whom questions concerning resource allocation are primarily determined by supply and demand in markets»[54]; «The concept of *capitalism* is as an economic concept immutable; if it means anything, it means *the market economy*»[55].

«*Market economy*. An economy in which the greater part of production, distribution, and exchange is controlled by individuals and privately owned corporations rather than by the government, and in which government interference in the market is minimal[56]; «*Capitalism*. An economic and political system characterized by a free market for commodities and services and private control of production and consumption»[57].

One can collect a whole book composed of such examples. Almost all modern economists (with the exception of the consistent position of the Marxists) use the concepts of "market" and "capitalism" as synonyms.

From our viewpoint, any theory that identifies market and capitalism as similar notions and, respectively, ignores the fundamental difference between the simple commodity and the capitalist markets is flawed in its very basis.

To find out more about the negative consequences of likening the notions of "market" and "capitalism," see "Capitalism" (in the footnotes and in the section "Comparison with some other theories").

11.4 Braudel

While the modern economists tend to not differentiate between "market" and "capitalism," the French historian Braudel, in contrast, places "market" and "capitalism" in different categories in his economic system. In particular, the differences in the structure and functioning of these categories are emphasized in favor of "market" and against "capitalism." According to Braudel, the "material life" plays an essential role, i.e., the

[48] Neoclassical synthesis" is a synthesis of Marshall's neoclassical theory and Keynes's macroeconomic concept. The Marshall theory was also synthetic (it connected the classical theory of Smith-Ricardo with the ideas of the marginalists). Owing to such a double "synthesis," the economic mainstream has acquired a grossly eclectic character but, despite the sharp, sometimes deadly criticism, continues to hold a leading position in science, education, and politics.
[49] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 239.
[50] Ibid, p. 264.
[51] Ibid, p. 321.
[52] Ibid, p. 732.
[53] Ibid, p. 744.
[54] Ibid, p. 744.
[55] Von Mises, L., (1998), *Human Action: A Treatise on Economics. Scholar's Edition*. The Ludwig von Mises Institute, Auburn, p. 269.
[56] Hirsch E. D., Kett J. F., Trefil J. (2002), *The New Dictionary of Cultural Literacy: What Every American Needs to Know*, Houghton Mifflin Harcourt, New York, p. 462.
[57] Ibid, p. 313.

natural, almost nonexchangeable economy[58]. Braudel does not provide clear definitions of "capitalism," "market," and "material life."

In our theory, capitalism is regarded as one of the two types of market economy, where each type, like the market as a whole, is defined unambiguously. The statement of this discrepancy is actually not quite typical for modern science. Yet Braudel has history, and we have a theory.

12. Conclusions

Our theory is based on the differentiation of two types of market—simple commodity and capitalistic. Theory

- comes from a clear and unambiguous definition of the market;
- relies, in general, on the concept of the two "forms of conversion" by Marx;
- has much in common with Schumpeter's theory of economic development;
- is fundamentally different from the modern economic theories, both "orthodox" and "heterodox."

This theory is based on a new theory of capitalism (see "Capitalism").

[58] See Braudel, *Civilization and Capitalism* (vol. 2, p. 21–23, 222–224, 229, 455–456; vol. 3, p. 629, 631–632) and *Dynamique du capitalisme* (p. 41, 65–66).

PART 2:

VALUE

Abstract

Key aspects and the general logic of the new theory of value are presented. The theory has a universal nature as it is applicable to any commodity, any market, and any market situation. Value is considered a multicomponent notion which characterizes the internal features of a commodity independent of market conjuncture. Labor and use values, as well as supply and demand values, are interpreted as different components of total value. The chapter investigates the role of these components in pricing in balanced and imbalanced markets. A comparison with alternative theories is made and a fundamental conclusion about the relationship between value, social psychology, and culture is reached.

Keywords

Value; price; supply; demand; market equilibrium (market balance); market disequilibrium (market imbalance).

1. Introduction

In this part, *a new theory of value* is presented briefly and schematically, at the levels of highlights and general logic. It can be regarded as a transitional "technological" link between the theory of market and the theory of capitalism.

Without a detailed analysis of the concept of "value," which, in our interpretation, characterizes the intrinsic, inherent properties of a commodity, a theory of profit and hence a theory of capitalism as a whole are impossible. Along with the concept of "value," the following conjugated concepts will also be studied: "supply," "demand," "conjuncture," "equilibrium/disequilibrium," and "price."

The traditional term "value" (the analogue of the German "Wert") is considered more adequate than the currently widely used neoclassical term "cost" ("value" is already much better, as, unlike "cost," it is not associated with "price"). At the same time, the other connotations of the word "value" are used in their direct sense ("importance," "utility," etc.).

Our theory of value differs from well-known theories in the following main features[59]:

1) *both labor and use value are equally recognized as relevant*[60]
2) *labor value and use value are two components (aspects) of a single concept*[61]
3) *both objective and subjective sides of value are important*[62]
4) *supply consumer value and labor demand value are included*[63].

[59] Here it refers mainly to the theory of labor presented by classics (Smith, Ricardo, Marx), the theory of the use value by marginalists (Menger, Böhm-Bawerk, Wieser) and neoclassic theory, represented by Marshall. The comparison of the given theory with the theory of Karl Marx and the theory of value in marginalism can be found in the section "Comparison with other theories".

[60] Classical economists put an emphasis on labor value, while marginalists, on the contrary, consider only the use value.

[61] Marshall and his followers do not analyze "value" (they do not split it into labor and use components) and choose to synthesize it (eclectically combining the above-mentioned components under a single title); as a result, "cost" in neoclassical theory is almost from the same as Marshall's "value" (1890. *Principles of Economics (8th ed.)*, Online Library of Liberty, p. 43, 203–204, 291–292).

[62] Classical economists, as is known, consider only the objective side, while marginalists consider only the subjective side.

[63] All the alternative theories tie labor to supply, and tie consumption to demand. In this regard, the similarity between our theory and marginalism is small (see "The subjective theory of value (marginalism)" in "Comparison with other theories").

The mentioned qualities make our theory cross functional:

a) it is applicable to any commodity, including labor and pristine natural resources
b) it enables us to evaluate the commodity from both the supply (production) side and the demand (consumption) side
c) it enables us to analyze static and equilibrium, as well as dynamic and nonequilibrium, states and processes
d) it is suitable for the analysis of both simple commodity markets and capitalist markets.

The proposed theory underlies a fundamentally new theory of capitalism. The merits of the new theory include the solution of the most important theoretical and practical issue, which is the issue of cycles and crises[64].

In general, our theory works for both free and non-free societies[65]. However, this part of the book particularly explores the market mechanism of a free society, which, first of all, implies that hired workers are personally free and voluntarily sell their labor to entrepreneurs[66].

Almost all definitions, judgments, and conclusions in this part, to a greater or lesser extent, claim to be a novelty. The sections "The total cost" and "The units of value measurement" seem to be the most original. Previously known material is minimized to a level necessary to understand the novelty.

2. Commodity

"Value," in our understanding, is a property of "commodity." Let's start with commodity.

Commodity, as you know, is an object of sale.

Notably, only someone's property might be considered a commodity. "Ownerless" products of nature (for example, air) and publicly available labor products (for example, published information) are not commodities. At the same time, not every object that belongs to someone is a commodity: the owner can use this object on their farm or give it to whomever they like.

Private ownership of an object by a potential seller is a necessary but not sufficient condition for its transformation into a commodity.

The following categorizations of commodity are possible[67].

On the one hand, commodities might be:

1) *natural resources,*
2) *products of human labor, or*
3) *the labor itself.*

In the long run, any product of labor is also a product of nature: All products of labor are created using natural substances and natural forces. However, not every product of nature is simultaneously a product of labor (for example, untouched land).

On the other hand, a commodity might be either

1) *a resource (means) of production or*
2) a *product of production*.

The resources (means) of production are conveniently divided into

a) primary (natural and labor),

[64] See "Capitalism".
[65] For more on the market economy of *dependent societies*, see "Market" (section "Market and freedom") and "Capitalism" (section "Capitalism and freedom, capitalism and slavery", chapter "What freedom is necessary for capitalism, and with what non-freedom is it compatible?").
[66] When applied to the market economy of a dependent society, a number of clarifications and corrections should be made, which are not considered here.
[67] See also "Market", section "Market types".

b) secondary (produced),
c) tertiary (monetary), and
d) quaternary (securities).

Natural (primordial) resources are untouched land, mineral deposits, untouched forests and meadows, and so on. *Labor resources* consist of any human labor, skilled or unskilled. *Production resources* are the production goods created by the human labor (raw materials, construction materials, semi-finished products, equipment, factories and workshops, electricity, information, etc.). The most important *monetary resource* is capital[68]. *Securities* include shares, bonds, and other documents that are traded for cash[69].

When analyzing capitalism, it is convenient to regard the aggregation of the natural and the productional resources as *means of production*. With this approach, the means of production, accumulated with previously applied labor (including labor in the primary processing of natural resources) along with the currently applied labor, oppose the monetary-capital[70].

Products of production may be divided into

a) intermediate and
b) final.

Intermediate products and production resources are essentially synonyms. *Final products* are for direct (unmediated) consumption (housing, clothing, food, etc.). The same product, depending on its purpose (industrial or consumption), can be either intermediate or final (for example, the fruit of a potato can be used to produce a new crop or for final consumption).

From the third aspect, products can be either

1) specified (private) or
2) abstract (universal)[71].

*Money i*s nothing more than an abstract and universal product.

As we see, the proposed classifications intersect with each other several times; later on, all of them will be involved.

Goods can be classified in three ways.

The first classification enables the separation of human labor (and nature) from its products, the second the division of resources and products of production, and the third to point out money against a myriad of specific goods.

3. Product properties: Price and value

The basic and visual property of any commodity is price—the proportion of the commodity which is exchanged for other goods.

In any developed market economy[72], goods are exchanged for money, i.e., ***price*** is the amount of money for which the goods can be sold or bought.

The price obviously depends on

a) the internal properties of the product, and

[68] Not all money is capital (see "Capitalism," section "Entity of capitalism").
[69] This book does not consider these resources in detail.
[70] See "Capitalism," sections "Entity of capitalism" and "Profit and its sources."
It should be mentioned here that the juxtaposition of labor and natural resources to capital (which is, according to the presented theory, not only the money invested in production but also produced tools of production) is a methodological mistake. For more detail, please view "Capitalism", section "Entity of capitalism", footnote to the definition of “capital”.
[71] To learn more about the role of money in the functioning of various market systems, please see "Market" (sections "Simple market and capitalist market" and "Internal logic of market development").
[72] According to our scheme of market development, starting with stage 1 (see "Market," section "Internal logic of market development").

b) the cohesion of external (market and non-market) circumstances.

A clear conceptual division of the internal and external pricing properties of the goods seems to be an important methodological task.

A set of external pricing circumstances (meaning those circumstances that affect the price) will be referred to as market conjuncture. In practice, market conjuncture is visually and fully manifested *in the current ratio of effective demand and supply*[73].

The complex of internal (generally not dependent on the market conditions) pricing properties of the product will be called its value[74].

It should be emphasized that "value" in our understanding is exclusively characteristic to the commodities and is not applicable to objects that are not commodities. If an object can become a commodity (meaning it can be put up for sale), then it is expedient to talk about its latent cost. Similarly, if the object used to be a commodity (meaning it has already been purchased), then it is proper to talk about its former value. Accordingly, the "*value*" *is actualized* only in the market. This term is not applicable for the natural economy, sporadic exchanges, "real socialism," and other non-market forms.

Let us also highlight the following general properties of "value":

a) only those properties that affect the price contribute to the value of the commodity;
b) independence from market conditions does not imply that the properties are objective: "value" is a largely subjective concept[75];
c) in some special, strictly stipulated cases, "value," nonetheless, depends on the market conjuncture[76].

Price is the monetary sum for which a product may be sold or purchased.
Value is a total of the internal price-shaping properties of commodities.
Market conjuncture is a complex *of the external price-shaping circumstances; integral market conjuncture is expressed in the current ratio of effective demand and supply*[77].

4. The supply value and demand value

Any commodity has a dual (two-aspect) nature: On the one hand, it is offered for sale (and is sold), and on the other hand, it is demanded (and is purchased). The same dual nature is inherent to the value of a commodity. It enables you to expand the value over the following components.

The supply value is the total of the internal pricing properties of a commodity from the seller's viewpoint.

The demand value is the total of internal pricing properties of a commodity from the buyer's viewpoint.

What are the internal properties of a commodity that are significant for the seller and for the buyer? Obviously, they have different interests.

In general, the most important properties for the seller are the following:

a) how difficult (expensive) it was to create or get the product;
b) to what extent do they need the product (whether it is useful/important for them or their business)

[73] Many contemporary economists understand "conjuncture" as a broader notion that includes nearly all market characteristics. For example, the *Modern Economy Dictionary* by B. A. Reisberg defines conjuncture as the "economic situation in the market, which is characterized by the rates of supply and demand, market activity, prices, sales volumes, interest rates dynamics, currency exchange rates, salaries/wages, dividends, dynamics of manufactory and consumption." This descriptive definition mixes pricing and price-dependent factors with price.

[74] "Value" as a general notion that characterized the internal commodity qualities is presented to us by Mr. Usov, a cyber writer. His "value" is "an embodiment of the vital energy or power in a product, the part of the energy and power that functions in the process of production and in the process of consumption" (see Usov, "Response to I. Lvov, or philosophical base of sensible accounting").

[75] See the sections "Labor value," "Use value," and "Value and its components".

[76] See the section "Logic and dynamics of the market".

[77] In the frame of this theory, "value" is a traditional notion; the definitions of value and conjuncture that can serve as a dividing line between pricing factors themselves and prices claim to be a scientific novelty.

in case they do not sell it.

Point a is a given: it is difficult (expensive) to create (get) any product in one way or another. Point b is not quite as obvious (the intrinsic value of a commodity for the seller will be discussed in the section "Total cost"). Here only two typical examples will be given: peasants who need money sell food they could have consumed themselves; the very same farmers sell their labor to other farmers or manufacturers that they could use in their own farms.

In general, the most important properties for the buyer are the following:

a) How much the goods are needed (necessary, important, useful)—including from the aspect of their possible resale
b) How difficult (expensive) this product will be to consume (resell).

Point a is a given; i.e., if the buyer purchases the commodity, then they more or less need it. Point b is not as obvious. The possible difficulty (cost) connected with the consumption of goods will be discussed in the section "Total cost." It is worth mentioning here that the consumption of a car, a computer, and other complex equipment, for example, requires considerable labor and specific expenditure.

The given information on the most important properties of the sellers and the buyers enables the decomposition of "supply value" and "demand value" into the following components.

The supply value is split as follows:

a) the labor (production) supply value, and
b) the use value of supply.

The "natural value" of supply, while merged with the value of the labor, becomes an integral component of the latter (for example, the "natural value" of oil and gas is inseparable from the labor value necessary for its extraction; the natural talent of a scientist, singer, or athlete is an organic part of their labor value). However, when the labor value of the commodity is equal to zero, the natural value (showing the necessity, importance, and utility of the commodity) is nothing but the use value, i.e., they coincide. Such a situation is characteristic for pristine natural objects like untouched land, forests, etc.[78] Therefore, natural value will no longer be discussed in this book.

The labor value, in turn, is split into

a) the use value of demand, and
b) the labor value of demand.

It should be emphasized that "use value of supply" and "labor value of demand" are very significant concepts: use value is traditionally associated exclusively with demand, and labor value exclusively with supply.

We will discuss the mentioned unconventional ("cross") concepts in the "Total cost" section. Here, it should be noted that as a rule commodities are produced for sale and do not have a natural value for the seller in developed economies. As for the natural value of the untouched natural resources, their share in the overall sales turnover is insignificant.

Therefore, we may temporarily ignore the use value of supply and the labor value of demand in order to simplify further analysis, i.e., *the universal market dualism of supply and demand will be reduced to a clearer and more concrete dualism of production and consumption*.

Consequently, in the upcoming sections of this book, the cost components will be:

1) *The labor (production) value of supply (*hereafter, unless otherwise specified, simply *labor value)*
2) *The use value of demand* (hereafter, unless otherwise specified, simply *use value*)

[78] See the section "Value and price of natural resources."

In addition, we will assume that commodities are sold/bought once (the producer is also the seller of commodities[79], and the buyer the consumer).

The mentioned components of value are defined in the next section.

5. Labor value and use value

Commodities, in their most widespread meaning and significance, might be characterized by

a) labor cost, and
b) use value.

Obviously, the labor value of analogous commodities, in one way or another, varies from producer to producer. A fortiori, the same principle works with respect to the use value, i.e., it varies from consumer to consumer. Therefore, while determining and analyzing these and other values, we normally think of an "average," "socially normal" producer and the "average," "socially normal" consumer[80].

Labor value shows how difficult it is for an "average," "socially normal" producer to create the given product.

Use value shows to what extent the given product is needed (necessary, important, useful) by the "average," "socially normal" consumer.

More specifically, the cost can be defined as follows.

Labor value is the aggregate of the socially recognized production properties of the product, i.e., the quantity and the quality of labor socially necessary for the production of goods (including logistics, storage, and sale).

Further aspects should also be taken into consideration:

a) Labor value has quantitative and qualitative components
b) "Socially necessary" refers to average labor, normal from the viewpoint of the social psychology of producer
c) Labor value, in the majority of cases, is the result of a complex synthesis of different types of labor
d) The labor value of a commodity decreases with the growth of labor productivity and increases when the necessary work becomes more complicated
e) Value has objective and subjective components, i.e., the more difficult the production of labor, the more significant the subjective component[81]
f) *Despite the presence of qualitative and subjective components, the labor value of each "socially normal" commodity has a monetary equivalent, which, however, is detected only when the market is in a state of equilibrium*[82]. The availability of monetary equivalents potentially enables the quantification of the labor value of different types of commodities[83].

Use value is the aggregate of the socially acceptable consumer properties of a commodity.

It is important to remember that

a) use value is a qualitative concept
b) "socially recognized" consumer properties imply the necessity, importance, utility, and desirability of commodities for the average consumer, normal in terms of social psychology
c) in many cases, the use value is the result of a complex synthesis of properties with different qualities
d) in general, use value is a subjective concept[84]

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[79] A “producer” is implied to be an entrepreneur—regardless of whether they produce commodities themselves or use the labor of hired workers.

[80] Brief explanations concerning “socially normal” manufacturers and buyers will be provided further after definitions of this or that value. For more detail, please see sections, “Labor value" and “Use value."

[81] For more detail, please, see “Labor value."

[82] See the section "The law of equilibrium."

[83] See the section "Measurement Units for Value."

[84] For more detail, see "Use value."

e) the availability of monetary equivalents provides a potential opportunity to quantify the use values of different types of goods. Despite its qualitative and subjective nature, the *use value of each "socially normal" commodity has a monetary equivalent; however, the latter is detected only in a state of extreme market disequilibrium*[85]. The availability of monetary equivalents provides an opportunity to quantify the use values of different types of goods[86].

So, *labor value and use value characterize the production and consumption properties of commodities recognized as more or less normal by the public opinion*. In practice, both values are fuzzy sets, the elements of which are the individual values of various producers and consumers. Remarkably, the fuzziness of use value, in general, is much higher than that of the labor value. The mechanism that gives an idea about "socially normal" values is described in the sections "Labor value" and "Consumption value." For now, note that significant deviations of individual values from the values recognized as normal are cut off by the market. In particular, labor value that is significantly higher than the "socially necessary" is not taken into account by the market. This means that the excessive working time of a slow or "too diligent" producer does not affect the price of the product. Likewise, "excessive" quality from the viewpoint of public opinion does not affect the price either.

Labor value and use value characterize the generalized (reduced to "average," "socially normal" producer and consumer) *own properties of commodities.*

6. Labor value

Labor, like any other commodity, has both a labor value and consumption value.

On the one hand, labor can be difficult in varying degrees and in different ways for the worker selling their labor. On the other hand, labor is needed in varying degrees and in different ways (by the consumer buying the labor). In other words, both the difficulty of labor and its necessity (importance, usefulness) differ quantitatively and qualitatively. Therefore, the "labor value of labor" and the "use value of labor" are relevant and completely correct notions[87].

Labor, like a product of labor, has both a labor value and use value.

The labor value of labor indicates how difficult a certain type of labor is for an "average," "socially normal" producer (physically difficult, harmful, dangerous, requires high qualifications, causes negative emotions, etc.)[88]. The labor value of labor can include the labor value of preparing for work (education, training, etc.).

The use value of labor indicates how much the labor is needed by its "average," "socially normal" consumer (necessary, important, useful, and desirable). We should not forget that employers or the buyers of various services can be consumers of labor (medical, repair and construction, and others)[89].

How do the values of the commodity and the invested labor correlate?

If the object of trade is labor itself, then the value of such commodity (labor and use) is the value of labor (labor and use, respectively). The employee cares about the labor value of labor, while the employer and the consumer care about the use value. More specifically, an employee wants to sell their labor at as high a price as possible (or not overwork at a given price), while the employer or consumer wants to buy the labor at the lowest possible price (or not lose the quantity and quality of labor at a given price).

If the commodity is a product of labor, then there are a few options possible.

If the product is created by labor of one type, then the labor value of the product is equal to the labor value of the labor expended for its production. If the product is created by different types of labor, the total labor value of the product is equal to the integral labor value of all the types of labor used, and the labor value of each type of labor is equal to the labor value of its "pure product." "Pure product" means the conditional portion of the product created by that particular labor. Since the vast majority of commodities are created by a combination of different types of labor, it is usually difficult or impossible to identify the

[85] For more detail, see "Imbalanced (volatile) markets."
[86] See the section "Measurement Units for Value."
[87] The notion of "labor value" is viewed as senseless in Marxism (see section "Comparison with other theories").
[88] For more detail see section "Labor value."
[89] See section "Market types" (part "Market").

"pure product." Nevertheless, the market "assigns" salaries roughly proportional to the (labor) contribution[90].

There is no direct connection between the use value of labor and the use value of the spent labor. For an entrepreneur, the use value of the hired labor is the money they can obtain from the product sale. For the buyer of the same product, the use value is determined by the properties of the product itself. Thus, the demands and expectations of the buyer of labor and the buyer of the product of that labor are specified in completely different objects (money and the product itself, respectively). Therefore, the link between the use value of the purchased product and the use value of the hired labor creating that product is of an indirect and ambiguous nature.

7. Price

So, the value characterizes the generalized internal properties of the commodity.

The generalized external property of a commodity is its price.

Price is the monetary expression of the exchange capability of a commodity. If the price is suitable for the seller and the buyer, the exchange (commodity for money) takes place. The labor value of a commodity is downplayed while the use value, in contrast, is actualized. The realized price thus transforms one value into another. To clarify, here we mean those commodities that are transferred in exchange for money—"from hand to hand." However, the more complex cases of trade (prepayment, payment upon completion of work, monthly payment, etc.) do not change the essence of that transformation: *sooner or later, immediately, or step by step, the labor value of the commodity transitions into the use value*.

Price depends on the internal properties of a commodity (value) and the external, incoming, volatile circumstances, integrally expressed in the conjuncture of a given market[91]. It is considered that market conjuncture is a demand-to-supply relationship and not vice versa; in other words, "high conjuncture" means (relatively) high demand or (relatively) low supply, while "low conjuncture" means (relatively) low demand or (relatively) high supply. Remember that demand means real solvent demand, not the desires of the consumers (which can be unlimited)[92].

Commodities are exchanged—i.e., are sold and bought—in accordance with

a. their labor value (LV),

b. their use value (UV), and

c. market conjuncture—the ratio of effective demand and supply.

Thereby, price = F (LV; UV; demand/offer).

LV, UV, and the demand/supply ratio are the pricing factors.

Let us enumerate the most typical (and fairly obvious) cases of the relationship between pricing factors and prices.

In general:

1) When the value remains unchanged (demand/supply is constant),
   a) growth of the LV (i.e., the growth of the quantity and quality of the invested labor) leads to a price increase, while
   b) a fall of the UV (i.e., deterioration in the consumer properties of the goods) leads to a price decrease.
2) With a fixed value (LV is constant and UV is constant),
   a) increased demand/supply ratio leads to the enhancement of prices;
   b) decreased demand/supply ratio leads to a price decrease.
3) Demand and supply, in turn, are functions of the price:
   a) if the price increases, demand falls and supply increases (accordingly, the demand/supply ratio falls faster than demand);

[90] See section "Labor value, salary/wages and labor productivity."

[91] See section "Product properties: Price and value."

[92] "Not every person whose want engenders the wish to possess an economic good becomes a potential buyer thereof. One needs not only the desire to possess the good, but also the desire to exchange possession of the good for possession of the medium of exchange (Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 137).

b) if the price decreases, demand increases and supply falls (accordingly, the demand/supply ratio grows faster than demand).

4) Demand and supply are also functions of LV and UV, respectively:
   a) if the price remains unchanged, an increase (decrease) in UV leads to an increase (decrease) of demand;
   b) if the price remains unchanged, a decrease (increase) in LV, and vice versa, leads to an increase (decrease) in supply.
5) UV and LV, in turn, might be functions of demand and supply[93].

As can be seen, *all the variables in the price formula* are generally *interdependent*.

Thus, the interdependence of demand and price is expressed in the fact that

a) an increase in demand entails an increase in price, and an increase in price entails a decrease in demand.
b) a decrease in demand entails a decrease in price, and a decrease in price entails an increase in demand.

Or, if the changes are provoked by the price,

a) an increase in price entails a decrease in demand, and a decrease in demand entails a decrease in price.
b) a decrease in price entails an increase in demand, and an increase in demand entails an increase in price.

Similarly, the interdependence of supply and price is expressed in the fact that

a) an increase in supply entails a decrease in price, and a decrease in price entails an increase in supply.
b) a decrease in supply entails an increase in price, and an increase in price entails an increase in supply.

Or, if the changes are provoked by the price,

a) an increase in price entails an increase in supply, and an increase in supply entails a decrease in price.
b) a decrease in price entails a decrease in supply, and a decrease in supply entails an increase in price.

Thereby, changes in the conjuncture and prices are negatively correlated: the growth of the conjuncture (due to the growth in demand/or the fall in supply) provokes an increase in price, and this lowers the conjuncture (due to the fall of demand /or the growth in supply). In contrast, the lowering of the conjuncture (due to the fall of demand /or the growth of supply) provokes a decrease in price, and this increases the conjuncture (due to an increase of demand /or a decrease in supply).

Negative correlations between the conjuncture and price contribute to the establishment of market equilibrium—the equality of supply and effective demand[94].

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[93] See the section "Logic and dynamics of the market."

[94] Economists usually understand equilibrium as the balance between supply and demand (Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed.* McGraw-Hill/Irwin, New York, p. 27, 54, 57–58, 738).
In fact, the notion of "market equilibrium" should be perceived as a much wider spectrum of aspects and, along with the supply-demand balance, it encompasses other components, the significance of which is growing along with the growth of capitalism (see "Capitalism", section "Profit and its sources", chapter "Profit generation (conclusions and generalizations)", conclusion 1).
However, in the given part, we will view “equilibrium” conventionally; in other words, only as a supply-demand equilibrium. This simplification is quite admissible for simple and capitalist markets before the rise of corporations. Besides, it will help us to understand “the law of equilibrium" better, which is the key law in the theory of value.

8. The law of equilibrium[95]

If the price of a commodity allows effective demand to be steadily equal to real supply (which means that there are as many products as the sellers want and are able to sell, and the buyers want and are able to buy), it is said that the *market of a given product is balanced*. To put it simply, the market might be balanced at a certain price. If the price is different, then the market is imbalanced: either at a low price, demand is higher than supply, or at a high price, supply is higher than demand.

At what price is the market balanced?

First, let's suppose that our market is *highly competitive*[96].

This means that

a. there are many sellers and buyers with a lot of money and commodities,
b. the inflow and outflow of the sellers, buyers, commodities, and money can happen quickly,
c. the spread of consumer properties of the same type of commodity is small.

As a result, every single commodity in the highly competitive market has almost the same price.

Let's discuss the issue of balancing with concrete examples.

Supposing the use value of a commodity is high, which triggers a high demand and consequently a price that is considerably higher than the monetary equivalent of the labor value. Such a price encourages sellers to increase the supply and attract new producers to enter the market. As a result, supply increases and the price decreases (much less than the monetary equivalent of the labor value. After several fluctuations of the price and conjuncture, the market becomes balanced as the price is equivalent to the labor value of commodity).

Supposing the use value of a product is low and the demand for that product is also low. As such, the price is also low. If it is considerably lower than the monetary equivalent of the labor value, sellers reduce the supply and some even leave the market totally. As a result, supply decreases, and this causes the price to increase (slightly higher than the monetary equivalent of the labor value). As in the previous case, after several fluctuations of price and conjuncture, the market becomes balanced again as the price corresponds to the labor value of the commodity.

As we see, at the equilibrium point, the price does not depend on the use value. And the practice confirms it: even vital goods (such as water, salt, bread) with a high use value might have a very low cost in balanced markets[97].

In the state of market balance, the labor value remains important: sellers are unwilling to sell their goods below the monetary equivalent of their labor value, i.e., cheaper than they were obtained[98]. If the buyers are willing to obtain the goods at a higher price, then the competing sellers will knock the price down (remember it is all about highly competitive markets).

In a state of equilibrium, the labor value is the only critical value, and taking into account the "neutrality" of the conjuncture, the only actual pricing factor.

The equilibrium price of a commodity is equal to the monetary equivalent of its labor value; in other words, the equilibrium price of a commodity is the monetary expression of its labor value.

Vice versa, *the monetary equivalent of the labor value of a commodity is its equilibrium price; in other words, the labor value of a commodity finds its adequate monetary expression at its equilibrium price*.

Market, therefore, is balanced from two sides—by the buyers and the sellers. Yet, the equilibrium point, i.e., the equilibrium price, is set exclusively by sellers in accordance with the labor value of commodity.

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[95] It is widely known as the "law of value" and "law of costs". Our definition is viewed as more comprehensible.

[96] *A highly competitive market* is a market that is close to the condition of perfect competition. Perfect competition and highly competitive markets are described more extensively in educational and scientific literature (Pindyck R. S., Rubinfeld D. L., (2013), *Microeconomics, 8th ed*., Prentice Hall, New Jersey, p. 280–281).

[97] This situation was coined in the world of economic science as a "paradox of value" (the "Smith paradox"). It is peculiar that the contemporary classicists cannot find the explanation to the Smith paradox due to the flawed nature of their theory, which is rooted in marginalism. In particular, Samuelson, the master of ""neoclassical synthesis" (Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 95–96).

[98] It can be attributed to the capitalist market (see "Capitalism", section "Entity of capitalism"). Sellers on the simple market can put up with prices that are lower than the monetary equivalent of the labor value (see "Capitalism", section "Small business and capitalism").

These dependencies are generalized in the law of equilibrium (we define it in our own words).

The law of equilibrium

When the market is balanced and competitive goods are sold and bought exclusively in accordance with their labor values, i.e., if supply is equal to demand, then the price is tantamount to the labor value. And, vice versa, highly competitive markets are balanced (equilibrated) at a price tantamount to the labor value, i.e., if the price is equal to the monetary equivalent of the labor value, then the supply is equal to demand[99].

In practice, due to the local fluctuations of labor value and conjuncture, the law of equilibrium is usually achieved with some approximation. The market is balanced when a price is approximately equal to the labor value. In other words, if Price ≈ LV, then the supply ≈ demand (and vice versa: if the supply ≈ demand, then the price is ≈ LV). *Real prices fluctuate around the labor value, appearing either a bit higher or a bit lower than the labor value*. The same happens with the conjuncture: either supply slightly exceeds demand or vice versa.

Local fluctuations in prices and conjuncture in highly competitive, balanced (quasi-equilibrated) markets are negatively correlated. This means that a large local deviation from the equilibrium point causes an increase in supply (and, in many cases, a decrease in demand[100]). As a result, the price decreases to the equilibrium point. Vice versa, a small local deviation from the equilibrium point causes a decrease in supply (and, in many cases, an increase in demand). As a result, the price increases up to the equilibrium point. Similar processes occur at the local fluctuations of conjuncture. The increase in supply (or the decrease in demand) decreases the price, supply decreases (or demand increases), and the price returns to the equilibrium point. Likewise, a decrease in supply (or an increase in demand) increases the price, supply increases (or demand decreases), and the price returns to the equilibrium level. This means that the equilibrium of highly competitive markets, despite local fluctuations in prices and conjuncture, has a self-sustaining and sustainable pattern.

The equilibrium of highly competitive markets is sustainable.

In this case, local fluctuations in prices and conjuncture around the equilibrium values are entirely possible and even inevitable.

Finally, note that markets do not react to rare individual deviations in labor value from the socially normal. The commodity price remains unchanged, generating additional profit for the seller with "abnormally small" labor values (and additional losses for the seller with "abnormally high" labor values). However, if the individual diversions acquire mass and unidirectional patterns, there is inertia in the social perceptions regarding the "normal" labor value change. Hence, the equilibrium price also changes with a certain delay[101].

9. Balanced (equilibrated) markets

So, the price of a commodity in a balanced market is determined by its labor value. Use value determines the equilibrium demand by itself or with the relative price, thus determining the equilibrium supply. By *relative price* we mean a price correlated with the average solvency of the potential buyers, i.e., those buyers who would like to purchase that commodity.

If in the balanced market there are as many commodities as the buyers need, then, regardless of whether the price is equal to the labor value, the market should be called *naturally balanced*. In the naturally balanced market, supply and demand are exclusively determined by the use value of the commodity: Supply=Demand=f (UV).

First, demand is determined in accordance with the use value and afterwards supply is adjusted accordingly (in practice, both processes take place almost simultaneously). The market balances quickly if the needs of the buyers are more or less stable and the subsequent fluctuations in such a naturally balanced market are not high.

If in the balanced market there are as many commodities as the potential consumers can afford to buy at a price equal to the labor value, the market should be called *artificially balanced*. In the artificially

[99] Further, "monetary value" ("money equivalent") is implied when applied to both the labor value and the use value.
[100] Price fluctuations do not always reflect demand (see the section "Balanced (equilibrium) markets").
[101] See the section "Labor value."

balanced market, supply and demand are determined not only by the use value of commodity but also by its relative price: Supply=Demand=F (UV, relative price).

Moreover, first the effective demand is determined in accordance with the use value and relative price and afterwards the supply is adjusted to that demand (in practice, again, both processes take place almost simultaneously).

The value of the relative price is both objectively and subjectively fuzzy. On the one hand, the income of the potential buyers may differ substantially; on the other, the price might be acceptable for some consumers and unacceptable for others (even though they have the same amount). Therefore, demand that is price-dependent is difficult to predict, and is detected slower than demand that depends only on need. Moreover, the market where demand depends substantially on the relative price undergoes considerably higher fluctuations than those markets where demand does not depend on price. Thus, on payday, the demand for alcoholic beverages might increase sharply as the relative price of the sought-after product falls sharply in the eyes of the potential buyers.

In a highly competitive market, producers "set" the balanced price through trial and error.
Consumers balance demand (which depends on the use value or on the use value and the relative price).
Producers balance supply to the noted demand through trial and error.

As a rule, simple commodity markets are balanced artificially, which can be explained by low labor productivity, the respectively high labor value of the majority of goods, and the low income of most of the consumers. Demand for even the most necessary products, including food, usually depends on the price.

With the development of the capitalistic market, a growing number of traditional markets are balanced in a natural ("need-based") way. In the modern capitalistic market, most of the traditional food markets are naturally balanced, i.e., there is as much bread, potato, milk, and so on for sale as the consumers need, not as much as they can afford to buy. The general reason for such a tendency is the labor productivity growth that decreases the labor value of the product and simultaneously increases the salaries and other revenues of the consumers. As a result, it becomes possible for people with an average income to buy a large number of goods.

At the same time, a capitalistic economy always produces new commodities, the markets of which are artificially balanced not only with respect to the use value but also to the relative value. However, the corresponding needs (from an objective point of view) are less and less imperative: although it is impossible to live without food, clothes, and a dwelling (at middle latitudes), it is still quite possible to live without consumer electronics and space tourism[102].

Natural and artificial balancing of the market are illustrated in figure 2.1.

[102] "In an already wealthy society, further growth may mean only the satisfaction of increasingly trivial wants [at the cost of mounting threats to our ecological system" (McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies. 11th ed*. McGraw-Hill/Irwin, New York, p. 426).

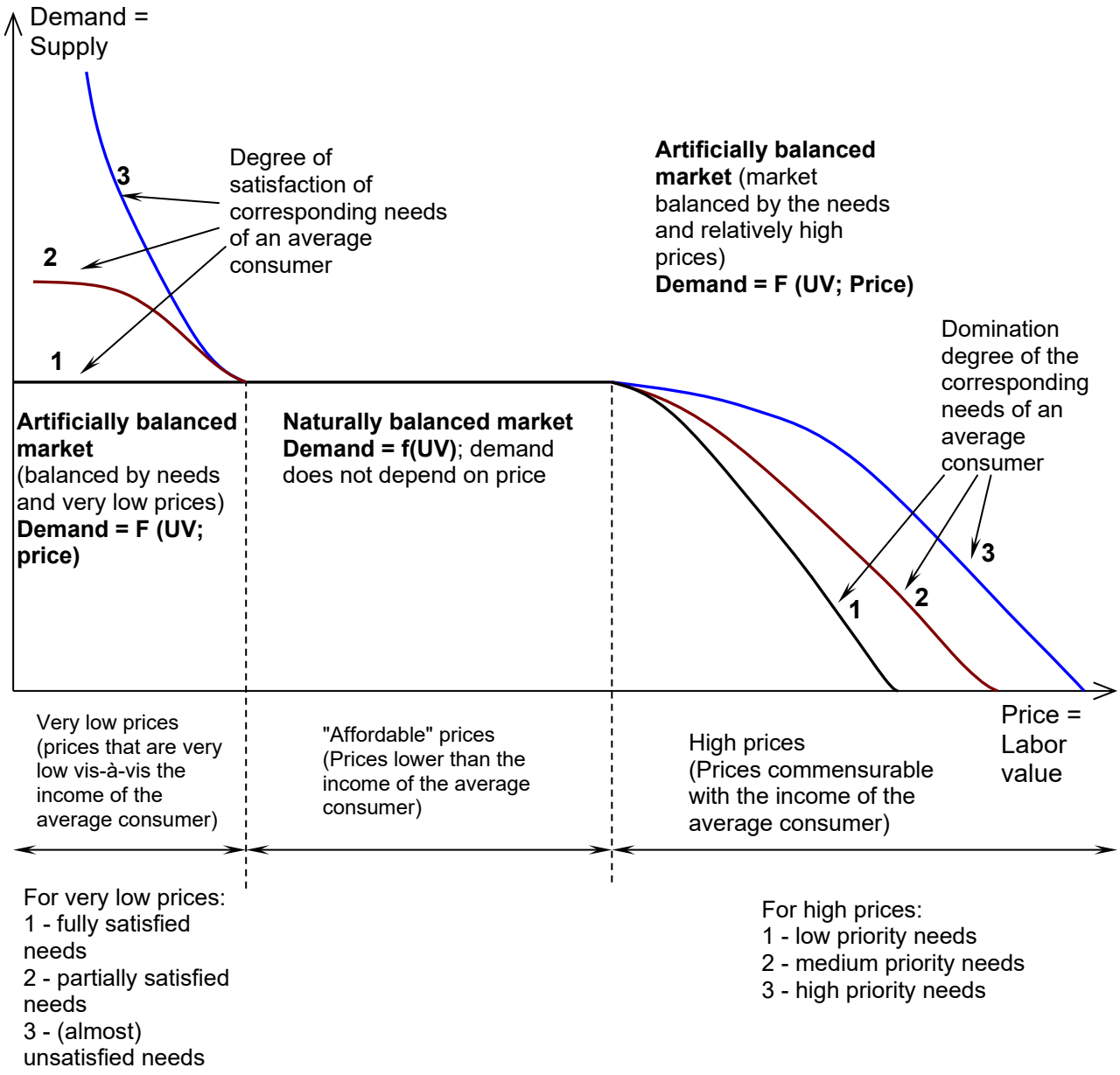

Figure 2.1 Dependence of demand (supply) on price (labor value) for highly competitive balanced markets

The graph shows that markets can be artificially balanced with not only high but also very low prices. Almost unsatisfied needs with very low prices might cause a sharp increase in demand (and, accordingly, supply). Thus, a sharp decrease in information transfer prices entailed a huge increase in its consumption in the recent years.

For commodities with high prices it is not the degree of the potential satisfaction of the needs that plays a decisive role but rather the degree of their dominance because high priority needs have a high level of demand (and, accordingly, supply), even at very high prices. One example is the real estate market where, despite the high prices, demand remains relatively high in developed countries.

Regardless of the type of balancing, the equilibrium price of a commodity in a highly competitive market is (approximately) equal to its labor value and is determined by the sellers (producers).

The equilibrium quantity of a commodity, depending on its use value (and relative price), is determined by the buyers (consumers).

To clarify, here and hereafter, we mean both balanced and imbalanced markets of specific commodities. For how the *integrated* capitalist market reacts once it reaches common market equilibrium, see “Capitalism” (section “Capitalistic cycles and crises”).

10. Imbalanced (volatile) markets

If the deviations from the equilibrium are unidirectional and have a long-lasting pattern, one can speak of imbalanced (volatile) markets. The long-term imbalance of a market is generally associated with imperfect competition where the inflow and outflow of sellers, buyers, goods, and money are difficult or almost impossible for one reason or another. As a result, feedbacks are too weak or ineffective to balance the market[103].

Imperfect competition is fully compatible with the freedom of entrepreneurship and trade, and in our case is of a purely economic nature. For example, newcomers can't easily enter a lucrative market due to their shortage of initial capital; old-timers can't quickly leave an unprofitable market because of the large number of unsold goods.

Imbalanced (disequilibrated) markets differ in

a) degree of imbalance and
b) vector direction ("sign" of imbalance).

A degree of imbalance is usually used for the distinction of monopoly/monopsony, oligopoly/oligopsony, and monopolistic competition. In the first case, there are many buyers per seller (or many sellers per buyer)[104]; in the second case, there are several sellers and many buyers (or several buyers and many sellers)[105]; and the third case refers not to the quantity of sellers/buyers but the existence of a large number of closely-related interchangeable goods (e.g., dozens of varieties of toothpaste)[106]. Other, more general, criteria of the degree of imbalance will be presented below.

Sellers' markets and buyers' markets are usually distinguished by vector direction. In a seller's market, the conjuncture is high, i.e., demand outstrips supply and the market is balanced. In a buyer's market, the conjuncture is low, i.e., demand lags behind supply and the market is imbalanced in favor of the consumers. In other words, a seller's market arises in case of a commodity shortage while a buyer's market arises when there is a commodity surplus.

To clarify, let's note that in the vast majority of cases, a commodity shortage does not imply the physical deficit of a commodity (as happens in "real socialism"). In a market economy, "commodity shortage" merely implies that at a price equal to labor value, effective demand significantly exceeds supply. As a result, sellers can raise the price higher than the equilibrium price. Likewise, in most cases, a "commodity surplus" implies that at a price equal to the labor value, effective demand significantly lags behind the supply, which induces producers to lower the price below the equilibrium (or, alternatively, they have to leave the market). Thus, the terms "commodity shortage" and "commodity surplus" are, in general, conditional features reduced to the equilibrium point. Nevertheless, physical shortages and excesses also occur in a market economy. Shortages are evident in the empty counters and the queues when the prices are below equilibrium point, while physical excess is reflected in overcrowded warehouses when the prices are above the equilibrium point.

Let's now analyze the sellers' market and the buyers' market separately.

A sellers' market is characterized by high competition among the buyers and little competition among the sellers. As a result, the commodity price might grow from its labor value to its use value and the solvency level of buyers, i.e., to a price above which (or starting from which) "socially normal" buyers do not want to pay or are not able to. Once the market reaches this point, it becomes *extremely imbalanced*[107]. The margin between price and labor value forms *the excess seller profit*.

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[103] For more information about the imperfections of competition and types of competition, please read: Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 184–201; McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies. 11th ed.* McGraw-Hill/Irwin, New York, p. 489–490). We will speak more on "imperfect competition" in "Capitalism."

[104] Monopsony this way is a "monopsony the other way around"—a monopsony of buyers, not sellers.

[105] This way, olygopsony is "olygopsony the other way around"—an olygopsony of buyers, not sellers.

[106] For more about monopolistic competition: Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 188–190; Pindyck R. S., Rubinfeld D. L., (2013), *Microeconomics, 8th ed*., Prentice Hall, New Jersey, p. 452–457.

[107] Own terminology

In a seller's market, the commodity price falls between the "production' price (equal to the labor value) *and the "consumer" price* (equal to the use value and solvency of the average buyers).

In particular, a seller's market begins with the appearance of a new commodity and exists until competing entrepreneurs launch the production of a novelty (new commodity)[108]. Commodity shortages (both conditional and actual) might also arise as a result of war, drought, and other disasters. A deficit will persist until competing entrepreneurs adjust their production volume to a scale on par with the existing circumstances[109].

In most cases, sellers' markets are not very durable: competition somehow restores the balance. Nevertheless, there are situations where monopolists manage to maintain prices much higher than the labor value for years (although they do not usually reach the extreme imbalance of the market, i.e., the highest acceptable (tolerable) prices). If demand is equal to supply (meaning there are as many commodities as the sellers-monopolists want to sell to maximize their income and the buyers want and can afford to buy), then one may speak about the *state of pseudo-balance (imaginary equilibrium)*[110]. The imaginary balance, with high prices and a low volume of sales, differs from the real one. The qualitative difference between the imaginary equilibrium and the real one lies in the potential instability of the latter: even a powerful monopoly may fail to withstand the pressure from new competitors. On the other hand, consumers might find cheap substitutes for an expensive product. The purchase and sale of non-reproducible goods (works of art, antiquities, and so on) is a special case. The practically irremovable monopoly may make such pseudo-balanced markets quite stable.

The buyers' market is characterized by high competition among sellers and low competition among buyers. As a result, commodity prices fall below the labor value. The difference between labor value and price is the loss of the sellers.

First and foremost, the buyers' market arises with the relatively high prices of commodities, i.e., if its production price does not encourage mass consumption. Secondly, it arises because of the overproduction of "normally available" commodities. The third reason is connected with a monopsony (oligopsony), i.e., a monopoly (oligopoly) of buyers.

In the first case, the non-equilibrium price, under the forced consent of the sellers, may fall to the price corresponding to the use value and the solvency of the buyers, i.e., to a price below which (or starting from which) "socially normal" buyers want and can afford to pay. Once the price reaches the mentioned point, the market becomes extremely imbalanced (however, with a different vector sign from the sellers' market). In such circumstances, producers either modernize production and lower the price to an acceptable level[111] or wind up the unprofitable trade, not waiting for the "reciprocity" from the consumers.

In the second case, the lowest limit (threshold) of the price fall is set by the producers and that limit, unlike the buyers' limit in the first case, does not meet use value and solvency criteria. Thus, the concept of "marginal imbalance," coupled with the buyers' behavior, is applicable not to all buyers' markets but only to those with an imbalance generated by the relatively high commodity price.

The third special case will be discussed at the end of this section.

Strongly unbalanced buyers' markets are typical to capitalism in a total crisis, when many useful and popular goods are not sold because of the population's abnormally low purchasing power. In an effort to minimize the losses associated with long-term storage, possible damage, etc., entrepreneurs sell their stock at a discount. Afterwards, the obviously unprofitable production is either terminated or suspended[112].

In a simple commodity economy, overproduction occurs in the buyers' markets quite often due to the conditional or actual surplus of normally available goods (the reason for such overproduction might be an unusually high yield). However, the degree of imbalance (running at a loss) of such markets is not as great, as a rule, as in capitalist markets in a general crisis. Entrepreneurs leave the market when prices are low and they must consume unsold goods in a natural way instead of marketing them to others for money. For example, farmers reprocess surplus products and produce jam, juice, and other canned goods.

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[108] See "Capitalism," section "Profit and its sources," chapter "Source 1, case 2."
[109] See "Capitalism," section "Profit and its sources," chapter "Source 1a."
[110] Our term.
[111] See "Capitalism," section "Profit and its sources," chapter "Source 1, case 1."
[112] See "Capitalism", section "Capitalist cycles and crises."

Having analyzed the main signs and features of sellers' and buyers' markets, we can make the following conclusions and draw the following parallels:

The commodity price in an extremely unbalanced market, regardless of the vector of the imbalance, corresponds to the relative use value, i.e., the use value reduced to a "normal" total income. The labor value has practically no effect on the price.

In the state of an extreme imbalance in favor of sellers, the "socially normal" buyer leaves the market (because the prices are too high). In the state of an extreme imbalance in favor of buyers, the "socially normal" buyer comes to the market (because the prices are quite low). In the first case, the extreme imbalance means that the market is collapsing while in the second case it is evolving.

In a moderately unbalanced market, the price is between the relative use value and the labor value, i.e., between the consumer price and the producer price.

If the "socially normal" buyers value the product above its labor value, the market might be imbalanced in both directions: towards high prices, which is in the sellers' favor, and towards low prices, which is in the buyers' favor. In the former, the price increases to the upper threshold while in the latter, the lower threshold depends on the sellers' resistance, which does not have a meaningful threshold, unlike the first case.

If the "socially normal" buyers value the product not higher than its labor value, then the market might be imbalanced only towards lower prices until the lower limit corresponding to the relative use value. If the conjuncture is so favorable for buyers that the price falls even lower, then the market imbalance is beyond extreme. In such a market, the price keeps decreasing after the emergence of the average buyer too. Note that the beyond-the-limit imbalance of the sellers' market is impossible by definition (see above).

If the "socially normal" buyers value the product below its labor value, the market is always imbalanced towards the lower prices, thus making market balancing impossible. In the past, such a situation was, as a rule, associated with the low incomes of potential consumers (who wanted to buy commodities but could not). Nowadays, an "underestimation" of a product is often associated with its uselessness, real or apparent (meaning the potential consumers can buy the goods but do not really want them). With the help of skillful advertising, entrepreneurs can raise the subjective value of a product but if the buyers are insolvent, no advertising will help. The impossibility of balancing sooner or later causes the market to wind up: capitalist entrepreneurs stop production, and self-employed workers reduce production and move on to natural consumption.

However, the mentioned discrepancy of values can push the most enterprising producers to technological modernization, which reduces the labor value to the level of the price of relative use (or even lower). If technological modernization covers entire industries, a real "demand revolution" may occur. This means that many commodities previously unavailable for mass consumption because of the prohibitive prices suddenly become available, demand and consumption increase, and competing producers try not to lag behind. The growth of supply and demand stops when equilibrium is reached (previously, at high labor values, it was impossible). The market economy has experienced several such revolutions in the last 200 years. One of the most significant was associated with the Industrial Revolution of the late 18th century, which lasted until the first half of the 19th century[113]

[113] "In 1842, Michelet writes, 'The cotton mills were in crisis. They were choking to death, as the warehouses were overflowing and there were no buyers. The panic-stricken mill-owners dared neither to work nor to stop work with their all-devouring machines... Prices fell, but that accomplished nothing; they fell yet again, until cotton was selling at six *sous* ... Then something unexpected happened. The sound of *six sous* [italics by the author – A. Zh.] seemed to act as a trigger [! – A. Zh.]. Millions of buyers, poor people, who had never bought [textiles] before, began to stir. And it could then be seen how powerful and immense a consumer the people can be when it is aroused. The warehouses were emptied in a flash. The machines went frantically back to work ... And the result was a major, though little remarked revolution in France, a revolution in cleanliness and the suddenly improved appearance of the poor home: people had bed linen, body linen, linen for the table and the windows: it was now possessed by whole classes who had never had any since the world began'" (Braudel F. (1992), *Civilization and Capitalism, 15th-18th Century: The Wheels of Commerce*, University of California Press, California, Berkeley, p. 183).

Balance (if it is possible) actualizes the labor value of all commodities.

Imbalance in favor of sellers can actualize the high use value of normally cheap (that are available in equilibrium) commodities.

Imbalance in favor of customers can actualize the low use value of normally expensive (inaccessible in equilibrium) commodities.

Market conjuncture regulates the relative contribution of the labor value and the use value of a commodity in its price.

The more the relative use value differs from the labor one, the more imbalanced the market might be, and the more the extreme consumer price (the final price in the sellers' market, the initial in the buyers' market) will differ from the production (equilibrated) price. In other words, an "ultimate imbalance" is of a qualitative nature and is not related to the multiplicity of the price. In quantitative terms, a "marginal imbalance" may mean both a slight and a huge imbalance.

Here it is worth mentioning an important difference between sellers' and buyers' markets. When the price is lower than labor value, sellers bear unredeemable losses. When the price is higher than the labor value, buyers willingly bear the expense to obtain a particular product.

The thing is that sellers have made an effort to produce or bring the product to the market while buyers have not yet invested anything. This means that buyers retain the freedom of choice. Even when they turn down a deal, they do not lose anything. Therefore, we can say that *sellers are overall more sensitive towards an unfavorable conjuncture*. That is why, as a rule, buyers' *markets do not reach any significant imbalance in quantitative terms*[114]. When the prices are hopelessly low and even lower than the production price, sellers wind up production and trade. By the way, self-employed entrepreneurs in simple markets often find themselves to be safer than capitalist entrepreneurs. Capitalist entrepreneurs, unlike self-employed working entrepreneurs, cannot and do not want to benefit from unsold goods: they opt to sell them in seasonal sales for next to nothing. Speaking of buyers' markets, they can be significantly unbalanced: the price of a trendy novelty can be hyped up dozens of times until a cheaper alternative version enters the market[115].

Extremely unbalanced markets of labor buyers exist in little towns with a small number of production facilities, while monotowns with one plant or factory can be considered as a separate case. Monopsonic employers (or oligopsonists) can set significantly lower salaries than the value of the hired labor. When demand equals supply (there is only as much labor as employers are ready to buy and as much as desperate job-seekers have to sell), we can talk about pseudo balance. Pseudo balance on the labor market differs from actual balance by lower prices and sales volumes. The main difference of pseudo balance lies in its instability: new employers, attracted by the cheap labor force, appear and salaries go up, or workers respond by searching for new ways to make a living, retrain, start their own farms, migrate to other countries, or, alternatively, organize a trade union.

It should be added that imbalance is also possible in other monopsonic and oligopsonic markets (for instance, when hundreds of farmers sell their produce to one or a few buyers).

Unbalanced markets are "asymmetrical" as regards the balance point: unbalanced prices on the sellers' markets move away from balanced prices more distinctly than on buyers' markets.
The main exceptions are capitalist markets in the phase of a common crisis and labor markets in monopsony (oligopsony).

(To find out more about sellers' and buyers' markets, see the section "Cost measurement").

11. Balancing (stabilization) the market

In free, even if imperfect, competition, markets lean to balance. As was demonstrated in the section "Law of equilibrium," market balancing occurs when demand and supply interact. Let us analyze this interaction in more detail.

We shall start with simpler models.

[114] Exceptions—capitalist markets in common crisis and markets of labor buyers in conditions of monopsony /olygopsony (see below).
[115] See "Capitalism", section "Profit and its sources", chapter "Source 1, case 2."

Sellers' market: general supply is stable.

Stage 1: Sellers set prices (randomly, based on previous experience, or based on accurate data on production expenses[116]); buyers respond: if they deem the prices to be too high, some products remain unsold; if the price is too low, there may be not enough products.

Stage 2: Sellers adjust prices according to demand (they cut prices when the demand is not sufficient and, vice versa, raise prices when demand increases); buyers adjust demand (they buy more when the price goes down and vice versa).

Stage 3*:* sellers adjust prices once again, buyers respond correspondingly.

In other words, first it is the price that forms the demand, then demand adjusts the price and the new price forms a new demand. As a result of a sequence of corrections, the price stabilizes at the level of pseudo equilibrium.

Thus, we can see that price and demand are interdependent values in the balancing process in a sellers' market*;* however, it is *unacceptable to consider price as an argument and demand as a function (any specific price can be regarded as an initial condition of the mutual adjustment process between price and demand*)[117].

Buyers' market: general demand is stable.

Stage 1: Buyers set the price (randomly, based on previous experience, or based on accurate data on production expenses); sellers respond: if in their opinion the prices are too low, some products remain unsold; if the price is set quite high, there might be a shortage of products.

Stage 2: Buyers adjust prices according to demand (they bring the price down if there are many goods and increase when there is a shortage of goods); sellers adjust the supply (they increase it when the price goes up and decrease it when the price goes down).

Stage 3: Buyers adjust prices again, sellers, in turn, adjust the supply.

This way it is the price that forms the supply, and then supply adjusts the price; the new price forms new supply, and so on. After a number of adjustments, the price stabilizes at the level of pseudo equilibrium.

Thus we can see that price and supply are interdependent values in the balancing process of buyers' markets*;* however, it is *unacceptable to consider price as an argument and supply as a function* (*any specific price can be regarded as an initial condition of the mutual adjustment process between price and demand*)m[118].

It is time to finish with simple models and consider the real market.

Unbalanced market: general supply and general demand are variable.

Balancing the real market means that sellers and buyers act simultaneously, adjusting to one another in terms of price and of sold and bought goods. Some subjects leave the market; others appear. Abundant supply and reasonable prices attract new buyers and push some of the sellers away. As supply diversity diminishes and price increases, the influx of buyers and outflow of sellers subside. Low supply and a high price attract new sellers to the market and deter some buyers. As supply grows and price goes down, the influx of sellers and outflow of buyers subside, following the pattern, which means new buyers appear in the market while some sellers leave it. Dramatic changes in supply and demand can alter the balance vector, which turns a buyers' market into a sellers' market and vice versa. *Mutual adjustment between sellers and buyers continues until the market reaches its equilibrium point: supply will roughly equal total demand at the price roughly equal to the labor value of a product.*

In the process of this adjustment, not only do {Demand–Price} and {Supply–Price} become interdependent, but also {Demand–Supply}. Price is the intermediary link between supply and demand. So, as we can see, *supply, price, and demand form a functional triangle where all corners are interconnected* (see fig. 2.2)[119].

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[116] The latter is more peculiar to the *capitalist* market. For more on production costs in capitalism, see "Capitalism" (section "Profit and its sources", chapter "Potential sources of profit").

[117] Nevertheless, it is easy to find "demand curves" in many neoclassical books—graphs demonstrating the unidirectional dependence of demand on price (Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 47).

[118] Nevertheless, it is easy to find "supply curves" in many neoclassical books – graphs demonstrating unidirectional dependence of supply on price (Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 51).

[119] That is why it is more sensible to show the market balancing process not through two-dimensional curves of supply and demand, but the trajectory of the "market point" in the three-dimensional space of supply, demand, and price.

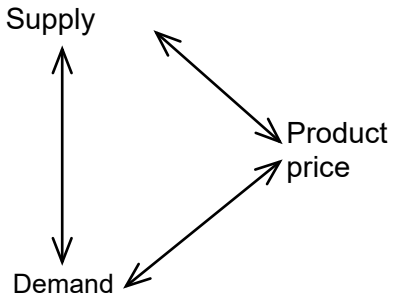

Fig. 2.2. Interaction between supply, demand, and price in the process of market balancing

However, the mutual adjustment between price and supply is not always possible: if the marginally competitive price for producers is high while the purchasing power of potential consumers is low (which usually occurs at times of capitalist crises), the market can freeze even though there are plenty of goods and interested buyers. In such a case, producers either seek ways to cut production costs (by implementing new technology and cutting staff) or sell their stock at extremely low prices and wind up their activity[120].

It should be added that it is not only mutual interaction that can change supply and demand. Natural demand can alter when affected by demographic changes, weather conditions, and military and political crises as well as general cultural evolution, borrowings from other cultures, and, of course, advertising.

Supply undergoes changes due to new discoveries and inventions, production reorganization and expansion, progressive technologies, and the building of new routes as well as changes in customs and tax policies to name but a few[121].

Having briefly outlined the market balancing process, let us now dwell on the most important constituent of this process—cost.

12. Labor value

The price for goods is usually connected with the labor value unless the market is extremely imbalanced. This value is determined by the amount and quality of labor necessary (or generally necessary) to produce a product. As prices of various goods correlate with each other objectively and quantitatively (for instance, product A sold in the given time and in the given place is twice as expensive as product B), separate portions and kinds of labor should also be correlated more or less unambiguously.

As for "portions" (various quantities of one type of labor), the solution is quite easy to see: two hours of work generally costs twice one hour of the same work (judging not only how it looks and how much time it takes but also its effectiveness, quality, and qualification).

However, is it possible to correlate two different types of labor? For example, when speaking about laborers, movers, and shepherds, lathe operators and engineers, the work of a teacher and the work of a doctor? And how should we juxtapose/compare a newbie lathe operator with a top-ranked one? How can we compare a maintenance engineer with a construction engineer, a junior class teacher with a university lecturer, a surgeon with a GP? We simply cannot be objective here. Nevertheless, the "invisible hand of the market"[122] actually correlates these categories in terms of quantity, which is manifested in salaries (labor price) and rather accurate prices for goods (connected, again, with the labor price). It means that somewhere in the tissues of the economy itself there is *a value classification of labor types acting against the will of market subjects*. Let's try to get closer to this existing classification and find its hidden sources.

For a start, let's follow Karl Marx and divide labor into simple (unskilled) and complex (or skilled)[123].

"*Unskilled*" *labor*

a) does not require special training (low qualified labor),
b) does not require physical, emotional, and intellectual effort (easy), and

[120] For more detail, see the section "Imbalanced (volatile) markets."
[121] See the section "Capitalism", chapter "Profit and its sources."
[122] Quotation by Adam Smith (Smith, A. (2007), *An Inquiry into the Nature and Causes of the Wealth of Nations*, Edited by S. M. Soares, MetaLibri Digital Library, p. 349).
[123] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 65.

c) is harmless for health and safe.

It is obvious that a characteristic like "simple" labor is quite vague for it is hard to define where it stops being simple and becomes very simple, for instance, or "not quite simple." Nevertheless, society is used to singling out some *rudimentary and ultimately easy types of work* (consciously or unconsciously; rationally or irrationally) as a so-called *"simplicity template"/"simplicity standard."* It is clear that such work has to be quite common and well-known to all members of society. For instance, the work of a day laborer or any other unskilled worker in a farm or a helper on construction sites. The main criterion for unskilled labor is low (minimal) wages in a competitive balanced market (unless labor markets are governed by official policies)[124].

"*Skilled*" *labor* is not simple in this or that way; it mainly:

a) requires education/training (qualified labor), or
b) requires physical, emotional, and intellectual effort (hard work), and
c) may be harmful for health or hazardous.

It is obvious that simple labor is the type of work that can be measured in "portions," i.e., working hours of a socially normal worker. *That is why, in balanced, highly competitive markets, goods produced with the help of unskilled labor are sold and bought in accordance with the amount of time required to produce those goods (this quantitative estimate is more or less objective).*

However, when it comes to skilled labor, it would be incorrect to estimate/measure it by hours of working time due to the qualitative diversity of possible "difficulties." This leads us to the following paradigm:

Complex labor is measured by taking into account

a) *the working hours of a socially normal employee, and*
b) *the system of values in society*.

Correspondingly, in balanced and competitive markets, the goods produced by complex skilled labor *are sold and bought according to*

a) *the working hours required to produce those goods, and*
b) *the system of values in society*.

Such evaluation of complex labor and its produce is rather subjective as a result of the qualitatively undefined values in society. Nevertheless, this evaluation allows the outlining of the general criteria of comparison for various types of complex labor. These criteria are the ones used by the "invisible hand of the market" at the discretion of the society and its culture.

The labor value of "complex labor A" is labor B (which can be both simple and complex), which is subjectively sufficient (in a given society and in a balanced market) for the actualization of labor A (so that a normal labor A seller would agree to work),

or a commodity in which labor B is actualized, subjectively sufficient for the actualization of labor A (in the given society and in a balanced market),

or a sum of money sufficient for purchasing commodities in which labor B is actualized subjectively sufficient for the actualization of labor A (in a particular society in balanced markets).

So, why is labor B (money or a commodity) sufficient for the actualization of labor A? In other words, why do subjects of balanced markets level labor A to labor B (in commodity or monetary form)? Apparently, because this parity is in line with the system of values habitual to a given society. There may be a certain hierarchy of needs in this society, a hierarchy of convictions and patterns of how things are done. According to this very hierarchy, labor B (with its wholesome quality and quantity) equals labor A. *This is how social psychology and culture works in this community.*

If public opinion really has the power to level labor A and labor B, the quality of which significantly differs from labor A by a multitude of unmatchable features, there should be a factor that would neutralize

[124] Braudel speaks of "mason laborer" as an example of the most common and low-paid job in Western Europe in the XV–XVIII centuries (Braudel F. (1992), *Civilization and Capitalism,* 15th-18th *Century: The Perspective of the World*, University of California Press, California, Berkeley, p. 300–302).

this difference. This factor seems clear: if specific types of labor differ by their quality (or qualities), this difference can be neutralized only by their quantity. Hence, the

Formula of labor value for "complex labor":
m-labor A quantity* *x*-labor A quality =
n-labor B quantity* *y*-labor B quality, which means
mx = ny, or
m/n = y/x.

The law of equilibrium for a "complex labor" commodity
In highly competitive, balanced markets, complex labor is sold and bought in a quantity inversely proportional to its subjective quality (assessed by a community).
And, vice versa, *highly competitive markets get balanced exactly when complex labor is sold and bought in a quantity inversely proportional to its subjective quality (based on the given community's view).*

Correlating to one another in this way, all types of labor also correlate with some simple, rudimentary labor that is commonly accepted as a standard. In other words, the *labor value of complex and simple labor correlates to a "labor standard."*

The labor value of the "labor standard" is assessed more or less objectively by the number of working hours commonly accepted and needed for this labor. Therefore, the *elementary unit of work labor value is one hour (or one day or a month) of standard work by a socially normal employee (whose work is accepted by society as normal). This means any specific work is assessed by the socially normal working hours for standard labor—with allowance for "complexity/quality rates."* That said, the complexity rate can be rather significant, in which case working hours take a backseat.

Furthermore, "complexity rates" play an important, and often decisive, role in the comparison of types of labor.

Physically hard, unskilled work implies a "physical strain rate," i.e., one type of labor can be a few times harder than another (for instance, carrying loads is deemed three times harder than digging a vegetable plot, and costs three times more in a balanced market for unskilled labor). This coefficient/rate can be more or less objective.

It is possible to suggest the following *subjective (conventionally accepted) complexity rates for other types of complex labor. These are coefficients/rates of:*

a) qualification (knowledge, skills, experience)
b) harmfulness/dangerous for health and life
c) morality/immorality (whether a certain type of labor complies with the morality norms established by a particular community)
d) lawfulness/lawlessness (whether a certain type of labor complies with the law)
e) intellectual strain
f) emotional strain, including
   responsibility,
   uniqueness,
   filthiness, and
   tedium (boring, monotonous jobs).

In other words, *based on a socially accepted hierarchy of needs and conventions (partially reflected in law and moral), labor can be:*

- unskilled or skilled
- harmless or harmful
- dangerous or safe
- honorable or scorned (by law or custom)
- physically (morally or intellectually) difficult or physically (morally or intellectually) easy
- responsible or not responsible
- interesting or uninteresting

- humdrum or diverse, and so on.

Rates a, d, and, especially, f are subjective and ambiguous parameters depending on the socially normal hierarchy of needs and conventions.

They can vary dramatically in different societies: some types of labor can be normally accepted in one society and scorned, frowned upon, or forbidden in another (for instance, prostitution). Skilled labor may be valued much higher in one society than in another. In some societies, health plays a pivotal role; in others it may not take on great significance, and so on.

So, the relative labor value of one and the same type of complex labor may be totally different in different societies. One hour of the same complex labor in one society may be exchanged for two hours in another society, or for five hours somewhere else. Moreover, *the same type of labor can be regarded as complex (and very hard) in one community and simple (and very easy) in another*.

For instance, objectively harmful (hence, complex) labor may be regarded as harmless (hence, easy) in a community. Or labor objectively skilled (hence, complex) may be deemed as unqualified (unskilled, easy). In the first case, the lack of objectivity can be attributed to the fact that the harmful production factors are unknown or neglected. Another case is when a worker acquires certain skills and dexterity in childhood so their labor is viewed as simple by the community. *Attitude to the labor itself also matters*. In some communities labor is respected; in others it can be scorned. Some communities appreciate leisure way more than other communities.

Some types of labor can also feature "inverse coefficients" (lower than 1): honor ratio, prestige ratio, under-the-counter yield ratio, to name a few. In other words, people may be ready to exchange their labor, which is honorable or prestigious, or promises illegal income, for simple labor, or work for free or even pay to get a certain job; for example, work as a tax collector for symbolic payment or even offer a bribe for the possibility to do this kind of job.

Furthermore, we can speak about *various personal fluctuations besides a "socially normal" hierarchy of needs and convictions*: different members of a community may regard the same type of job differently. To illustrate, someone may deem the work of a janitor or a street cleaner as not so hard, while another person would not agree to do this kind of job for any remuneration. The narrower the market, the more significant such personal fluctuations and the bigger the range of appreciation of this or that type of work. A large market usually features a wide range of opinions, which is explained by the psychological and cultural diversity of its subjects.

Finally, specific complex labor can be a goal in itself, a necessity, or even a sense of life; for instance, the work of a scientist, a doctor, or a priest. *This kind of labor can also be granted to society for free or even paid for (a construction engineer can invest their own finance in a test prototype model; an explorer can invest their own money to organize an expedition, and so on*)[125].

This is not the whole story, however. Until now we have been talking about separate types of labor—simple and complex. However, in a modern economy, most goods are manufactured by a combination of many types of labor (simple and complex included). Whereby in most cases labor components are not additive: in balanced markets some products are bought and sold for more than the sum of their labor components (systemic impact of a whole product), other products are sold and bought for less (systemic impact of wholesale[126]). As a result, the labor value of many commodities is determined by a sophisticated system of hundreds or thousands of implicit rates/coefficients that are not possible to analyze rationally. Nevertheless, by trial and error, the market quickly identifies those sophisticated values and turns them into prices. This process is governed, again, by the social and individual psychology and culture.

[125] For more on intrinsically valuable labor (the labor that represents value for the workers themselves), see the section "Total value."

[126] Since buyers purchase *products of various types of labor* in wholesale mode.

The assigning of complexity rates in the market economy and their continuous adjustment occur in an unregulated fashion, by trial and error, on the level of both the public conscience and the unconscious collective[127].
These rates or coefficients are manifested by society's idea of the integral complexity of this or that labor (sometimes unconscious feelings can play a role in the process of forming this idea).
Similarly, ideas about simple standard labor are formed and corrected in a spontaneous way.
The market transforms these ideas and feelings (which are often subjective) into quantitative (more or less determined) price relations.

Standards and coefficients (as any other notions of public culture) have their own momentum and thus fail to keep pace with a volatile market economy, especially a capitalist economy. This manifests in the fact that the average prices for these goods do not correspond with their actual labor value (some workers of a certain labor category are paid too little or too much). If the market is highly competitive, it is unbiased in sorting out those who hold on to ideas that delay market development. In particular, the entrepreneurs who do not stick to the professional dynamics of the market and lose employees that are necessary but are traditionally underpaid. Or entrepreneurs who retain and keep paying those employees whose services are no longer necessary. They are the most likely to lose to their counterparts who have an innovative world outlook. As a result, new standards and coefficients that correspond to the new requirements of the economy come to replace the old ones[128]. *By means of the ubiquitous mechanism of competition, markets have an indirect impact on public conscience and culture.*

As far as some countries are concerned, competition on international and regional markets turns into *a competition between ethnical cultures and mentalities.* It may turn out that a set of certain standards works for one nation but not for another. At some turning points of development, some market societies with traditional outdated ideas thrive and previously prospering markets fade under the pressure of those societies that have adjusted to new circumstances in a timely manner. There are such societies where a market economy cannot become established because of the non-market mentality (or it does get rooted but is deformed and acquires a criminal character)[129]. However, this is a separate topic which requires an interdisciplinary analysis. It would be interesting to find the standards that are currently active in modern market economies. The discrepancies between the coefficients could probably explain how some countries gained and managed to retain leadership and why others became permanent losers[130].

Labor value represents a sophisticated implicit function of public psychology and culture; namely, the normal hierarchy of needs and convictions actualized in labor. This function can fluctuate when affected by individual psychology and culture (a personal hierarchy of needs and convictions).
The market, in turn, especially when it is a capitalist market, *alters the competitiveness of various types of labor, adjusts publicly normal hierarchies of needs and convictions, and, at the same time, indirectly affects public psychology and culture, being their main modernization engine. However, this mechanism of interaction between psychology (culture) and a market only works well in societies with a market mentality*[131].

To recap, we must emphasize that it is impossible to present an hour of simple labor done by a socially normal worker in any other natural unit; calories, for instance: *an elementary unit of labor value has a cultural entity, not a natural one— in aspect of both the simplicity of the labor and the "normality" of the person who performs it.* Therefore, the question "what does an hour of simple labor equal?" does not make sense. One

[127] It gets a lot simpler with a centrally controlled economy ("socialist economy"), where complexity rates are given to various types of labor by the ruling party, a decision governed by the idea of what is good for policy (political expediency). To illustrate, in the Soviet Union, the labor of simple workers was more appreciated than the labor of engineers and doctors, and to be a member of a political party and the military were regarded as the most prestigious occupations.
[128] For more on the cyclical dynamics of the labor value in capitalism, see "Capitalism" (section "Capitalist cycles and crises", chapter "Dynamics of value").
[129] There are many such societies in the world. The economies of most Asian, Latin American, and African countries have a non-market and quasi-market nature. For more information on why western and eastern cultures and economies have developed differently, see *Civilization and Capitalism* by Braudel (vol. 1, p. 412–415, 509–514; vol. 2, p. 133–134, 304–305, 598– 601, 608–610; vol. 3, p. 386–387, 534–535).
[130] For example, countries in Northern and Southern Europe, which for quite a long time shared a common economic zone, have dramatically different economic levels and, consequently, varying standards of living: in England, Germany, and Scandinavia, these indexes are way higher than in Spain, Portugal, and Greece.
[131] Here we are speaking about western societies and, with some adjustments, countries of the Far East (Japan, for instance).

meter can be expressed in the wavelength of a corresponding emission, and one second of time can be connected with a revolution of the Earth around the sun; to put it simply, units of length and time have natural standards that can be reproduced. *It is impossible to pick a natural standard for a labor unit since it does not have a natural character*.

At the same time, it is reasonable to ask what the price for a standard labor hour is, and the answer is vital for people who sell their labor. In the next section, we will consider the relationship between labor value and the price of labor (salary/wages).

13. Labor value, salary/wages, and labor productivity

The labor value of simple ("standard") labor is measured in average socially normal working hours. Taking a closer look, any simple labor value is measured like that along with its product[132]. The labor value of a product, however, is identified, specified, and actualized in its equilibrium price according to the law of equilibrium. Hence, the equilibrium price of a simple labor unit (the socially acceptable wages of a worker) is roughly equal to the price of its "pure product" (supposing that both labor and product markets are highly competitive). This means that the higher *the productivity* of the simple labor, the higher the modern salary of its performer. This salary would allow them to purchase a variety of commodities (complex commodities as well) that are the products of various types of labor. Yet, when the markets are balanced, the compound labor value of the set of items to be purchased is not high as it is equal to the amount of simple labor used.

Due to the robust development of the market (capitalist) economy, the productivity of simple labor is constantly growing. The outcome is a shrinking labor unit: what used to be done for an hour or a day of standard simple labor can now be done in a second or a minute. Yet we cannot say that the productivity of a digger of land or a mover has grown the same way (rather, their productivity seems to have decreased over the last centuries). The standard itself has changed: the simple, hard, and manual work with low productivity of the past has become the work of an operator, for instance, who pushes a small but powerful button without giving it much thought. *Along with the growth in productivity, the equilibrium price of standard labor is rising, which means the salaries of the workers performing standard labor are also rising*. However, the situation is rather ambiguous. Public psychology and culture, while assigning complexity rates, have their own momentum and their evolution is not only affected by market forces[133].

The equilibrium price of an employee, like the equilibrium price of their pure product, is defined by the labor value of the labor spent.
This labor value is primary, while the equilibrium price of the pure product and equilibrium salary are secondary.

Let us now analyze a few specific cases of the patterns laid out above.

If the productivity of a worker's labor is significantly lower than is socially normal, the worker will most likely be fired. If the worker's productivity is higher than what is considered socially normal, their salary will be significantly higher than the average salary (in the case of productivity wages), provided the labor market is balanced. In the case of time-based payment, their salary will most likely not change.

The complex labor of *particular employees, which facilitates and reinforces the labor productivity of a particular enterprise* (scientists, programmers, economists, and talented managers) represents a special and incredibly important case for consideration. It is exactly this kind of labor that guarantees a profit for the leading capitalists; it is the main source of economic development and social progress[134]. The real value of un-average complex labor, which decreases the general expenses of a big company, can be many times higher than the socially normal labor value. Does this mean that the payment for such precious labor must also be many times higher? Yes, it is likely to grow but not like the labor value: while an employee wants to get a better reward for the job they do, a capitalist wants to increase the return on their investment. The result of the compromise between the increased labor value and the not-so dramatically increased payment (salary) will be challenged by the market itself. The challenge comes from other employers who will try to poach a valuable employee, luring them with better payment and working conditions (because for scientists and engineers, for example, flexible working hours, less stringent reporting duty, and up-to-date equipment may be way more important than a high salary). There is no way to discuss the balance or misbalance in a market

[132] See the section "Labor value".
[133] On more about how the market "adjusts" social culture and psychology, see the section "Labor value."
[134] See "Capitalism", section "Profit and its sources", chapter "Source 1."

of this kind of labor: it is definitely narrow due to the shortage of such valuable employees.

Can we talk about the exploitation of such employees? At first glance, judging from the fair work payment—yes. Capitalists use their employees' intellect, resourcefulness, and creative enthusiasm to gain a profit, part of which they retain (instead of distributing this profit among those employees (in salaries) who have provided it). However, on the other hand (also from the point of view of fairness), scientists, engineers, and other employees use the funds and equipment the capitalist provides (along with the labor of the other company employees) to get a relatively high salary. This means we can speak of reverse exploitation—the exploitation of the capitalists' resources by brainy employees. From the standpoint of market and theory, the employees' brain capacity earns them a salary significantly higher than the socially normal payment (i.e., the salaries of their counterparts working for other capitalists). Hence, exploitation does not have a place in the case. There is no single solution, just as in many other cases of interaction between capital and labor.

Looking ahead, we should point out that the only situation in the free-market economy where the term "exploitation" is applicable is a long-lasting disproportion in the labor market. The scale of this disproportion manifests in the margin between the socially accepted labor value in the market and the actual payment that an employee receives[135]. "Exploitation" as a term is also applicable to the non-market economy (for instance, feudal and command-and-control economies) as well as those market economies that use slave labor or non-free workers[136]. However, in order to escape the ideological distortions and misinterpretations of this term, discredited by communists, we have to render it an accurate scientific definition such as, for instance: "exploitation" is the uncompensated acquisition of somebody's labor and its produce. Or, in a more general way, "exploitation" is the unequal usage of one person or people by other people.

One more special case is the *complex labor of separate categories of employees, encouraging the general productivity of labor* (for instance, the work of programmers). The actual labor value of many representatives of this profession has grown and remains consistent and socially normal during a certain period of time. This also means that the salary of such employees, if it grows, will grow insignificantly until the market changes the public ideas about the relative value of different complex labor types[137].

Furthermore, we must point out that there are situations in the market when the productivity of a hired employee is higher or lower than the socially normal standard not as a result of their low or high labor qualities but as a consequence of technological (organizational) backwardness, or, on the other hand, because of advanced development. In these cases, a worker's salary generally corresponds to the average salary of the category worker in the industry. Neither the losses nor the income of the specific entrepreneur generally affect the value and price of socially normal labor.

Finally, let's try to answer the following question: Why is the same type of labor in the developing countries valued much lower than in developed countries? Why does a worker in Asia who uses highly productive American equipment receive a salary significantly lower than their American counterpart (when their productivity is more or less equal)?

The general reasons for this discrepancy are as follows:

1) "Standard labor," which serves as a benchmark, is way more productive in developed economies. Unskilled but highly productive labor serves as a standard (assembly line operator, for instance) while in less developed countries, unskilled less productive labor serves as a standard (for instance, the labor of a lumper or a mover).
2) The mentality and culture in less developed countries implies that complex labor does not have to be paid more than simple labor (skilled work is not respected; harmful conditions for health are not taken into account).
3) Free time (leisure) is prioritized compared to developed economies. Therefore, hired employees are inclined to work less and rest more, settling for a salary that is hardly enough to match the subsistence rate.
4) Labor supply is excessive (apparently as a result of overpopulation in rural areas).

While points 1 and 4 are historically transitional, and generally remediable, points 2 and 3 do not seem to be quite as soluble: Nations that do not show due respect for hard work and opt to loaf are doomed to forever lag behind in poverty.

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[135] See "Capitalism", section "Profit and its sources", chapter "Source 3."
[136] See the section "Capitalism and freedom, capitalism and slavery" ("Capitalism").
[137] See the section "Labor value."

14. Use value

The market appreciates various use values in quite the same way as labor values—by objectifying the subjective and ambiguous ideas and feelings of consumers. The market transforms them into quantitative (more or less definite) price-demand ratios.

However, any attempt to go into the mechanism of appreciation and comparison of use values is seriously contested.

First, the consumer properties of various goods (unlike the labor needed for their production) do not have a common objective quantitative basis. "Action time/after-action time," "satisfaction measure," and "imperativeness degree" cannot have an objective common basis.

Second, consumer properties are not divided into complex or simple (they are difficult to classify or compare with each other).

Third, a commonly accepted need standard does not exist in a developed market economy. Only at a specific time or place can this standard somehow actualize; for instance, a bottle of water on a hot day at the stadium or a loaf of bread in a period of economic crisis.

Fourth, as a rule, consumer properties are far more subjective than their labor properties. The individual appreciation rate is pretty broad, which means it is hard to disengage from a specific user and a specific situation. Even drinking water, the value of which seems quite definite and clear, has a varying consumer (use) value: the use value for a person stranded in the desert a single mouthful of water is really high, sometimes enormous; for a person who has just felt a desire to drink, the use value can drop to a level (sometimes zero) depending on the amount of water already consumed.

Fifth, the consumer properties of goods are significantly more dependent on the geographical market properties and culturally-ethnic features of consumers than labor properties. To illustrate, warm clothes have a near zero use value in countries near the equator, the same miniscule use value of pork in Muslim countries.

Sixth, common ideas about the consumer properties of commodities are subject to quick and abrupt changes, which is reflected, for instance, in the market of IT and household appliances. The models that were of high use value 10 to 15 years ago are not in demand today. Ideas about consumer properties are pretty volatile: A new fashion (often brought from foreign countries or imposed by advertising) can dramatically increase the subjective value of some products while downgrading/depreciating the use value of others.

Nevertheless, the "invisible hand of the market" continues to cope with these challenges and produces comparisons of different use values with different qualities, producing them quantitatively. This results in definite prices and more or less definite demand (use values are expressed in price and demand in conditions of an imbalanced market, while only in demand if it is a balanced market[138]). This means that *in the tissues of the market economy, there is an implicit but working classification of the consumer properties of products* (along with the value classification of different types of labor). In comparison to the labor classification, however, consumer property classification is way more volatile in time and space and has a wider range of individual perceptions.

Use value (the same as labor value) is a sophisticated implicit function of social psychology and culture, namely, a socially normal hierarchy of needs and convictions that actualizes in consumption.
This function fluctuates in line with a particular market situation and consumers' individual preferences.

15. Logic and dynamics of the market

Before taking an abstract glance at "value," let us summarize the interim results.

So, the market for a specific commodity is characterized by the:

a) commodity value (labor and use values),
b) demand-supply situation/conjuncture (ratio between solvent demand and supply), and
c) price.

All market features are volatile but each in its own way.

Values are relatively consistent while conjuncture and prices are changeable. Labor value is more stable than use value while price is more stable than conjuncture.

[138] See the sections "Imbalanced (volatile) markets" and "Balanced (equilibrium) markets."

Market features:
1) slow changes in value (labor and use values), while
2) price and conjuncture are agile variables.

All market variables are bound up with social psychology and culture (see figure 2.3 below).

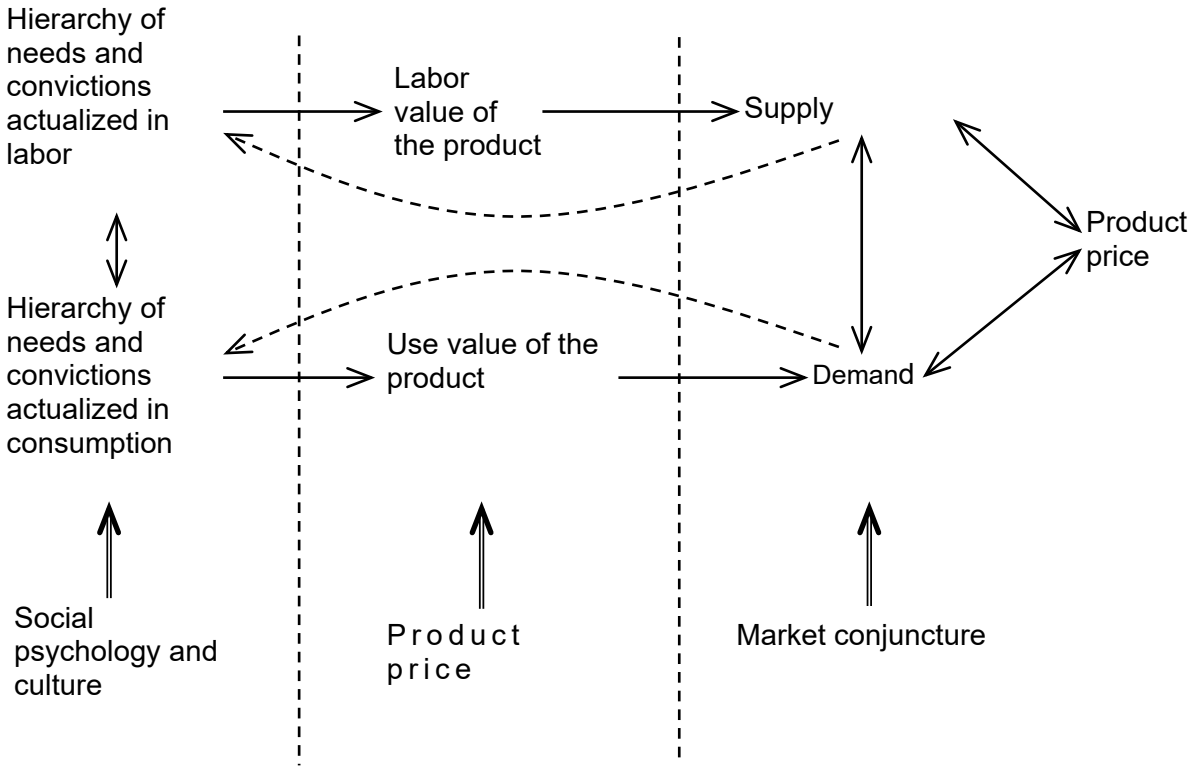

Fig. 2.3. Logic and dynamics of the market

In addition to what has already been described, the figure illustrates two inverse connections that express the dependence of socially normal needs and convictions, and values, on a supply-demand ratio (including price). These connections can actualize in a long-lasting and significant market imbalance: a habitual *deficit and high prices subjectively raise the labor and use values of the product* in the eyes of the socially normal consumer, while an abundance of goods and low prices subjectively reduce the labor and use values of the products. *In other words, a persistent deficit increases not only the subjective value of goods but also the labor necessary for production, while a persistent abundance lowers the value of both*. In conditions of sustainable abundance, the pampered consumer ceases to value objectively important and vital goods (along with the labor behind them), whereas a deficit can add value to objectively senseless and useless goods (along with the labor behind them).

Everything is bound to everything in the market economy.
Consistent market patterns are closely connected with social psychology and culture.
The market economy, like politics, ideology, and other domains of social life, is influenced by psychology and culture.

16. Value and its components

In the previous chapters, we reached the conclusion that labor and use values are defined by a socially normal hierarchy of values (needs and convictions). In terms of labor value, these are values actualized in labor, while in terms of use value, they are values actualized in consumption. However, the *labor values are closely connected with consumer values in the market society: both are mutually reinforcing components of the integral system of values in a given community (a given culture)*. Besides, one and the same person may be both consumer (buyer) and producer (seller). Hired workers sell their labor and buy the products of someone

else's labor; entrepreneurs sell production tools and buy consumption goods to other entrepreneurs. This way, labor and use values are not only coordinated notions but also systematically connected, which supports the applicability of the unified notion of "value" introduced earlier in the book[139].

Value is a system-related inner feature of a commodity with the following components:

a) labor value, and

b) use value.

Value and its components are deeply rooted in the integral system of values in a given society (culture).

Value and its components are mostly qualitative, subjective, and ambiguous notions.

The market successfully transforms them into objective, quantitatively definite prices of goods that market subjects reckon with.

As was shown, value components[140] are actualized depending on the market conjuncture.

When the market is balanced, the products are evaluated according to their *labor value* (which is defined by the hierarchy of values actualized in labor) while use value has almost no effect on the product price (however, *it has an influence on the demand and, as a result, supply*).

When the market is dramatically imbalanced in favor of sellers or buyers (due to a significant shortage or abundance of goods), goods are evaluated almost exclusively on their use values (that is, determined by the hierarchy of values actualized in consumption). Labor value (lower than the price in conditions of product shortage and higher when there is abundance of products) does not have any significant effect on the price.

In a moderate market imbalance in favor of sellers or buyers (a notable shortage or abundance of goods), the goods are evaluated on both value components (according to the integral hierarchy of values in the given society). Having said that, we should note that *the connection between the actual cost and the price can be complex and ambiguous*.

Hence:

1) an *even conjuncture* (demand-supply equilibrium) favors the purchase and sale of the goods corresponding to their labor value;
2) an *extremely off-balance conjuncture* (nonequilibrium of supply-demand) encourages the sale-purchase of the goods according to their *use value*;
3) a *moderately off-balance conjuncture* (moderate supply-demand equilibrium) does not encourage purchase or sale with their labor or use values.

Market conjuncture may or may not favor the sale and purchase of goods at prices that reflect their labor and use values.

Value components are reflected in the price only in extreme cases: only when the market is in balance or in extreme imbalance.

Market balance depreciates the use value of a product while adding significance to the labor value; a sharp imbalance depreciates the labor value and adds significance to the use value. Correspondingly, when a market is balanced, the hierarchy of labor values prevails, while, when out of balance, the hierarchy of use values is given priority.

The stronger the imbalance to either of the extremes, the bigger the weight of the use value in the pricing (price formation) and the smaller the weight of the labor value. Correspondingly, in the former case, the hierarchy of values *actualized in consumption* acquires a stronger significance, while the meaning of the hierarchy of values *actualized in labor* becomes weaker.

To recap, let us point out once again that use value is more subjective than labor value. Therefore, *the more extreme the market imbalance, the greater the role given to the subjective factor in price formation, while the objective factor is not viewed as a decisive.*

One of the most important pragmatic conclusions is as follows: the more extreme the market imbalance, the bigger the significance and role given to advertising.

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[139] See the section "Product property: price and value."

[140] See the sections "Balanced (equilibrium) markets" and "Imbalanced (volatile) markets."

17. Total value

We have admitted before that we can overlook the use value of supply and labor value of demand to keep the story as simple as possible[141]. So, we have presumed that labor value is important only for the seller (producer) while use value concerns the consumer (buyer). This works in most cases: It is easy for consumers to consume food products and clothes and use transport services and many others while producers do not have an interest in the products themselves except for selling them.

However, situations occur in a market economy when

1) it is difficult not only to manufacture the product but also to consume it, and
2) the product (as it is in its natural form) is valuable not only for the consumer but also for the producer.

Labor value may be important for both the seller (manufacturer) and the buyer (consumer).
Use value can also be interesting for the buyer (consumer) and the seller (manufacturer).

Issues from the side of the buyer (consumer) arise when

a) the consumption/application of a product requires a certain qualification, physical or mental strain, or is dangerous (for instance, computer work or driving a car);
b) the consumption/application of a product is impossible without extra expenses, which means it requires another product of labor converted into money (computer software, gasoline);
c) the purchase and transportation of a product, its storage as well as its maintenance require additional effort and additional funds (fixing the car, replacing the hardware).

Natural value is important for the producer in the following cases*:*

1) the product itself represents actual value for the seller, thus they willfully give it away so as to acquire other products they need more (for instance, a malnourished farmer who sells food in order to purchase clothes or construction materials);
2) the product (in its natural way) is potentially valuable for the seller, and the seller consciously gives it away for the sake of
   a) earnings,
   b) rental payments/mortgage,
   c) commission,
   d) profit.

For instance, the labor a seasonal worker sells to the farmer could be applied to their own vegetable plot; a piece of land, a shop, an apartment, and any other real estate is rented out instead of being used by the owner. The money that could be spent/wasted on food and other consumption goods is lent or invested and reinvested in stock, production tools, or hired labor. In all these cases, the fiscal benefit from selling the product outweighs the benefit from its direct use or consumption. Otherwise the product would not be on sale.

Situation 1 (actual value for the seller) is more peculiar to the simple market of *end-products*. Situation 2 (potential value for the seller) is more inherent to the capitalist market of resources (labor, natural, produced, or financial resources).

Additional costs can be identified in a similar way to main costs:

The *labor value of demand* is the quantity and quality of labor socially necessary to buy and consume the product.

The *use value of supply* is the socially accepted natural value of a product for producers/sellers.

Taking these costs into consideration, we can understand general notions as follows:

Total labor value signifies how hard it is for an average "socially normal" producer/seller and average "socially normal" consumer (buyer) to create, sell/buy, and consume the given product.

[141] See section "Use value and demand value".

Total labor value is an additive value in monetary form and can be split into the:

a) labor value of production/sale or, in other words, *labor value of supply*;

b) labor value of consumption/purchase or, in other words, *labor value of demand*.

Total consumption value signifies how much the given product (in its natural way) is necessary, desirable, or useful for the average "socially normal" consumer.

Total consumption value is a nonadditive value in monetary form; it consists of two incompatible and quite subjective values:

a) use value for producers/sellers or, in other words, *use value of supply*;

b) use value for consumers/buyers or *use value of demand*.

More specifically, total costs may be determined in the following way:

Total labor value is the quantity and quality of labor socially necessary to produce, sell and purchase, and consume a product.

Total use value is the socially accepted natural value of a product for both producers/sellers and consumers/buyers.

The total cost/value for "labor" as a product is specified as follows:

The *total production value of labor shows how difficult the labor is for the average "socially normal" worker*, the average "socially normal" employer, *and the buyer of the service*.

Bought (hired) labor requires managerial effort, revision, emotional training, and time from the employer. To illustrate, a farmer who wants to actualize the use value (consumption cost) of his day workers' labor needs to organize their work and working conditions properly, control the quality of the work done, and prevent or resolve arising issues (conflicts). As for the buyer, they may need to make an effort to use/consume the service. For instance, a student at a private college needs to make a significant effort to actualize the use value of a teacher's services. The same difficulty lies in trying to actualize the value/cost of medical services.

Total labor use value shows how much the particular labor is needed (important, desirable, useful) *for the average "socially normal" worker*, the average "socially normal" employer, *and the buyer of the service*.

The labor that workers sell not only has *potential value* (as was illustrated above) but also quite *real use value* (labor as a necessity, as a means of self-actualization, communication, or the acquisition of various skills). In other words, *from the standpoint of people who are driven and appreciate communication but do not have their own production tools, the natural value of labor may be actualized only when it is sold and purchased*.

The notion of labor value can be applied to a consumer while the notion of use value can be applied to a producer. This allows us to introduce a new term, "total value".

Total value—the inner system feature of a product, with the following components:

- either

a) *total labor value*—quantity and quality of labor socially necessary for the production, sale, and purchase as well as the consumption of a product;

b) *total use value*—socially accepted natural value of a product (for both producer/seller and consumer/buyer);

- or

a) *(total) production and sales value = (full) supply value*—the quantity and quality of labor socially necessary to produce and sell a product combined with the socially accepted *natural value* of a product for its producers/sellers;

b) *(total) acquisition and consumption value = (full) demand value*—the socially accepted natural value of a product for its consumers, combined with the quantity and quality of labor necessary for the purchase and consumption of the product;

- or

a) *labor cost of production and sale = labor supply value*;

b) *production and sale use value = use value of an offer*;

c) *acquisition and consumption labor value = labor demand value*;

d) *production and acquisition use value = use demand value*.

Total value =
= {total labor value; total use value} =
= *{total supply value; full value of demand}* =
= {labor value of supply; use value of supply; labor value of demand; use value of demand}

As can be seen, total value can be split into its components in three different ways. Whether each of them is reasonable to apply is defined by the specific features of a product, market conjuncture, and the cultural-psychological characteristics of the market players. However, as we can see, in most cases it seems natural to split total value into *total supply value and total demand value*.

Despite some non-additive components, "full value" is an integrated single notion (though difficult to structure) because at the end of the day it's all about the integral system of values of the given society (culture).
"Total value" is a qualitative, rather subjective, and thus ambiguous notion. However, through trial and error, the market makes total value, and its components, quite objective and transforms it into a more or less definite price acknowledged by all market players.

How do the additional cross costs introduced in this chapter affect the product price?

On the whole, the *non-zero use value of supply actually boosts the "usual" labor value of the product along with the product price* in the balanced market (because the product value is growing in the eyes of the producer). The non-*zero labor use of demand actually decreases the "usual" use value of the product along with its price* in the imbalanced market (because the value of the product for customers is falling). This way, additional values bring non-equilibrium prices closer to the equilibrium price, thereby minimizing the price dependence on market conjuncture.

There are a few important exceptions to this rule, however. If the use value of supply is actualized as the result of the product sale (as happens when selling an intrinsically valuable product), the total supply value may appear lower than its labor value and the equilibrium price is going to fall. When the high labor value is viewed by customers as a useful quality of the product (a car viewed as not only a means of transportation but also a great chance to develop driving skills), the product's total demand value may appear higher than its use value and the non-equilibrium price is going to rise. In both cases the gap between the equilibrium and non-equilibrium prices will grow, and consequently the dependence of price on market conjuncture will also grow.

There are situations when additional values outweigh the main values. To put it simply, the use value of a product is higher than the labor value, or the labor use value from the customers' point of view is more significant than the use value. These additional values can both increase the main values and decrease them, depending on the needs and purposes of the sellers and customers.

Labor value and use value, while being features of the same product, do not always contradict one another. They can compound, deduce, entangle, and flow into one another, creating unpredictable and complicated effects. Labor value and use value have a common ground, which is the integral system of values of the given society (community), thus having a general but controversial purpose in the market economy.

18. Value and price of natural resources

The concept of total value, introduced in the previous section, allows us to deal simply and logically with what was an albatross around the neck, the issue of "virgin soil," which cannot be resolved within the frames of the known monist doctrines[142]. Here we are going to speak about a situation where *there is no labor input in the product* (at the time of selling it). This situation occurs when pristine natural resources are sold while being someone's private property. These can be uncultivated lands, presumed deposits of extractable resources, wild forests or meadows, a riverbank, or a plot on the seashore. It is obvious that the total supply value of these resources is far from zero despite there being no labor constituent. This happens on account of the significant consumption/use constituent connected with the potentials and actual needs of socially

[142] The labor value of classical economists is unable to resolve this problem because it neglects the use value of supply; the theory of use value in marginalism cannot either since it neglects the labor value of demand (and labor value on the whole).

normal sellers[143].

The equilibrium price of a product with a zero-labor value of supply is fully defined by the use value of supply (according to the general logic of supply-demand interaction)[144]. Socially normal sellers do not want to sell the resource cheaper than the monetary equivalent of their own needs and the potential opportunities connected with the resource; if potential buyers are ready to pay more, the price will be cut by the competing sellers (the price will be cut until it is the monetary equivalent of the mentioned needs and opportunities).

Potential opportunities that the sellers are ready to neglect boil down to the a) chance to rent it out and receive steady repetitive payments instead of selling it and getting a one-time profit, b) profit that could be enjoyed if labor was contributed to the product, and c) product that could be gained if the seller put in their own labor. *Actual needs* that sellers are usually ready to neglect are connected with a) direct usage/application (rest, hunting, and fishing in the wilderness), b) indirect usage/application (real estate as an object of investment), and c) the high social status of a landowner.

If the possibilities of average sellers are limited and their needs are not as important as others (use value of supply is not high), then the *equilibrium price* is going to be low regardless of how the buyers estimate the value of the resource. This happens when sellers are poor and buyers are rich. For example, farmers in the Wild West obtained vast land plots that they were unable to cultivate themselves. There were no potential tenants or workers for hire. However, there were Indians around who would lay claim to the land. In other words, they could neither exploit the resource nor just keep it (because it was too risky). The supply value then is close to zero. The same applies to the equilibrium price despite the high supply value from the side of wealthy cattle dealers and oil producers who could protect the property they bought and exploit it efficiently.

However, the competition in the market of pristine natural resources is far from perfect. In the past, in times of new land developments, supply often exceeded demand; in modern times, as almost all the exploitable land is in private ownership, demand usually exceeds supply. According to the general logic of the supply-demand interaction, the *nonequilibrium or pseudo-equilibrium price of a product with zero labor value of supply is to a great extent determined by the demand value, both use value and labor value (in a market with imperfect competition)*[145]. If the buyers' possibilities are great and the needs associated with the resource are currently important, then the total demand value is going to be high regardless of the labor and finance investment that will be needed later. Correspondingly, a resource in limited supply would have a high price as well (regardless of the resource value in the eyes of the sellers).

As a result, the price for pristine land is determined the same way as prices for any other product: when the market is balanced, sellers play a decisive role in price formation; when the market is off-balance, the price is determined by the buyers.

The market of products with a zero-labor value of supply behaves the same way as any other market: when the market is balanced, the supply plays a decisive role in price formation; when the market is off-balance, the price is determined by demand.

The specific nature of this market lies in the following:

a) the equilibrium price is determined by the demand value of supply,

b) the nonequilibrium price depends not only on the use value of demand but also the labor demand value.

Along with the sale and purchase of pristine natural sites (objects), the *sale and purchase of non-labor services* associated with the ownership of such sites is also practically important. This sort of service includes, among others, renting out pristine land or land rich in natural deposits, and the sale of the right to use unmanaged meadows, forests, and rivers (for cattle grazing, berry and mushroom collecting, hunting, or fishing).

The equilibrium price of the rent or usage is, once again, determined by the demand value of supply, namely: a) the earning capacity (product or money) the seller loses, b) infringed needs (for instance, horse riding on the wild prairie), c) subjective inconvenience ("strangers on my land").

If the sellers' possibilities and needs mentioned above do not seem to be of significance, the equilibrium price of the lease or usage falls to nearly zero (or to the price that is interesting for the seller or

[143] See the section "Total value."
[144] See the section "Equilibrium law" and "Balancing (stabilization) of market."
[145] See section "Imbalanced (volatile) markets".

even a symbolical sum of money proving the ownership title). Moreover, if the owner wants to cultivate their land, the lease and usage can be provided for free (for a certain time). This means that the owner and the leaseholder (user) exchange objects or services of equal value: the owner provides a piece of land while the user cultivates this land (retaining the yield and returning to the owner a cultivated land plot ready for further exploitation).

If the owner is a monopolist or oligopolistic (the supply of similar land plots or services in the given region is small compared to demand), the lease price will be far from symbolic. Its accurate cost will be determined by the demand value—both the use value and the labor value. Correspondingly, the higher the possibilities and needs of users (leaseholders) and the less labor and extra costs the primary land cultivation will need, the higher the nonequilibrium price.

The balance in the market of unspoilt natural sites (and the non-labor services associated with them) depreciates the demand value and adds the price to the demand value of supply.
The imbalance in the market of unspoilt natural sites (and the non-labor services associated with them) depreciates the supply value and adds the price to the demand value (both the use value and the demand value).

19. The equilibrium law (general case)

The concept of "total value" and its representational application to the methodically complex market of natural resources allows the formulation of the equilibrium law, which embraces all the market situations possible.

The equilibrium law (general case)

In conditions of balanced (equilibrium) highly competitive markets, goods are sold and bought exclusively at the supply values,

i.e., if supply = demand, then price = total supply value

and vice versa:

highly competitive markets are balanced at prices equal to supply values,

i.e., if price = total supply value, then supply = demand.

It should be noted, however, that this law of equilibrium in its generalized form does not work as accurately as its specific analogue due to the subjective and ambiguous nature of supply value[146]. Put simply, *the market becomes balanced when the price is equal to the total value of supply*. Real prices fluctuate at the supply value, being markedly lower and then rising markedly higher. The same can be observed with conjuncture: sometimes demand exceeds supply; at other times, it is the reverse. This approximation is unavoidable and confines the equilibrium law to situations where the "specific analogue of the law" stumbles, where "additional/extra" values—use value of supply and labor value of demand—have significant meaning.

20. Measurement units for value

How can we measure value? Are there measure units?

Let us first consider the usual values, such as the labor value of supply and the use value of demand, and overlook any additional/extra and cross values such as the use value of supply and the labor value of demand, for now.

It is a challenging task to identify a value measurement based on the internal features of a product. *The direct measurement of labor values* in working time units is possible only for simple and a few types of complex labor (along with their products)[147]. *The direct measurement of use values* is possible only with similar products, given that the measure units within each group will be unique. For instance, it is customary to measure the use value of food products in calories; the value of a computer is measured by its computing power, storage space, fast operation, and so on.

At the same time the market allows indirect value measurements (not always actualized in practice, though). This measurement is based on external product features, important during the exchange of products themselves. The exchange properties of any product are represented in its price but the price depends not only on the product value but also on the market conjuncture. Can we put aside this volatile circumstance

[146] See section "Law of equilibrium".
[147] See the section "Labor value."

and *estimate* the *actual value* in price, i.e., the value corresponding to the actual system of values in the given society? Can we estimate labor value and use value separately? Yes, we can, though not always.

Based on the features of balanced and imbalanced markets, the following measurement criteria are put forward.

The labor value of supply is known to be clearly represented in the equilibrium price, the price for a product in a highly competitive balanced market. But how can we determine that the market is balanced and the price has caught up with the labor value? The stabilization of price and supply can serve as a good criterion. If the price is fixed at a level higher than the equilibrium point, the supply is going increase (bringing the price down to the point of equilibrium). If the price became fixed lower than the equilibrium point, the supply is expected to fall (raising the price to the equilibrium point). Only a long-term stabilization of market and price can signify the balance of the market and the equality between the price and the labor value.

If due to the imperfect competition among sellers and buyers the market goes off balance, the exit price for a product differs from the labor value and cannot serve as a measure unit of the latter. In this very case, the equilibrium entry price becomes a player. In other words, in capitalism, equilibrium production costs are equal to the money spent on production and the hired labor used[148]. Every capitalist knows their actual production costs; however, they can be concealed from an outsider. Besides, it is left to see if those costs are "socially normal" and equilibrium since only such costs can serve as criteria of the labor value). A self-employed entrepreneur, unlike the capitalist entrepreneur, often has a vague or distorted picture of their production costs because one's own work can seldom be evaluated objectively. In any case, simple commodity markets are always highly competitive, which allows the market players (as well as an external observer) to ground their labor value not on their expenditures/costs but on market prices.

In simple markets that are leaning towards equilibrium, the labor values of different products (expressed in equilibrium prices) can be estimated simultaneously. In integrated capitalist market conditions, however, an overall equilibrium leads to a crisis[149]; crises depreciate the labor values of most products (labor itself included). Therefore, a simultaneous estimation of labor values is possible only in the equilibrium phase of stagnation[150].

We can use two criteria to determine the labor value of supply: explicit—the equilibrium product price ("exit price"), and implicit—the equilibrium price of its production factors ("entry price").
"Exit price" is applied to simple markets while "entry price" (with the mentioned provisions) works in capitalist markets.

Along with more or less objective criteria, equilibrium prices, and equilibrium expenses, we can also use subjective criteria to estimate labor value. To do this we must understand how valuable the product is for its sellers.

In a simple commodity market, the labor value of supply is represented in the average price at which a socially normal seller is ready to sell their produce.

In a capitalist market, on the other hand, the labor value of supply is represented in the minimal price at which a "socially normal" seller is ready to produce and sell their produce.

Here we should make a few explanatory notes:

1) A "socially normal" producer is a producer with an average production yield and average needs.
2) The "socially normal" producer's main need is an average monetary return (not, for instance, the goal to decimate competitors at any cost).
3) Average productivity means "socially normal" expenses (own labor expenses included) per produce item.
4) The "producer agrees to produce and sell long-term"—and not to go a "one time make and sell" round. We are talking about a long-term repeated process, generally profitable for the seller. Produced items can often be sold in the red. It does not mean, however, that the entrepreneur will continue doing business knowing it does not pay: they will try to either reduce costs or sell facilities for the fraction of their price and leave the market. A special case is a misbalanced labor market

[148] See the section "Profit and its sources" (in "Capitalism").
[149] See the section "Capitalist cycles and crises" (in "Capitalism").
[150] See the section "Capitalist cycles and crises", fig. 6 (in "Capitalism").

where workers must sell their labor at a cost lower than its value[151].

It is apparent that, as a rough approximation, "average rice" and "minimal price" is the equilibrium price of a product, equal to its labor value. *The equilibrium price suits the entrepreneur operating in a simple market; however; it hardly suits the capitalist who wants profit. The equilibrium price is the desired destination for the self-employed entrepreneur. For a capitalist, the equilibrium price represents the point of retreat under the pressure of circumstances. It is exactly this asymmetry of entrepreneurial desires that reveals the essential difference between simple and capitalist markets*[152].

In our estimation of the use value of demand, we can take a cue from the socially normal buyer's behavior since there are no objective criteria. The situation clears up in conditions of extreme market imbalance, exactly when the use value is reflected explicitly in the price[153]. The way things shape up reveals *the true hierarchy of values of a socially normal consumer* who is ready to pay an extremely high price for the products they deem necessary, and *a reasonable price* for the products that are not vital. Buyers can also spend a *little money on things they do not need as long as it does not harm their family budget*.

The use value of demand manifests in the maximal price a socially normal consumer (with socially normal needs and a socially normal paying ability) is ready to pay for a product.

But how can we determine that the market is extremely imbalanced with prices rising or falling to the use value? The most apparent sign may be the collapse of demand or, vice versa, increase of demand, as well as the termination of business operations in the market or their rapid expansion. In the case of an imbalance in favor of sellers, an average buyer exits the market, while in the case of an imbalance in favor of buyers, average buyers enter the market. In the former case, a product commonly in stock becomes unavailable; in the latter case, the unavailable product returns to the shelves. When some products disappear, buyers seek cheaper substitutes (no vodka in the market means buyers will replace it with samogon) or their system of values adjusts to fit a new market situation (meat, as a staple product, may be replaced by potatoes), or people may start their own little production—start vegetable plots, fall back on popular natural remedies, and so on. When new products arrive on the market, consumers get used to them, including them on their necessities list (goods bought on sale can be included on this list and some complimentary services as well).

Therefore, *the use value is expressed in a price at which the average buyer is just about to leave the market or just about to enter*. It is clear that it is near to impossible to define this fluctuating and mobile point of marginal imbalance. Besides, the market may not actually reach this point[154]. Therefore, there is nothing left but to rely on "public opinion": *the price that is considered by the general public to be the maximum permissible is the price reasonably reflecting the actual use value of a product at a given moment*. It is clear that such a criterion for use value is far from being accurate or objective. However, the use value itself is hardly accurate or objective. Let us take a closer look at it.

When the price is on the edge, public opinion is changeable: The price that today seems exorbitant can tomorrow be viewed as admissible or even normal. As a result of such psychological adaptation, a product price may increase without any changes in its use value. Granted the objective value is stable, the changes in the use value occur under the effect of external circumstances (outside the market), which could be inflation, an increase/decrease of the household purchasing power, recent price developments in other markets, and so on. Finally, the use value can change dramatically (both ways) because of objective reasons: the use value of medicines increases during a disease outbreak, the use value of weapons collapses as military activities subside, the use value of transportation services also fluctuates depending on the season of the year, and so on.

However, sometimes use values may not be reflected in the price—mainly because of the weak purchasing power of the average buyer. Does this mean that a product with high use values and unavailable for the mass buyer because of its high price does not have any use value at all? No. It means that the monetary evaluation of this product is impossible for the time given; therefore, the use value of such non-saleable goods can be measured in natural units (power durability, speed). Not all use values can be reflected in price—again, due to the weak purchasing power of the average buyer. However, the labor value of a scarce product

[151] See the section "Profit and its sources", chapter "Source 3" (part "Capitalism").
[152] See the section "Simple market and capitalist market" (part "Market") and "Entity of capitalism" (in "Capitalism").
[153] See the section "Imbalanced (volatile) markets."
[154] See the section "Imbalanced (volatile) markets."

(in the capitalist market) can be monetarily estimated by its potential (based on "socially normal" production costs); the use value cannot.

Both the use value and labor value of any commodity are estimated (measured) in monetary units—universal exchange method.
Fragmentation of the use value and the labor value from the unit price is possible only in two cases:
The labor value manifests itself in pure form when the market is balanced, whereas the use value reveals itself at the extreme market imbalance.
In other cases both values are represented by price and cannot be extracted.
Before a product enters the market, both values have a latent, potential nature.
Values actualize in price only at the moment of sale and purchase.

The labor value of most products decreases when production efficiency grows[155]. The monetized use value grows when the purchasing power of buyers grows—along with salary and income growth and general productivity efficiency growth. This way we can see that productivity efficiency affects both labor and use value. It influences labor value directly and use value indirectly through consumer purchasing ability. The higher the productivity efficiency, the cheaper sellers will sell their produce, and thus more buyers will be ready to pay for it. As a result the gap between the labor value and use value widens in the sellers' market and shrinks in the buyers' markets. In simple pre-capitalist market conditions, use value and labor value were quite close: the way sellers estimated the labor invested in a product was close to the way buyers estimated the product itself, which brought the market of mass consumer goods close to equilibrium. Nowadays, however, the gap between the labor value and use value of many products is huge. To illustrate:

a) many objectively important and even necessary products are cheap (salt, bread),

b) newly-designed gimmicks in household or communication goods industries are sold a few times more expensive on the temporarily monopolist markets than their old analogues with a similar capacity.

Completing our analysis of usual values, it should be noted that in all the cases viewed above, we imply the readiness of the average market players to exchange goods/services for money. This readiness reflects the average hierarchy of values in a particular society within a particular culture. However, the range of individual qualities and needs can be wide. Some sellers are ready to sell their product cheaper than the equilibrium price and are able to do so because their production costs are lower than those "socially normal" (typical of capitalist modernizers)[156], or because they deem it okay (typical of a simple market where it is hard for entrepreneurs to estimate their own work objectively). Sometimes producers/sellers simply do not have any storage/warehouse space available for keeping their goods for a long time, they urgently need cash (typical of capitalists in times of crisis), or selling this product basically means to survive (typical in periods of mass unemployment). At the same time, some buyers are ready to pay more than the average price because they are richer than average consumers or because they value the product more. That is why "*socially normal*" *values, especially use value, are nothing more than a fuzzy set and, as a rule, their monetized estimation is impossible. The range in consumer taste and purchasing power is too vast*[157].

Additional ("cross") values, the use value of supply, and the labor value of demand do not bring about any changes in the principle of value estimations. The quantitative estimation of labor and use values in the same monetary units in simple cases allows the finding of complex values by means of the algebraic aggregation of their components.

However, the system effect of the consumer (use) value – labor value combination may introduce significant alterations to the result of this summation. For instance, the total value of supply may appear to be higher than the simple sum of its labor and use components.

Besides, a non-zero use value of supply generally increases the quantitative ambiguity of supply value while a non-zero labor value of demand reduces the ambiguity of the demand value.

The use value of supply sometimes manifests upon the imbalance of the simple market. Here we are talking about a price that results in a small business winding up while its owner shifts from actualizing the labor value of their goods to actualizing the use value of their goods. To illustrate, they may make some juice

[155] See the section "Labor value, wages/salary, and productivity of labor."
[156] See the section "Profit and its sources", chapter "Source 1" (in "Capitalism").
[157] There is a wide variance in consumer tastes and purchasing power, which means: a) demand drops (to zero) or grows (up to impressive figures) gradually, without abrupt changes, and b) the notion of "marginal imbalance" becomes blurred. Such demand is commonly referred to as *elastic demand* (Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 65–73).

or jam (for own consumption) out of the fruit they failed to sell. This is exactly the price that realistically expresses the actual use value of supply.

The total value of supply is expressed in the equilibrium price of a product or the equilibrium costs of its production.
The total value of demand is expressed in the maximum price that the average consumer is ready to pay for the product.

The estimation of untouched natural resources and the services associated with them needs a detailed analysis.

There are two topics on which we have only hit the high spots:

1) estimation of values in simple and capitalist markets (separately), and
2) estimation of values in different stages of the capitalist cycle[158].

21. Deductive clustering

We commenced our discussion of value with the supply value and demand value. Then, to keep it simple, we transitioned to the most specific case (labor value and use value). Finally, based on all the data analyzed in the process, we came to total value.

In this section we are gradually moving towards the specifics in our top-down approach.

- *Total value* (or simply value) is a compound notion that characterizes the internal inherent properties of a product. *The price depends on the product value and the market conjuncture* (paying demand-supply ratio).
- *Value components:*

a) labor value of supply
b) use value of supply
c) labor value of demand
d) use value of demand.

The synthesis of the first two components forms the *supply value* while the last two components form the *demand value*. The value components affect each other and, in the process of price formation, give rise to complex system-related effects.

- *Value and its components are mostly subjective and ambiguous*. As a rule, the subjectivity and ambiguity of the use value are higher than the subjectivity and ambiguity of the labor value. The subjectivity and ambiguity of the demand value are, as a rule, higher than the subjectivity and ambiguity of the supply value.
- *Value and its components are interrelated with the system of values inside a particular society (particular culture)*. Labor value is a complex implicit function of a socially normal hierarchy of needs, expectations, and convictions actualized in labor, while use value is a complex implicit function of a socially normal hierarchy of needs, expectations, and convictions actualized in consumption.
- Outside the market, value and its components have a potential and latent character. *Value is actualized and becomes objective in price at the moment of sale and purchase*.

The components of value are actualized in particular situations: *the supply value is actualized when the market is balanced, while the demand value is actualized when the market is off-balance*. Both supply and demand values have power when the market is moderately balanced.

- Nontraditional (cross) components of value—*the use value of supply and the labor value of demand*—have power at the sale and purchase of untouched land resources and associated services.

In most cases these components may be neglected.

If this happens, "*value*" *is split into*

1) the labor value of supply, and
2) the use value of demand.

Labor value is actualized when the market is balanced while use value is actualized when the market is significantly imbalanced. When the market is moderately imbalanced, both values have power.

[158] For information about the cyclic dynamics of value in capitalism, see "Capitalism" (section "Capitalist cycles and crises", chapter "Dynamic of value").

"*Total value*" *is a complex system of different "values" actualized depending on the market conjuncture.*

22. Comparison with other theories

22.1 Labor theory of value by Karl Marx[159]

Our theory of value has both similarities and differences with the theory of value by Karl Marx. Both similarities and differences are viewed as significant.

22.1.1 Basic similarities

1) The concept of two "values" reflecting the *producer-consumer dualism of a commodity*.

2) Acknowledgement of the fact that *labor value* is important for price formation.

These similarities may serve as a dividing line between the theories that are being compared and between the theories based on the "subjective value theory."

22.1.2 Main differences

See table 2.1 for the main differences between the theory of value by Karl Marx and our theory.

Table 2.1. The main differences between the theory of value by Karl Marx and our theory

Theory of value by Marx	*Our new economic theory*
1) Market: Type, norm, and condition	
Equilibrium is regarded to be the normal condition of a market (both the *simple commodity market* and the *capitalist* market), (quotes in table 3.3 (rubric1))[160]. The possibility of *imbalanced* is implied but mostly neglected[161].	The market is supposed to be able to enter *any condition*: both equilibrium and *non-equilibrium*. *See the sections "Balanced (equilibrium)markets" and "Imbalanced (nonequilibrium) markets"* *Non-equilibrium* is viewed as the normal condition of the capitalist market. *See the section "Philosophy of capitalism," chapter "Balance and imbalance" (part "Capitalism")*
2) Two "values"	
2a) A commodity is characterized by "*two values*": a) "*use value,*" and b) "exchange value" or simply "value"[162].	In the most meaningful case, a commodity is characterized by two "values": a) "*use value*" and b) "*labor value*". *See the section "Labor value and use value"* Generally, a commodity is characterized by "*total value*" with the following components: a) "*supply value*" (labor value and use value are included), and b) "*demand value*" (labor value and use value are included). *See the sections "Supply value," "Demand value," and "Total value"*

[159] Marx, K. (1969), *Value, Price and Profit*, International Co., Inc, New York, p. 13–18, 23–30, 27–104.
[160] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 69–71.
[161] Ibid, p. 27, 69–71.
[162] Ibid, p. 27.

2b) Use value characterizes the utilities of a commodity (its usefulness), while exchange value embraces the *exchange capacity of a commodity*[163]. The exchange capacity, therefore, embodies *the equilibrium price*[164].	Use value of the commodity (consumer appeal) characterizes the utilities of a commodity (its usefulness), while labor value of supply characterizes the difficulty of its production. See the sections "Labor value" and "Use value" Commodity exchange capacities are characterized not by "value" but by "*price*". *See the section "Price"*
3) Univocacy—Equivocacy	
"Use value" and " value" are qualitatively ambiguous notions: they are both a) properties of a commodity ("usefulness" and "a commodity itself")[165].	Use and labor "values" are univocal notions (commodity properties). *See the section "Labor and use value"*
4) Equivalence—Nonequivalence	
Use value is a necessary prerequisite of the exchange capacity of a product. *Exchange capacity is also only a price formation factor*. "*Nothing can have value without being an object of utility*. [here and further underlined by us – A. Zh.] If the thing is useless, so is the labor contained in it; the labor does not count as labor, and therefore creates no value."[166] "It is not money that renders commodities commensurable. Just the contrary. It is because *all commodities, as values*, are realized human labor, and therefore *commensurable*, that *their values can be measured by one and the same special Commodity*, and the latter be converted into the common measure of their values, i.e., into money. Money as a measure of value is the phenomenal form that must of necessity be assumed by that measure of value which is immanent in commodities, labor-time"[167]. *Please view the quote and the commentary to it in the following rubric*	*Use value*, as a necessary condition for the exchange capacity of a commodity, takes part in *price formation*: a) use value of *demand* – when market is off-balance; b) use value of supply – in case of the natural value of a commodity for seller. *See the sections "Value and its components" and "Total value," respectively* In some important cases: a) dramatically *imbalanced* markets, b) balanced markets of unspoilt natural resources and associated services, use value is the only price formation factor. In case a) – use value of demand and In case b) – use value of supply. *See the sections "Value and its components" and "Value and price of natural resources," respectively*
5) Compatibility—Incompatibility	
"Use value" and "value" are quantitatively incompatible notions: "value" ("magnitude of value") can be measured whereas "use value" ("value substance") cannot. "The Two Factors of a Commodity: Use-Value and Value"[168] (see also:[169])	Use value and labor value are, in general, *qualitatively comparable*; both lend themselves to a uniform dimension. *See the section "Measurement Units for Value"*

[163] Ibid.
[164] Ibid.
[165] Ibid, p. 27–30, 35.
[166] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 30.
[167] Ibid, p. 67.
[168] It can be inferred already from this paragraph (the first one in *Capital*!) "use value" and "value" in Marx's theory are quantitively incomparable notions: "value" can be measured, while "use value" ("the substance of value") cannot be measured; consequently, "value" is a pricing factor and "use value" is not.
[169] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 27.

6) Symmetry—Asymmetry	
Use value and exchange value *are nonsymmetrical up to the sales and purchase moment* (they shift right on the axis of time): Exchange value characterizes a commodity as a sales and purchase object (exclusively) whereas use value characterizes a commodity as an object of consumption (exclusively). See references and quotes in rubrics 2b and 4	Use and labor values are *symmetrical up to the moment of sales and purchase* in most general cases (see rubric 2a): Labor value characterizes a commodity as an object of production, while the use value characterizes a commodity as an object of consumption. Commodity, being an object of sales and purchase, is characterized not by value but by price. *See the sections "Labor and use values" and "Price"*
7) Objectivity—Subjectivity	
Both values are regarded as *objective reality*. The subjectivity of values and their relationship to the society and its culture are mentioned, yet neither analyzed nor taken seriously. "These quantities vary continually, *independently of the will, foresight and action of the producers*. To them, their own *social action* takes the form of the action of objects, which rule the producers instead of being ruled by them"[170] (see also:[171]) "In the midst of all the accidental and ever fluctuating exchange relations between the products, the labor time socially necessary for their production forcibly asserts itself *like an over-riding law of Nature*. The law of gravity thus asserts itself when a house falls about our ears"[172] (see also:[173]).	Values (use, labor, and total values) are mostly subjective notions. This subjectivity is conditioned by social culture and psychology. Market is the force that makes values objective and converts them into prices. *See the sections "Labor value," "Use value," "Logic and dynamics of the market," "Value and its components," "Total value"*
8) Independence—Interdependence/mutual influence	
Use value and value feature different properties of a commodity (see rubric 2b) and they are independent of one another... The historical progress and extension of exchanges develops *the contrast, latent in commodities, between use-value and value*."[174] "The process then differentiates them into commodities and money, and thus produces an external opposition corresponding to the *internal opposition inherent in them, as being at once use-values and values*"[175].	Use and labor values generally *influence* one another and take part in price formation, giving rise to *complex system effects*. *See the section "Total value"* *The interdependency of values can be neglected* only with commodities with zero use value of supply and zero labor value of demand—neither too cheap nor too expensive. *See the sections "Labor and use values" and "Logic and dynamics of the market"*

[170] Marx pays a lot of attention to the social nature of value while ignoring its cultural and psychological basis. To admit that value (a basic element of Marxist theory) is dependent on social psychology and culture would mean putting the entire "materialistic understanding of history" on the line.
[171] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 49.
[172] According to Marx, the measure of value is set objectively, with the full compliance to the law of nature. Its subjective and ambiguous nature, predetermined by its psychological and cultural roots, is neglected.
[173] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 49.
[174] Ibid, p. 61.
[175] Ibid, p. 72.

9) Sources of product exchange capacity	
Labor is the only source of the exchange capacity of a commodity; the natural sources of the exchange capacity are neglected. "*All* commodities, as values, are realized human labour."[176] "Price is the money-name of the labor realized in a Commodity.[177] (see also:[178])	The exchange capacity of a commodity is generated by a) *labor* and/or b) *nature*. See the sections "Product," "Supply and demand values," and "Value and price of natural resources"
10) Labor: "Simple" & "complex"	
Labor can be *simple* and *complex*. "Complex labor" can be easily reduced to "simple labor." *The subjectivity and ambiguity* of this transition are neglected.[179]	Labor can be *simple* and *complex*. Complex labor can be subjectively and ambiguously reduced to simple labor. See the section "Labor value"
11) Labor: Abstract & specific Within the frames of this book, this aspect of the theory of value is viewed only in terms of polemics with Marxism and is not analyzed separately and, therefore, calls for clarification. According to Marx, a specific commodity is equivalent to "use value" in which "concrete labor" is embodied. "Use value" which embodies "abstract labor" is equivalent to an abstract commodity (money). That being said, special importance is attached to the "two-fold nature of the labor contained in commodities. This point is the pivot on which a clear comprehension of political economy turns" (Marx, *Capital*. Part 1. Section 2). In fact: a) Various specific forms of simple and complex labor do not boil down to "abstract human labor"; they boil down to specific human labor accepted in society as a labor standard (see the section "Labor value"). This means that both values are generated by quite specific labor: the use value is generated by specific labor as a professional hallmark and the exchange value (labor value) is generated by labor and how hard the labor is. b) The *synthesis of both values* gives the product of labor the *exchange features* of a concrete commodity. c) Money, a commodity of abstract and universal nature, is gradually evolving through all concrete commodities (see "Market," section "Internal logic of the market development," stage 1). Thereby, we disengage from the use and production specifics when it comes to products ready to be sold and purchased but not on the level of labor value.	
Use value is generated by concrete labor while exchange value is generated by *abstrac*t labor. "On the one hand, all labor is, speaking physiologically, an expenditure of human labor power, and *in its character of identical abstract human labor, it creates and forms the value of commodities*. On the other hand, all labor is the expenditure of human labor power in a special form and with a definite aim, and *in this, its character of concrete useful labor, it produces use values*"[180] (see also:[181])	Both values are generated by *concrete labor:* the use value is generated in terms of the *professional hallmark* while the labor value is generated by concrete labor *in terms of its difficulty*. *Partial abstraction* is peculiar to both cases: In terms of use value, we disengage from how hard the labor is; in terms of labor value, we disengage from how useful or necessary the commodity is.

This way, unlike what Marx suggests, our "values" are:

a) *cross-functional* because they embrace all kinds of commodities (both labor and natural sources) and all market situations possible (equilibrium and nonequilibrium) (see table 2.1, rubric 1, 9)

[176] Ibid, p. 67.
[177] Ibid, p. 70.
[178] Ibid, p. 27–30, 49, 246.
[179] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 30–33, 136–138.
[180] Ibid, p. 33.
[181] See also Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 27–33.

b) *qualitatively univocal* (see rubric 3)
c) *coordinated, meaning symmetrical, compatible, and equivalent* (see rubrics 4–6)
d) *increasingly subjective* (see rubric 7)
e) *interdependent* (see rubric 8).

As long as there are a few interpretations of "values," there are significant discrepancies in the way people may understand the sources of the exchange capacity of commodities (see rubric 9). Also, there are discrepancies in the way labor that creates values is viewed (see rubric 10–11).

It should be added that *the varied interpretation of the capitalist norm* (see rubric 1) *has a principal significance way beyond the theory of value by Marx* (see "Capitalism," section "Comparison with some other theories," chapter "Marxian economics").

22.1.3 "Labor" cost and labor value: Similarities and differences

Approaches to *workforce value and labor value* should also be considered separately (according to Marx, the workforce is the object of sales and purchase while in our theory this function is given to labor)[182]. Significant similarities and no less significant differences will be discussed further.

According to Marxist theory, the *work force value is determined by extra market circumstances, which coincides with our theory about labor.*

However,

a) there are various circumstances influencing the workforce value (labor value) (table 2.2, rubric 1);
b) in our theory, the value of the workforce (labor) is made objective by the market itself, which is different from the Marxist theory (table 2.2, rubric 2).

Table 2.2. Main differences between the "workforce" value interpretation by Marx and the labor value concept in our theory

Theory of value by Marx	*Our new theory of value*
1) Workforce value (labor value)	
The value of the workforce is determined by human physiology *adjusted to cultural and historical tradition.* "*The value of laboring power is determined by the value of the necessities* [author italics – A. Zh.] required to produce, develop, maintain, and perpetuate the laboring power"[183]. "Besides this mere physical element, the value of *labor is in every country determined by* a *traditional standard of life*. It is not mere physical life, but it is the satisfaction of certain wants springing from the social conditions in which people are placed and reared up…This historical or social element, *entering into the value of labor, may be expanded, or contracted, or altogether extinguished*, so that nothing remains but *the physical limit*"[184]. *See also quotes from "Capital" in table 3.3 (rubric 5)*	The labor value is determined by the *psychology and culture of a given society.* *See the section "Labor value"*

[182] See rubric 3 in table 3.3.
[183] Marx, K. (1969), *Value, Price and Profit*, International Co., Inc, New York, p. 18.
[184] Ibid, p. 27.

2) Labor value and salary	
The value of the workforce is actualized in the salary/wages *at the balance of power in the class conflict*: "The maximum of profit is therefore limited by the physical minimum of wages and the physical maximum of the working day. It is evident that between the two limits of the *maximum rate of profit* an immense scale of variations is possible. The fixation of its actual degree is only settled by *the continuous struggle between capital and labor*, the capitalist constantly tending to reduce wages to their physical minimum, and to extend the working day to its physical maximum while the working man constantly presses in the opposite. The matter resolves itself into a question of the respective powers of the combatants"[185].	The labor value is actualized in the salary/wages *supply and demand equilibrium* in the labor market. *See the sections "Equilibrium law" and "Measurement units for value"*

22.2 Subjective theory of value (marginalism)[186]

There is one marked similarity between our theory and marginalism, as well as a number of fundamental differences. *Differences are viewed as being much weightier*.

22.2.1 Similarities

Both theories acknowledge *the importance of a subjective factor in value formation*[187]. This similarity may serve as a dividing line between the proposed theory and the Marxist labor theory of value.

Along with the actual similarity here, there is also a superficial similarity. Like our theory, the subjective theory of value relates the consumer properties of a commodity with both supply and demand. Yet, within our theory, framework *supply is represented by manufacturers*, while *demand is represented by consumers*. In marginalism, both parties hardly differ from one another: sellers and buyers simply exchange one good for another, more valuable for them (see table 2.3, rubric 2).

22.2.2 Major differences

The major differences between our theory of value and marginalism are outlined in table 2.3. The Austrian school of marginalism, particularly the basic principles of economic value by Eugen von Böhm-Bawerk, served as the basis for comparison[188].

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[185] Ibid, p. 28.

[186] Small historical reference: *Marginalism* (French. *marginal – limited, margin*) is a theory of economics that was developed in the 1870s. William Jevons, Carl Menger, and Léon Walras are considered the founders of marginalism, while their closest followers were Böhm-Bawerk and Friedrich von Wieser. In the 1890s, Marshall combined marginalism with the classical theory by Adam Smith and David Ricardo, laying the foundation of the neoclassical theory. Another eclectic combination is the synthesis of neoclassic theory with Keynesian theory presented by mathematical economist Paul Samuelson in the 1950s. The neoclassical synthesis has become mainstream inn contemporary economics.

[187] Our understanding of the terms 'value" and "cost" in Russian with the analogues of the German "Wert" is shown in the introduction to the section "Value". However, when applied to marginalism, "value" seems to be a more suitable translation than "cost".

[188] Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 1–167.

Table 2.3. The major differences between the theory of value by Böhm-Bawerk and our theory of value

Subjective theory of value by Boehm-Bawerk	*Our theory of value*
1) Production & consumption: Monism – dualism	
Consumer monism: An absolute supremacy of consumption over production. "What we need is a theory that explains all value phenomena *harmoniously* and completely"[189]. "*A dualistic explanation* of value and price phenomena from two different principles of "utility" and "costs" is *neither necessary nor satisfactory* and an explanation from a single principle ["subjective value" for consumer – A. Zh.] is superior not only for reasons of outer simplicity but also from inner logic and an irrefutable concurrence with the facts"[190].	Dualism of production and consumption: *Both production and consumption* are acknowledged as bearing economic significance (more significantly it concerns the dualism of supply and demand). *See the section "Supply value and demand value"*
2) Types of economy: Applicability range	
Primitive economy/subsistence farming[191]. Sporadic barter exchange, one-off sellout[192]. Quasi-market[193]. Market[194] (see also Böhm-Bawerk's book[195]).	Market economy. The notion of "value" is not applicable to the primitive economy/subsistence farming, sporadic exchanges, and other forms of nonmarket activity. *See the section "Product properties: Price and cost"*
3) Market: Type, norm, and condition	
A simple commodity market and a capitalist market are not differentiated. The notion of "capitalism" is not mentioned. *Stable balance is viewed as a normal market condition.* *Imbalance* is viewed as the starting point of the transition towards the equilibrium.[196]	A distinction is made between *two market types*— simple market and capitalist market. *See the section "Simple market and capitalist market" (in "Market")* The idea is put forward that both types of market can be found in any state, both equilibrium and nonequilibrium. *See the section "Balanced (equilibrium) markets" and "Imbalanced (nonequilibrium) market"* *Imbalance is a normal state of the capitalist market.* *See the sections "Philosophy of capitalism," chapter "Balance and imbalance" (in "Capitalism")*

[189] Ibid, p. 68.
[190] Ibid, p. 167.
[191] Ibid, p. 33–34.
[192] Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 37, 40–42, 51–52, 56–58, 107–108, 109–110, 110–113, 152, 152–154, 156.
[193] Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 113–120.
[194] The entire Böhm-Bawerk's theory is oriented on non-market or quasi-market forms: natural economy, barter exchange, one-off sales, and so on. Therefore, "the major law of pricing" is formulated based on the meticulous analysis of the "isolated" market, where 8 sellers are selling their 8 horses relying on 10 potential buyers (Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 112–121.) Developed market relations are sometimes mentioned and even analyzed, but exclusively as isolated case of the economy management that complicate the entire theory. (Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 40, 34, 109, 144, 163–167.)
[195] Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 161–167.
[196] Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 113–120, 163–166.

4) Two "values"	
"*Value/good*"[197] is characterized from both sides by a) subjective value and b) objective exchange value.[198] "*Subjective value*" means how valuable something is in the perception of an individual who acquires this "something" or loses it. *See Boehm-Bawerk, E. (2005), Basic Principles of Economic Value, Libertarian Press, Inc., Grove City, Pennsylvania, p. 11 – 21. [consumption goods, - A. Zh.]; p. 68 – 80 [production facilities/means, - A. Zh.]* *Objective exchange value* (exchange capacity) is the ability of an object/service to be exchanged for other objects/services[199]. In fact, both values a) are *use values*, b) *are dependent on the market conjuncture.* *Production (labor) value is neglected.* "From Adam Smith to modern times, numerous theorists completely despaired about the connection between human well-being and the nature and measure of value. They resorted to *strange, often incoherent explanations*: from *labor* or *labor* time to *costs of production*, resistance of nature to man and other *unimaginable things* [! – A. Zh.]"[200] (see also:[201]).	*Commodity*, in its most common meaningful sense, is characterized by *two values*— a) *labor value* and b) *use value*. *See section "Labor value and use value"* On the whole, a commodity is characterized by total value, which has the following components: a) supply value (both labor and use constituents) and b) demand value (both labor and use constituents). *See the sections "Supply value and demand value" and "Total value"* The use value of supply characterizes the use values of a product (its necessity, importance, and usefulness). The labor value of supply reflects how difficult it is to produce a product. Both values characterize inherent product properties and, as a rule, do not depend on the market conjuncture. *See sections "Product properties: price and value," "Labor value and use value"* The exchange capacity of a product is defined not by its value but by *price* (which is dependent on both market conjuncture and the total value of a product). *See sections " Product properties: Price and value " and "Price"*
5) Common root of values	
Each value has its own root and arises from different theories (the theory of subjective value and the theory of objective exchange value)[202].	All values (labor, use, and total) have a common root—*social psychology and culture.* *See the sections "Logic and dynamics of the market," "Value and its components," "Total value"*
6) Value and price	
Price nearly coincides with the *objective exchange value* (exchange capacity). "We simply measure *the exchange power* of commodities by their *money prices*"[203] (see also:[204]).	On the whole, price does not coincide with any of values (labor, use, or total). Price *is a function* of a value and the market conjuncture. *See the section "Price"*

[197] Böhm-Bawerk's "good" is not necessarily a product; "good" can be any commodity not intended for sale (see section 2).
[198] Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 3–8.
[199] Ibid, p. 93–96.
[200] Ibid, p. 24.
[201] Ibid, p. 156–159, 166–167.
[202] Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 3–8, 145–147.
[203] Ibid, p. 95–96.
[204] Ibid, p. 93–96.

7) Objectivity – Subjectivity	
Both values and price are absolutely subjective; the objective exchange value is also subjective. "*Objective* exchange value is *the resultant of the subjective value judgments of many individuals*"[205]. "*We therefore describe price as the resultant of subjective valuations facing each other in the marketplace*"[206]. "*We must place into the very center of our doctrine the thought that price is nothing but the product of subjective valuations of people*"[207]. (see also:[208]).	*The use value is largely subjective.* *Labor value has a more or less objective constituent (working hours).* *See the sections "Use value" and "Labor value"* *The price subjectivity degree depends on the market conjuncture:* a) *The closer the market is to the equilibrium, the bigger the objective constituent of the price;* *b) The farther the market is from the equilibrium, the bigger the subjective constituent of the price.* *See the section "Value and its components"*
8) Source of subjectivity	
The individual psychology of a particular consumer[209].	*Public psychology and culture.* *See the sections "Labor value," "Use value," "Logic and dynamics of the market," "Value and its components"* *See also rubric 1 in table 3.6 (in "Capitalism")*
9) Carrier of subjectivity	
A specific consumer[210].	A "*socially normal*" producer and a "*socially normal*" consumer. *See the sections "Labor value," "Use value," "Total value," "Measurement Units for Value"* *Also see rubric 1 in table 3.6 (in "Capitalism")*
10) Marginal analysis[211]	
The analysis plays a fundamental role. The subjective value of the good equals the subjective value of the last piece (the last portion) of the given good or replacement good. "It is not the greatest utility a good may afford that determines its value, nor is it the average utility, but rather *the smallest utility* or the marginal use, which the good may rationally afford in a given situation. [...] let us [...] call this *least important utility* the economic *marginal utility* of the good. *The law of good's value* can thus be stated in its simplest terms: *the value of a good is determined by its marginal utility*."[212] (See also:[213])	*The analysis is not applied*—first of all because it is inapplicable to the research on the *dynamic and nonequilibrium processes inherent to capitalism.* *See also rubric 5 in table 3.6 (in "Capitalism")*

[205] Ibid, p. 94.
[206] Ibid, p. 123.
[207] Ibid, p. 159.
[208] Ibid, p. 121–128, 131–146, 163–167.
[209] Ibid, p. 85–87.
[210] Ibid, p. 85–87.
[211] About the marginal analysis that gave its name to marginalism and remains a fundamental theory of neoclassicism (Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed.* McGraw-Hill/Irwin, New York, p. 179– 180).
[212] Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 32.
[213] Ibid, p. 30–48.

11) Price formation factors	
The main price formation factor at the purchase and sale of consumer goods is the subjective value of the marginal commodity[214]. The main price formation factor at the purchase and sale of production tools/producers' goods is *the subjective value of the marginal end-product*. *"The product price is the ruling factor, and the price of producers' commodities the one that is ruled. The price of the marginal product is decisive, that is, the least valuable product for which the producers' good can be economically employed."*[215] (see also:[216])	The price of commodities mostly depends on the following: a) *supply value* (labor value and use value are included), b) *demand value* (labor value and use value are included), c) *market conjuncture.* In conditions of approximate balance, the supply value plays a decisive role (in the most practical case it is *the labor value of supply*). In conditions of a *considerable imbalance, the demand value plays a significant role* (in the most practical case, it is *the use value of demand)* *See the sections "Total value," "The law of equilibrium (the general case)" and "Measurement units for value"*
12) Pricing: Direct – indirect	
The price for consumer goods is determined directly[217]. The price of production means *is determined indirectly* through values of the intermediary, and end, products. "The value of the marginal utility of an end-product [including price - A. Zh.] transitions/transfers to all groups of production means." "All producers' goods derive their value from it [*the marginal utility of the end product*][218]. "This is not the product value that is determined by the value of its production means/tools, but the value [and price – A. Zh.] of production means/tools is *determined by the value of the products* [and price – A. Zh.]." "Their [producers' commodities] value does not govern the value of the product *but instead is governed by it*[219]." (See also:[220])	The price of any product is determined directly—*separately and individually for every particular item* and every particular market situation. *See the sections "Price" and "Measurement units for value"*

The key aspects that give our theory an obvious advantage over the marginalist theory of value are as follows:

- Dualism of production and consumption (rubric 1)
- Our theory is applicable for the research of both market types and all market situations (rubric 3)
- Derivation of value from the social hierarchy of needs and convictions (rubrics 8, 9)
- Direct pricing (rubrics 11, 12).

The main advantage, however, is that our theory is suitable for research on capitalism (see "Capitalism"), while the marginalist theory of value is fundamentally inapplicable (for further detail, see the section "Marginalism," in "Capitalism").

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214 Ibid, p. 107–147.
215 Ibid, p. 166.
216 Ibid, p. 120–128, 131–146, 163–167.
217 Ibid, p. 107–147.
218 Ibid, p. 71.
219 Ibid, p. 78.
220 Böhm-Bawerk, E. (2005), *Basic Principles of Economic Value*, Libertarian Press, Inc., Grove City, Pennsylvania, p. 68–80, 163–167.

22.3 "Value" by Schumpeter[221]

22.3.1 "Circulation" and "development"

Joseph Schumpeter, one of the most influential political economists of the 20th century, made an unprecedented breakthrough in the field of market dynamics. However, he failed to overcome the conventional static approach (which is still dominant in economics).

The relics of the static approach manifest themselves in:

a) excessive attention to the nodes of development to the disadvantage of the development process itself,
b) *acknowledgement of equilibrium as a healthy capitalist market condition*,
c) seeking the essence of development in its historical initial point (original "circulation"),
d) seeing imbalance as a cause of depression.

As a result, Schumpeter analyzes not so much the development process but abrupt leaping discrete transitions from circulation to development, outbursts of development that move circulation to a new stationary orbit. Correspondingly, his *theory of economic development is a theory of transition from one equilibrium circulation towards another*. It confines its application to the early stages of development, which can be analyzed as spontaneous fluctuations of economic circulation (no later than the beginning of the 19th century). As for the development process that occurs naturally (i.e., the development of industrial and informational capitalism in the 19th to the 21st centuries), *Schumpeter's theory must be applied carefully, paying due attention to the flaws revealed.*

Moreover, the relics of the static approach have significantly distorted the theory of cycles and crises (see below).

22.3.2 "Entrepreneurship," "capital," "profit"

1) The concept of entrepreneurship has its strong point in psychology and its weak point in economy. The entrepreneurship concept, the core of Schumpeter's theory, can hardly be coordinated with capitalism and profit. *It breaks the integrity of the whole theory of economic development and, to some degree, turns it into a psychological theory of any development.*

2) The concept of capital is objectively quite sensible.

3) *The concept of profit bears controversy in itself and occupies an unjustifiably modest position in the theory of development.* The concept of "percentage," is, on the other hand, overrated.

22.3.3 "Cycles" and "crises"

Schumpeter's theory of cycles and crises is one of the theories on disproportionality. According to the general logic of the static approach, it explains crises by the disproportions that arise as a result of the disturbance of equilibrium.

Despite the general idea being wrong (along with other minor shortcomings), *Schumpeter's theory of cycles and crises has its benefits compared to most other theories. The most topical and effective advantage of it (in the light of anti-crisis policy)* is the explanation of the *cyclical nature of supply (not demand).*

22.3.4 Methodology

Schumpeter's methodology has a few considerable flaws. Nevertheless, it has a scientific basis and meets the set requirements.

[221] The given section of the book was left unfinished by the author due to his premature death. A section of his conclusions from his work (in Russian) about Schumpeter's theory can be found on the website of the author: https://ap.box.com/s/daa5ou37mqr24uledsog.
Also, the annex can be found on: https://ap.box.com/s/1jzmqvfzg2cu574qa75a

22.3.5 Key takeaways

On the whole, despite certain shortcomings and internal controversies, Schumpeter's theory of economic development is a productive attempt to build a general theory of capitalism—it was the first attempt[222] and, so far, the only attempt.

Unlike Marxism, neoclassicism, Keynesian economics, and other economic theories, Schumpeter's theory can serve as a starting point for a further exploration of capitalism.

One drawback of the development theory is the *groundless original assumptions and relics of the static approach* (particular cases of the same groundless assumptions).

To rectify the defects mentioned above, we should first

1) replace the dichotomy pair "cycle"–"development" with "simple commodity market"–"capitalist market" (as was done in *Capital* by Karl Marx[223])
2) acknowledge imbalance as a normal state of the capitalist market
3) acknowledge the *discretely continual nature of capitalist* development. In other words, we should analyze its cycles, upswings, downturns, recessions, and recoveries as an incessant process
4) *replace the psychology of entrepreneurship* with *the economy of entrepreneurship*
5) "reunite" the terms "entrepreneur" and "capitalist," binding profit to capital
6) take the theory of profit as a basis of the theory of capitalism
7) dissociate from marginalism
8) consistently apply the deductive methodology.

Schumpeter partially dealt with a number of drawbacks (chapters 2, 3, 4, 6) in his book *Capitalism, Socialism and Democracy*.

22.4 Neoclassical mainstream

There is nothing to compare here. The modern neoclassicists either do not use the term "value" or consider it to be a synonym for "equilibrium price." Such detailed and comprehensive dictionaries as *Economics: Principles, Problems and Policies* by McConnell, C. R. and Brue S. L.[224] and *Economics* by Samuelson P. A. and Nordhaus W. D.[225] do not contain the term "value." With this approach the connection between price and the internal product qualities is lost, which disables both the theory of profit and the theory of capitalism. In any case, there are other reasons why neoclassical mainstream is inappropriate for studying capitalism (see the section "Modern theories of capitalism").

23. Conclusion

To recap, it should be underlined that, unlike the alternative theories, our theory considers "value" as a multicomponent system-related notion. In particular, our theory:

- treats labor value and use value as two components of the original notion of "value";
- acknowledges the applicability of both labor value and use value;
- acknowledges the importance of both the objective and subjective sides of "value"; and
- takes into consideration the use value of supply and the labor value of demand.

The theory presented in this book is a cross-functional theory, which:

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[222] Despite a number of strong points, Marx's theory of capitalism can hardly be called productive (see headnotes "Marx (Capital)", section "General conclusion", and headnotes "Marx Engels", chapter "The concept of capitalism by Marx": weak and strong points, general conclusion").

[223] See headnotes "Marx (Capital)", chapter "Two forms of circulations", table 2.

[224] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 867–Glossary.

[225] Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 731–753.

- is applicable to any type of commodity—simple and complex labor, products of labor, untouched natural resources and services;
- allows an evaluation of a commodity from the side of supply (production) and from the side of demand (consumption);
- allows an analysis of static and equilibrium conditions/processes as effectively as dynamic and nonequilibrium states/processes; and
- is applicable in the analysis of both the simple commodity market and the capitalist market.

The theory put forward in this book can be deduced from the axiomatic definition of "total value"[226].

The proposed theory of value bears a cross-disciplinary character, binding economics with culturology, sociology, and ethnography. The main conclusion of the theory lies in the idea that, at the end of the day, *the value of commodities is determined by the mentality and culture of a given society*.
The proposed theory of value also has scientifically applied relevance: While facilitating the understanding of the logic of pricing, it can be taken as a basis for the theory of profit, which also implies the theory of capitalism on the whole (See "Capitalism").

[226] See the section "Deductive clustering."

PART 3:

CAPITALISM

Abstract

A new theory of capitalism is suggested. Its key moments and general logic are presented. Capitalism is considered as a special case of "market," as its highest form. Disequilibrium and imperfect competition are accepted as functional norms of capitalism. Respectively, equilibrium and perfect competition are accepted as functional anomalies; crises are considered the result of such anomalies. General principles and concrete measures of crisis-proof policy and crisis-proof behavior are suggested. Additionally, a comparison with alternative theories is made.

Keywords

Theory of capitalism; capitalism; profit; equilibrium (balance); disequilibrium (imbalance); perfect competition; imperfect competition; monopoly; crisis; crisis-proof policy; crisis-proof behavior.

1. Introduction

An essentially new theory of market and capitalism is presented for the readers' attention. The theory is delivered in a concise and schematic manner, dwelling on key points and general logic.

It can be viewed as a *conclusive and, at the same time, central part of the "market and capitalism" theory* extensively analyzed in the previous sections.

It should be underlined once again that in the framework of the proposed theory, "market" and "capitalism" are not similar notions. In particular, *capitalism is a separate case of the market economy, its ultimate form (while the simple commodity market is its lowest form*)[227].

The key aspects of our theory are as follows:

- Entity of capitalism,
- Profit and its sources,
- Cycles and crises,
- Anti-crisis policy and anti-crisis behavior, and
- Methodology of study on capitalism.

The new theory of capitalism differs from the other theories[228] both in its essence and the methodology.

The main essential difference is *the idea that imbalance is a healthy condition of the capitalist market* (whereas other theories view balance as the norm). Consequently, *crisis is viewed as the beginning of a balance, as the prerequisite of it, whereas other theories see the reason for crises in an imbalance*.

The main methodological difference lies predominantly in the *deductive approach*—while other theories rely on inductive and mixed approaches.

In particular, the proposed theory offers:

[227] See "Market", section "Simple and capitalist market."

[228] We mean, first, the Marxian school of political economy, the theory of economic development by Schumpeter, and the "synthetic" theory of the neoclassicists up to Marshall and Samuelson.

- to detect, explain, and analyze the most significant properties of capitalism—cyclical development, chronic imbalance, and unpredictable dynamics;
- to explain notions whose explanations have not yet been found in other theories—the capitalist crises to begin with;
- to draw original/nonconventional conclusions—in particular, on the positive role of a dynamic monopoly and the specific role of small businesses.

The proposed theory has the potential to find a *practical application*—both in anti-crisis governmental policy and in the anti-crisis behavior of specific economic agents (businesses).

The theory is adequate for any type of capitalism—production, trade, and banking[229]. However, in this section we are going to consider the first, most mature type, which is of great current interest.

The theory is fair for both free and dependent societies[230] yet this section mostly analyzes capitalism *in a free society*, which means that workers are free individuals willfully selling their labor to entrepreneurs[231].

The new theory of capitalism generally dwells on two anchors: *Marx's concept of two forms of circulation of things[232] and Schumpeter's dynamics of capitalism[233]*. Both concepts have been substantially reconsidered within the framework of the proposed theory. Our theory of value, meanwhile, serves as the third technological base of the new theory of capitalism[234].

The new theory of capitalism is highly critical of the neoclassical theory and other contemporary concepts represented in popular course books, scientific monographs, and government policies.

The final chapter is dedicated to a comparative analysis between the new theory and theories by Marx and Schumpeter. There is also a separate chapter which deals with a generalized comparison with the contemporary economic theories. The polemics on specific points with neoclassic economists can be found in the footnotes. More detailed information can be found in the personalized files on our website "Sociohum (rus)" – "Marx (Capital)," "Marx-Engels," "Schumpeter," "Schumpeter (KSD)," "Samuelson," "McConnell and Brue" and others (you can find the list of the files in the foreword (the files are mostly in Russian)).

Almost all terms, judgments, and conclusions in this book are original, and to a certain extent claim to be of scientific novelty. The sections "Capitalist cycles and crises," "Philosophy of capitalism," and "Anti-crisis policy and anti-crisis behavior" are viewed to be the most original. Information that is already known is only discussed when necessary for understanding novelties.

The text does not claim to be an exhaustive in-depth analysis of the topic. We provide the general outline of the theory and a detailed analysis of the key aspects while only briefly touching on the secondary moments and nuances.

The shortened version of the new theory of capitalism, complemented by a new theory of market, can be found in our article "A New Theory of Capitalism: Key Moments and General Logic," published in the *Eastern European Business and Economics Journal*. The Russian language analogue "The New Theory of Capitalism: Nodal Moments and General Logic" is deposited in Munich Personal RePEc Archive.

2. Entity of capitalism

Before we plunge into the principles of existence and development laws of capitalism, it is necessary to identify what capitalism is[235]. First things first.

Capitalism is a market system based on the indirect exchange of monetary nonequivalences. The given definition follows from the classification formula of a capitalist market[236].

In capitalism,

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[229] See "Market", section "Simple and capitalist market."
[230] The problem of trade and freedom is briefly outlined in "Market."
[231] The capitalism of a *non-free society* is considered in detail ("Capitalism and freedom, capitalism and slavery").
[232] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 104–108.
[233] Schumpeter, J. A. (1934), *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle,* Transaction Publishers, New Jersey, p. 57–94, 128–156, 212–255.
[234] See "Value."
[235] Modern economists often give descriptive and distorted definitions of capitalism while neglecting its true nature (for more detail, see the section "Comparison with some other theories").
[236] See "Market", section "Simple and capitalist market", table1.1.

a) *money* (accumulated, borrowed, or acquired by any other way) is invested in production tools and hired labor[237],
b) hired workers create a product using the mentioned capital, and
c) the commodity is sold, i.e., is turned back to back.

Any natural or produced resources can be used as production tools: soils, seeds, cattle, draft animals, raw materials, semi-finished products, tools, machines, energy, information, and so on[238]. Not only do workers represent the hired labor but also engineers, accountants, managers, and others.

When we speak about "entrance" and "exit" in the capitalist market, we must think about money, which is a key player here. It is reasonable to think that *at the exit, one is supposed to have more money than at the entrance,* otherwise the whole trade and production chain proves pointless and commercially unfeasible (counterproductive). The period of one complete investment turnover will be called a *trade and production cycle*[239]. In other words, a *trade and production cycle* is the period of time it takes to invest money, turn the invested money into production tools and hired labor, actualize the tools and labor in a product, and turn this product into new money.

Money invested in production with the purpose of augmenting this new money we shall call *capital*. So, in our interpretation, *capital* is money and only money; production tools are not capital[240]. The capital gain (appreciation) observed at the end of a trade and production cycle will be called *profit*. In other words, profit is the difference/margin between total revenue and total expenses[241]. Capital and profit are attributes of capitalism and only capitalism; these notions cannot be applied to a simple commodity economy.

Capitalism formula:
$M_1 \rightarrow C_1$ (production tools + hired labor) $\rightarrow C_2$ (commodity) $\rightarrow M_2$
or, in short,
$M_1 \rightarrow C \rightarrow M_2$, or, the other way,
$M \rightarrow C \rightarrow M + \Delta M$,
where M_1 – *capital* (invested money) and
ΔM – *profit* (invested money augmentation)

Let's assume that the entire profit received is going to be capitalized (turns into capital) and reinvested in the next trade and production cycle or a brand-new production. When upon completion of a few cycles we have accumulated profit, we can speak about *capital accumulation*. Capital accumulation means that the sum of the next investment has grown. To put it simply, the accumulated capital stops being just treasure, not touched and not spent, and is converted into new production tools and new hired labor.

When some investors enjoy a capital gain, it may mean that other investors observe their capital shrinking. As a result, *social capital* can both grow and decrease. Social capital is, of course, not government money or some integral capital but a sum of private capital of a certain scale (country, region, industry).

The capitalist trade and production cycle consists of the following stages:
1) trading (entrance) – purchase of production tools and labor
2) production (internal) – creation of product
3) trading (exit) – selling of the product.
In capitalism, production and trade are inextricably intertwined.

Subjects of the trade and production cycle can be called *capitalists*. In the first stage of a cycle, a capitalist-investor (owner of the capital) turns into the owner of production tools and the consumer of the worker's labor hired by them. In the second stage, the capitalist becomes the owner of a product. In the third stage, they turn back into capital owners (investor capitalists). The term "*entrepreneur*" is frequently used

[237] It is exactly labor that is bought in the free society, not "labor force" as Marx claimed (see table 3.3, rubrics 3–5).
[238] See part 2, "Value", section "Commodity."
[239] We mean the trade-and-production cycle of a *specific enterprise of a specific investor*. This should not be confused with the general economic cycle described in the chapter "Capitalist crises and cycles".
[240] Modern capitalists usually classify any production means (when it is not land or other natural resources) as capital (for more detail, see the section "Comparison with some other theories").
[241] Modern capitalists understand the concept of profit in a broader sense – in particular, the implicit earned income of an entrepreneur (for more detail, see the section "Comparison with some other theories").

alongside the term "capitalist." In order to avoid confusion, let us differentiate between them in the following way.

"Capitalist" and "entrepreneur" are not quite the same things. A capitalist may not be an entrepreneur, while an entrepreneur may quite well not be a capitalist. In the first case, *an investor capitalist* (for instance, a stockholder of a large corporation or an owner of an apartment building) does not take part in the managerial decisions in the company they own or co-own. In the second case, the hired managing entrepreneur runs the company but does not invest their own money into it. However, hired managers are authorized agents acting on behalf of investing owners[242]. Moreover, some market players can combine the roles of an investing owner and a managing entrepreneur. Therefore, the terms "capitalist" and "entrepreneur" will be used as synonyms from this point. However, as for the profit and income of the capitalist-entrepreneur, they are going to be accurately distinguished (for example, as dividends or salary).

It should be mentioned once again that we are talking about production capitalism. The other specific types of capitalism ("reduced")—*trading and banking capitalism*—are not considered here. It should, however, be mentioned that in the former case, money is invested in a readymade product (to be sold in another place for a higher price), whereas in the latter case, money is exchanged for a larger amount of money (gained at another time or another place)[243]. Admittedly, nowadays the boundaries between the types of capitalism are blurred. On the one hand, trade and banking spheres require a massive investment in production tools (premises, informational technologies, highly qualified specialists). On the other, large multinational production companies often have their own banks and merchant houses.

Capitalism was preceded by another market system, which continues to coexist with capitalism, known as a *simple commodity market*[244]. Unlike a capitalist market, a simple commodity market is based on the *indirect exchange of product equivalents*. The formula for a simple commodity market is $C_1 \rightarrow M \rightarrow C_2$ (or, briefly, $C \rightarrow M \rightarrow C$)[245].

Therefore, there are a few fundamental features that help us to differentiate between a simple commodity market and a capitalist market:

1) While entering and exiting the capitalist market, money has a central position (as an abstract and cross-functional commodity). When it comes to the simple commodity market, the key role is given to commodities (specific products, any products). Consequently, in the former case, a commodity becomes an intermediary, while in the latter, this function is given to money.

2) In capitalism, the amount of money in the outcome normally exceeds the money in the entering stage, whereas in a simple market system, these amounts are normally similar (entering and exiting products are quantitatively equal).

Although the second feature is an outcome of the first one, it should be regarded as the main attribute of capitalism, predetermining its properties and laws.

The nonequivalence of conversion is the cornerstone of capitalism.

3. Profit and its sources

According to the definition and formula of capitalism, the main, and essentially the only, aims of a capitalist (entrepreneur) is gaining profit (in the short run) *and accumulating capital* (in the long run).

Of course, an owner capitalist can have other aims as well (for instance, self-actualization and charity). Even more likely, the hired manager can have other aims (salary, bonuses, and a comfortable retirement). However, whatever the specific goals, at the end of the day, progress is assessed on the general profit and capital accumulation rate. Companies, owners, or managers who, for some reason, choose to go astray from these very aims and dedicate their efforts and time to something else, consequently bear losses and are forced out of the market[246].

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[242] More on the mismatch between the interests of business owners and managers, and its consequences, can be found in the beginning of the next section.

[243] For more on types of capitalism, see "Market" (section "Simple market and capitalist market").

[244] Modern capitalists often view capitalism as a synonym for "market"; they do not see the difference between the capitalist market and a simple commodity market (for more detail, see the section "Comparison with some other theories").

[245] For more on the two types of the market systems, see "Market" (section "Simple market and capitalist market").

[246] For more on the issue of "owner-managers," read: Pindyck R. S., Rubinfeld D. L., (2013), *Microeconomics, 8th ed.*, Prentice Hall, New Jersey, p. 282, 634–635.

Capitalists' persistent aspirations for super profit and the sustainable accumulation of capital are the main driving forces of capitalism.

Therefore, it seems reasonable to commence the study of capitalism with the identification and comprehensive analysis of the profit sources and possible ways of capital accumulation[247]. We shall base these on the following equivalences:

Profit of a particular capitalist = product price – production/operating costs
Production costs = the price of the production tools used + the price of the labor used
Capital accumulation = amount of profit for a certain period of time

A particular/standalone capitalist/entrepreneur may be any independent market subject, legal person, or entity. Thus, a corporation (embodied by shareholders and top managers) is to be perceived as a particular capitalist, while a shareholder alone cannot be regarded as a capitalist. The production or operating costs include sales and distribution expenditures in the entrance and exit stages of the cycle; in other words, these are costs associated with the purchase of the production tools, staff employment, and distribution of goods. By a "certain period of time," we mean enough time for a minimum of two or three full trade and production cycles.

We must also decide what we shall call "value"[248]. In the "Capitalism" chapter, we specified that "value" is to be interpreted as the *labor value of production* only (*the labor value of supply*) unless otherwise agreed. The individual value, or the real labor value of a specific manufacture, which can vary from a socially normal value (it can be lower or higher) is to be called actual value (unless otherwise agreed)[249].

Now we can start our analysis of profit and the accumulation of capital. As long as profit is a primary objective and capital accumulation is secondary, the lion's share of attention will be paid to profit.

3.1 Potential sources of profit

What are the potential sources of profit? What conditions allow their actualization? Before answering these questions, we should understand under what conditions profit is an impossibility.

The profit of a single independent capitalist = 0, if:
The price of their product = production/operating costs =
= price of the production means utilized + price of the labor utilized.
The long-term unchanging equality of production costs and price occurs when:

a) the capitalist buys production tools and labor while selling the readymade products at their actual values, and
b) the actual values of resources and products coincide with the socially normal ones. According to the law of equilibrium, such a situation arises when all entrance and exit markets are balanced. To keep the balance, all the markets relevant for the capitalist must be in a condition of perfect competition. Otherwise, price may exceed the operating costs (and the capitalist starts earning a profit), or operating costs may exceed the possible profit, which means the capitalist we are talking about will suffer losses[250].

The profit of a particular capitalist equals zero if all the markets relevant to them (markets of labor, markets of production goods, and end markets) are in perfect competition and steadily balanced.

Now we will try to shift from *a particular capitalist* connected with a few particular markets to capitalists interacting *within the integral market of a specific country or industry*.

The profit of every capitalist = 0, if
The price of every product = operating costs needed to produce the products =

[247] The topic of profit has been neglected in many modern textbooks on the market economy (for more detail, see the section "Comparison with some other theories").
[248] It should be remembered that in "Value," we identified the whole family of values (see the sections "Product properties: Price and value", "The supply value and demand value", "Labor value and use value", "Value and its components", "Total value").
[249] See the sections "Labor value and use value" and "The law of equilibrium" (in "Value").
[250] See the sections "The law of equilibrium" and "Balancing (stabilization) of market" (in "Value").

price of the production tools utilized + price of the labor utilized.
The long-term unchanging equality of production costs and price occurs when:

a) *all* production means*, all* labor, and *all* products are sold and bought corresponding to *their actual values*, and
b) the actual values of all products and resources coincide with the socially normal ones. Theoretically, such situations occur when *all specific markets are in balance*; to keep the balance, all specific markets must be in perfect competition.

The profits of capitalists in the integrated market equal zero if all the specific components of this market are in a condition of perfect competition and stable balance[251].

Freedom of trade and enterprise is the necessary social and political prerequisite for perfect competition. It implies (among others):

a) free competition between capitalists (in the markets of production goods, labor markets, and distribution markets (end markets)), between hired workers (in labor markets), and between buyers (end markets),
b) free market pricing, and
c) commercial secrets protection (trade secrets)[252].

The *economic conditions* of prefect competition are as follows:

a) a large number of competitive market players (capitalists with sufficient capital, hired workers with sufficient expertise, and buyers with sufficient purchasing power),
b) the possibility of free and fast movement of capital, production goods, and labor from one industry or country to another, and
c) the free and fast distribution of information.

Let us dwell on the last point now. Perfect competition implies knowledge of the current prices and the current supply-demand ratio in particular markets. However, that is not all. Insider information also has significant power: information about specific companies/capitalists (current expenses and current production volume, planned technological innovations, product novelties and gimmicks). This information is supposed to be a trade secret, protected by law and the entrepreneurs themselves. As we see, the economic conditions of perfect competition contradict social and political conditions. Consequently, *absolutely perfect competition is impossible even in theory* (let alone due to real-life constraints—geographic, demographic, and others). Therefore, we should reformulate our task set in the beginning of the chapter—to find out under what circumstances profit is impossible. And, mitigating the aforementioned economic conditions, ponder on under what circumstances profits are insignificant or close to zero.

It becomes obvious that a capitalist's profits in integrated markets are minor or close to zero *when*:

a) there is a sufficient number of competitive market players (capitalists, hired workers, and buyers),
b) it is possible to move capital in a free and fast way, along with production means and labor from one industry or country to another,
c) there is free and fast *distribution of the open information*.

Summarizing these points, we can make the conclusion that a capitalist's profits in integrated markets are consistently insignificant given the highly competitive nature of most of the major market components and, consequently, the *consistent quasibalance* of these components (according to the law of equilibrium).

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[251] *The general stable equilibrium in capitalism* is achieved only during crisis, in the stage of stagnation, while a pre-crisis equilibrium has an *unstable character and, when in the* "classic" cycle, is followed by a big slump (see sections "Capitalist cycles and crises", chapter ""Classic" cycle").
[252] See section "Market and freedom" (in "Market").

In the integrated market, profits are insignificant, leaning to zero, if almost all major components of this very market are in almost perfect competition and consistent quasibalance.

Thus, we have established the conditions for insignificant profits. Now, we take our next step and try to reveal the conditions that encourage real profits and their sources—*market situations that theoretically imply significant profit.*

Some capitalists in the integrated market may have profits that are significantly bigger than zero if, for some reason, the above-mentioned condition does not work (we have imperfect competition at hand or a tangible imbalance of a few specific markets). Consequently, in order to determine potential sources of profit, we must analyze all the possible situations of imperfect competition and all the imbalances it provokes; namely, end market imbalance, labor market imbalance, or production means market imbalance.

And we are going to find that:

a) along with "classic imbalance" (demand-supply imbalance), other imbalances are also possible[253];
b) these imbalances can also be a prerequisite for profit[254];
c) in any case, only *some capitalists* may earn a profit and *only for some time*[255].

Reasons for imperfect competition can be:

a1) an insufficient number of competitive market players (capitalists, hired workers, and buyers of the end-products),
a2) the weak competitive ability of the market players (on account of the lack of capital, lack of workers' qualifications, low purchasing power of buyers),
b) the impossibility to move resources (monetary, material, and labor) from one industry or country to another,
c) slow information distribution, especially information on current prices and current demand-supply ratio in specific markets.

Reason b) is often the outcome of reasons a1) and a2). If there are few resources and they are seldom available, their movement from one industry (country) to another goes slowly, and competition stays imperfect for a long time. Besides, reasons b) and c) can be the outcomes of non-economic factors—natural or psychological ones (the geographically sporadic location of market components, the conservatism and sluggishness of some entrepreneurs, workers, or buyers)[256].

Regardless of the origin, imperfect competition pulls the market from its state of equilibrium and cancels the equality of price and expenses (costs). Herewith profit is elicited by selling the product *more expensive than its actual value*, purchasing production tools and labor *cheaper* than their normal value, *or benefiting from both at the same time.*

All possible cases are reflected in fig. 3.1 (interest rate payments, natural resource (oil and gas) royalties, mining and logging taxes, and other expenditures are not included).

[253] See the chapter "Generating profit (conclusions and generalizations)", Conclusion 1.
[254] Ibid.
[255] See the chapter "Profit generation (conclusions and summary)", Conclusion 3.
[256] For more on imperfect competition and its types, see: Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed.* McGraw-Hill/Irwin, New York, p. 184–201; McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies. 11th ed*. McGraw-Hill/Irwin, New York, p. 489–490); and the section "Balancing (stabilization) of market" (in "Value").

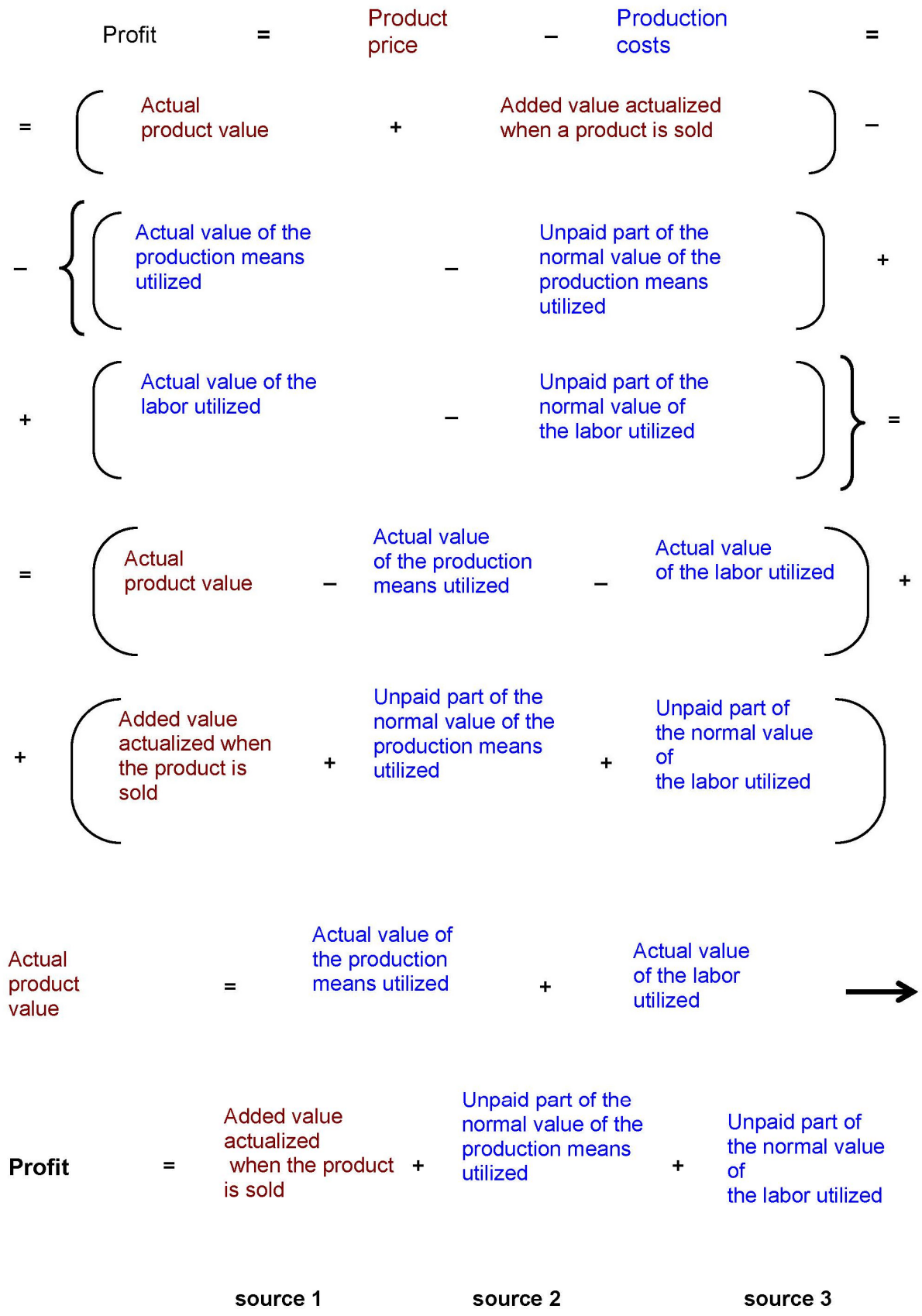

Fig. 3.1. Potential profit sources for an independent (stand-alone) capitalist

Thus, *an independent capitalist can earn a profit when*

1) selling a product at a higher price than the one reflecting its actual value (source 1),
2) purchasing production means cheaper than they cost (source 2), or
3) purchasing labor cheaper than its actual cost (source 3).

In the first case, the capitalist earned a profit as a seller, while in the second and third as a buyer. Some capitalists manage to gain an advantageous position by being both sellers and buyers (sources of profit may be combined).

Profit can be gained but that does not mean it will be as *even in the most favorable circumstances and conditions, it is not guaranteed* (see in further chapters).

Potential sources of profit are connected with the
a) deviation of the product prices from their actual values (towards a higher value), or
b) deviation of the current prices for resources (production means and labor) from their normal values (to a lower value).

Further, we are going to analyze each source of profit for a standalone capitalist separately.

3.2 Source 1: Selling a product at a higher price than its actual cost

Added value (extra cost) is actualized in selling a product, and can be higher than zero in the following cases:

1) the product is sold at a normal value—when the actual value is still lower than the normal one;
2) the product is sold at a higher price than the actual value—when the normal value and actual value are equal.

Case 1. *The actual value of a commodity decreases to the point below its socially normal value* due to a rapid *boost at the technological, scientific, or organizational* level of production *at the production facilities of a certain capitalist*[257].

As a result, the *operating costs (production expenses) of this capitalist shrink compared to the normal commodity value.*

Case 2. *The actual commodity value equals the socially normal one; however, demand proves to be much higher than supply*, which can occur when a *new market is entered or the market for a new product is developed*[258].

As a result, the *commodity price skyrockets compared to the normal operating costs of its production.*

In both cases, changes affect the sales market, and in both cases the changes are deliberate and purposeful. In the first case, we observe a *local quality boost in production*; in the second case, we observe a local quality boost in sales (while opening up new markets for "old" commodities) or in production and sales (while opening up new markets for new commodities). As a result, the current price for a product happens to be higher than the actual production costs; it should be noted that in the first case, operating costs go down while in the second one prices go up.

We can call the first case *production upgrading* and the second case *marketing innovations*. Case 1 is extremely important for the development of capitalism; therefore, we are going to analyze both cases. That being said, the condition is that the markets of production means and labor are balanced; in other words, tools and labor are purchased at their normal values[259].

[257] Actually corresponding to case 2 in the list of new combinations by Schumpeter (Schumpeter, J. A. (1934), *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle,* Transaction Publishers, New Jersey, p. 65–66).
[258] Making a new market for an old product corresponds to case 3 in Schumpeter's list; making a market for a new product corresponds to case 1 in Schumpeter's list (Schumpeter, J. A. (1934), *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle,* Transaction Publishers, New Jersey, p. 65–66.)
[259] This assumption will be taken up in the chapter "Profit waves."

3.2.1 Source 1, Case 1: Production upgrading and cost reduction

Competing capitalists engage in production upgrading (modernization) in order to improve labor efficiency and cut costs, and *cost saving is the major goal*. Upgrading may take multiple forms. We can talk of technical, technological, scientific, organizational, scientifically technical, or scientifically technological modernization. Technical modernization is associated with the introduction of new machines and mechanisms with greater production efficiency and, as a result, volume and quality. Technological modernization is a deeper labor distribution or, vice versa, a streamlining of the production processes due to automation. Scientific modernization implies the practical application of substantially new information. Organizational modernization is not only an internal reshuffle in the company (opening or terminating new workshops, laboratories, or departments) but also the creation/termination of new commercial structures (branch offices and subsidiaries).

Cost saving upgrading needs to be considered separately as it implies purchasing new equipment, which may not necessarily produce more than the existing machines but costs way less. Putting it simply, a capitalist modernized the whole production line, the price for their product dropped[260], and the capitalist took advantage of this to reduce their costs. Well, there are capitalists who buy and introduce equipment that is cheaper at the expense of the modernization of their production (not because of the market imbalance). Let us call these capitalists "second-wave modernizers."

Of course, we shall concentrate not on the technical or technological nuances of the upgrading process but rather on the dynamic of production expenses and prices and the dynamic of profits and losses associated with it.

The economic consequences of production upgrading are illustrated in figure 3.2.

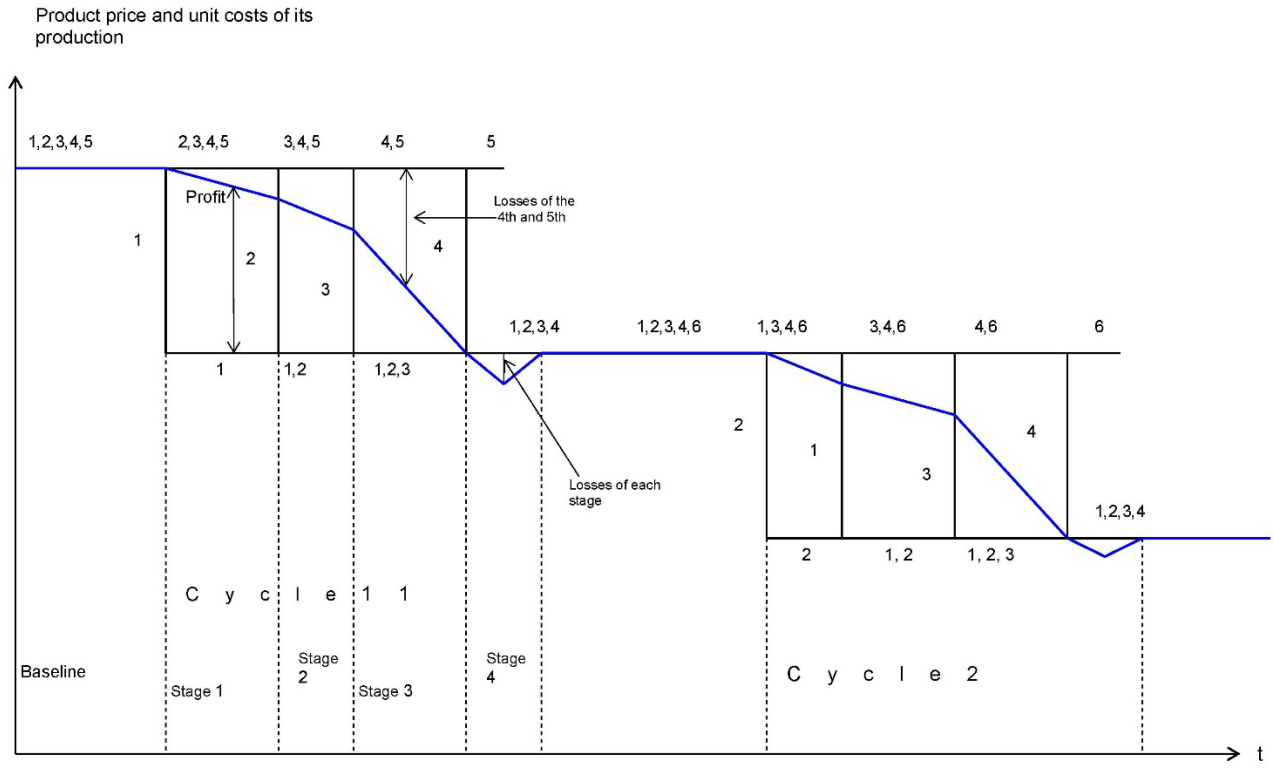

Fig. 3.2. Production upgrading: Costs, prices, profits, and losses (simplified model)
Legend:

- The blue kinked curve shows the product price (equal to normal costs, and the value normal at a given time);
- The black straight lines show the unit costs of certain capitalists (in cases when unit costs do not coincide with the price);
- Unit costs = general costs/production volume;
- "profit of the first" (and other stages) is profit per unit of an item; the same goes for the "losses of the 4th and 5th" (and other stages).

[260] We will find out why and how the price falls after a successful modernization in this section.

Simplifying assumptions:

1) All capitalists produce the same product of the same quality.
2) This product is the only product the capitalist sells.
3) All capitalists trade in the compact market, which means we can neglect the price range resulting from the different selling spots or information distribution lagging behind. Combined with assumption 1, this means that *all manufacturers trade at the same price regardless of their own production costs*.
4) No new market players can enter the cycle.
5) *Entrepreneurs modernize their production one at a time*. To illustrate, the second starts upgrading after the first one has finished, while the third modernizes their production but not until the second has finished. This assumption is quite realistic as upgrading is an internal company affair and a commercial (trade) secret.
6) Commercial conspiracy between capitalists (as regards the price and sales volume) is excluded.
7) *Composite demand does not depend on price*, which means there are enough goods on the market for all buyers but not as many as buyers would be able to buy (this does not mean that buyers do not bother about price: they will buy from places with the best prices). Correspondingly, *composite demand does not depend on price*. Nowadays, this assumption is true for most food products, clothes, and other inexpensive popular consumer goods[261].
8) All capitalists upgrade their production and distribution in a similar way, with the single purpose of reducing production unit costs[262].
9) *Modernization does not require substantial investment*, which means total costs mostly remain unchanged. As capitalism grows and develops, this assumption becomes less acceptable.
10) Modernization does not take much time.

Baseline. The market is balanced and steady; the price of a product equals the normal costs of its production (for the given moment); profit is zero. There are five capitalists who manufacture and sell their goods (C1, C2, C3, C4, C5; in the figure, correspondingly, 1, 2, 3, 4, 5). Each of them has roughly an equal share of the market.

Cycle 1

Stage 1. C1 (the leading capitalist, a leader) modernizes their enterprise (technical, technological, scientific, or organizational upgrading); production unit costs are significantly reduced; the capitalist has the possibility to reduce the price and increase sales at the expense of their competitors. In order to retain or regain their customers, the other capitalists also have to reduce prices (all of them act by trial and error). As a result, C1 sells their product at a bigger profit (their costs are lower than the price of their product); C2 and the other capitalists sell their products at a loss (their production costs are higher than the price for their products).

Is a price reduction and production/sales volume increase a necessity for C1?

Let us consider the following behavioral patterns of the leader.

1) Modernization was not carried out just to boost the production volume (unit costs are falling because total costs are falling due to cost-saving measures in energy and raw material consumption, more efficient work management, and so on). As such, C1 may not reduce the price and enjoy the current sales volume. However, if a modest discount increases sales exponentially, C1 is likely to increase production volume.
2) Modernization was carried out with the purpose of boosting production volume (exactly this boost is expected to guarantee unit cost reduction (total costs remain unchanged)). In this case, C1 *must reduce the price* or some of their products will not be sold. However, if the new price, reasonable and relevant to the increased production volume, comes close to the unit costs, the modernization will not justify itself (even before the competitors' counter actions).

[261] For more on naturally balanced markets, see "Value", section "Balanced (equilibrated) markets."

[262] Nowadays, modernization is usually initiated for other purposes (work condition improvement, poisonous emission reduction, and so on).

3) C1 modernizes the enterprise to both decrease the unit cost and increase the production volume (the unit costs go down due to numerator decrease and denominator growth). In this case, C1 should reduce the price; however, they may not (low unit costs allow this).

These patterns, however, do not take into account the possible counter actions or preventative actions by the competitors. The competitors (either C2 or C3) will do their best to increase their production volume to reduce their price and try to poach the customers from C1. *That is why C1 should upgrade their enterprise in a way that will allow production volume growth and price reduction.*

In the race to modernization, the winner is not the one who starts it first but the one who first starts doing it right.

Stage 2. C2 (leading capitalist, another leader) upgrades their enterprise the same way; their unit costs come close to those of C1. In order to attract new customers, they reduce the price even more, which motivates the remaining capitalists to do the same. As a result, C1 and C2 sell their goods at a marked profit (their expenses are significantly lower than the price), and C3, C4, and C5 do business at a loss (their expenses are significantly higher than the price).

Stage 3. C3 (underachieving capitalist, an outsider) is forced to repeat C1's and C2's actions. The fight for the customer takes on a new loop: each player tries hard to boost sales, which seems possible only if the price keeps falling. The price gets closer to the level of new production expenses. Profit goes down and, despite the successful upgrading of C1's, C2's, and C3's enterprises, totals zero.

Stage 4. C4 (latecomer, also an outsider) also modernizes their production and expands the production volume; the price falls below the production expenses; production becomes senseless/failing for all market players. This is followed by a rapid shrinking of sales volumes and the price is fixed at the level of the decreased production expenses. The price stops fluctuating, the market reaches stability. C5 (runaway capitalist, or bankrupt capitalist), who failed to upgrade their enterprise or did it wrong, exits the market, pulling out of competition.

Cycle outcome 1

C1 gained a massive total profit from modernization.

C2 gained a relatively good total profit (in stage 1 they operated at a loss; stage 3 allowed a modest profit from sales).

C3 completed the cycle (suffered significant losses in stages 1 and 2 but managed to partially compensate for them in stage 3).

C4 suffered the biggest losses but managed to upgrade their enterprise, bring their operating losses to zero, and retain their position on the market.

C5 pulled out of the market with massive losses.

Cycle 2

Now we see a new profit-seeker entering the market, C6 (the newcomer); their costs at the beginning are normal (they coincide with the costs of C1—C4 by the end of the first cycle).

Everything repeats from the very beginning, but the level is lower. C2 starts the cycle this time (they made their conclusions and learned a lesson from cycle 1), C1 follows, C3 and C4 once again enter the game after a delay. The inexperienced C6 refuses to modernize or fails to do it properly and exits the market.

Cycles 1 and 2 outcome:

C1 and C2 gained a significant profit as a result of modernization.

C3 and C4 (despite two successful modernizations) suffered losses (because they were late both times). They are the likeliest candidates to tumble out of the market in the next cycle.

Conclusions

1) *The capitalist who is the first to modernize their enterprise and does it mistake-free gains the biggest profit.*
2) Runners-up can count on modest profits (if the leader makes mistakes, the one who takes advantage of them gets the biggest profit).
3) Outsiders minimize their losses—on a good day.
4) Producers who do not modernize their enterprises or do it wrong exit the market bearing

substantial losses.

5) *All the profits and losses mentioned here are not connected with the violation of a "classical" balance*. The composite demand for the given product and, correspondingly, its total supply were unchanged according to assumption 7. Modernizers decreased the price, competing for a redistribution of demand to their own advantage.

Let us now take away all the assumptions and face this obscure state of affairs.

1) Capitalists produce the same product but at a different quality; now, each market player has their own price (high quality goods are sold more expensively). The competition gets more complex, acquiring a few vectors. The quality criterion may now determine the market segmentation.
2) Each of the capitalists has other goods to sell as well. Competition gets even more complex, losses brought about by ineffectively selling one product can be successfully made up for by profits from another product.
3) The market is spread sporadically, the information about prices reaches customers with a delay. Competition tension subsides; producers settled in remote parts of the market do not have to rush modernization. Customer behavior becomes more complex: Those who manage to produce a cheaper product locally before the overall price cut have the biggest gain.
4) The unexpected arrival of new strong market players can upset the applecart and bring to naught even the smartest actions of the active capitalists.
5) *All the entrepreneurs conduct modernization approximately at the same time*. The normal value of a product and, consequently, its price fall quickly. There is almost no profit.

Massive modernization does not bring any substantial profit to the capitalists.

6) Producers come to an agreement about the price and sales volume. The competition is no longer so fierce, at least not until new tough market players enter the market. However, commercial conspiracy, which is detrimental for the very nature of capitalism, is against the law and is rare in countries with developed capitalism.
7) *Total demand depends on the price* (as the price goes down, the demand goes up). Today, such a situation is peculiar to the markets selling household appliances and other relatively inexpensive goods. If the capitalists are able to satisfy the increased demand (and they usually are), the competition between market leaders as a rule gets hotter (their potential profit grows), while the competition between outsiders subsides (the price is decreasing slowly due to the arrival of new customers). All other factors being equal, the duration of the cycle increases.
8) *The entrepreneurs seek cost reduction in many different ways: each of them modernizes their enterprises in a different way*. They are used to running along one another and stopping together. Now they twist and turn and do not stop. *The competition turns into a multivector process:* the leadership position goes to one player, then to the other—the market does not have a consistent leader. The price is sinking but every time someone's production expenses become even lower. The market stays unstable for a long time. Price stability is brief. It stays this way until the new modernization possibilities run dry and the capitalists start copying each other again (by the way, this sometimes happens even when alternative ways are available).
9) *Upgrading an enterprise requires substantial investment:* total costs increase significantly, which calls for a *production volume boost*; as a result, *prices drop abruptly*. In the end, all the competitors may suffer losses[263]. On the other hand, the entrepreneurs who do things right (who have established a successful mass production of cheap goods) can relax for a while: *many competitors are prohibited from entering the race due to the high capital cost.*
10) *Upgrading takes time*. Total costs are growing. The winner is the capitalist who manages to bring the costs of the transitional period to a minimum.

[263] See the chapter "Source 1: Supply and demand."

3.2.2 Source 1, Case 2: Commodity market innovations and increases in price

Case 2 suggests two options:

1) opening new markets for old products—entering new territories (regions or countries);
2) creating a market for a new product (after its production has become smooth).

A new product can be a) a new version of an old product; b) a better-quality old product (or worse quality at a lower price), or c) new sales terms and after-sales service.

It should be noted that an old product is perceived as a new one in the new market so we are talking about *new products and new markets*. That is why we can call both *commodity market innovations*.

Fig. 3.3 illustrates the economic consequences of commodity market innovations.

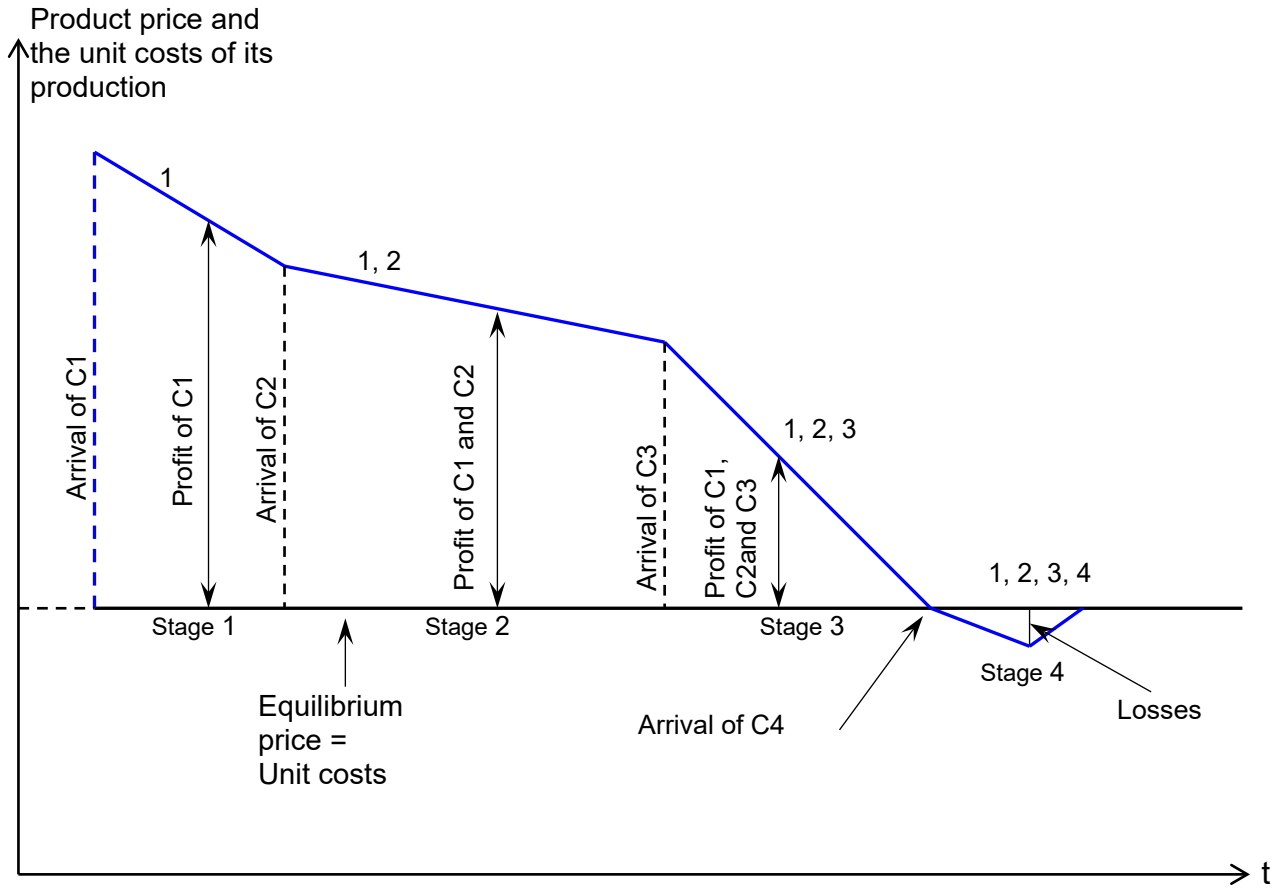

Fig. 3.3. Commodity market innovation: Expenses, prices, profits, and losses (simplified model)
Legend:

- The blue kinked curve stands for the product price in a new (imbalanced) market;
- The equilibrium price is shown by the black horizontal line; it coincides with the unit costs;
- Unit costs = total costs/production volume;
- The "profit of C1" (and others) is the profit from one product (unit profit); the same applies for “losses.”

Simplifying assumptions:

1) *The usefulness (value, necessity) of a new product is obvious for consumers;* consumer performance and the properties of a new product are known and clear to customers.
2) All the capitalists produce the same product at the same quality when cracking the same new markets.
3) All the capitalists produce their product with similar and unchanged expenses (unit costs). These

costs are seen to be quite normal.

4) The new market is rather compact. If combined with assumptions 2 and 3, that means that *in each moment of time all the operating capitalists are trading at the same price, having almost the same profit (or the same losses)*.
5) *The entrepreneurs enter the market one by one*.
6) Commercial conspiracy between them (on price and sales volume) is not possible.
7) Their manufacturing possibilities match their distribution/sales possibilities.
8) All the capitalists carry out the same innovations.
9) *These innovations do not require any substantial investment*; total costs remain almost unchanged (as capitalism develops, this assumption becomes less and less admissible).
10) Innovations do not take much time.

Baseline. There is no market for the given product at the given time.

Stage 1. C1 (leading capitalist, market leader) has the commodity market innovation completed at their enterprise. Since C1 is a *monopolist*, the price of the commodity depends entirely on them and their customers. To put it simply, up to the point the competitors enter the market, C1 can either sell fewer products at a higher price (within the *use value* of a novelty[264] and the purchasing power of the buyers[265]) or sell more products at a low price (within the frames determined by the production costs). Tactically, C1 will aim to maximize the profit (both high and low prices are possible here depending on demand elasticity[266]). In terms of strategy, C1 will try to corner the biggest share of the market until competitors enter it (they will most probably opt for a low price and a bigger sales volume). The sooner the competitors will enter the game, the more C1 has to pay attention to the strategy. In most cases, the right behavior pattern looks like this: first, sell a few products at the maximum price (a "consumer price"), then gradually decrease the price and increase sales. In any case, C1 can count on a massive profit (the price is higher than production expenses).

Stage 2. C2 (another leader) enters the market and starts selling the same product that C1 sells. In order to attract new customers or poach them from C1, C2 cuts the price. C1 is forced to do the same. The future actions by C1 and C2 depend on a number of factors and circumstances but, one way or another, both gain profits (the price is higher than production expenses).

Stage 3. C3 (underachieving capitalist, an outsider) enters the market with the same product; the price goes down; C1 and C2 have to do the same. The competition gets hotter. The price keeps falling until it reaches the level of normal production costs; the profits of C1, C2, and C3 are brought to zero despite the successful innovation. As a consequence, the market becomes balanced.

Stage 4. C4 (latecomer, also an outsider) enters the game. At this stage, C4 has a goal: They want not so much to earn a profit as to get established in the market. Therefore, in order to get the customers' attention and possibly attract those of their competitors, C4 is ready to sell the product at a distress price. For some time, all the traders are operating at a loss, and then, through sales cuts, they restore the balance.

Conclusions:

1) All the participants who entered the capitalist competition before it became balanced turn a gross profit.
2) The first to introduce innovations and avoid mistakes in the process turns the biggest profit.
3) Runners-up can count on a moderate profit (if the leader makes mistakes, the one who takes advantage of them turns the biggest profit).
4) Those lagging behind (who entered the market right before it got balanced) turn a modest gross profit.
5) Latecomers (who entered the market when it was already balanced) bear losses (as a rule, not too big).
6) *All the profits mentioned can be attributed to the "classical" market imbalance:* at stages 1–3, the total demand exceeds the total supply.

[264] Here we mean "the use value of *demand*" (see "Value", sections "Supply value and demand value", "Total value").
[265] See "Value", section "Imbalanced (volatile) markets", chapter "Sellers' market."
[266] By "elasticity of demand," we mean the dependence of demand on price (Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed.* McGraw-Hill/Irwin, New York, p. 66–70).

Options:

1) Close to the end of stage 2, fierce competition between C1 and C2 helps to balance the market; the competition for the development of the new market comes to an end. The market players now seek redivision/redistribution of the market shares through production cost reduction.
2) At stage 4, no one wants to yield; everyone suffers losses (until one of the players goes bankrupt).
3) C4 has a safety margin, which allows them to inundate the market with cheap products and, putting up with losses, manages, nevertheless, to push one of the competitors out of the market (or sometimes all of them). Then C4 prepares for a new progressive step (in technologies or marketing) otherwise their late arrival in the market does not make any sense.

Now we will take away *all the important assumptions*.

1) *The usefulness (value, necessity) of the new product is not obvious to the customers;* consumer performance and properties are not known to the customers (or the product may be presented as useless or harmful, incompatible with the local traditions or morale, and so on). The path is harder for pioneering traders. In order to attract customers, they have to start out with really low prices, which are distress prices for them. If they fail to win customers within an admissible time frame and with admissible losses, the innovation flops. If everything goes as planned, those who keep their eye on the ball have an advantage: they enter the prime "business-ready" market and start selling at high (profitable) prices.

It is not the one who comes first who wins the competition for new market development. It is the one whose advertising campaign and marketing techniques are faster, cheaper, and savvier.

2) *Capitalists manufacture and sell interchangeable products* (various detergents, bicycles with different gears, mobile phones with various gimmicks, software with unique interfaces). The market for innovations gets segmented based on the type and quality of the products. Each segment has its own niche producer. However, the monopolist must compete with other niche producers in the integral market of a generic product (in our example, these are household chemicals, bicycles, or software). As a result, innovators' profits fall but not as fast as in the general case. The entrepreneur who manages to get production of a unique item, which is indispensable and, of course, protected by licenses and patents, going can count on a profit for a few years (until one of competitors comes up with their own new "unique" proposition)[267].
3) Different capitalists can have different production expenses. The biggest profit is gained by that capitalist who has minimized their production costs—not the one who entered the market first. If the capitalist produces more than they are able to sell, and the profit is big enough to cover their production expenses, the capitalist will believe that there is no sense in producing more. In other words, if the production volume covers the effective demand, the market becomes balanced at the level of this capitalist's expenses. Those capitalists who bear substantial costs, regardless of their market experience, will have to exit the market (or modernize their production urgently to bring their production expenses down to a competitive level).
4) *Many entrepreneurs enter the market almost simultaneously*. The market quickly reaches a balance. The price falls at the same speed. Any profit is highly unlikely.

Simultaneous massive innovation does not bring profit to all the capitalists.

5) Some of the capitalists have limited production resources and facilities (their production volume is insufficient to cover their distribution possibilities). These market players produce only as much as they can sell, and the price is defined by the policies of more powerful producers.
6) Some market players introduce a few innovations at a time (for instance, testing and introducing the production and distribution of a few new products). Such producers have way more room to

[267] The relationship between the sellers of closely related interchangeable goods is known as "monopolistic competition" (Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 188–190; Pindyck R. S., Rubinfeld D. L., (2013), *Microeconomics, 8th ed*., Prentice Hall, New Jersey, p. 452–457), and in the section "Imbalanced (volatile) markets", in "Value").

maneuver (in particular, by setting a really low price for one product so they can attract customers to their other products).

7) *Innovation requires substantial investment***.** The total production cost is so high that it cries out for a bigger output, which means that the initial price has to be low. As a result, all the players may lose[268]. On the other hand, the entrepreneurs who pull through successfully can allow themselves to relax for a while as *the high capital cost makes it impossible for many market players to succeed*.

3.2.3 Source 1, cases 1 and 2: Similar and different

Let us now summarize the conclusions of the previous chapters.
In both cases:

- *Only those capitalists* ***who manage to put in timely, fast, and cost-effective modernization/innovations*** *will turn a profit (and accumulate capital)*. They can sell their product at prices markedly higher than the real production costs they bear.
- *Profit and the accumulation of capital are possible only in transitional periods*—until all the competitors reach the level of increased production or conquer new markets (as a result of which prices will fall to equal the production expenses).
- If *all market players carry out massive modernization and innovation simultaneously*, it is highly unlikely that any one of them will enjoy any profit.
- *Profit gain and the accumulation of capital are not connected with the exploitation of workers*, who gain (as a salary) the total socially normal value of their labor in the balanced markets of skilled and unskilled labor[269].

Besides, in the first case:

- The later a capitalist decreases production costs (the later they introduce the innovations already introduced by their competitors), the longer the part of the transitional period in which they have to sell their products at the price lower than the production costs, and the smaller the part left for them to compensate for their losses and, hopefully, gain at least some profit.
- The capitalist who fails to decrease costs in a timely manner must terminate production and exit the market.
- As a rule, capitalists either adjust to changes or exit the market without waiting for any further loss; that is why the amount of capital accumulated by the leaders is usually larger than the loss of capital by outsiders[270].
- *Buyers do not lose anything* as they buy products at the price no higher than their normal value.
- The most streetwise and luckier buyers can even gain something (buying from the leader before the total price cuts; in other words, cheaper than the socially normal value at the given time).

As a result, there is:
a) *ACCUMULATION of capital by the leading capitalists in the given industry*;
b) *LOSS of capital by outsiders*;
c) *some GROWTH of the aggregate capital in the industry,*

In the second case (unlike the first case):

- *All or almost all innovators turn a profit (even outsiders).* In the transitional period, they sell their product at a higher price than its socially normal value;

[268] See the chapter "Source 1: Supply and demand."
[269] For more on the concept of “exploitation," see “Value" (section "Labor value, salary and labor productivity").
[270] Everything reverses during pre-crisis and crisis periods (see the section "Capitalist cycles and crises").

- *Buyers are disadvantaged* because in this transitional period they are purchasing the product at a higher price than its socially normal value;
- Market imbalance, activated by the innovators, galvanizes *the use value*; *therefore, the higher the use value of the product (and, correspondingly, the buyers' loss), the bigger the leaders' profits*[271].

As a result, there is:

a) *ACCUMULATION of the social capital in the hands of leading capitalists in the given industry* (if consumer goods are produced and sold);

b) *REDISTRIBUTION of the social capital and its concentration in the hands of leading capitalists in the given industry* (if production goods are produced and sold);

c) considerable *GROWTH of the aggregate capital in the industry*.

As we can see, *in the second case, the losses of some capitalists* (production means buyers) *can be converted into profits for other capitalists* (production means sellers), while, in the first case, the *outsiders' capital is inevitably lost*.

A part of the labor, already accumulated, is economized and converted into profit in both cases. In the first case, some of the accumulated labor meant for production purposes is economized whereas in the second case, part of the accumulated labor is meant for either production or own consumption—depending on whether production goods or consumer goods are manufactured. In the first case, the seller's industrial consumption pool shrinks, while in the second case, it is the buyer's production or household consumption pool that shrinks. *In the first case, we can talk about costs underrunning the seller's capital (cheaper than the original budget could endure); in the second case, buyers experience a cost that overextends their capital and labor resources*.

The following difference deserves special attention.

In the first case, the market retains its equilibrium (in the classical meaning) throughout the entire transitional period (given all the assumptions, the total supply and total demand ratio is retained), whereas in *the second case, the market is put off balance in the transitional period* (demand exceeds supply, which allows selling goods for greater than their normal value)[272].

In practice, production upgrading and product innovations normally alternate.

a) If there are no more benefits left from modernization (further cost reduction at the given stage seems impossible), and there are no other profit sources, all the capitalists are forced to *proceed with product innovations*—conquer new markets and sell new products;
b) If there are no more benefits of an innovation left (expansion of the current markets as well as penetrating the new markets are impossible) and there are no other profit sources, all the capitalists are forced to modernize their enterprises and production and master new technologies, new equipment, and new scientific advances.

Besides, production modernization and market and commodity innovations often complement each other:

a) modernization requires sales market expansion (market development);
b) modernization allows successfully completing the production of a new product;
c) it is impossible to produce a new product without modernization;
d) the increased production output necessary for entering new markets is impossible without upgrading production.

Competition urges market players to invent new modernization and innovation schemes and to never rest on their laurels.

[271] See "Value", section "Value and its components."

[272] In the chapter "Profit generation (conclusions and summary)," the notion of "imbalance" will be extended to case 1. So far, by "imbalance" we mean exclusively *trade-and-conjuncture imbalance*, i.e., the mismatch between effective demand and supply (see "Value", section "The law of equilibrium").

3.2.4 Source 1: Supply and demand

Production modernization normally requires a massive investment (the bigger the production is and the more revolutionary the modernization, the more investment required). Capital-intensive modernization can be rewarding and can start generating profits only when its scale matches the production output and sales growth. Put simply, if as a result of modernization the production costs have doubled, the general output and sales have to grow more than that to guarantee the desired unit cost reduction. However, a marked sales growth is possible only when the price goes down substantially: it intensifies the effective demand or helps poach clients from the competitors. Therefore, the production and sales growth have not only to make up for the production costs but also to ensure such a cost reduction that can compensate for the price reduction. Here is a clear example: As a result of modernization, the total costs have tripled, output and sales have increased six times, unit costs have decreased two times; if the price is cut only 25%, then the total profit will hit 25%; if the price is cut 50%, then the total profit will equal zero, which means, the modernization was senseless.

Therefore, *upgrading an enterprise and its facilities makes sense only when this improved production guarantees a labor productivity rise that can result in a bigger profit*. A capitalist, having introduced some new technologies, can successfully get through this transitional period only if they manage to sell the goods in quantities adequate for these technologies.

Production revolutions, as a rule, are associated with considerable production growth. However, the effective demand may not be able to catch up with this pace. Production revolutions that do not take into account the effective demand result in losses.

Establishing the production of new products also requires large investments. First of all, it concerns manufacturing new production tools; however, the development of new consumer novelties (a new car or a computer) also needs serious expenses. Penetrating new markets in order to distribute old goods also requires investment. Penetrating markets in geographically remote regions seems to be especially cost-intensive (bridges, roads, communication lines). Marketing and product innovations can generate profit only when products are sold on a massive scale. A big sales volume requires lower prices. The innovator capitalist will gain an advantage only if in the transitional period they sell as much as is adequate for the new production.

As a rule, the manufacture of new products requires large volumes of output and sales; the same can be required to penetrate new markets with these new products. However, the effective demand does not always match the production volumes. Production and marketing innovations that do not cater to demand result in losses rather than profits.

The more expensive the novelty (either technological or marketing), the bigger the sales volumes required to actually be profitable. Bigger sales volumes imply lower prices, which means volumes have to be even bigger (the lower the price, the bigger the sales volume has to be for the investment to pay off). The problem of the discrepancy between a forced bigger supply and relatively little demand is seriously exacerbated by competitors. Prices start dropping rapidly, and even a well-planned modernization or innovation may prove to be commercially unfeasible. If the capitalist holds back the prices on a certain level, the demand will be low anyway. From this perspective, *the assimilation (or the lead time) of a novelty and sales growth rates are often of critical importance*. It is not the innovator who can gain an advantage here but a copycat.

On the other hand, the more expensive the novelty, the bigger the capital it entails and, consequently, the fewer the capitalists who are capable of making profit from it. Therefore, those who have successfully completed the assimilation process can take a break for a while: not many competitors can afford the *high capital costs of modernization/innovation*.

The capital accumulated by that time and supported by scientific and technological advances can physically allow an unprecedented level of technological upgrading, launching the production of new useful goods and services and making them available in the most remote corners of the globe. Yet these possibilities are not realized to their fullest because of a relatively low *purchasing power (low effective demand*), which does not allow generating profit from large-scale cost-intensive projects. Let us now touch upon a few examples that are sometimes mentioned in the literature. Cancer and AIDS could have been defeated if large corporations were interested in investing tens or hundreds of billion dollars in the venture. They would now

be expecting generous profits but such long-term payoffs do not seem encouraging for companies, while governments invest the minimum as most voters do not suffer from those diseases (these are implied to be not costs of capitalism but costs of democracy). In theory, solutions have been found for blindness and deafness but the massive introduction of the artificial organs and associated supplies necessary has been delayed due to the extreme costs of the artificial organs themselves: even mass production does not seem feasible so far.

It is hard to escape the conclusion that capitalism holds off the development of modern capital-intensive manufacture. Many novelties, useful and even necessary for people, are not implemented because losses loom instead of well-controlled and predicted income patterns. Potentially loss-making ideas can be implemented only by governmental institutions—this actually sometimes happens in *developed capitalist economies*. However, in socialist countries where the government controls the entire economy, neither promising nor failing ideas find implementation (just a historical experience). The modern industrial and information economy requires monetary stimuli, and when such stimuli are found, capitalism responds to them with the maximum speed and an effectiveness unheard of in any other economic system. Capitalism indeed seems to be curbing the *development of the modern capital-intensive production. Yet, this effect is far less detrimental than in any other economic system*.

What drives capitalists is not modernization or innovations—it is profit. If technological or marketing novelties are potentially profitable, they get introduced with maximum speed and effectiveness; if they do not promise much, then they just "wait" for their buyer.

To recap, it should be noted that one needs a sober approach to capitalism. If we admit that such an economy is driven by profit, then we would have to acknowledge it is not perfect by humanitarian standards because it focuses on profit and not on people's needs (only those needs that can bring profit are satisfied). This is the objective reality, which can only be attributed to human nature, and it is a reality is to be reckoned with.

3.3 Source 1a: Selling a product more expensive than its actual cost[273]

The demand for certain groups of products can prove to be much higher than supply. This can result from innovators' activities but it also can occur as a result of natural disasters or social calamities. For instance, after an earthquake, the affected region will probably need more construction materials; in an epidemic, people need medicines and professional medical assistance; in case of war, the demand for weapons and ammo grows rapidly. Furthermore, the demand for some products may increase due to an influx of immigrants, a change in consumer needs and preferences, the explosive growth of allowances and pension schemes, inflation expectation, and a number of other events of a non-economic nature.

This situation, which is rather close to case 2, differs from it in the following way: in case 2, the market expands purposefully (or it is created) by a certain capitalist (or a group of capitalists) while the rest—willingly or not—follow them. In the given case (case 2a), however, the *market boosts itself* regardless of the actions of capitalists. Therefore, in case 2a, the swollen market is cultivated by many or even all capitalists more or less evenly.

The transitional processes that balance the market in this scenario come around faster than in case 2 and do not generate big profits. Transitional processes can be short and relatively unprofitable when the demand growth is foreseen, while production costs (for output growth) are relatively low and affordable for many market players. For example, it is easy to forecast the growth of demand for winter outerwear as winter closes in, and the growth of demand for school supplies before the upcoming school year (hot back-to-school sales).

Source 1a, as a rule, does not promise big profits.

The role of source 1a increases rapidly when there are no other sources of profit or they are not available. *Capitalists unable to profit on the side of supply turn their attention to demand, and if there are no natural changes expected, they try to initiate artificial changes*. Effective advertising or subvertising can

[273] This profit source is omitted from Schumpeter's list on principle (Schumpeter, J. A. (1934), *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle*, Transaction Publishers, New Jersey, p. 65–66).

generate a relative profit. However, it is trifles compared with the preparations for a war and war itself. And this is not only because war makes the demand for certain resource-intensive industries skyrocket. The key point is that the main consumer here is the government itself, a consumer who is not too elective and has plenty of money. *War is the highest and most horrifying expense in a society of industrial capitalism.* This does not mean that if there are no other sources of profit, capitalists would be ready to start a war for no reason. However, if the war seems inevitable due to some political, ethnic, or other reasons, capitalists who at the given time are not earning any stable profits will surely try to provide development in this field.

Profit source 1a (associated with dramatic demand growth) *on the whole is not typical of capitalist development and is actualized when there are no other sources or they are insignificant* (sources this or that way connected with supply).

3.4 Source 2: Purchasing production assets/facilities cheaper than their normal cost[274]

The unpaid part of the normal value of production means utilized can account for more than zero if the supply of these production means in the market is significantly higher than the demand. As a result, the manufacturers of the production means must sell these production goods cheaper than their normal value.

The imbalance in the market of production goods can arise due to both economic and non-economic reasons, which we do not consider necessary to analyze in detail at this point. The actual interest lies here with the processes aroused by this imbalance. On the one hand, the producers of these production means (which are available in large quantities and, therefore, do not generate big profits) tend to shrink production. As a result, the market, that is the entry market for our capitalist, will stabilize, with the prices of the production means gradually growing. And profit, associated with the initial imbalance, will decline. On the other hand, buyers of cheap production means will try to increase the range of products they produce using these production means and boost sales. As a result, the end markets (sales markets), normally balanced, will see the prices for excessive products fall. Even if some capitalists are willing to retain a balance and keep their production volumes and sales volumes unchanged, their competitors will take advantage of it and prices will drop anyway. Profit will decline thereof. This way, we can see that *the competitive advantage held at the entrance market fully or partially evens out by the loss at the exit market.*

The imbalance in the market of production goods triggers two transitional processes (one by one or simultaneously):

Process 1 starts with *balancing the entry market* (leaning on the side of the buyer who buys excess facilities/means); process 2 throws *exit markets off balance.*

Transitional processes caused by the imbalance in the market of production means are illustrated in figure 3.4.

Simplifying assumptions

1) Buyers of production means react to the imbalance one by one or in small groups.
2) Those who buy excessive production means mostly produce only one type of product using these production means.
3) At any specific time, all the producers of this particular product (regardless of their expenses) trade at one and the same price (the market for this product is rather tight).

[274] Broader than in case 4 on Schumpeter's list, where there are only raw materials and semi-finished goods (Schumpeter, J. A. (1934), *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle,* Transaction Publishers, New Jersey, p. 65–66).

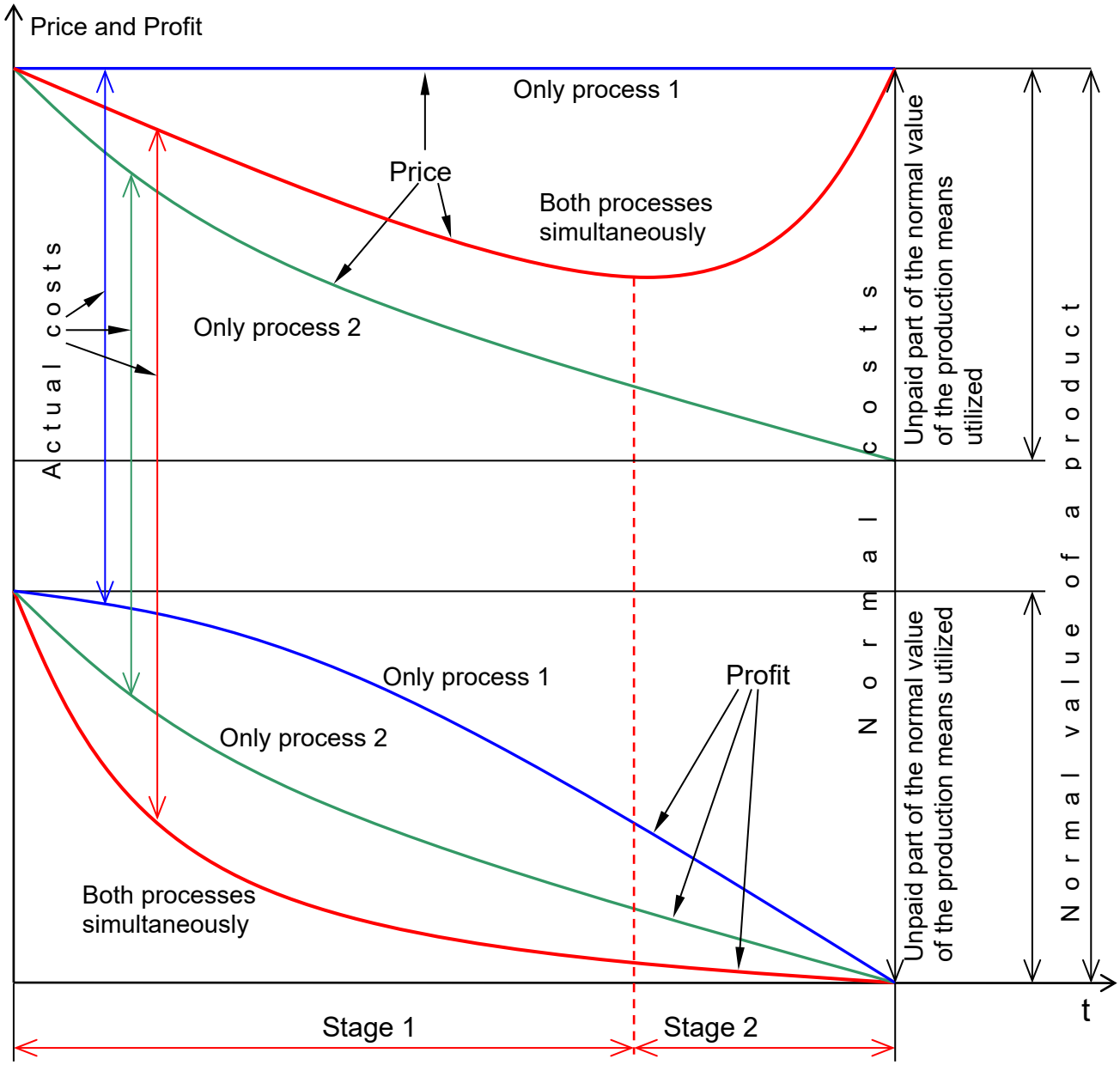

Fig. 3.4. Transitional processes when buying production means cheaper than their normal value (simplified value)
Legend:

- Graphs of prices and profits are presented here for all options possible (process 1, process 2, both processes simultaneously);
- The graphs have a rough qualitative nature;
- Profit is to be understood as *profit by leading capitalists*, those who were first to respond to the market imbalance.

Baseline. The market for production means is off balance, which is to the advantage of the buyers; the market of a product created using these production means is balanced. The price of the production means is lower than their normal value; the price of the product equals its normal value. The profit of the leading capitalists who bought and introduced the excessive production means is derived from the gap (margin) between the product price and this product's actual production costs. These costs are lower than the normal costs, and this range (margin) is exactly the unpaid part of the normal value of the production means utilized.

Option 1 (only process 1)

The entry market reaches a balance *(the exit market is balanced too)*. In other words, *the speed of the balancing process of the entry market exceeds the speed of unbalancing the exit market. The excessive supply of production means drops to a normal balanced level.* Profit subsequently drops also—from the initially unpaid

part of the normal value of the production means utilized to zero. As the exit market is balanced, the price remains unchanged and equals the normal value of the product (the normal value of the production means and labor utilized).

Option 2 (only process 2)

The exit market becomes imbalanced *(the entrance market is also imbalanced)*. In other words, *the speed at which the exit market loses its equilibrium is significantly higher than the speed of the balancing process for the entry market*. The supply of a product produced using excessive production means is growing. The demand for the excessive production means is also growing, which decreases the imbalance of the entry market, scales up the entry prices, speeds up process 1, and decelerates process 2. However, we can ignore this negative factor between the entrance and exit: the first few buyers of the excessive production means do not have a massive influence on the level of the entry market imbalance. This allows us to analyze process 1 and process 2 separately.

As the exit market unbalances, the product price falls—from its normal value down to its pseudo equilibrium value. The unpaid part of the normal value of the production means is a divisive line between the pseudo equilibrium value and the normal value[275]. The product price decrease can be delayed by the growth of its demand. However, the competitive sales market will force sellers to drop prices to the level of actual (abnormally low) production costs. The price plunge is synchronized with the profit plunge—from the unpaid part of the normal value of the production means utilized down to zero. In comparison with process 1, the profit plunge speed can be either higher or lower (depending on how fast the respective markets can be balanced or unbalanced).

Unlike option 1, option 2 reveals that in a transitional period, the unpaid part of the normal value of the production means utilized *is actualized not only by the capitalist themselves but by their buyers as well.* As the transitional period is over, the unpaid part of the normal value of the production means utilized is actualized exclusively by the buyers of those products. *If the capitalist, like their disadvantaged supplier*, keeps manufacturing production means, the one who will gain profit will be the third party, the buying capitalist. This will continue until the profit wave reaches the ultimate consumers.

The chronic imbalances in the production goods markets do not bring any serious profit to the consumers of those production goods.
Almost all the losses due to chronically excessive production goods convert into profit for the end users.

We have analyzed processes 1 and 2 separately. In practice these processes usually go hand in hand. While the buyers of the excessive production goods want to generate a profit from the imbalance, the manufacturers of those production goods want to at least minimize their losses.

Option 3 (both processes simultaneously)

Stage 1. The entry market is balanced while the exit market is being pushed off balance. The balance at the entry decreases the stimulus for the output and sales growth and decelerates the imbalance at the exit. That is why the product price does not fall as fast as in option 2. Profit, on the contrary, falls way more dramatically than in options 1 and 2 as it is diminished from both sides (it is diminished by both the entry price growth and exit price fall). By the end of stage 1, the exit market is more or less stabilized, the price reaches its minimum, and profit is modest.

Stage 2. The entry market and exit market are reaching equilibrium simultaneously. The balancing of the entrance accelerates the balancing of the exit. The transitional periods are completed by the end of stage 2 and the markets balance. Profit drops to zero and the price returns to its initial point, equal to the normal value of a product.

In options 2 and 3, *the unpaid part of the normal value of the production means utilized finds its actualization not only by the concerned capitalist but by the buyers as well (during the transitional period)*. However, unlike option 2, as the transitional period finishes, all profits come to zero (production goods manufacturers' profits come to zero as well).

Now it is time for us to draw some conclusions.

[275] For more on pseudo-equilibrium in the imbalanced market, see "Value" (section “Imbalanced (volatile) markets").

The profit of those purchasing the excessive production means is of a temporary transitional nature (in all the options).
As the transitional period comes to an end, the profits either zero out (options 1 and 3) or convert into *profit for those who consume the products manufactured by these excessive means of production* (option 2).

Not all capitalists buying excessive means of production are guaranteed to have even a temporary profit—*only the most enterprising (or the lucky)*, those keeping ahead of the competition in both purchasing/introducing cheaper production means and selling the product manufactured by them. To put it simply, those capitalists who buy cheaper (because the entrance market is only starting to balance) and sell at a higher price than their competitors (because the exit market is starting to become rickety) have a better chance of earning a profit. Those biting the dust can count on some modest and temporary revenues.

Resourcefulness and luck are vital when new and unbelievably cheap means of production enter the market, and when production means with an established reputation are manufactured excessively and become cheap (for instance, when planning has been poor or the country experiences unexpectedly lavish harvests). However, it is equally important to recognize competition in both the entrance and exit markets and arrange the mass sales of the product that has been produced at an extremely low cost, otherwise the advantage in the exit market will be neutralized by the losses at the exit stage.

By the way, production goods can fall in price not only due to excessive production but also because the production cost itself may drop. The profit gained by the capitalists who were first to get the production process right using these cheap production means resembles case 1 of source 1 ("cost-saving modernization").

If all the capitalists in the industry went neck and neck in their purchase of production means, production, and sales rates[276], the competition between them (in the production goods market and sales market) would become so fierce that the transitional periods would no sooner start than end. Entrance and exit markets would stabilize at some pseudo equilibrium level (the entrance market would stabilize due to the rapidly boosted demand, and the exit market due to the rapid boost in supply). The price would tumble to the level of actual costs and *almost all the profit from the excessive production goods would go not to our hypothetical resourceful capitalists but to the buyers of their product (possibly to capitalists in other industries*). However, the buyers' profit would not last long either as it is possible only before the production goods market reaches its equilibrium. Figure 3.4 does not show the option of all the competitors running neck and neck. We should note here that in this option the transitional process at the entrance market resembles process 1. The main difference lies in the fact that the entrance market is balanced not on the part of supply (production goods) but on the part of the demand for these goods. As a result, the entry price is leveled not at an equilibrium (as at the end of process 1) but at a low pseudo equilibrium level. This level is halfway between the nonequilibrium initial price and the equilibrium price for the consumer. As for the transitional period at the exit, the only way it differs from process 2 is its speed.

If all the capitalists of all industries went neck and neck in their purchase of production means, production itself, and the sales rates of the goods produced using those production means[277], *the lion's share of the profit gained from the excess of production goods/means would go not to the producing capitalists but to the buyers, the end users* (hired workers included). However, the buyers' profit would also not last long as it is possible only before the market for the excessive production goods reaches its equilibrium.

The profit gain from source *2 can be accompanied by social capital redistribution* (in favor of the most enterprising and luckiest capitalists) *or by its irrevocable loss* (in favor of the ultimate consumers). *Source 2* does not guarantee the accumulation of capital (unlike source 1).

The speed of process 2 determines exactly what happens with capital—whether it is redistributed or lost. Compared to process 1, process 2 goes slowly, the social capital is most often redistributed. If it is fast, social capital loss is forecast. If there is no process 2, the social capital is only redistributed, while if there is no process 1 (when the imbalance of some production goods is chronic), the social capital is lost.

[276] Simplifying assumption 1 is lifted.
[277] Simplifying assumption 2 is lifted.

If during the transitional period the markets stay balanced (up until the production goods market balances), we can talk about the redistribution of social capital *and its concentration in the accounts of the capitalists who are leaders in buying excessive production means.*
If the sales market is losing balance slowly (compared to how fast the production goods markets balance), social capital gradually dissolves *while some part of it is redistributed and concentrated in the bank accounts of those capitalists who move ahead by buying the excessive production means and selling the goods manufactured using the excessive production means.*
If the sales market is losing balance quickly (compared to how fast the production goods markets balance), *social capital is being irrevocably lost in massive amounts in favor of the ultimate consumers.*

3.5 Source 3: Purchasing labor cheaper than its normal value[278]

The unpaid part of the normal value of labor utilized can be significantly higher than zero *if supply in the market of the given labor is significantly higher than the demand for it.*
As a result, the hired workers must sell their labor cheaper than its normal value.

The imbalance in the market of a certain type of labor has many causes, which will be touched on at the end of the chapter. Right now we will analyze the processes caused by this imbalance. On the one hand, people whose labor has become cheap will try to decrease the supply (they can retrain and change profession, take on an agricultural business, migrate, or apply for jobless allowances). Consequently, the cost of labor (salaries) will start growing in the entry market, the market will start leaning towards a balance point, the price of labor starts growing, and profit, previously derived from the initial imbalance, starts falling. On the other hand, employers will attempt to expand the range of products produced by cheap labor and boost sales. Therefore, entry markets (sales markets), usually balanced, will lose their equilibrium and the prices for excessive goods will start falling, resulting in a loss in profits. Therefore, *the advantage in the entry market, as with source 2, is fully or partially neutralized by the loss in the exit markets*.

The labor market imbalance initiates two transitional processes (separately or simultaneously):
Process 1 starts with balancing the entry market (leaning towards the labor buyers' side) while process 2 starts with unbalancing the exit market.

The transitional periods caused by the labor market imbalance are illustrated in fig. 3.5.

Simplifying assumptions

1) Employers respond to the imbalance one by one (or in small groups).
2) Those who buy excessive labor mostly produce only one type of product using this labor.
3) At any specific time, all the producers of this particular product (regardless of their expenses) trade at one and the same price (the market for this product is rather tight).

[278] This source of profit is not included in Schumpeter's list (Schumpeter, J. A. (1934), *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle,* Transaction Publishers, New Jersey, p. 65 – 66.) although it is mentioned on p. 67.)

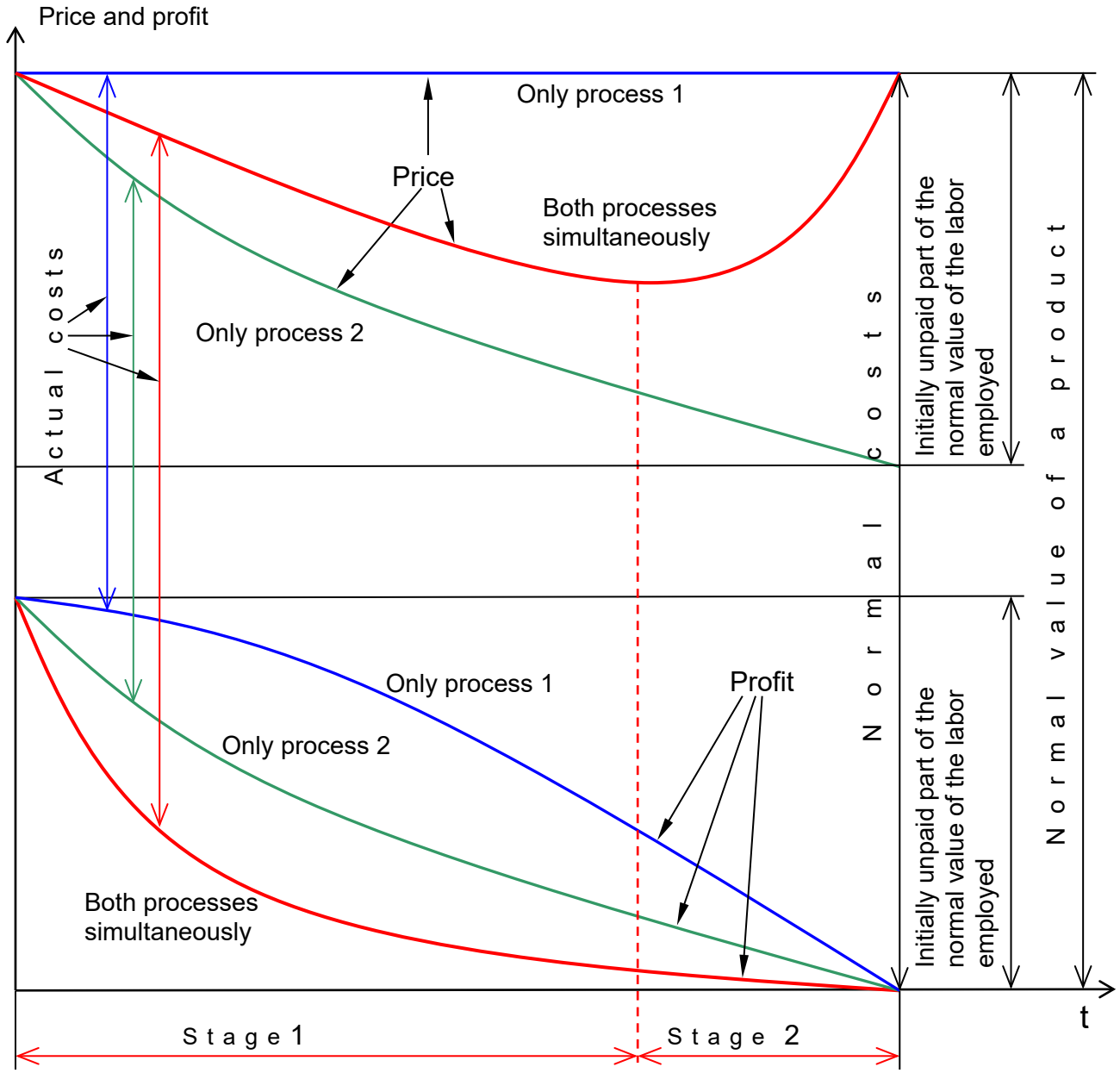

Fig. 3.5. Transitional processes while buying labor cheaper than its normal value (simplified model)
Legend:

- Graphs of prices and profits are illustrated for all options possible (process 1, process 2, both processes simultaneously);
- The graphs have a rough qualitative nature;
- Profit is to be understood as the *profit of the leading capitalists*, those who were first to respond to the market imbalance.

Baseline. The market of some labor is imbalanced to the advantage of employers while the market for a product produced using this labor is in balance. The price for labor is below its normal value and the product price is equal to its normal value. The profit of capitalists, who promptly found and hired the excessive workers, equals the gap between the product price and the actual costs of production. These costs are smaller than the normal costs, and this range (margin) is exactly the unpaid part of the normal value of the labor utilized.

Option 1 (process 1)

The entry market comes to a balance *(the exit market is balanced too)*. In other words, *the speed of the balancing process of the entry market exceeds the speed of unbalancing the exit market.* The labor supply goes down to the normal equilibrium level. Consequently, profit also decreases from the initially unpaid part

of the normal value of the labor used to zero. The price stays unchanged on account of the exit market balance. It equals the normal product value (the normal value of the production means and labor utilized).

In option 1 (during the transitional period) the unpaid part of the normal value of the labor utilized is actualized by the capitalist (the direct consumer of this labor). Here we are speaking about *direct exploitation—exploitation of the hired workers*[279].

Option 2 (process 2)

The exit market gets imbalanced *(entrance market is also imbalanced)*. In other words, *the speed at which the exit market loses its equilibrium is significantly higher than the speed of the balancing process for the entry market*. The supply of a product produced using the excessive labor is growing. The demand for the excessive labor is also growing, which decreases the imbalance of the entry market, scales up the entry prices, speeds up process 1, and decelerates process 2. However, we can ignore this negative factor between the entrance and exit. The first few buyers of the excessive labor do not have a massive influence on the level of the entry market imbalance. This allows us to analyze process 1 and process 2 separately.

As the exit market unbalances, the product price falls from its normal value down to its pseudo equilibrium value; the unpaid part of the normal value of the labor is a divisive line between the pseudo equilibrium value and normal value. Demand for the product can decelerate the price fall; however, the competition in the sales market will force sellers to decrease prices until the level of actual (abnormally low) production costs anyway. Profits tumble accordingly—the utilized unpaid part of the normal value of labor reaches zero. Profit can decrease faster or slower compared to process 1, depending on how fast the corresponding markets are balanced/put off balance.

So, in option 2, unlike option 1, the transitional period sees the unpaid part of the normal value of the labor actualized by not only the capitalist but also their customers. *In other words, we observe not only direct exploitation here but also indirect (the exploitation of outside workers). As the transitional period is over,* the unpaid part of the normal value of the labor is actualized only by the ultimate consumers. Here we observe *only indirect exploitation. If the capitalist* manufactures the production means, the one who will profit is the buying capitalist. This will continue until the profit wave reaches the ultimate consumers, who are actually the ultimate "consuming exploiters" of the excessive work force. However, when these workers are the ultimate consumers, justice is partially restored: cheap labor is exchanged for cheap goods.

The chronic imbalances in the labor markets do not bring any significant profit to the employing capitalists. The money saved on lower wages/salaries for workers of excessive job categories is in most part converted into profit for the ultimate consumers.

Option 3 (both processes simultaneously)

Stage 1. The entry market balances simultaneously with the unbalancing period for the exit market. Balancing at the entrance decelerates the output volume growth and sales volume growth, and the unbalancing process at the exit, which means the price does fall not as dramatically as in option 2. Profit, on the contrary, decreases way faster than in options 1 and 2 since it is diminished from both sides. By the end of stage 1, the market has stopped faltering; the price has reached it minimum; the profit is small.

Stage 2. Entry and exit markets simultaneously gain equilibrium. The entry market balance encourages the exit market balance. By the end of stage 2, all the transitional periods have come to an end and markets have reached their balance. Profit drops to zero and the price returns to the initial level, equal to the normal value of the product.

This way, throughout the transitional period, options 2 and 3 actualize the unpaid part of the normal value of the labor employed not only by the capitalist but also by their buyers. In other words, we can talk about *not only the direct but also the indirect exploitation of outside workers.* However, as the transitional period ends, unlike option 2, salaries are consistent with the normal labor value and the exploitation turns into a coordinated interaction between employers and employees.

Profit for those consuming excess labor has a temporary, transitional nature (in all options).
As the transitional period comes to an end, profit either zeroes out (options 1 and 3) *or turns into a benefit for those who consume the product produced using the excess labor* (option 2).

However, even temporary profit cannot be guaranteed for the capitalists buying the excess labor. *Those who are the most enterprising and the luckiest, those who have a competitive advantage* in mass

[279] On "exploitation," see "Value" (section "Labor value, salaries/wages, and labor productivity").

employment, effective exploitation of the excess labor, and sales of the product produced by the excess labor get the lion's share of the pie. Resourcefulness and luck are extremely important when it comes to abrupt changes in the labor market and sales market (for instance, at times of army demobilization, immigration influx, and so on). The runners-up can count on small temporary profits.

If *all the capitalists* in the industry are neck and neck in their purchase of excess labor and selling the products produced by it[280], the competition between them (in the production goods market and sales market) would become so fierce that the transitional period would end; no sooner would they start than they would begin to end. Entrance and exit markets would stabilize at some pseudo equilibrium level (the entrance market stabilizes due to rapidly boosted demand, and the exit market stabilizes due to the rapid boost in supply). The price would tumble to the level of actual costs and *almost all the profit from the excess labor force would go not to our hypothetical resourceful capitalists but to the buyers of their product (possibly to capitalists from other industries*). However, nor does the buyers' profit last for long as it is possible only before the production goods market reaches its equilibrium. Figure 3.5 does not show the option with all the competitors running neck and neck. It should be noted, however, that the transitional processes peculiar to this situation do not differ from the processes in the situation described in "Source 2."

Therefore, *profit extraction from source 3 (unlike source 2) can be accompanied by an accumulation of social capital*—at the expense of the direct and indirect exploitation of the excess labor force.

If during the transitional period sales markets remain balanced (until the labor markets balance), we can talk about the ACCUMULATION of social capital—*in the hands of those capitalists who gained an advantage by using the excess labor,*
If sales markets lose balance slowly (compared to labor markets), we can talk about the ACCUMULATION of social capital—*in the hands of those capitalists who are ahead in consuming excess labor and the production means produced using this excess labor*.
If sales markets lose balance relatively quickly, *private, industrial, and social capitals remain almost unchanged*. Consumer funds are redistributed from hired workers to the end consumers.
In any case, until labor markets become balanced, hired workers are on the losing side. In the first two cases, the consumer fund of the excess hired workers mainly benefits while in the third case it is maxed out.

Finally, it is worth pointing out that *hired labor significantly differs from any other production resource*. Firstly, hired workers "are created" through a non-market process and it takes roughly 15–20 years for them to ripen or mature. Secondly, the influx and outflow of the ready-to-use workers are determined by factors beyond the market itself: geographic, political, military, and so on. Thirdly, hired workers are free living individuals—they have their own preferences, habits, convictions, and prejudices. The knowledge and skills they already possess are of great importance. In order to take a step up in professional value, to acquire a new profession which enjoys greater demand, they go through serious retraining and significant effort—such transition, at the end of the day, may prove to be impossible. All these volatile factors create inertia in labor markets: *in these markets supply and demand reach their balance way slower than in other markets*. Therefore, situations are possible when in imbalanced markets, process 1 goes really slow compared to process 2 (or is absent). As a result, imbalance persists in these markets for quite a long time. This in turn sustains the imbalance in the markets of end products while the consumers of cheap products chronically run at a loss.

The chronic excess in the labor market offers unsuccessful employers certain psychological relief. In conditions of massive unemployment, hired workers are afraid of being axed and behave in a more agreeable manner[281].

Chronic imbalances in the labor markets lead to chronic imbalances in the consumer markets and, as a result, the stability of their low prices.
Employing capitalists have a slight possibility to enjoy profit and capital accumulation while the ultimate consumers gain from the unpaid part of the normal value of excess labor.

Western Europe witnessed imbalanced labor markets until the 20th century. This disproportion was caused by long-lasting, but not infinite, historical prerequisites (the mass exodus of peasants). In the modern world, developed countries have failed to achieve a zero-unemployment rate. In most cases this means that

[280] Simplifying assumption 1 is lifted.
[281] The psychology and behavior of employees is found in more detail in Appendix 1.

the unemployed do not accept the market labor price (even if it corresponds to its normal value)[282]. Objective reasons for mass unemployment mostly arise only during crises[283].

3.6 Profit waves

In the chapters "Source 2" and "Source 3," we have shown that due to the *chronic excess of supply over demand* in entry markets (production goods markets and labor markets), the profit derived from these imbalances slips through competing capitalists' fingers and gradually resides in the consumer fund of the "end buyers", the consumers of ready products.

It is not hard to see that when *supply chronically exceeds demand* in exit markets (sales markets)[284], the profit from these imbalances also slips through the competitors' fingers (but in the reverse direction) and resides in the consumer fund of the "first sellers," the primary natural and labor resource suppliers. Here we should make a realistic assumption that landowners and hired workers mostly consume their incomes themselves. In other words, steady high prices for products make semi-finished products more expensive and *steady high prices for semi-finished products make the prices for the used raw materials higher. Steady high prices for the raw materials* raise the prices for the natural resources used. At the same time, *steadily higher prices for raw materials, semi-finished products, and ready goods are the main* levers for a pay rise for workers in major categories.

Low prices in entry markets cause increased supply and low prices in exits.
High prices in exits cause an increased demand and high prices in entry markets.

When entry markets experience a chronic imbalance in favor of buyers, the profit wave moves from left to right, following the production and trade pattern/chain (forward wave); with a chronic imbalance in favor of sellers in the exit markets, the profit wave moves from right to left (reverse wave). In the first case, the consumer fund of the buyers grows due to the general price slump lower than normal values, while in the latter case the consumer fund of the initial suppliers grows due to the general price rise higher than the normal values. Forward and reverse waves can overlap, giving rise to unpredictable system effects from uncaused profit for some capitalists to uncaused losses for others.

It should be noted, however, that chronic imbalances (especially in exit markets) *are not peculiar/typical of the capitalist economy*. They are usually connected with some nonmarket conditions/events that decelerate the balancing process. The most meaningful case is the nonmarket regulation of labor supply (see "Source 3").

Chronic imbalances in favor of buyers in main entry markets are to the advantage of the ultimate consumers.
Chronic imbalances in favor of buyers in main exit markets are to the advantage of the suppliers of the resources.
In both cases, production capitalists who actively mediate the relationship between the initial suppliers and the ultimate consumers rarely enjoy profit and capital accumulation.

3.7 Profit generation (conclusions and summary)

The analysis of profit resources allows us to draw the following conclusions.

Conclusion 1. Classification of profit sources

Main profit sources:

a) *saving on production costs* (source 1, case 1; sources 2 and 3), and
b) *advantage derived from the product price* (source 1, case 2; source 1a).

Another interpretation, more productive from the theoretical point of view, goes as follows:
Major profit sources:

[282] On voluntary unemployment, see Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 655—657.
[283] See the section "Capitalist cycles and crises."
[284] See chapters "Source 1, case 2" and "Source 1a."

a) *local growth of labor productivity as a result of production modernization* (source 1, case 1), and
b) *temporary imbalances in entry and exit markets* (source 1, case 2; sources 1a, 2 and 3).

It should be noted that *the local growth of labor productivity initiates the price dynamics, which is similar to the dynamics associated with market imbalances*. To be precise, the product price changes in a way that causes the capitalists' profit to fall to zero sooner or later after the initial abrupt takeoff)[285]. *This is the grounds for applying the notion of imbalance to this situation as well. However, the imbalance caused by production modernization is not connected with the demand-supply discrepancy (as in other cases) but rather with the specific variation of individual costs* (see fig. 3.2). The peculiarity of the variation mentioned above lies in the fact that the individual costs of leaders, followed closely by outsiders' costs, lean from average towards the smaller costs index. These deviations are not an accident but rather the result of conscious actions by interested entrepreneurs (while usual statistic variation random deviations occur towards both smaller and higher indexes). The peculiar nature of the imbalance brought about by production modernization, enhanced by the significance of the production revolutions in the development of capitalism[286], counterpose the local growth of labor productivity to all other profit sources.

Along with the classic demand-supply imbalance and the above-mentioned specific imbalance between individual production costs and normal production costs, we can point out one more specific imbalance (quite topical nowadays)—the imbalance between various systems of values (see appendix 2).

Therefore, profit is also possible at the classic equilibrium, the equilibrium between supply and demand.

Disequilibrium (imbalance in the broad sense) *is a peculiar state of the market that gives rise to a channeled price performance and positive profit (in favorable circumstances)*.
Types of imbalances:
a) *trade and conjuncture imbalances (between demand and supply)* arise from the mismatch between solvent (effective) demand and supply (source 1, case 2, sources 1a, 2, and 3);
b) a *production imbalance (imbalance of costs)* arises at the specific discrepancy between individual costs and normal costs (source 1, case 1);
c) an *imbalance of value* arises from the mismatch of the national systems of values[287].

The major sources of profit can be divided into

a) *internal, created* (source 1, both cases), and
b) *external, actualized* (sources 1a, 2, and 3).

The internal profit source, as a rule, requires significant funding, which is associated with certain issues[288].

The actualization of the external sources, as a rule, does not require substantial funding. These sources *should be discovered in proper time and developed promptly*.

Besides, *the major profit sources can also be divided into*

a) *supply-bound* (source 1, both cases; sources 2 and 3), and
b) *demand-bound* (source 1a).

On the whole, source 1a is not typical for capitalism and gains significance only when there are no other profit sources (sources that are supply-bound)[289].

[285] See chapters "Source 1", "Source 1a", "Source 2", "Source 3."
[286] See the section "Trends and prospects of capitalism."
[287] The notions of balance and imbalance can be extended to other aspects of the market reality. For example, Kondratiev had a broader understanding of "equilibrium" than the equilibrium between supply and demand (Kondratiev, p. 10, 33): "the larger the universe to which we try to apply the equilibrium concept, the vaguer and more uncertain is its meaning—and the more likely it is to obscure rather than clarify the problems at which we're looking" (Heyne P. T. (1983). *The Economic Way of Thinking, 4th ed*., Science Research Associates, Chicago, p. 414–415). Therefore, here we are talking only about imbalances a) & b), while imbalance c) is given a few lines in Appendix 2.
[288] See "Source 1: Supply and demand."
[289] See "Source 1a."

Conclusion 2. Zero profit when capitalists' behavior is synchronized

Analyzing the sources of profit, we have found that capitalists (together and separately) almost do not gain any advantage (their profit is close to zero) when production modernization is introduced synchronically

- product and marketing innovations acquire a mass character and are also introduced simultaneously,
- conjunctural/volatile imbalances are overcome "together" and quickly, and
- conjunctural/volatile imbalances are chronic and are not overcome easily.

Let us pull all the results from the previous chapters together and make some general conclusions.

1) In the case of *general synchronic production modernization*, when *production costs are being reduced evenly* and *labor productivity is growing evenly, the buyers of the produce as well as hired workers are at an advantage—not the producing capitalists*. Buyers get an advantage due to the overall reduction of the products' normal value and, consequently, the drop in the product price. Hired workers enjoy a gradual pay rise as a positive effect of the labor productivity growth[290]. Buyers of consumer goods and hired workers spend this money on the necessities of life, which means the benefit they gain is pulled out of the capitalist turnover. The buyers of the production goods reinvest their gain into manufacture and, as the production and marketing cycle comes to an end, they lose it, again to the benefit of buyers and hired workers. If *general labor productivity keeps growing evenly*, the entire gain of the buyers of the production goods converts into gain for consumer goods buyers and hired workers.

2) In case of *mass-scale product and marketing innovations, the ones who really benefit from the situation are not the producing capitalists but the buyers who have the opportunity to acquire product novelties at their normal labor value, not at high use value*. If a novelty is a consumer product, the gain is spent quickly. If a novelty is a production good, the buying capitalists' gain will quite soon be converted into the consumer goods buyers' gain, and again spent on the necessities of life (following the pattern described above).

3) In the case of ***trade and conjuncture imbalances that are tackled quickly and by joint effort***, it should be pointed out that capitalists rarely enjoy a profit. If entry market imbalances are overcome quickly (markets for production tools and labor), the ultimate consumers gain nothing[291]. If exit market imbalances are overcome quickly (sales markets), the end buyers/users are able to purchase products at their normal labor value, not at high use value[292].

4) In cases where capitalists face *trade and conjuncture imbalances that are not tackled easily and quickly,* they can expect hardly any profit even though they buy cheap and sell expensive (like the previous cases). As in most other cases of entry market imbalances, ultimate buyers find themselves in an advantageous position (they have the opportunity to purchase products at their lowest price)[293]. In the case of chronic exit market imbalances, the suppliers of the initial resources gain an advantage (they get the opportunity to sell land and labor at abnormally high prices). The profit waves going through the pockets of competing capitalists enter trade shores and are irrevocably devoured by the ultimate consumers or landowners and hired workers[294].

As can be seen, the profit lost by capitalists is converted into other parties' benefit—the ultimate buyers, landowners, and hired workers. Yet, *exclusively capitalist profit* carries *the capitalist economy*. Therefore, the profit of non-capitalist layers of society apart, let us concentrate on profit as income for only those who have the status of capitalist[295].

Synchronic production modernizations, synchronic product and marketing innovations, as well as trade and conjuncture imbalances that are synchronically overcome (or, again, synchronically not overcome) do not bring any tangible profit.

[290] See "Labor value, salaries/wages, and labor productivity" ("Value").
[291] For more detail, refer to "Source 2" and "Source 3."
[292] For more detail, refer to "Source 1a."
[293] For more detail, refer to "Source 2" and "Source 3."
[294] For more detail, refer to "Profit waves."
[295] A capitalist may also have a non-status income—as an appointed manager in their company and as a consumer of finished goods.

The general idea behind this utmost important feature of capitalism is connected with free competition. Free competition, while not always perfect, sooner or later balances markets. As a result, product prices are brought to their normal production costs (normal values) while profits are brought to zero. *A synchronized behavior pattern adopted by a large number of capitalists escalates the competition, spreading it to all the market subjects and all aspects of production and trade activity. Consequently, price normalization and profit zeroing happen quickly, almost immediately after capitalists take another synchronized step.* If competition turns sour (be it for market or non-market reasons), and some markets stay off balance for a long time, profits zero out without price normalization and are converted into end-buyers' or original suppliers' income. If capitalists massively enter the chronically imbalanced markets, they can actually balance them; original suppliers and ultimate consumers will most likely see their incomes zeroed and capitalists, carried by the fast normalization of prices, will again not enjoy any profit.

As such, the *synchronized behavior of capitalists generates hardly any profit (for all capitalists together or separately)*. On the flip side, *such a behavior pattern reduces the risk of losses*: the rapid price normalization means capitalists do not lose what they entered the market with. Is it reasonable to follow the leaders, avoiding losses and, if lucky, even gaining some profit, or is it worth choosing an unbeaten track, putting skin in the game with the hope for lavish returns but risking losing everything? This is a perennial question for entrepreneurs, and so far unanswered. *Tactically, copying behavior seems more reliable; however, strategically it is rather hopeless:* It simply does not make sense to do business without aiming for considerable profit at the end of the road. Therefore, it is reasonable to alternate imitation and innovation—this is the pattern experienced and successful players stick to.

Synchronized behavior by a large number of capitalists hardly ever results in profit.
Only asynchronous behavior may result in considerable profit, while also increasing the likelihood of suffering a loss.

Other economic consequences of synchronic and asynchronous entrepreneurial behavior will be discussed in the sections "Capitalist cycles and crises" and "Anti-crisis policies and anti-crisis behavior."

Conclusion 3. Locality and temporality of profit

Competition, which balances markets and facilitates price normalization, does not allow profit to concentrate in a specific location. Analyses of particular profit sources have led us to this very conclusion every time.

Thus, *capitalists' profit is always local and temporary.* This means that

a) at any given time, *not all capitalists will enjoy a profit* (only those most enterprising and lucky), and
b) their *profit is neither stable nor permanent; it fluctuates and, sooner or later, comes to zero* (or turns into a loss).

Profit in the capitalist market is not a rule but rather an exception. However, the functional norm of capitalism lies exactly in the generation of such exceptions.

Conclusion 4. Profit and imperfect competition

Profit sources are connected with *imbalances*, while imbalances are connected with the imperfection of competition[296]. The imperfection of competition manifests in a *trade and conjuncture imbalance,* which is a mismatch between effective demand and supply (source 1, case 2; sources 1a, 2, and 3). It can also manifest in a production imbalance, which is a mismatch between leaders' production costs and outsiders' production costs during the race of modernization (source 1, case 1). The imperfect competition which gives rise to a trade and conjuncture imbalance ought to be called *trade and conjuncture competition*. Likewise, the imperfect competition causing the production imbalance can be called *imperfect production competition*. Production competition can also be called a *competition of costs*, while trade and conjuncture competition can be identified/understood as *price competition*. (Then again, the latent competition of costs always shows itself in the open competition of prices).

[296] Imperfect competition has already been mentioned. See "Potential profit sources" and "Source 1, case 2", section "Imbalanced (volatile) markets" ("Value").

Depending on the degree of the imperfection of trade and conjuncture competition, we shall distinguish its types: *monopoly/monopsony*, *oligopoly/olygopsony*, and *polypoly/polyopsony*[297]. The imperfection degree decreases from monopoly/monopsony towards *polypoly/polyopsony*. Monopoly, oligopoly, and polypoly characterize the degree of imperfection of the competition in sellers' markets. In the first case, there is only one seller, while in the second there are a few sellers (enough to acknowledge the competition as quite imperfect). In the third case, there are many sellers (enough to acknowledge competition as *slightly* imperfect). As we can see, the quantitative criteria here are rather vague: in oligopoly, "a few" may mean two, three, or even ten competitors. In a polypoly, "many" may mean five or a hundred sellers.

Therefore, *in order to identify the type of imperfect competition, we need to look not at the number of competitors but at the result of their competition-driven actions. This result shows in the way the market price deviates from the equilibrium price*. Monopsony, olygopsony, and polyopsony characterize the imperfection degree of competition in the sellers' markets: In the first case, there is only one seller; in the second case, there are a few of them; and in the third there are many sellers (the criteria of quantity are the same). Depending on the imperfection degree of production competition, we can distinguish between *monopoly, oligopoly, and polypoly*. Since modernizing capitalists compete exclusively as sellers, the notions of monopsony, olygopsony, and polyopsony cannot be applied to production competition.

In the process of profit extraction, the types of imperfect competition alternate in the following order. First, one capitalist enters the market (the leader) and is a monopolist (monopsonist) for some time. Then some more capitalists arrive and start competing against the leader; the monopoly (monopsony) transitions to an oligopoly (oligopsony). Later, multiple outsiders-copycats enter the game; the oligopoly (oligopsony) grows into a polypoly (polyopsony). Eventually, the least enterprising or the small fry joins the game and, having overcome a few waves of fluctuations, the market usually comes to an equilibrium. This way, the competition imperfection degree first grows unevenly until it reaches its maximum then it decreases gradually—until the "perfect condition" is reached. Correspondingly, the leader's (leaders') profit first grows spasmodically (until the possible maximum) then starts falling gradually—until zero (or almost zero).

Let us look at a simplified scheme of the process described above.

Stage 0 – (almost) perfect competition. The market is nearly balanced; none of the market players turns a profit.

Stage 1 – (almost) complete monopoly/monopsony. The market is at the utmost imbalance. The leading capitalist, as the sole seller in the entry market or as the sole buyer in the exit markets, turns the maximum possible profit.

Stage 2 – oligopoly/oligopsony. The market is seriously imbalanced. Acting as oligopolist sellers in the entry market or oligopsonist buyers in the exit markets, the leading capitalists enjoy considerable profits.

Stage 3 – polypoly/polyopsony. The market is insignificantly off balance. The leading capitalists as well as those slightly less successful turn insignificant profits (either as polyopolist sellers or polyopsonist buyers).

Stage 4 – (almost) perfect competition. The market is almost brought to equilibrium—nobody (almost nobody) enjoys any profit.

The nitty-gritty of a particular market may, if course, introduce changes to this generalized picture, and sometimes those changes are unpredictable. Sometimes stage 1 is omitted; this means that a few serious competitors join the struggle together. Or stage 2 may be omitted, which means the leading capitalist is followed closely by other synced competitors. When stage 3 is omitted (which is also possible), it means that the fierce competition between a few strong players has brought the market to the state of equilibrium before any outsiders joined the game. The stages are omitted most often when the actualized imbalances are of an external nature (sources 1a, 2, and 3); the actualization of artificial internal imbalances (source 1, both cases) is usually accompanied by the "correct" stage order. However, the absence of certain stages does not change the essence of the dynamics described above.

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[297] The latter pair of the terms is our own idea. The contemporary literature distinguishes between monopoly/monopsony, oligopoly/olygopsony, and *monopolist competition*. However, *monopolist competition* cannot be aligned with other kinds of imperfect competition. While monopoly/monopsony and oligopoly/olygopsony characterize the degree of a supply-demand mismatch, monopolist competition characterizes a market with a large quantity of closely related, interchangeable goods (for example, dozens of hundreds of soap type). Thus, it seems reasonable to substitute the term "monopolist competition" for something more in line with monopoly/monopsony and oligopoly/olygopsony – "polypoly/ polyopsony" (many sellers/many buyers). For more on monopolist competition, read Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 188–190; Pindyck R. S., Rubinfeld D. L., (2013), *Microeconomics, 8th ed*., Prentice Hall, New Jersey, p. 452–457, and the chapter "Source 1, case 2", section "Imbalanced (volatile) markets" (part "Value").

In its development, the market of profit overcomes two stages: from perfect competition—through monopoly (monopsony) or oligopoly (oligopsony) back to perfect competition.
Therefore, *the process of profit generation is always associated with the temporary monopolization (monopsonization) or temporary oligopolization (oligopsonization) of the market.*

It should be specified that conclusion 4 refers only to the *specific market*. The dynamic of the *integral capitalist market* will be discussed further in "Philosophy of Capitalism" ("Competition and monopoly").

3.8 Capital accumulation (conclusions and summary)

The conclusions drawn in "Source 1," "Source 2," and "Source 3" concerning capital accumulation (as well as its loss and stability) are summarized in the table below.

As in source 1, entry markets (production goods markets and labor markets) will be considered balanced throughout the entire transitional period[298].

Table 3.1. The change in capital value when different profit sources are considered

Profit source			*Capital value change*	*Source of change*	*Consequence of change*
Source 1	Case 1		ACCUMULATION of social capital in the hands of the leading capitalists within a specific industry. Slight GROWTH of the aggregate capital in the same industry. Slight GROWTH of the social capital.	Rapid local growth of labor productivity—production cost reduction.	
	Case 2	Consumer goods are produced	ACCUMULATION of social capital in the hands of the leading capitalists within a specific industry. Significant GROWTH of the aggregate capital in the same industry. Significant GROWTH of the social capital.	LOSS in the household consumption funds of buyers of finished products.	
		Production goods/tools are produced	REDISTRIBUTION of the social capital and its CONCENTRATION in the hands of the leading capitalists within a specific industry. Significant GROWTH of the aggregate capital of the same industry. Social capital is maintained INTACT.	LOSS of capital by the capitalists in the exit industries[299].	

[298] This assumption, taken in "Source 1", was lifted from "Profit waves."
[299] Exit industries are industries consuming production means created by this very industry.

<table>
<tr><td rowspan="3">Source 2</td><td>Sales markets maintain equilibrium during the transitional period</td><td>REDISTRIBUTION of the social capital and its CONCENTRATION in the hands of the leading capitalists in the consumption of excess production means.
Significant GROWTH of the aggregate capital in corresponding industries.
Social capital is maintained INTACT.</td><td>Capital loss for capitalists in the entry industries[300].</td><td></td></tr>
<tr><td>Sales markets are put off balance slowly</td><td>REDISTRIBUTION AND CONCENTRATION of a certain amount of the social capital in the hands of leading capitalists in the purchase of excess production goods and those production goods that were manufactured using excess production means.
Slight LOSS of social capital.</td><td>LOSS of capital for capitalists in the entry industries.</td><td>Slight GROWTH in the household consumption fund of buyers of finished products.</td></tr>
<tr><td>Sales markets are put off balance quickly</td><td>Substantial LOSS of social capital.</td><td>LOSS of capital for capitalists in the entry markets</td><td>Significant GROWTH in the household consumption fund of buyers of finished products.</td></tr>
<tr><td rowspan="3">Source 3</td><td>Sales markets maintain equilibrium during the transitional period</td><td>ACCUMULATION of the social capital in the hands of capitalists leading in excess labor consumption.</td><td>LOSS in the household consumption fund of excess hired workers.
Direct exploitation of hired workers by the capitalists who hired them.</td><td></td></tr>
<tr><td rowspan="2">Sales markets are put off balance slowly</td><td rowspan="2">REDISTRIBUTION AND CONCENTRATION of a certain amount of the social capital in the hands of capitalists leading in the purchase of excess labor and production means manufactured using excess labor.</td><td>LOSS in the fund of household consumption of excess hired workers.</td><td>Slight GROWTH in the household consumption fund of the buyers of finished products.</td></tr>
<tr><td colspan="2">Direct exploitation of hired workers by the capitalists who hired them.
Indirect exploitation of hired workers by capitalists of the exit industries and buyers of finished products.</td></tr>
</table>

[300] Entry industries are those supplying the production means of this very industry.

<table>
<tr><td rowspan="2"></td><td rowspan="2">Sales markets are put off balance quickly</td><td rowspan="2">Private, industrial, and social capitals remain almost intact</td><td>LOSS in the household consumption fund of excess hired workers</td><td>Substantial GROWTH in the household consumption fund of buyers of finished products.</td></tr>
<tr><td colspan="2">Indirect exploitation of hired workers by buyers of the ultimate products.</td></tr>
</table>

Conclusion 1. ACCUMULATION of social capital in the hands of the most resourceful and luckiest entrepreneurs occurs when

1) *rapid local growth of labor productivity (*source 1, case 1) due to production costs reduction *is observed*,
2) there is *fast sales market expansion for consumer goods or fast entrance to new markets for a new consumer product* (source 1, case 2, consumer goods production) due to the buyers' household consumption fund,
3) there is a *temporary imbalance in the labor market* (source 3 if the sales markets are not losing balance too fast) on account of the direct and indirect exploitation of hired workers.

Accumulation of the social capital is possible without harming hired workers, consumers, and other non-capitalist layers of society (source 1, case 1).

Social capital is accumulated until

1) other competing capitalists reach the same level of production (source 1, case 1),
2) the sales market balances (source 1, case 2),
3) the labor market balances (source 3).

The accumulation of social capital—the same as profit generation—has a spasmodic pulsing nature.

Various options for capital accumulation entail fundamentally different ways of capitalism development—intensive and extensive.

In option 1, capitalism develops *extremely intensively (qualitatively, in-depth)*.

In option 2, as soon as a new product is launched on the market, capitalism starts developing intensively. *When a market is expanded for an existing product,* we speak of extensive market development *(quantitatively, widening)*.

In option 3, capitalism develops either extremely extensively *or almost does not develop*.

In other situations (source 1, case 2, a manufactory of production goods, and source 2, if the sales markets are gradually losing balance), we can talk only about the *REDISTRIBUTION of the social capital and its CONCENTRATION in the hands of the luckiest and most enterprising capitalists.* After this sort of concentration of capital, its accumulation begins, mainly in options 1 and 2.

It is also possible that the value of *the social capital remains unchanged/intact as the capital is not redistributed or accumulated* (source 3, if the sales markets are losing balance rapidly)*:* the profit flow, slipping through the competing capitalists' fingers, joins the household consumption funds of the ultimate buyers.

Finally, a situation is possible (source 2, if the sales markets are losing balance rapidly) in which a significant reduction in social capital is observed in favor of the ultimate consumers despite the valid source of profit.

Having valid sources of profit does not guarantee capital accumulation.
In addition, having those valid profit sources does not guarantee the maintenance of the capital either. Part of the social capital can eventually land in the hands of the ultimate consumers as a result of fierce competition in the sales markets.

Conclusion 2. Given that the labor markets and sales markets are balanced, the accumulation of social capital is possible due to the rapid growth of the technical (technological, scientific, and organizational) level of production at the capitalists' enterprises.

If all the active capitalists in the market experience growth in the level of production and labor productivity, especially if the pace is similar, social capital accumulation does not occur. The ones who benefit from this synchronic growth are the end buyers and hired workers. Put another way, the consumption fund grows instead of the accumulation fund, which means the general standard of living is improving[301]. However, as the social capital winds down and the general growth of labor productivity slows, the standard of living stops improving as well.

Social capital accumulation moves discretely in periods following another production modernization wave. The bigger the gap between the capitalists' resourcefulness and luck, the faster the accumulation of capital. Putting it simply, the bigger the gap between the outsiders and the market leaders, the longer the transitional period and the more capital the market leaders will manage to accumulate. On the other hand, if the runners-up are too slow in catching up with the leaders (or there are just too many of those runners-up), a significant share of the social capital is irrevocably lost[302]. This can not only put a clear limit to its accumulation but also cause a total loss.

The perfect conditions for social capital accumulation arise when, from time to time, some capitalists steal a march while others try to close the gap neither too fast nor too slow (and, most importantly, not synchronically).

Conclusion 3. If a capitalist sees a few growth channels and harnesses the most profitable one, the excess capital flows into the supplementary channels. However, to fill all the potential growth channels, the existing capital may appear to be insufficient (as it usually is). *Therefore, technical, technological, and organizational revolutions occur when capitalists run out of extensive channels* (where the exploitation of excess hired labor is the most extensive).

Conclusion 4. The excess supply of labor holds back production-level growth for those capitalists who take advantage of the excessive work force effectively and in a timely manner.

Yet, when the excess labor has a chronic nature, it does not hold back the growth of production rates (the chronic imbalance in the labor markets eventually benefits not employers but the ultimate consumers[303]).

Conclusion 5. Given the imbalance in the labor markets, the class struggle of hired workers (an activity that is anti-market in its nature) *benefits not only the workers themselves but the employing capitalists as well: They are forced to seek new channels of development and find new, more effective means for them* (update the technological base, develop new products, and grab new export markets).

If the labor markets are more or less brought to equilibrium (and the labor price is roughly equal its normal value), the class struggle can be viewed as either counter-productive or productive. In the first case, it boosts production costs exorbitantly and, consequently, prices, while in the second case, it forces capitalists to seek and elaborate on new methods for survival: introduce robotic production, fully automated procedures, put into practice the latest advances in theoretical sciences. Nevertheless, the mentioned benefits are not always actualized. A capitalist can relocate production from the country where workers are demanding and expensive to a country where labor is relatively cheap and agreeable. The extensive development will go on, just in another location[304].

Finalizing the chapter, let us pay attention to the following circumstances.

[301] See conclusion 2 in "Profit generation (conclusions and summary."
[302] The capital of outsiders. See "Source 1, case 1", "Source 1, case 1 and 2: Similar and different."
[303] See "Source 3."
[304] See Appendix 2.

1) Our conclusions and generalizations are fair and justified in conditions of *free competition in the production goods markets*, labor markets, and sales markets. When competition is restricted by government policies, trade unions, and crime or other non-market forces, amendments shall be introduced.
2) Our conclusions and generalizations are fair and justified in conditions where hired *workers are personally free and are not forced to work*. This means they willfully sell their labor to those employers who satisfy their needs at the price they find fair. If the personal freedom of workers is restricted and they are forced to work, amendments shall be introduced[305].

4. Trends and prospects of capitalism

The analysis of the profit source and ways for capital accumulation allows drawing the following conclusions on the trends and prospects of capitalism.

Given the trade-and-conjuncture imbalances in the traditional markets are minor, capitalism can exist and develop due to:

a) production, organizational, and scientific progress (source 1, case 1),
b) the development of new consumer goods (source 1, case 2),
c) the market extension for consumer goods (source 1, case 2)[306].

As the gaps in the world market are filling, the role of route c) is declining and the roles of routes a) and b) are growing. Route b) is becoming more dependent on route a) and gradually merging with it. Conceptually new products can appear on the market only after another production revolution. From this perspective, *capitalism, by virtue of its internal logic and without any external impacts, eventually finds the most intensive path of development—production, organizational, and scientific progress*.

In the case of small and middle businesses, technical, technological, and scientific progress play a significant role in competitive performance, while for larger businesses, we shall speak about scientific, organizational, and scientifically-organizational progress. The corporate transnational economy of the 21st century implies the decisive role of the scientifically-organizational factor: poor job arrangement and management in a large, multilayered, complex corporation are capable of depreciating even the most advanced science and technology.

Given the already developed and fully formed world market as well as technical skill and technology, the development and existence of capitalism are inherent in technological, technical, organizational, and scientific progress.

However, technical, technological, and organizational progress not backed by the advances in science have limitations (actually, reached at the end of the 19th and beginning of the 20th centuries). As a result, *in the 20th and 21st centuries, scientific progress (scientifically-technical, scientifically-technological, and scientifically-organizational, or, simply, information progress) assumed and is assuming paramount significance*. Developed countries witness material production being replaced by data production, which is assuming a self-sufficient, absolute character (information is produced for the sake of producing new information).

Sooner or later, capitalism was bound to lay the foundation for the information society.

Information is the basic commodity of production and trade *in the information society* (databases, production technologies, software for household electronic gadgets, video games, cyber security services, and so on). It puts capitalism on a new, qualitatively different stage of development, engendering new opportunities and new problems[307]. However, it does not change the very nature of capitalism nor its fundamental principles. *Capitalist principles persist in both physical production and information production[308]*.

[305] See "Capitalism and freedom, capitalism and slavery."
[306] See "Profit and its sources", "Capital accumulation (conclusions and summary)," Conclusion 1.
[307] For more on issues of modern capitalism, see Appendix 3.
[308] For more on "information capitalism," see "The Inner logics of market development" (stage 5), in "Market".

5. Capitalist cycles and crises

5.1 Setting the scene

Studying sources of profit and ways for capital accumulation, we considered economic processes as a simple total of the behavior of separate market players *in a particular market* (capitalists, hired workers, and the ultimate consumers). We did not take into account the systemic effects associated with the interaction between these market players on *the integral market scale* (industry, national, and world markets). However, these *systemic effects/impacts*—powerful effects reaching far beyond the economic boundaries and influencing all domains of social life—manifest clearly in the *capitalist cyclic recurrence capitalist crises*. The main tasks of the capitalist theory are to detect the prime cause of these crises and elaborate adequate practical guidelines on how to mitigate and overcome them. The new theory of capitalism, unlike other theories, succeeds in tackling these issues[309]. The solution is based on the formula of capitalism and the theory of values developed in previous chapters.

How this solution works you will discover further.

Capitalist entrepreneurship has the main tangible goal of extracting monetary profit. Yet, *from time to time, the main sources of profit dwindle and are exhausted (production modernization, product and marketing innovations, trade-and-conjuncture imbalances)*. This happens because less successful capitalists catch up with market leaders (those who failed have exited the market) and uneven production and product-and-innovation progress becomes steadier and may eventually stop. Meanwhile, competition has balanced and devalued the main profitable markets[310]. *Without its driving force, capitalism enters a crisis-like latent phase*. The algorithm of destruction is simple.

The prices for most products approach the real production costs; the profits of most capitalists consequently run down to zero[311]. *Entrepreneurship actually loses sense*[312]. Production enters a state of inertia for some time (technological or psychological). It can even grow on account of outsiders who have recently joined the market. Prices fall beneath production costs (if some capitalists refuse to reduce prices, they fail to sell all their products)—any further production activity is knowingly loss-making. Production shrinks dramatically or stops (this can happen even without the inertia), employees are laid off or resign, unemployment rates start growing, purchasing power drops, selling consumer goods at normal prices becomes difficult, and the sales of unwanted production means by loss-making capitalists stops completely. There is an avalanche of destructive processes; production, employment, and consumption rates decrease rapidly. A general economic malaise takes hold, bringing about tough times for entrepreneurs, employees, and consumers alike.

Many entrepreneurs leave the market. However, some of the market players are not ready to give up, and the most energetic and the luckiest manage to find ways out. They can risk and introduce fundamentally new technologies, penetrate distant markets, seek cheap raw materials, find cheap labor, or master new product lines. Such capitalists start making a profit, and this can even grow significantly, allowing them to build up their production. However, competitors will be close on their heels and threaten to catch up with the lucky ones. The market players (including the leaders) see their profits go down. *As the novelty effect wears off, most of them also see their profits going down to zero, and a new crisis begins.*

So, we can see that the capitalist crisis is not merely a crisis of overproduction. *The underlying root lies in the periodic zeroing of profit experienced by most of the capitalists*[313]. Like an employee who stops

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[309] Modern economic theories.

[310] Imbalances in the markets for production means and labor markets may persist but the competition in sales markets will turn the potential sellers' profit into the buyers' advantage (see "Profit and its sources", chapters "Source 2" and "Source 3").

[311] If we take into consideration the alternative (implicit) costs (Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed.* McGraw-Hill/Irwin, New York, p. 137–139), we will find that profit is closing not to zero but to the sum of these costs, where the potential bank commission is the most important of costs ranging between 2 – 3 and 5 – 10% annual interest (see McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 619–620; Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 269.

[312] Modern capitalists have another point of view. They believe profit that compensates for the implicit costs of the advanced capital is a sufficient driving force to continue doing business (for more detail, see section "Comparison with some other theories").

[313] "most capitalists" does not mean the majority of them. Sometimes, when a few big corporations experience zero profits, it is enough to cause a crisis.

working if not paid, a bank that does not provide interest-free loans, or a landlord who won't rent out their property for free, the capitalist winds down their business if it ceases to generate a profit. But while the stoppages by the workers, banks, and landlords cause crises in the labor and real estate markets, production capitalists who exit the market disrupt the whole of the capitalist economy.

Why do profits zero out *simultaneously*? The probability of a zero effect being experienced by a large number of separate, independent businesses is low. However, the *subjects in the integral market do not act completely separately. It is quite the other way around: they keep an eye on each other all the time*. Analyzing certain sources of profit, we could see that the behavior of the competing entrepreneurs is mutually conditioned: The leaders' behavior channels the behavior of outsiders, while the outsiders' behavior, in turn, somehow modifies the leaders' behavior. In further sections we will consider the interdependence between the market players that causes simultaneous profit-zeroing.

The overarching root motive of economic crises lies in the inevitable periodic profit-zeroing experienced by most capitalists; the mass character of profit-zeroing restores the equivalence of exchange, which is incompatible with the very nature of capitalism[314].

This objective factor is superimposed by a subjective factor that seriously exacerbates it: human psychology and behavior (panic, speculative frenzy, chain of bankruptcies, fraud, and so on). Besides, crises are often aggravated by poor governmental policies and inadequate actions on the part of businesses[315].

The more industries or even countries are affected by a crisis, the longer and heavier the toll. Thanks to progress in the sci-tech and information sectors, which are picking up speed in the 21st century, it is impossible to imagine profit-zeroing in all industries in national, let alone world, economies. Capital and resources (especially labor) flow constantly from loss-making industries to money-making industries, or at least those that show growth prospects. This helps to mitigate crises (but does not stop them, of course)

Crises reveal the weak spots of capitalism: it is time for capitalism to make radical changes in its state. *However, crises actually provide a hefty boost for further development*, and for 200 years now, the capitalist economy has survived crises in new younger and hungrier forms. The hopes of the radical leftists that another crisis will put an end to capitalism seem to be totally unfounded[316].

5.2 Cycle phases

Good times happen between crises. These are times when capitalists enjoy sufficient profits, hired workers receive satisfying wages, and consumers demonstrate a strong paying ability. Therefore, capitalist development has a cyclic nature; we are going to call a stage of such development from the end of one crisis to the end of another a cycle. First, we are going to consider a classic cycle in detail, which is peculiar to the industrialism of the 19th to the middle of the 20th centuries (the general picture of such a cycle has been presented before). Then, we will briefly analyze the modern cycle, peculiar to the industrial and information capitalism of the second half of the 20th to the beginning of the 21st centuries. For the sake of clarity, we shall first determine the general terminology that allows different interpretations.

We shall basically understand equilibrium/nonequilibrium *in a general sense*; in other words, balance/imbalance not only in terms of trade and conjuncture but also production balance/imbalance[317]. To put it differently, we will take into account not only the adequacy/inadequacy between demand and supply but also the adequacy/*specific inadequacy* of the individual and socially normal production costs[318]. The phrases "imbalance *in favor of* producers" and "imbalance *in favor of* consumers" will be used technically, pointing out an imbalance (in fact, the general imbalance *in favor of* producers is not beneficial for all producers, and the general imbalance *in favor of* consumers causes more harm than good to most consumers[319]). By *general* equilibrium/nonequilibrium, we shall understand balance/imbalance on a pan-industry (national) scale[320]. "Industry" will take on a narrow meaning—the production of one specific product.

[314] Modern economic theories.
[315] See the section "Anti-crisis policy and anti-crisis behavior."
[316] The anti-capitalist ideology and policies nowadays pose a much bigger threat for capitalism (see Appendix 3).
[317] The cost balance/imbalance is neglected (up to Appendix 2).
[318] For more on the broad sense of balance/imbalance and the specific nature of the range of costs at production imbalance, see "Profit and its sources", chapter "Profit generation (conclusions and summary)," Conclusion 1.
[319] See the next chapter.
[320] The general equilibrium is described in detail by Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 283–289.

5.2.1 "Classic" cycle

A classic cycle, from our perspective, encompasses three phases: *economic growth*, *recession*, and *stagnation*[321]. Downturn and recession can be united under the title "*crisis*"[322] (although methodologically it is correct to consider them separately). *The main criterion of this fragmentation is the dynamics of the general production volume (positive, negative, or zero dynamics)*. It should be clarified here that the dynamics of the production volume, according to our theory, is a secondary factor, derivative from the profit dynamics; however, we use this term for illustrative purposes[323].

It should also be carefully noted that the:

1) positive dynamics of the *growth/prosperity stage* are associated with the general imbalance in favor of producers; production is growing when producers turn a profit;
2) negative dynamics *of the recession/downturn stage* are associated with the general imbalance in favor of consumers; production is starting to decline when producers suffer losses;
3) zero dynamics of the *stagnation stage* are associated with a steady balance; production rates stay the same (limited time) without producers suffering losses or enjoying a profit[324].

Growth and recession have their own subphases, depending on production volume growth/decline. With economic growth, these can be *revival, steady growth,* and *boom*, while with recession they are *slump* and *crisis stabilization*[325].

Let us analyze the phases and subphases of the classic cycle.

Starting condition: steady crisis balance (profit sources are unavailable, unknown, or do not exist).

Economic growth. Economic growth starts with a *rapid unbalance* in the market in favor of the most resourceful and luckiest manufacturers: the leading capitalists of one or more industries create or find new sources of profit and start to master them energetically. The remaining capitalists (within these industries) follow to the best of their financial and personal abilities. The leading capitalists are eager, seeking profit, while those lagging behind are forced to join the race to avoid suffering losses. Hence, in the beginning, the unbalancing process and the total profit grow in the leading branches, and then they stabilize, and, finally, decline. In the first stage, the leading progressive capitalists shoot ahead; in the second stage, those lagging behind make a push forward; in the third stage, some manage to catch up with the leaders. Some capitalists fail the competition and leave the industry, some of them may exit the market completely; at the same time, allured by the prospect of profit, new capitalists appear (from other industries or non-capitalist layers of society).

In favorable economic conditions, prosperity may be tough for other industries (upon entry and exit as related to the leading industries). For instance, steel manufacturers have found a way to make a technological breakthrough, which significantly saves them time and costs. This allows the manufacturers not only to drop prices and turn profits but also promises profits for machine and car manufacturers, who buy steel at lower prices. In their turn, suppliers of the iron ore, inspired by the higher demand from steel manufacturers, get the chance to increase prices and generate profit. Growth waves benefiting the national economy actually take away some of the profit from the leaders and share it among those who are trying to catch up.

So, in the beginning, the unbalancing process of the economy and the total profit margins gain pace, then stabilize, and later decline. In the first stage, the leading and progressive industries shoot ahead; in the second stage, those lagging behind push forward, in the third stage, some manage to catch up with the

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[321] In the modern literature, the economic slump is often called a recession, and when a recession becomes seriously long and fraught with consequences, it turns into a depression. Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 468.

[322] Modern literature seldom uses the term “crisis.”

[323] Economic literature, statistics manuals, and market practice use such economic indicators as business activity, income level, consumption level, employment level, annual rates, inflation rates, and the production volume as quantitative criteria for the segmentation of a cycle into phases (Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 468–473).

[324] The connection between vectors of industrial dynamics and a general imbalance will be explained further in this chapter.

[325] Such terms as revival, boom, and nosedive/slump are used in economic literature as certain images rather than scientific notions.

leaders. Some industries decline, others disappear completely. New industries evolve.

Processes of in-depth economic growth development (within specific industries) and widening growth development (on the national economy scale) stimulate one another. The more capitalists that join this process and the more industries that arise, the higher the pace of economic growth. When there are no global headwinds of a non-economic nature, the pace of growth increases and reaches its peak just before the beginning of the end (when most entrepreneurs of most industries have a similar success rate and relatively modest profits).

Therefore, the growth phase starts with the *revival subphase, continues with the subphase of stable growth,* and finishes as a *subphase of a boom*. In the first subphase, only a few capitalists of certain industries take part in the growth; in the second phase, more capitalists join in; in the third phase, all of the capitalists of most industries are active. Since different industries feature different growth rates caused by different systemic effects, the general overall growth is uneven, pulsing, with local peaks and local depressions.

To recap, *economic growth is connected with an imbalance in favor of "producers*[326]. However, such an imbalance is not good for all producers. It depends on the type of imbalance, whether it is a production imbalance or it concerns trade and conjuncture[327]. Let us clarify this in terms of a multi-industry national economy.

Production imbalance on the national scale is associated with general production modernization and, consequently, major discrepancies between the cost rates of the leading producers and outsiders in most of the industries. In this case, a general imbalance in favor of producers means a general imbalance in favor of the leading capitalists of various industries (and, surely, damage to those less successful). As a rule such an imbalance allows only the luckiest and most enterprising capitalists to turn a profit (production modernization requires a persistent attitude).

A trade-and-conjuncture imbalance on a pan-industrial national scale is associated with a significant excess of general demand over general supply. In this case, a general imbalance in favor of producers means a general imbalance in favor of the producers of the leading industries (and, surely, damage to those less successful industries). New industries often become successful while old and obsolete industries lag behind. In such an imbalance, profit is preconditioned not only by the producers' resourcefulness but also by how lucky they were to be in the right place at the right time.

A general imbalance in favor of producers features both production and trade-and-conjuncture components.

In practice, a production imbalance and a trade-and-conjuncture imbalance are often combined. The general imbalance in favor of the leading producers of various industries is superimposed by the general imbalance in favor of *producers in the leading industries*, giving rise to complex and unpredictable systemic effects. But only the *leading producers in the leading industries* turn the biggest profits. *The bigger the role of the production revolutions in capitalism development, the bigger the contribution of the production component to economic growth*. It is not the excess of demand over supply that has the dominant influence but the specific variance between the costs of producers who make products of the same type.

It should be added that besides the *general* imbalance in favor of producers, there can also be cross-industry imbalances in favor of consumers, which mainly concerns those industries that are closer to the production of consumer goods. These imbalances decrease the growth rate and make it last longer. But if the cross-industry imbalances in favor of consumers become so dramatic that they change the general imbalance into a completely negative notion, growth halts prematurely, before reaching the boom phase. To illustrate, the most significant case would be the excess production of production goods generating profits for the manufacturers of consumer goods (source 2). Such overproduction when heavy industry is booming is a result of dramatic modernization. If the manufacture of production goods dominates consumer goods manufacture in the national economy, the *cross-industry* imbalance in favor of consumers turns into a *general imbalance* of the same meaning. *Despite successful modernization,* capitalists in the leading industries see their profits change to losses, and this economic upswing falls at the most inappropriate moment. Although such cases are quite frequent, we shall continue our analysis of the classic cycle in the theoretic view where general growth finishes with a general boom.

[326] Economic science and the public conscience are dominated by the opposite opinion.

[327] For more on types of imbalance, see "Profit and its sources", chapter "Profit generation (conclusions and summary)", Conclusion 1.

The general imbalance in favor of producers, peculiar to the growth phase, is rather constructive and can be called positive[328].

Recession. Amidst the common prosperity, the profits of most capitalists suddenly zero out, and general more-or-less complete equilibrium is restored[329]. Yet it is not stable: the loss-making businesses wind up, there are mass layoffs, and the consumers' purchasing power goes down rapidly, causing a *spontaneous imbalance* in the market *in favor of consumers* (piles of unsold products). This imbalance puts the economy into a nosedive: it tumbles down then slips to a new, stabler, balance. This way, the transition from one unstable pre-crisis state to another (stable, crisis) starts with a *slump* and finishes with *crisis stabilization*.

The general imbalance in favor of consumers, peculiar to the stagnation phase, is destructive by nature and can be called negative.

During the economic meltdown, the degree of negative nonequilibrium avalanches—with the slump in the processes of production, the growth in the unemployment rates, and the decline in purchasing ability stimulating one another (we are talking about positive reverse causality). In the process of *crisis stabilization*, the degree of the negative nonequilibrium gradually subsides. Production, employment, and demand—at a low level—adapt to one another (previously unwanted goods are sold cheaply or eliminated, the production of affordable goods begins, new production and trade networks are established, and the excess workers transition to agriculture or migrate to other countries).

During a recession, the market slowly transitions from an ***unstable equilibrium*** *(acquired in the boom stage) to a stable equilibrium.*
Reaching a stable equilibrium is a positive aspect of recession.

Also, it should be noted that the *negative nonequilibrium of the recession phase has only one component, which is trade and conjuncture (unlike the positive equilibrium of the growth phase)*. The variance/range of the manufacturers' costs affects only the losses and is not crucial.

Stagnation. While in stable crisis equilibrium (or a slight negative equilibrium), the half-destroyed economy is sluggish, and production, employment, and consumption rates remain low. *The capitalist market is in a latent state (profitless)*. On a good day, those capitalists who did not exit the market recoup their losses. They are pushed to frantically seek new sources of profit. This quest is a slightly mitigated by the fact that in a period of stagnation, costs, salaries, and prices are rather stable, which allows entrepreneurs to project the consequences of their decisions. A simple commodity market plays a significant role in the period of stagnation[330], along with barter (non-monetary exchange) and other precapitalist forms (natural or exchangeless economy).

However, the phase of stagnation cannot persist long. If it lingers due to the lack of new profit sources or overall economic/political instability, even the most resilient capitalists leave the market, and production and consumption (still low) start declining further. This decline features a synchronic movement where production and consumption are more or less proportional. Sometimes (as during the economic crash) their rates fall asynchronously, which has serious and even irrevocable implications such as wars, the preparation for which opens a klondike of profit sources for capitalists (source 1a). As an illustration, the western economy managed to emerge from the destructive and dangerous crisis of 1929–1933 due to an unprecedented military build-up; no other profit sources seemed available at the time. By the irrevocable consequences, we can also mention socialist revolutions, which, fortunately, have not eventuated in developed countries.

No profit for most capitalists, on the one hand, and the *relative stability of the main economic indicators*, on the other, are necessary conditions for the new economic upswing.
However, *there must be a specific number of potential profit* sources for these conditions to be actualized.

The new economic growth stage starts after new sources of profit are created or discovered. Among the factors facilitating this new economic upswing are cheap labor, cheap resources, and low interest loans. Among the factors halting this growth we can name weak purchasing power, a loss of professional skills

[328] Economic science and the public conscience are dominated by the opposite opinion.
[329] For more on why recessions start suddenly, read "Philosophy of capitalism" (chapters "Predictability and unpredictability" and "Discontinuity and continuity").
[330] See "Small business and capitalism."

amongst entrepreneurs and workers, and an atmosphere of uncertainty and pessimism.

We have considered the phases and subphases of the classic cycle. Let us summarize the main points and draw the necessary conclusions.

Economic growth is associated with a general market imbalance in favor of producers, while recession is associated with a general imbalance in favor of consumers.

In the growth phase,

a) the general demand dominates supply (which allows the manufacturers of the leading industries to charge prices higher than their normal costs and turn a profit), and

b) the costs of the producers in many industries are lower than normal (which allows the manufacturers of these industries to turn a profit at normal prices).

During a recession, supply figures do not match demand figures; the latter are lower, which means many producers suffer losses and exit the market.

The general imbalance in favor of producers is not actually beneficial to all producers but, on the other hand, it is generally positive for hired workers and most of the ultimate consumers (since employment, salaries, and consumption rates are growing). *The general imbalance in favor of consumers, however, is not beneficial to anyone, neither hired workers nor consumers* (since employment, salaries, and consumption rates are falling everywhere). *The stagnation phase, associated with a steady balance of the market, is also a negative notion for society*. Most entrepreneurs do not turn profits, which leads to uncompetitive salaries, unemployment, and low consumption rates.

Let us emphasize the fact that in conditions of a balanced, highly competitive market, the *economic growth and the recession stages of the classic cycle differ from the price and conjuncture statistic fluctuations—both quantitatively and qualitatively*[331].

Firstly, statistical fluctuations are typical of *specific markets* (simple commodity markets as well) while cycles embrace the economic system as a whole (and they are peculiar to *capitalism*).

Secondly, the statistical fluctuations of market variables in particular markets are mitigated *by negative factors*; the market can downplay any fluctuations and is able to return to balance itself. The capitalist cyclic recurrence, in its nodal points, is determined by *positive regenerative feedback*. In other words, growth and recession can enhance themselves; the capitalist economy pushes itself off balance (at the beginning of growth to the positive side; at the beginning of recession to the negative side).

Thirdly, the general steady balance reached by the capitalist economy at the end of the cycle is markedly different from the initial balance. The difference lies in costs, prices, and even goods (and these differences are usually in favor of the new balance). On the other hand, statistical fluctuations return the market to the same level—with *the same costs, the same prices, the same goods*—every time.

The cyclical fluctuations of the capitalist economy differ qualitatively from the statistical fluctuations of specific highly competitive markets:

a) by its systemic pattern,

b) by the nature of feedback, and

c) by the uniqueness of the steady states.

Finally, the general conclusion series.

A classic cycle is the transition from one steady balance to another:

Initial condition (stagnation): *steady crisis balance* →

phase 1, subphase 1a (revival): fast *loss of balance* (in favor of producers) →

phase 1, subphase 1b (steady growth): *imbalance* (in favor of producers) →

phase 1, subphase 1c (boom): *regaining the balance quickly* →

unsteady pre-crisis balance →

phase 2, subphase 2a (collapse): jittery *loss of balance* (in favor of consumers) →

phase 2, subphase 2b (crisis stabilization): gradual *balancing* →

phase 3 (stagnation): *steady crisis balance* → ...

[331] See "Value", section "The equilibrium law".

Classic cycle formula:
steady *balance* (static crisis condition) →
positive (creative) imbalance (dynamic process of growth) →
unsteady balance (dynamic pre-crisis condition) →
negative (destructive) imbalance (dynamic process of recession) →
steady *balance* (static crisis condition) → ...

It should be noted once again that *every new static condition is different from the previous one both quantitively and qualitatively*. Qualitative changes are connected with different costs and different prices: At the end of a cycle, costs and prices, as a rule, are lower than in the beginning. Qualitative changes manifest not only in new products (and new production means) but also in the rise of new, more competitive businesses. Concurrently, some old goods vanish from the shelves (obsolete or exorbitantly expensive) and some old companies, unable to compete during the growth phase, also vanish. This all means that the *capitalist economy moves not in a circle but in an ascending spiral*, and each spiral turn exceeds the previous one in qualitative and quantitative indexes. Such a movement pattern is predetermined by the very nature of capitalism: entrepreneurship seeks profit, and profit can only be generated in a spurt when a company manages to gain an advantage over its competitors[332].

We have connected the cyclic nature of capitalist development with the cyclic dynamic of profits/losses and, correspondingly, the cyclic dynamic of balance/imbalance.

Now we can encapsulate our concept of capitalist development.

The cyclic nature of capitalist development is determined by the cyclic dynamics of profits and losses.
The cyclic nature of profits and losses is connected with the periodic imbalances and periodic restorations of the general balance.
When the balance is upset, either profits or losses, depending on it having negative or positive figures, result; when the balance is restored, both zero out.

The key events and processes of the capitalist development of the 19th to the first half of the 20th centuries can be explained by this concept.

The classic cycle is outlined in figure 3.6.

[332] For more detail, refer to "Capitalist development" (section "Philosophy of capitalism").

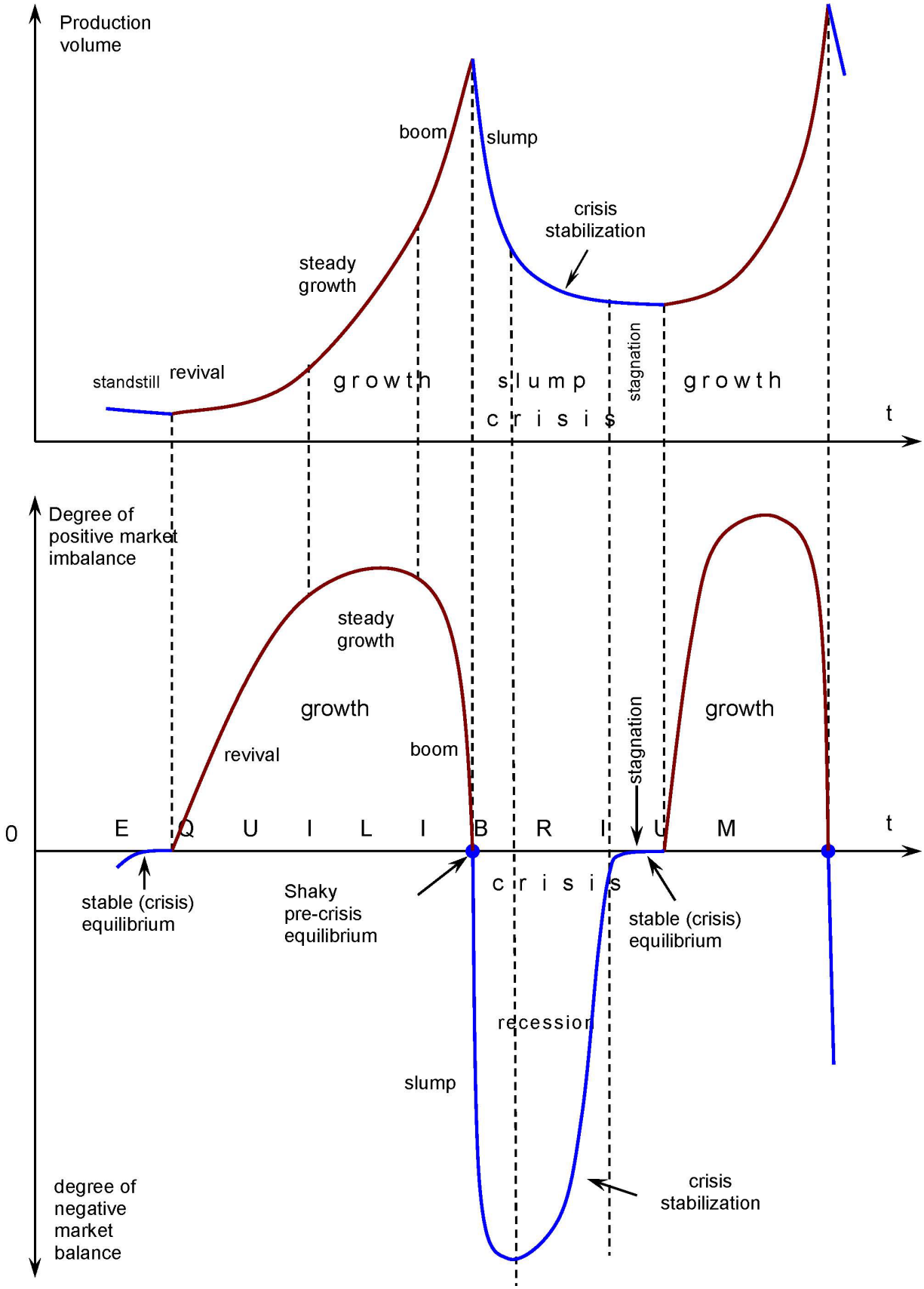

Fig. 3.6. Classic cycle: At the top, production volume fluctuation; at the bottom, market imbalance degree fluctuation

5.2.2 Modern cycle

As practice shows (and our theory proves), of the three stages considered, we can deem two—growth and stagnation—as indispensable. This means the recession phase, which features the destructive spontaneous slump, can be omitted. Such a reduction of the cycle happens when, having some sources of profit, the most prudent far-looking capitalists are already on their quest to find new sources of profit. As a result, unrealized growth—after stagnation (or stagnation and insignificant recession)—is followed by another period of growth.

A contracted cycle is typical of modern developed economies: A continuous scientifically-technical and scientifically-organizational revolution pushing the economy off balance towards the profitable side, preventing a classic crisis that would be followed by a sweeping slump and a period of continued stabilization.

As a rule, the modern cycle (the second half of the 20th to the beginning of the 21st centuries) is characterized by the following features:

a) a periodic equilibrium with an incomplete but quite steady character;
b) stagnation and slight recession follow one another in any order/sequence, often overlapping;
c) growth starts not from a slow revival but from the speedy growth of new, prospective industries;
d) the growth stage does not reach a boom and has a smooth trajectory: many outsiders and newcomers to the market refuse to join the race with already established leaders and quickly chase other beginning but promising capitalists instead;
e) the growth stage can be explained by the production component of the imbalance (the costs of leading and innovative capitalists of massive industries are permanently reduced); *trade-and-conjuncture imbalances* are of a secondary nature and dissolve quickly.

Therefore, *the modern cycle is a movement from one incomplete quasi-stable equilibrium to another:*
Initial condition (stagnation/insignificant recession): *incomplete quasi-stable equilibrium* →
phase 1, subphase 1a (growth): fast loss of balance (in favor of producers) →
phase 1, subphase 1b (growth): gradual *balancing* →
phase 2 (stagnation/insignificant recession): *incomplete quasi-stable equilibrium* → …

Formula of modern cycle:
Imperfect quasi-stable balance (quasi-static crisis condition) →
positive (formative) imbalance (dynamic process of growth) →
imperfect quasi-stable balance (quasi-static crisis condition) → …

Finally, it should be noted that *the modern (reduced) cycle is a vivid illustration of the internal trends of capitalist development, the most important sign of its market maturity*[333]*. Developing on its own terms, capitalism reduces the most negative social-economic side-effect—periodic severe recessions.*

Nevertheless, the dangers of the classic cycle, with its uncontrollable slumps, persist. They can result from a so-called perfect storm: an alignment of contingencies, social turmoil in the countries of the suppliers and the consumers, governmental blunders. As a result, smart anti-crisis policies and smart anti-crisis behaviors on the part of capitalists remain a relevant objective at all times[334].

The modern cycle is laid out in fig. 3.7.

[333] See "Trends and prospects of capitalism."
[334] See "Anti-crisis policy and anti-crisis behavior."

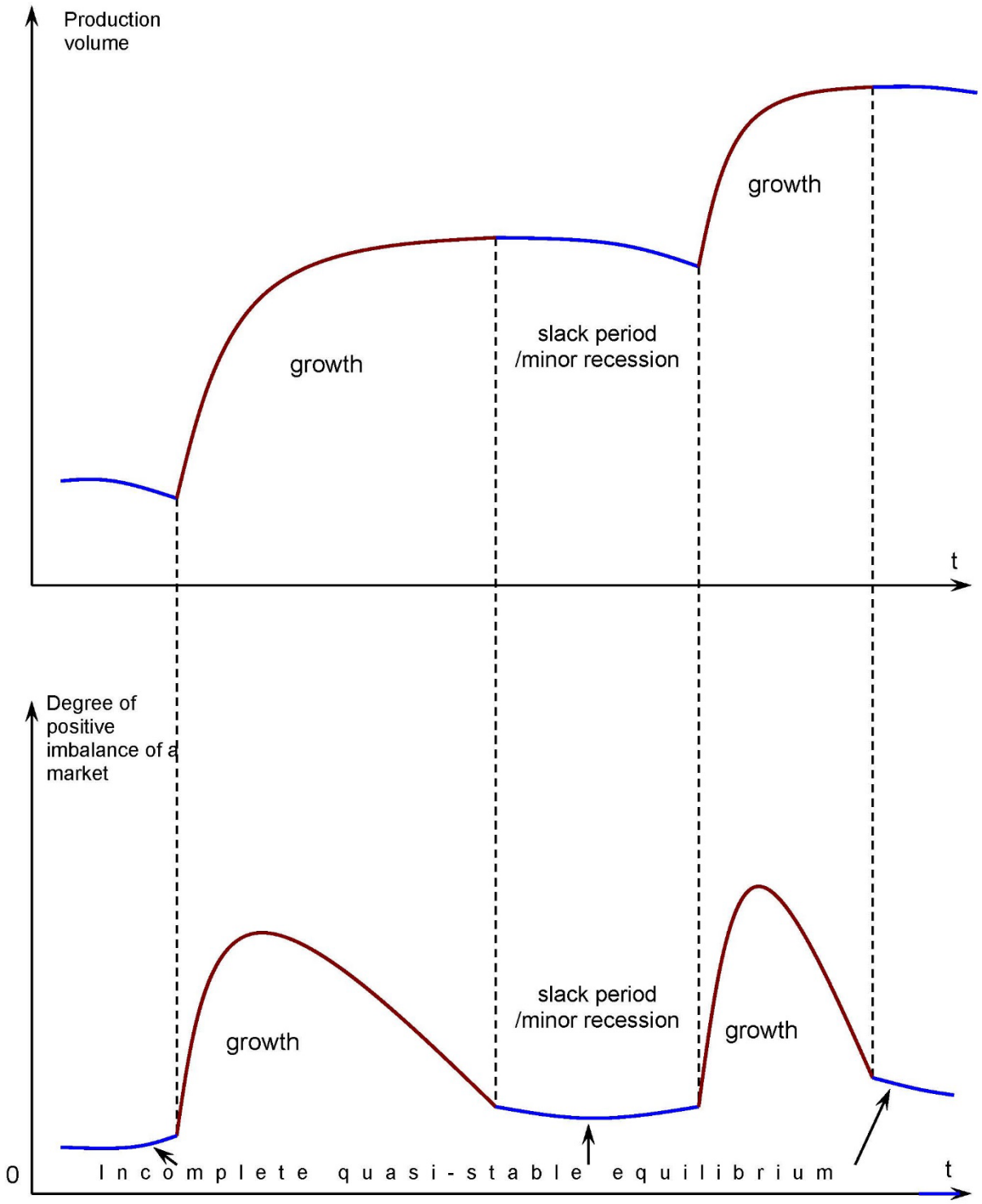

Fig. 3.7. Modern cycle: At the top, production volume fluctuations; at the bottom, fluctuation of market imbalance degree

5.3 The dynamics of capital

Along with the cyclic dynamics of profit, the capitalist cyclic nature has another important aspect—the cyclic dynamics of social capital[335].

We shall consider this dynamic when applied to *the classic* cycle.

At the beginning of the growth stage, the capital concentrated in banks and big cities is sufficient. In the process, the capital is massively invested in production, dispersed, and used. Later, as some new profit is generated and new investments need to be smaller, capital is again accumulated and concentrated. By the

[335] The dynamics of "accumulation and dispersion of capital" underlie Kondratiev's "big waves" model.

end of the growth stage, the social capital reaches its maximum (it exceeds the initially invested capital by the sum of recapitalized profit). During a crisis, social capital is sometimes significantly reduced while its concentration is enhanced (in banks and big cities).

So, the capital is dispersed and dissolved, and then it is accumulated and concentrated according to the general dynamics of profit. However, here we observe an inverse relationship: without "the right" dynamics of capital, it is impossible to rely on "the right" dynamics of profit (and profit itself is also impossible[336]). The interdependence of the profit flows and capital is especially tangible at the beginning of the growth stage. There is *much* capital (there were no prior options in which to invest it)—and capital is *necessary* (a prospect for large-scale lucrative investment has surfaced). *The biggest concentration of the available capital is observed exactly when there is the maximum necessity for it.* Blind market forces have way more insight than planning authorities in a centrally-controlled economy.

We have described the dynamics of capital within the classic cycle. The dynamics of capital within the modern cycle differs. *Almost the entire profit of the cycle* is recapitalized and reinvested during the next cycle (capital losses, caused by the necessity to maintain production during stagnation, are not significant). This makes the transition to the new growth stage quite smooth.

The dynamics of profit and the dynamics of capital are mutually conditioned.
In particular, *the depletion of the known profit sources leads to capital accumulation, allowing for the discovery and exploitation of new profit sources.*
The cyclic nature of capitalism, which turns capital into profit and profit back into capital, perfectly sustains itself.

5.4 The dynamics of value

Analyzing the structure of the *classic cycle*, we assumed that values and their hierarchy remain intact in all the cycle phases. In fact, *the system of values undergoes changes as well*. The system rebuilds itself in the growth phase and goes to pieces during the slump (even dissolving completely); in the crisis stabilization and stagnation phase, a new system builds up (crisis one).

Specifically, the following happens:

Stage 1. *At the beginning of growth*, the use value grows and, correspondingly, the nonequilibrium price of the labor types and production means necessary to use the new prospect profit sources effectively (these are usually insufficient). After the personal computer was invented, the value of programmers and the price for their work increased, along with the price and value of IC chips. These changes decrease the capitalists' profits (though not significantly).

Stage 2. *During the growth period*, the use value starts to decline and, correspondingly, the nonequilibrium price of the labor types and the production means used when the almost depleted sources of profit are actualized. To illustrate, the introduction of electric traction on railroads slashed the use value of firefighters and the price for their work plummeted; the same happened with the steam locomotive. These changes decrease outsiders' losses (sometimes markedly).

Stage 3. *By the end of the growth period*, average nonequilibrium salaries and average nonequilibrium prices for production means get fixed in social thinking as normal (equilibrium). As a pre-crisis balance is reached, they turn into *labor values of different* types of labor *of corresponding goods*. As a result, a new system of values is formed (both labor and use values), different form the value system at the beginning of the cycle.

Thus, *the rebuilding of the value system in the phase of growth starts with changes in the hierarchy of the use values and finishes with changes in the hierarchy of labor values*.

Stage 4. *During the recession,* the excess labor and excess goods are sold at use values (very low). The hierarchy of values formed in the previous stages undergoes unpredictable and uneven changes. *The system of values, therefore, crashes*.

Stage 5. *During crisis stabilization, the use value and* nonequilibrium price of the necessary labor (that bring at least some profit) grows *while the use value and price of the unwanted labor* fall to zero; the same can be said about production means.

Stage 6. *During stagnation,* average nonequilibrium salaries and average nonequilibrium prices for production means get fixed in social thinking as normal (equilibrium). Having reached a steady balance, they

[336] See "Philosophy of capitalism", chapter "Profit as a product of capital and imbalance."

turn into the labor values of various labor types and the corresponding products. As a result, a new crisis system of values is formed (labor and use values), which is different both from the system of values at the end of the rise and from the system of values at its beginning.

Therefore, *the formation of the crisis system of values, the same as the reconstruction of the system of values at the beginning of the growth stage, starts with the use values and finishes with labor values*.

We have described the dynamics of values in the classic cycle. The difference between the dynamics of value in the classic and modern cycles lies in the fact that in the modern cycle, the transition from one system of values to another goes more or less smoothly, without upheavals like an economic slump. This means that a modern entrepreneur (or a worker or a consumer) always knows precisely what the prices are (unlike their counterpart in the classic cycle).

The phase dynamics of value is conditioned by the phase dynamics of profit: As the profit grows, the value of the resources utilized (nature, labor, and produced resources) also grows, whereas a profit decrease or even loss will cause this value to decline.
At the same time, *there is a backwash effect:* the growing value of resources restrains profit growth while the falling value of resources decreases losses.

5.5 Cycles of different durations

The given chapter has analyzed the timely and trendy middle cycles in capitalism, which typically last for about ten years (known as the Juglar cycle). Along with these cycles, there are those of varying lengths (*Kitchin cycle* (3–5 years) and *Kondratiev cycle* (45–60 years)[337].

Long economic cycles, *great surges,* or Kondratiev cycles have the same nature as the middle cycles (but with unique features) and are analyzed in the chapter "Kondratiev's waves" (section "Comparison with other theories")[338].

6. Philosophy of capitalism

In this section we will make certain generalizations and draw an analogy, sometimes reaching beyond economic science. These generalizations and analogies will help us understand what capitalism is and its role in nature, society, and history.

6.1 Capitalist development

The chapter ""Classic" cycle" showed that the capitalist economy not only grows *quantitatively* but also *develops qualitatively*. Here we are going to prove that qualitative development is connected with the very nature of capitalism, and capitalism can exist only when it keeps developing (unlike a simple commodity market or real capitalism). We have already discussed a few elements of this evidence/argument in detail. Let us now compile a simplified list in which every item logically follows the previous one.

1) The formula of capitalism that defines its essence: $M \rightarrow C \rightarrow M + \Delta M$, where ΔM is profit. It is obvious that profit must be more than zero[339].
2) The key driving force of capitalism is the aspiration of capitalists for profit[340].
3) In order to make a profit and retain their position in the market, a capitalist has to leapfrog in a certain area; in other words, they must gain a quantum advantage over their competitors. They must *make a leap* because without profit, capitalist entrepreneurship makes zero sense, and profit without a leap is impossible[341].
4) In order to avoid losses and stay in the market, other capitalists must *catch up with the leader*. They have to because a loss-making entrepreneurship in capitalism is rather absurd and without

[337] For more on cycles of various lengths, see also: *Economic Theory Course*, ed. Chepurina and Kiseliova, p. 418.
[338] In this section, along with commentaries and a summary of two texts by Kondratiev, you will find the interpretation of big cycles associated not with the capital dynamics (as in works by Kondratiev) but the dynamics of profit. We also put forward the hypothesis of multi-cyclism, uniting and explaining the economic cycles of varied lengths.
[339] See "Entity of capitalism."
[340] See the preamble to "Profit and its sources."
[341] See "Profit and its sources," especially "Profit generation (conclusion and summary)."

breathing down the leader's neck, losses are inevitable[342].

5) The race to catch up with the leaders is observed in all industries of the national economy. The dynamics of each industry are closely tied to the dynamics of other industries[343].
6) Sooner or later, national market industry outsiders catch up with the leaders. They meet at a new point in the market space, and the parameters of this new point are different from those of the initial point due to higher labor efficiency and qualitatively new products. So, the difference is an improvement[344]. However, since the equilibrium has been restored (both general and industrial) there is no profit at this point, and there is nothing to do *in the capitalist market* if one does not make a profit.
7) To generate profit and stay in the market, the capitalist (the same or a new one) must make a leap ahead, and so it goes, on and on.

This means that *the capitalist economy not only grows quantitatively but also develops qualitatively. In other words, it moves not in circles but in an ascending spiral, and this is the only pattern it can exist in.*

We will return to the topic of capitalist dynamics many times in this and the following chapter.

6.2 Balances and imbalances

Crises are an inevitable and objective evil of capitalism. However, they are the main source of capitalist development. *The economy rebuilds itself structurally and technologically due to crises.* Here we should recall the law of natural development: as long as everything is all right and peaceful, development will be slow, a gradual evolution; when a crisis comes, some species die, others survive and adapt, but one will make a revolutionary leap, transform themselves, and enter a whole new level, which persists until another bottleneck. The thing is the chokepoints are different in nature and in capitalism.

There is a critical difference in what is good and what is bad for nature and for the capitalist economy. For the natural world, good is a *general steady balance of ecosystems* (all species have adapted to each other, there is enough food for all, the climate is favorable, and evolution is smooth and slow). As soon as the balance is broken and a crisis occurs, the development rates grow dramatically and unevenly (some species vanish, some persist, new species appear, and so on). *As far as the capitalist economy is concerned, a steady balance is bad*[345] (profits of most capitalists are close to zero, both production and consumption are low). To overcome this condition, it is necessary to break the balance.

In terms of the natural world, the bigger the swing of the imbalance, the worse the outcome (in times of lengthy and considerable deviations from the balance, huge ecosystems may die). *This can also be reversed: the more complete the achieved equilibrium, the more destructive the crisis blow can be*[346]. When the majority of capitalists do not make a profit for a long period and there is zero potential for it, the national market can dissolve, many industries can vanish forever, industrial areas can turn into slums, and mass unemployment and hunger can erupt. Such large-scale perturbations are capable of igniting social conflicts, revolutions, and wars[347].

In the wild, revolutionary leaps occur when the balance is broken, while in the capitalist economy, such leaps are possible only when a balance has been attained.
The inversion of balance and imbalance, which are the main sources of development, is the main distinctive feature of capitalism.

However, the capitalist economy suffers not only from a steady balance *but also, unlike the natural*

[342] Ibid.
[343] See "Capitalist cycles and crises," chapters "Setting the scene" and "Classic" cycle."
[344] See "Capitalist cycles and crises," chapter "Classical" cycle" (in the end of chapter).
[345] "Bad" regarding the positive, profitable imbalance of the revival phase. It is clear that the *negative loss-making imbalance of the recession phase is even worse* (see "Capitalist cycles and crises", chapter "Classical" cycle"). From this point, unless otherwise specified, imbalance means a *positive, profitable imbalance*.
[346] Here we are speaking about a *stagnant balance* attained in the process of the crisis stabilization (see fig. 3.6).
[347] Economic crash, meltdown, a slump—all of these are names for the most destructive subphase of a crisis. It is usually caused by a spontaneous imbalance *in favor of consumers* (see "Capitalist cycles and crises", chapter ""Classic" cycle"). However, this catastrophe does not normally last long and does not cause any social outcry. Stagnation, on the other hand, can last for a long time and provoke aggravating circumstances if new profit sources are not found (ibid.).

world, a steady and linear motion. If most capitalists in most industries observe their production rates growing at the same speed as their competitors and technologies are harnessed at approximately the same speed, the profit of each one of them will be close to zero regardless of the general growth rates, and this means a crisis is imminent[348].

Speed is nothing for capitalism while acceleration is everything[349].
In this race, the one who runs in a zigzag motion and shoots ahead makes the desired profit, while those who just run fast are left to live on a shoestring.

What is the reason for such a fundamental difference between the way nature and capitalism develop? Apart from what they may have in common (adaptation, competition, selection), there is one basic thing they view differently: resources. In the wild (like in any non-capitalist society), communities strive to have access to a manifold of various natural resources (water, food, energy). *In the capitalist economy, economic entities compete to get only one resource—money* (and they need money not only for consumption but also, and mostly, to reinvest it and generate new and more money). So, all in all, based on the natural ability of humans to think in an abstract way, capitalism boils down to one artificial value—an *abstract one, easy to divide, infinitely multipliable, which is easy to store and transport and can be converted into* any other specific value. Yet this unification has eliminated any sort of equivalent exchange: while the simple (commodity) economy is ($C_1 \rightarrow M \rightarrow C_2$), where one product is sold and an equivalent product is purchased, and this seems pretty rational, in capitalism it is ($M_1 \rightarrow C \rightarrow M_2$), where one product (production tools and labor) is bought to sell other products only if $M_2 > M_1$. When the law functions properly in a country and inflation causes no problems, this is possible in *specific* situations and only for some entrepreneurs within a *limited period of time*[350].

Nonequivalent exchange is the cornerstone of capitalism. Moreover, together with imbalances that give rise to this nonequivalence, it is the very essence of capitalism[351].

So, in the natural world and non-capitalist market economy, revolutionary leaps in development occur due to *breaking* the balance, while in the capitalist economy this happens due to *reaching* the equilibrium[352]. However, as long as the capitalist economy, like any other complex self-sustaining system, leans *naturally* towards equilibrium, which actually means a crisis for the economy, *revolutionary leaps that artificially break the naturally reached crisis balance must and do happen more frequently in capitalism than in any other natural or social system*. In other words, the biggest chunk of time falls to the alternating revolutionary leaps in this cycle: {crisis (more or less general equilibrium) → local revolution (someone in some industry has shot ahead) → evolution (others are catching up) → local equilibrium (in some economic sector) → new local revolution (someone in another industry has shot ahead) → evolution (competitors never sleep) → … → crisis (new general equilibrium but on a qualitatively new level of development)}. As science develops (full speed ahead since the middle of the 20th century), these upswings merge, ascending an ever steeper spiral. A total and complete equilibrium is impossible in the modern knowledge-intensive economy (in some industries, profit remains positive). Therefore, in modern capitalism, crises do not have this annihilating character[353].

Government sometimes has a smoothing softening effect (in particular when it subsidizes or buys out weakening or even loss-making businesses)[354]. However, government intervention, as well as any other artificial constraints on competition (cartels or trade unions), may mitigate crises but it can also prolong them, decelerating the development of the economy on the whole. A border-line case—an absolute government monopoly—would be the end of capitalism with all its cycles and crises; production development, sooner or later, is also bound to come to an end, to say nothing of other horrible "prices" socialism makes people pay. Speaking metaphorically, capitalist diseases can only be treated with socialist death. At the same time, small

[348] See "Profit and its sources", chapter "Profit generation (conclusions and summary)", Conclusion 2.
[349] This begs for the analogy from theoretical mechanics where *constant velocity* (the same as the static position) is the sign of zero force while force causes *acceleration.*
[350] See "Profit and its sources", chapter "Profit generation (conclusions and summary)", Conclusion 3.
[351] The nonequivalence of exchange is related to *all* imbalances, incl. *production* ones (source 1, case 1): The leading capitalists sell their products at a profit while outsiders sell at a loss (see fig. 3.2).
[352] To be more precise, as a result of reaching a *steady balance* (see "Capitalists cycles and crises", chapter ""Classic" cycle").
[353] For more detail, see "Capitalist cycles and crises", chapter "Modern cycle."
[354] Other examples of how the state can intervene in the market economy are minimum wages, product price limitations, customs tariffs and quotes, and immigration barriers.

half-capitalist businesses soften crises without any serious side-effects[355].

The crisis equilibrium is broken and restored by different capitalists: leading and innovative capitalists break it (thoughtfully and carefully) and those lagging behind restore it (headlong). There are few leaders; as a rule, the majority are outsiders. Therefore, *balance is restored more spontaneously than it is broken*. The capitalist economy approaches crises naturally, by itself, but exiting the crisis happens artificially via the well-thought-out and result-oriented actions of a few of the most resourceful entrepreneurs.

However, too big a swing of the imbalance can turn out to be just as dangerous for capitalism as overall balance. While at an overall imbalance the profits of most entrepreneurs zero out, too big a swing can bring certain entrepreneurs and their groups *unprecedented profit*. This entails a rapid capital flow into highly lucrative branches, often to the disadvantage of other branches that are also important for consumers just not that profitable. If there are some impediments to the transfer of capital, a long-term imbalance guarantees profits for some industries (countries) while crashing other industries or even countries. What proves to be even more dangerous in this situation is that it assumes social or even international disproportions. The struggle for the highest profit and its redistribution creates crime, wars, and revolutions—actually, all the same adversities that are usually brought about by an absence of profit[356]. However, there is a fundamental difference between calamities caused by a very big imbalance and those caused by a long-term balance. In the first case, capitalism is extra-intensive; in the latter, it is insufficient in its power. Therefore, the remedies should also be different. In the first case, moderate order should be restored; in the latter, moderate disorder should be introduced.

Moderate imbalances, pulsing in space and time, are a functional norm of capitalism, providing it with moderate evolutionary growth.
Overall (to this or that extent) balance is an inevitable functional anomaly, triggering a roller-coaster type of revolutionary development[357].

Let us emphasize once again that an overall balance embracing all sectoral and regional components of the national and international markets is never reached in practice. As we move from industrial capitalism to information capitalism, the nature of balances becomes less complete and more local. Crises are becoming less destructive. The great depressions that jolted the economic world in the 19th and the beginning of the 20th centuries have become history.

There is nothing even and uniformly rectilinear in capitalism: not only are costs, values, conjuncture, prices, and profits changeable but the speed and direction of these changes are never the same.
Continuous movement in spurts and zigzags is one of the key features of capitalism.

6.3 Profit as a product of capital and imbalance

A capitalist finds or creates a potentially lucrative imbalance and actualizes it using their capital. Enhanced by the capital, this imbalance generates a profit. As is normal in a natural environment, profit is generated in discontinuous proportions over time. However, such a marriage of capital and imbalance may sometimes prove to be fruitless, and either of the ingredients may fail. Capital may turn out to be insufficient, or the one investing it does not know what they are doing. The imbalance may turn out profitless or short-lived. There can be just too much capital invested simultaneously so that the effective return will be insignificant for all the market participants. Some imbalances may even turn out to be fake. Therefore, a capitalist should try to distribute their money between different baskets.

Without capital, an imbalance bears no fruit; the same as capital without an imbalance.
Profit is the market price of the balance impregnated by capital.
Profit associated with capitalism is the main success criterion of a capitalist business.

[355] See "Small business and capitalism."
[356] But the most horrendous adversity is the chronic job market imbalance (source 3).
[357] The modern economic mainstream views *overall balance* as a norm (or even an ideal condition) of capitalism (for further reference, see "Comparison with some other theories").

6.4 Profit as a systemic effect

Profit can also be regarded as the systemic effect of a proper combination of production means and labor. This combination would imply that the price for a product is higher than the sum of the price of production means utilized and the price of the labor utilized (workers' salaries/wages).

The systemic effect of the integration of the production means and labor is actualized in the market imbalances—*trade-and-conjuncture* (source 1, case 2, sources 1a, 2 and 3) or *production* imbalances (source 1, case 1)[358].

The integration of the production means and labor is not enough for trade-and-conjuncture imbalances: there must be something more, a third external component (other capitalists' money, means of consumers, or hired workers)[359]. Only when caused by a rapid local production modernization will a production imbalance result in the systemic effect we are talking about.

Profit is a systemic effect of a proper combination of production means and labor.
This effect manifests in the pure form only in the case of rapid local production modernization.

6.5 Profit and other income

Why (in an equilibrium) do salaries, land rent, and the borrowing interest rates lean to positive figures while profit approaches zero? Why doesn't the profit reduction (resulting from fierce competition) stop at an equilibrium level (normal, usual, average)[360]?

We can find the answer in the specific nature of profit, which is dramatically different from the nature of the items of income listed above.

Salary, rent, and interest represent payments for services provided by one person to another based on an agreement. The price for such services, as well as for any other products, equals the supply value (on condition the relevant markets are balanced)[361].

Unlike renting out a piece of land, hiring someone, or giving a loan, when we invest capital, we do not provide a service to anyone; no agreement is signed. Therefore, if profit becomes possible, it is due to an imbalance.

When investing money in production, capitalism does not sell anything to anyone. Therefore, if the market is balanced, profit is hardly possible.

This is one of the manifestations of the rough equality peculiar to the market[362].

6.6 Predictability and unpredictability

As stated, economic growth is unpredictable, *an artificial notion* that almost always starts suddenly. New sources of profit are found and secretly actualized by every separately considered capitalist (or group of capitalists). If the potential sources of profit are obvious, many capitalists start exploring this potential. This situation either does not allow any growth or the growth is rather sluggish[363].

Unlike growth, crisis is a *natural phenomenon*, *which comes about due to the uncoordinated but* unidirectional actions of many capitalists and, therefore, a probability-based forecast can be made.

Objectively, crisis predictability is significantly higher than growth predictability.

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[358] See "Profit and its sources," chapter "Profit generation (conclusions and summary)," Conclusion 1.
[359] See "Profit and its sources," chapter "Capital accumulation (conclusions and summary)," table 1, Conclusion 1.
[360] As Smith, Ricardo, and Marx believed (Smith, A. (2007), *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by S. M. Soares, MetaLibri Digital Library, p. 47, 54, 73–81, 90–96; Ricardo D., (2001), *On The Principles of Political Economy and Taxation*, Batoche Books, Kitchener, p. 27–38, 54–57, 71–84; and Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 151–153, 214–215, 369–370, 375–377).
[361] See "Value", section "The equilibrium law (General case)."
[362] The term was coined by Adam Smith (Smith, A. (2007), *An Inquiry into the Nature and Causes of the Wealth of Nations*, Edited by S. M. Soares, MetaLibri Digital Library, p. 29.)
[363] See "Profit and its sources", chapter "Source 1a."

Only from a subjective point of view is crisis the same unpredictable element as growth (see the end of the following chapter).

6.7 Discontinuity and continuity

The growth stage starts with the uncoordinated and divergent actions of a small number of capitalists. A few growth points appear along with a few potential directions of development. Some points expand, some just disappear; some directions prove to be fake while others turn out to be even more profitable than was expected. New groups of capitalists emerge but soon break up. As a result, the economic indicators change dramatically, discontinuously, and in spurts (although swings may sometimes be insignificant). The high discontinuity persists until new sources of profit demonstrate their potential. After growth channels have been verified, the discontinuity of growth starts declining.

Crises can be caused by the unidirectional actions of many capitalists (all market players follow the innovative leaders of the capitalist race). The discontinuity of the capitalist race declines even more—separate pieces of the economic dynamics merge into one continuous *process* that can be statistically extrapolated. However, this process comes to an end rather sharply and discretely—with a slump.

Furthermore, during crisis stabilization and stagnation, the continuity of economic space and time is gradually restored—until a new growth wave hits.

The classic cycle contains both continuous and discontinuous stages.
The highest degree of discontinuity is observed at phase transitions—from crisis to growth and from growth to crisis (in the subphases of revival and slump).
The highest degree of continuity is observed before phase transitions—at the end of the growth stage (the boom subphase) and at the end of the crisis (stagnation stage).

Such a distribution of the continuity and discontinuity stages gives *subjective* unpredictability to the *objectively* predicted crisis *and subjectively enhances the objective unpredictability of the growth stage*. Both a long-term stagnation and a fast-developing boom, due to their continuous character, seem endless to capitalists and laypersons. But while a growth perspective seems like a surprise, the slump after a boom is perceived as if doomsday has come.

The subjective unpredictability of the phase transitions can also be explained by the inadequacy of the dominating economic theory (see "Comparison with other theories").

6.8 Competition and monopoly

In the course of development, a specific capitalist market goes through phases of monopolization and demonopolization[364]. In the starting and finishing conditions ("perfect competition"), profit is not observed: Having gone through a number of conversions, money is eventually exchanged for … new money. Therefore, capitalism is actually missing for it is inseparable from the nonequivalence of the monetary exchange. Moreover, there is no market as such. A simple commodity market does not offer abstract *universally acknowledged money* but *various specific products*. This exchange is possible even if the exchanged products have a complete parity index (value par). Therefore, the notion of a "highly competitive capitalist market" bears an internal controversy in the long run. We say "in the long run" since, even in conditions of fierce competition, the process of regaining balance in the market takes time.

"*Perfect competition*" *is generally incompatible with a capitalist market*[365].

Perfect competition, which balances the market and depletes revenues, deprives capitalists of a stimulus to move ahead. On the other hand, "perfect competition" persistently urges less successful capitalists to seek and create new profitable imbalances. *The capitalist market dies and then rises from the ashes. However, if the perfect competition phase stretches for too long, the market starts decaying or transforms into a simple commodity mode.* Farming enterprises in the USA serve as a classic example of a highly competitive and chronically unprofitable market, which, despite high production rates, exists mainly due to governmental

[364] See "Profit and its sources", chapter "Profit generation (conclusion and summary)", Conclusion 4.
[365] The contemporary classics view *the highly competitive loss-making condition of the economy as a normal and effective condition*, sometimes even perfect (for more detail, see "Comparison with some other theories").

aid[366].

Theoretically, the integrated capitalist market (regional, national, international) also goes through stages of monopolization and demonopolization in its development. Below is the generalized scheme of the phase dynamics of the integrated market. Twin kinds of imperfect competition—monopsony, olygopsony, and polyopsony—are omitted for simplicity[367].

Phase 0 – (almost) perfect competition. Major markets are almost balanced; there are hardly any profits—*overall economic crush, stagnation*.

Phase 1 – (almost) complete monopoly. Major markets are pushed off balance; the leading capitalists yield maximum profits—*overall revival*.

Phase 2 – oligopoly. Major markets are off balance; the leading capitalists gain significant profits—general steady growth.

Phase 3 – polypoly. Major markets are slightly off balance; leaders and some outsiders gain insignificant profits—*overall boom*.

Phase 4 – (almost) perfect competition. Major markets are almost perfectly balanced; there are almost no profits—an economic slump, the beginning of an economic crisis.

The transitions from phase 0 to phase 1 (from perfect competition to monopoly) and from phase 3 to phase 4 (from polypoly to perfect competition) occur erratically and quickly. Transitions from phase 1 to phase 2 (from complete monopoly to oligopoly) and from phase 2 to phase 3 (from oligopoly to polypoly) usually go smoothly, evolutionarily. They allow the juxtaposing of perfect competition with other monopoly phases.

General monopolization and the demonopolization that follows it present an important aspect of the economic cycle.
Monopolization leads to overall economic growth while demonopolization triggers economic crises.
Crisis (in the stagnation phase) features the perfect competition of the major markets[368].

Luckily, particular markets evolve asynchronously: While some peak at monopolization, others enjoy competitive power. Some markets stay in the state of perfect competition for quite a long time while others are monopolized. This really helps to mitigate crises. However, it does not cancel them out: All markets in the capitalist economy are interconnected, which means a crisis in one industry (country) can infect the whole capitalist world.

In both particular and integrated forms, perfect competition, complete monopoly, oligopoly, and polypoly are not so much coexisting static forms within the capitalist market (as is usually viewed[369]) but rather dynamic phases of a market. That said, the perfect competition phase (contrary to popular belief) *is the most unfavorable phase* (yet necessary)[370].

However, if some markets stay in some of these phases for too long, specific conditions may evolve. To illustrate, a temporary monopoly that occurred after a new product was invented and launched to the market can grow into a long-term monopoly (due to capitalist efforts or governmental support). A long-term, quasi-static monopoly can arise when someone hits a lucrative oil deposit, develops new transport routes, conquers new remote markets, and so on. Here, we should also mention the monopoly the static character of which is attributed to the non-competitive nature of the services provided (city utilities). Yet, for most markets, the phase dynamics are more peculiar. The degree of competitiveness (or monopolism) is constantly changing for all markets; the sequence of phases usually follows the pattern described above.

Therefore, it is necessary to distinguish between static and dynamic monopolies. *Static (quasi-static) monopolies* are long-term monopolies that last from one to a few economic cycles; their existence is explained

[366] Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 74–75; McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 641–655.
[367] You can find more on monopsony, oligopsony, and polyopsony in "Profit and its sources," chapter "Profit generation (conclusions and summary)", Conclusion 4.
[368] Basically, (almost) perfect competition is peculiar only to the period of stagnation in its transition point to boom or nosedive. The nosedive period is characterized by the chaotic combination and alternation of competition and monopoly modes; perfect competition gradually recovers in the period of crisis stabilization.
[369] Samuelson P. A., Nordhaus W. D. (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 168–180; McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 489–490.
[370] Contemporary neoclassics see some unattainable market ideal in perfect competition (see "Comparison with some other theories").

by some impediments in the market that prevent competition. Monopolies that exist in some industries or regions where competition is restrained by impediments of a natural or technical character are often referred to as "natural" monopolies (unlike artificial monopolies created by government support or the result of price fixing (commercial conspiracy)). *Dynamic monopolies* are temporary volatile monopolies, arising when new sources of profit are actualized. Such monopolies do not last for long in the competitive environment (they appear en masse in the phase of revival and then perish en masse (they demonopolize in the subphase of the steady growth or during the boom phase). The periodic rise and dissolution of dynamic monopolies signal the normal progress of capitalist development. And, in contrast, the domination of powerful monopolies (even the most natural) indicates serious bugs and setbacks.

Corporations and other large enterprises stuck in the format of a monopoly or quasi-monopoly decrease the cyclical amplitude of the integrated market, smoothing and suppressing the phases of the economic cycle. On the one hand, this makes certain aspects of the economic crises more bearable; on the other, it delays the expected revival and growth phases, holding economic development back. That said, large corporations that have managed to accumulate some significant reserves can survive non-profit periods for quite a long time. However, in states governed by the rule of law, no monopoly can exist forever. Firstly, competitors from other industries or even countries can upset the applecart; secondly, new substitute products may be invented and launched (as mobile phones undermined the seemingly unshakable monopoly of the city and long-distance phone network providers).

Perfect competition (a condition not really capitalistic or market in its essence) *is the necessary latent basis of a capitalist market.*
Capitalism is actualized in the process of blasting monopolization.
The demonopolization that follows actually brings capitalism back to its latent state (the state of perfect competition), and the cycle is about to repeat.

6.9 Competition and natural selection

In the beginning of this section we discussed the differences between capitalism and the natural environment. We should also remember the apparent similarities between the two (analogies).

Capitalist competition is a sort of advanced, sophisticated human form of natural selection. But while in nature selection means some species vanish and some persist, in the capitalist economic world we talk about the survival of capital that can generate offspring, which is positive profit. Admittedly, this form of natural selection is way more humane than the other methods adopted by humankind—ethnic or religious wars.

Every phase of the cycle has its own specific selection that escalates when not only technologically and organizationally strong "species" perish but also those advancing, newly emerging enterprises, too young for a tough, loss-making survival test. We can see that, like the species in the wild, a capitalist business survives due not to having a specific advantage over other businesses but to its adaptation skills. This adaptation, both in the capitalist economy and in the wild, can be achieved in different ways. In nature one adapts by altering body size or changing prey. In the capitalist world, it could be drastic cost-saving measures, a transition to the production of goods that are always in demand, accumulating funds, etc. However, the ability to adapt is not enough: the environment often undergoes sudden changes. This is why a capitalist should always be ready, with the right attitude and a financial cushion. When drastic changes strike the capitalist market, it is usually the sagacious and agile who survive—not the one who has more funds or innovations. In this regard, a capitalist in the capitalist jungle has an advantage over animals trying to survive in real jungle: unlike animals, *they can anticipate unforeseen circumstances*.

Competitive selection in the capitalist economy depends on the overall performance—the overall fitness to the changing market environment and the readiness to change along with it.

Biologists distinguish between individual and group selection (i.e., the selection of animal units and the selection of communities). The competition between entrepreneurs can be compared with the selection of animal units; competition between corporations is similar to community selection. The existence of corporations (as in animal communities) is a result of competition and selection[371]. The analogy can go further.

[371] See Avtonomov, p. 675–676.

Inside a corporation, like a herd, flock, or pride, there is a hierarchy and discipline; when we look outside the corporation, like the situation outside a pride or an ecosystem, we see anarchy.

6.10 Capitalism and science

Like the capitalist market, human society developed another complex system in which equilibrium means crisis, and long-lasting equilibrium implies death. It is science. Both capitalism and science develop successfully only in the condition of internal imbalance. Both are fruits of the human mind (the ability of a human to think logically and abstractly). Both exist and develop due to strokes of insight, focused efforts, and the commitment of certain individuals—entrepreneurs and scientists. Entrepreneurs and scientists *are living stimuli for progress*. Scientists cannot resist the powerful desire to gain new knowledge while entrepreneurs are driven by the unquenchable desire for bigger profits. Despite their needs being so different, the results are wonderful—new information, new technologies, and new products. Unfortunately, it also implies new generations of weapons.

It must be emphasized that too big a swing in science can inflict more serious damage to humankind than the loss of balance in the capitalist economy. The disproportionate development of the natural sciences and socio-humanistic sciences is especially dangerous. People have penetrated the atomic core, stepped onto the moon, and hit upon the idea of the Big Bang yet still know little about themselves. Moreover, economics, one of the most socio-humanistic sciences, has been reversing for almost a hundred years (since the times of Schumpeter and Kondratiev)[372].

7. Market typology: Contrastive summary

Now, we can generalize the properties and peculiarities of the capitalist market described above and juxtapose them with the properties and peculiarities of the simple commodity market. This information will come in handy in the following sections when we analyze small business and anti-crisis state policies.

Table 3.2. Simple market and capitalist market: Hallmarks, properties, and peculiarities[373]

Market type		*Simple commodity market* (commodity-money-commodity)	*Capitalist market* (complex monetary market or money-commodity-money)
Market definition		The market based on the indirect barter *of commodity equivalents*	The market based on the indirect barter *of monetary nonequivalents*
Classification market formula	short	$C_1 \rightarrow M \rightarrow C_2$, where C_1 & C_2 (normally) are monetary values (equal in supply value)[374]	$M_1 \rightarrow C \rightarrow M_2$, where M_2 (normally) > M_1
	full	{$M_1 \rightarrow$ Production means (+ attracted labor)} + Own labor → $C_1 \rightarrow M_2 \rightarrow C_2$	{$M_1 \rightarrow$ Production means + attracted labor} (+ own labor) → $C_1 \rightarrow M_2$

[372] See "Comparison with some other theories."
[373] The given table is a more profound version of table 1.1 (in "Market").
[374] For more on "supply value," see "The supply value and demand value" and "Total value" (in "Value").

Market activity objective	direct	*Production of specific commodities in order to exchange them for other specific commodities*	*Production of a universal abstract commodity*, money = *generating monetary profit* (M_2 - M_1)
	permanent	*Consumption of specific commodities*	*Accumulation of a universal abstract commodity, money* capital accumulation
Normal condition of the market		*Equilibrium (balance):* a) with C_2, whose aggregate supply value is equal to the supply value C_1, production and trade make sense b) equal exchange of specific commodities for other specific commodities is quite possible without disturbing the market equilibrium	*Nonequilibrium (imbalance):* a) when $M_2 = M_1$ production and trade do not make sense (in the long run) b) monetary gain is possible only when the market is off balance
The role of money		*Across-the-board means of exchange for any market activity*	*The only goal of the market activity*
Proportion of the attracted labor and the labor of the entrepreneur himself		Own labor dominates (there can be no attracted labor at all)	Attracted labor dominates (there can be no own labor at all)
Entrepreneur's labor – the invested money (M_1) ratio		Entrepreneur's own investment usually prevails over M_1	Entrepreneur's own investment (if there is any entrepreneur's labor (in monetary equivalent) at all is significantly smaller than M_1
Gained money (M_2) – invested money (M_1) ratio		M_2 (as a rule) >> M_1 (in the simplest case, $M_1 = 0$; in other words, the entrepreneur uses only own labor and own production means)	M_2 (as a rule) is comparable with M_1
Qualitative character of the net revenue (M_2 - M_1)		The main part of the net revenue is *earned income* (when $M_1 = 0$ *all net revenue* = earned income)	A major part of the net revenue is *return on capital* (zero own labor and all the net revenue = return on investment)
Ratio between long-term interests and current interests		Supremacy of the current interests over long-term interests	Supremacy of the long-term interests over current interests
Development		Slow, smooth, *evolutionary*	Fast, erratic, *revolutionary, cyclical*

The juxtaposition of the two market systems leads us to the following conclusion.

There are a number of qualities and peculiarities that differentiate a capitalist market from a simple commodity market.
They are derived from the classification formula $M_1 \rightarrow C \rightarrow M_2$.
Any theory of capitalism that ignores the existence of the two market systems and their fundamental differences is flawed and must be rejected[375].

8. Small business and capitalism

In the previous section, we compared and contrasted the two market systems. However, in practice, a *capitalist market coexists with a non-capitalist (commodity) market*. Here we are talking about a sort of junction where the two systems meet; this junction is actually small business—small farms, shops, repair services, licensed lawyers, independent doctors, taxi drivers, and so on.

Small business has a dual nature: one part of it belongs to the capitalist and the other to the simple commodity market.

Small business has acted as a transitional link in the history of the market, shifting from the simple form to the complex (capitalist form)[376]. *Within the frames of the developed capitalist market, small business plays an important and rather peculiar part, which is worth analyzing.*

Small businesses are characterized by:

a) relatively small investments (inexpensive production tools, relatively few staff); and
b) the entrepreneur-owners (and their families) actively participating in the business (production and trade).

There are a few possible proportions between the labor and financial investments on the part of the business owner.

1) *Own labor prevails over the money invested*, which means that the labor value invested exceeds the total sum of all the production tools purchased and the labor hired. The entrepreneur in this case *invests money to actualize their own labor* (independent work is for some reason impossible without equipment or hired workers).
   a) If the money gained is intended to be used for private purposes (which is likely given the proportion of the investment), *such a business is a rather simple commodity type*. When entry and exit markets are balanced (which they are in the state of perfect competition), the revenue equals the sum of money invested by the entrepreneur and is actually their "salary" (as a manager and a worker rolled into one). *Such a businessperson is not afraid of balance: the entrepreneurship retains sense* (it is focused on earned income rather than profit).
   b) If the revenue (money gained) is intended mostly for the purposes of reinvestment (which is peculiar to young ambitious entrepreneurs starting their business from nothing), *such a business is a rather capitalistic type of business*. *When all the markets are in balance, the entrepreneurship loses sense.*
2) *The money invested prevails over the labor invested,* which means the value of the entrepreneur's own labor is markedly smaller than the total sum of all the production facilities and hired labor. In other words, *their own labor is important for the entrepreneur since it allows them to actualize the funds they invested* (combining the production tools/facilities needed with the people hired requires the entrepreneur's effort).
   a) If the money gained is intended to be used for private purposes (which is, given the proportion of the investment, hardly logical or even likely), like case *1a, this enterprise is a simple commodity one rather than capitalist* (with similar consequences as in case 1a).
   b) If the revenue (money gained) is intended for productive consumption (which is likely given the proportion of the investment), then we are talking about *a capitalist enterprise rather than*

[375] The same way the dominant neoclassic synthesis theory must be rejected as of today (for more reference, see "Comparison with some other theories").
[376] See "The inner logic of market development" (in "Market").

a simple commodity one (with similar consequences as in case 1b).

3) *Invested funds are congruent with the labor value.*

In other words, *the invested funds and own labor are necessary for mutual actualization, meaning they just do not work without one another.*

Depending on the goal set and the market conjuncture, such an enterprise can be a simple commodity enterprise or a capitalist one. In conditions where the market experiences an imbalance in favor of the entrepreneur (the owner of an enterprise), the enterprise can acquire the distinct features of a capitalist enterprise, with the ability to actualize both invested funds and own labor. If the market is balanced, such an enterprise turns into a simple commodity market, allowing the owner to actualize only their own labor (the invested money completes the circle and returns in the same capacity). A negative market imbalance allows businesses to retain a non-capitalist yet market-oriented nature (the money invested returns in a smaller amount; the entrepreneur actualizes only a part of their labor). Even in this loss-making case, the entrepreneurship retains sense: firstly, the trimmed earned income can ensure quite satisfying personal consumption and cover the most necessary production costs; secondly, a persistent entrepreneur retains their chance to get back into profitable production after compensating for their losses.

The economic and ideological adaptability of small businesses to a non-profit or even loss-making existence manifests in the transition period of specific markets to a state of perfect competition, especially in periods of crisis.

Small business plays the role of a fallback/backup team of capitalism in times of prosperity and simple commodity substitute in times of economic crises.
The second role is, however, way more important: unlike big businesses, small businesses keep operating, even at zero profit, for a salary (even at the negative profit/penalty cost). During an overall crisis, the capitalist economy falls back on this safety cushion.

On the other hand, the inability of businesses based on labor to adopt cost-intensive modernization and innovations restricts the role of small business in the phase of growth.

9. Anti-crisis policies and anti-crisis behavior

9.1 State anti-crisis policy: Main objectives

Capitalism exists and develops due to the natural ambition of capitalists to make a profit. Profit is the functional and conceptual axis, and salaries, pensions, employment, inflation, national income, living standards, prosperity, and crises rotate around it. *If a society in a capitalist economy wants to prosper, it must first care about capitalists' profits. The anti-crisis policy of a government must accept this truth, no matter that it is unpleasant for the grassroots as a premise*[377].

The main economic objective of a government is to never allow a massive and simultaneous zeroing out of profits.
It must be emphasized that we are talking about a *massive and simultaneous zeroing out* since it is perfectly okay and sometimes even necessary when only certain capitalists experience a hard time now and then[378].

Does this mean that the government is expected to intervene, support some enterprises while creating hurdles for the others? NO; no government should interfere in a healthy competition (except in rare circumstances).

Because *free* competition:

a) makes some entrepreneurs accelerate, make an extra effort, and create and use profitable imbalances, which is good in the short run and not so good in the long run as those advancing businesses may lose impetus;
b) allows other businesses to catch up with those ahead of them, restoring non-profitable balances, which is, except in rare circumstances, negative in the short run and positive in the long run. It

[377] More detail in "Comparison with some other theories."
[378] See "Balances and imbalances" (section "Philosophy of capitalism").

inspires leaders not to lose focus and the motivation to seek new opportunities to widen the gap.

It is difficult to objectively determine the level of urgency; moreover, those in power may have their own views and vested interests.

That is why *any interference with the competition on the part of the government* (exemptions, subsidies, or restrictions) *must be prevented*[379].

The government must encourage competition in the market by[380]:

1) assisting the newcomers onto the track (thus making the leaders run faster);
2) assisting those who have lost to safely exit the track (thus making the newcomers bolder);
3) helping to change tracks (close to sub-clause 1);
4) making sure the rules are followed strictly and are not biased;
5) making sure the conditions are favorable for those competing (ecology, healthcare);
6) *informing competitors (active and potential ones) in a timely manner of any change in the current state of affairs; key figures are in the competitors' earnings records*;

There is no sense for those lagging behind to run after the leaders when their speeds have stabilized; they should seek new alternative ways.

7) Educate and train new champions (education) and build new racetracks (science).

So, government
first, *must encourage the capitalist sport*; and
second, *must not* (generally)

a) try playing on its own without involving competitive businesses,
b) help or hinder particular "racers."

Further along we are going to take a closer look at this aspect.

9.1.1 What to do when a crisis approaches

If the profits of the main producers are approaching zero (a harbinger of a crisis), the government should promptly turn its attention to sub-clauses 3 and 6 and convince those lagging behind to stop before they run into a dead-end and help them shift to new tracks.

Sub-clauses 3 and 6 make up a non-trivial combination. *The timely transition of entrepreneurs from nearly balanced spheres to far from balanced spheres can mitigate and shorten the crisis (and, most importantly, avert a major economic slump).* Above all, statistics and information must be underscored.

In advance of crises, information politics must be given priority (not fiscal, or credit-and-monetary).
Accurate and up-to-date profit statistics must underlie the state anti-crisis information policy.

The remaining clauses are put into practice (intuitively, without any systematic approach, without a proper theoretic base, and, therefore, often unsuccessfully).

9.1.2 What to do during a crisis

It is advised that during a crisis, the state:

a) should pay special attention to sub-clauses 1 to 3.
b) should pay attention to diagnostic measures, like jobless allowances, when it comes to an economic meltdown.

[379] This idea is, of course, not new. Some unconventional things will come later.
[380] Here, for illustration purposes, we are using the sport terminology (the similarities between the capitalist race and track-and-field athletics have already been exploited in "Balances and imbalances" in the section "Philosophy of capitalism").

c) should pay attention to the prevention of industrial espionage attempts and the traffic of influence/kickbacks and bribery when a recession hits.

If information about a new source of profit becomes available to a large number of entrepreneurs, economic growth may appear to be sluggish or may not start at all[381].

d) (if the recession seems never-ending) should support research, development, and testing, which are close to implementation in practice (as for the fundamental sciences, they should be taken care of way in advance, during the economic growth stage).

9.1.3 Care for small business

Due to its specific role, small business should be the center of attention and care on the part of a government[382]. This does not necessarily imply exemptions or privileges. The thing is, all the clauses on the list must be carried out thoroughly when it comes to small businesses.

9.2 State anti-crisis policy: General principles

Here we are moving from the precise tasks of a state during a crisis period towards the general principles. We are going to compare these principles with the reality of the modern West.

Governments of developed capitalist states usually see the general stabilizing of the economy as their main task. This general stability implies *balancing the national economy as a whole*. *That said, serious attention is given to the balance between* aggregate demand and aggregate supply[383].

The proposed theory, meanwhile, sets another task for democratic states—*local transient destabilization*, which means the unbalancing *of separate branches of the economy*.

A state should make sure that

a) *localized instability clusters* that are associated with the profitable imbalances (production or trade and conjuncture imbalances) keep pulsing in the economy,
b) these clusters keep moving from industry to industry, and from region to region, and
c) *local and temporary* instability does not grow into a *general and permanent instability*.

There is a popular belief expressed by several developed capitalist states that perfect competition constitutes an ideal picture of a market whereas monopoly is deemed to be a sort of unhealthy deviation. Correspondingly, the governments usually view the *demonopolization of the economy* as a major objective (at least based on what they say)[384].

The proposed theory, meanwhile, suggests an alternative objective, which lies in *local transient monopolization*.

A state should make sure that

a) *localized monopolization clusters* keep pulsing in the economy,
b) these clusters keep moving from industry to industry, and from region to region, and
c) *local and temporary* monopolization does not grow into a *general and permanent monopolization*.

To put it simply, *the law must generally protect dynamic monopolies while acting against static monopolies*. Western economists and politicians do not usually differentiate between these qualitatively different types of monopolies and adopt a hostile approach to any monopoly[385].

It is easy to see that a local temporary monopoly and a local temporary instability are two sides of

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[381] See "Predictability and unpredictability" in section "Philosophy of capitalism."
[382] See "Small business and capitalism."
[383] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 718–728.
[384] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 350–358; McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 665—667.
[385] For more about static and dynamic monopolies, see "Competition and monopoly" (section "Philosophy of capitalism").

the same coin. Pulsing monopolization causes the instability clusters while pulsing instability causes monopolization clusters. This allows us to summarize the main principle of anti-crisis policy in the following way:

A state must take care to ensure that there is always something going on in the economy, and that this "something" is constantly moving in time and space, enabling different capitalists to turn a profit at different times and in different capacities.

As capitalism develops and transitions from its industrial phase to the informational phase, the actualization of this principle gets simpler. Quantitative and qualitative changes occur more frequently in the economy, and this happens naturally, without any outer forces acting on it, especially the government[386]. Thus, the principle of caring *needs to be gradually substituted for the principle of not interfering.*

Capitalism (especially the modern form) is a complex self-regulating system with manifold inverse relationships. States do not need to operate this system; they just need to keep an eye on it and assist or correct if necessary.

9.3 Anti-crisis behavior of economic entities

" ...get out by a rut of your own!!"
—Vladimir Vysotsky

Although we have outlined the tactical part played by the state, we should also understand that in conditions of real freedom of enterprise and trade, businesses must first rely on themselves.

Entrepreneurs must go by the following anti-crisis behavior principles:

1) Try as best as they can to put the target market off balance to their advantage or monopolize it employing only legal means.
2) As the markets return to balance and get demonopolized, entrepreneurs should transfer capital into those branches that are far from equilibrium and perfect competition.
3) If the market is already imbalanced/monopolized, here are the following options:
   a) if unbalancing/monopolization has just started, they should attempt to catch up with the leaders (if their capital is sufficient) and get a piece of the pie;
   b) if unbalancing/monopolization has reached its peak and the inverse tendency is taking shape, entrepreneurs had better seek other ways (create new imbalances or take advantage of those at hand).

9.4 Anti-crisis behavior in a pseudo-capitalist economy

Coming to the end of the topic, we should point out that along with capitalist countries, there are pseudo-capitalist crime-based economies (Russia and Ukraine, in particular). The freedom of entrepreneurship and trade is confined by exorbitant taxes, takeover attempts, the vested interest of influential politicians, and organized crime groups. While seemingly normal from the outside, in fact, the private property and competition domains are seriously deformed[387].

A question arises: Are the described anti-crisis guidelines applicable to and helpful for pseudo-capitalist economies? Alas, only to a certain extent. This can be explained by the fact that the crime-*based pseudo-capitalist economy functions according to its own customized rules and its analysis requires a customized approach as well*[388].

However:

a) the Russian and Ukrainian regions, industries, and businesses are criminalized in different degrees; they do have relatively healthy segments.
b) the Russian and Ukrainian economies are involved in the world economy and thus they respond to global calamities, bearing their own specific complications.

386 See "Trends and prospects of capitalism."
387 See "Quasi- and pseudo- forms of market" (“Market").
388 See my article: "Destructive force of Russia’s treasury bonds."

Therefore, understanding the nature of crisis, preventive measures, and treatment is still a topical issue, at least for crime-free businesses working for overseas markets.

10. Capitalism and freedom, capitalism, and slavery

In the following section, you are going to discover why capitalism may not be as nice as it might have seemed based on the previous sections.

10.1 What freedom is necessary for capitalism, and with what non-freedom is it compatible?

The essential prerequisites for capitalism (the same as a simple commodity market) are economic freedom and entrepreneurship. First, this freedom implies free competition[389].

However, *capitalism does not generally require freedom for the direct producers, which makes capitalism compatible with slavery and other forms of personal dependence on workers.* Moreover, capitalism as it is does not even require the personal liberty of entrepreneurs (who, by the way, can be peasants on quitrent or disempowered subjects to an almighty monarch).

In conditions of free trade and the availability of business venture opportunities, capitalism can also exist in a non-free society.
However, the *inner logics of capitalism* (provided there are no antagonizing factors) *sooner or later lead to the development of a free society*[390].

10.2 Slave-owning capitalism

Within such a market economy, slaves deprived of their basic rights are the direct producers (as the ancient Romans used to say, "speaking tools").

Slave-owning capitalism develops in those places and times where/when:

a) the inner logics of market development leads to the transformation of the formula C → M → C into M → C → M[391];
b) manual labor prevails (either because machines are not yet available or because it is not profitable to use them if slave labor is significantly cheaper) and implements are simplistic, rudimentary, and cheap enough to be entrusted to slaves;
c) the number of slaves is not limited and can grow easily; the law and morals allow the selling and buying of humans in order to exploit them in the most unscrupulous and cruel ways;
d) the productivity of the slave labor is rather high (the cost of the product exceeds the costs of maintenance of slaves as well as warding/convoy).

Slave-owning capitalism develops when and where
1) the developed market meets slavery, and
2) production is based on manual labor.

The synthesis of premachine capitalism and slaveholding stimulates the slave trade and the pursuit of slaves (wars, piracy, and brigandage), enhancing the intensity of slave exploitation and taking it to its maximum. *If slavery is viewed as a profitable business, capitalism allows it to develop an especially cruel form.* For comparison, in a simple commodity economy, slaves do not produce money (which is never enough) but produce goods for the master's personal use or to be sold or exchanged for other goods (the demand of which is limited).

As is known, the main hubs of slave trading and ownership on the historic-geographical maps were ancient Greece, Rome, and Carthage in their heyday ("classic slavery"), the 17th to 19th-century colonies of the European states, the US South in the 18th and 19th centuries ("crop estates"), a part of Ukraine under the

[389] For more detail, see "Market and freedom" ("Market").
[390] See "The libertization of capitalism" and chapter "The inner logic of market development" (in "Market").
[391] See "The inner logic of market development", stage 3 (in "Market").

Crown of the Kingdom of Poland and the Grand Duchy of Lithuania, and the German part of the Baltic region in the 17th century (peasant serfs (bond slaves), who created the market commodities, actually did not differ from slaves). Therefore, we can see that slave-owning capitalism existed in antiquity in some way [392] and was revived in modern times. But, while in the past slave ownership and trade preceded capitalism and had existed for centuries regardless, in more modern times it was *exactly capitalism that revived slavery and imbued it with infernal features*.

The profit sources described in the chapter "Profit and its sources" are relevant to a capitalist slave owner. However, in this case *slaves are to be attributed not to the labor force but to the production tools instead. This is the objective reality, however gruesome and revolting it is for 21st-century morals.* Labor, meanwhile, included the freely hired managers and guards.

Thus, here is a list of the main profit sources for the capitalist slave owner:

1) the productivity boost of slave labor (it could be intensified or better organized) or the rapid cost reduction in the maintenance of slaves and guards (in both cases, the production costs are decreased)—the slave-owning analogue of source 1 (case 1);
2) the rapid expansion of the sales market for the slave labor products (for instance, because of the conquest of new lands or the opening of a new trade route)—the slave-owning analogue of source 1 (case 2, option 1);
3) the launch of a new slave-produced commodity (for instance, due to setting up a home-based workshop or craft shop)—the slave-owning analogue of source 1 (case 2, option 2);
4) a boost in demand for the slave-produced commodities (for instance, as a result of natural or military calamities)—the slave-owning analogue of source 1 a;
5) the sale of super cheap slaves in the nearest markets (after a war success or a new caravan arriving with captives)—the slave-owning analogue of source 2.

Furthermore, a local disproportion in the guards of the slaves could serve as another source of profit; for instance, if an army was dismissed—the slave-owning analogue of source 3.

In all cases, *as with freelance capitalism, profit was not guaranteed to all capitalists but only those who were ahead of the competition or were basically lucky.* These capitalists were in a more advantageous position in terms of organization of the slaves' labor—purchasing new shipments of slaves, hiring the most experienced thugs to watch them, and entering new sales markets with products produced by their slaves' labor.

If all the capitalists were moving ahead, neck and neck, while competing ferociously in the sales markets, the ultimate profit squeezed from the slaves' labor was eventually not enjoyed by their masters because the end-buyers got most of it (mostly the free citizens). If we take into consideration the fact that the intensification and rationalization of slave labor had their limits (unlike upgrading machine technologies), it becomes clear why the ancient owners complained about the low revenue rates (and even losses) in slave-owning commercial farms. The ancient agro-technicians (and their successors, the historians) attributed the low earning capacity to the low productivity rates and quality of the slaves[393]. However, it seems obvious that this was not the case. A slave-owning capitalist had less chance to outstrip their competitors than a manufactory-owning capitalist using machines and hired labor. Therefore, the invisible hand of the market was quickly bringing the commodity prices to the actual production costs, while the profit gained by the sweat and blood of slaves was enjoyed by the end-buyers (poor but free people included).

At the same time, the equilibrium of the profitable market was being held back by the geographically sporadic, scattered nature of its segments because it was not that easy to transport the goods and information spread between regions through gossip only. Besides, there were not many investors in those days ready to support ambitious capitalists: the ancient slave-owners, as well as the land-owning classes in medieval Eastern Europe, consumed most of the revenues gained. As such, we can see that some factors seemed to accelerate

[392] The reservation "in some way" means that the ancient slave-owning economy was mixed: it was partially natural, partially a simple commodity type, and partially a capitalist type. It is hard to estimate how big the capitalist constituent was in some countries in a particular century. Nevertheless, there are sufficient grounds to believe this constituent was large enough in the prosperity period of the ancient world.

[393] "For the matter of husbandry, which all the best of our ancestors had treated with the best of care, we have delivered over to all the worst of our slaves, as if to a hangman for punishment." Columella, Lucius Junius Moderatus, (First printed 1941, Reprinted 1948, 1960). *On Agriculture, Volume I*, Harvard University Press, London, p. 5.

the balancing of profitable markets while other factors slowed it down. Market leader profits fell but not too fast, while the capital of the slave-owning producers slowly but surely grew.

It would be safe to assume that the general laws of capitalism associated with the nonequivalence of the monetary exchange *are also relevant for slave-owning capitalism*.
At the same time, using enslaved living beings as the main production tool imbues these laws with a particularly appalling nature.

10.3 Manufactory capitalism

As a matter of fact, the industrial workers in 16th- to 18th-century Western Europe did not differ much from slaves (manual labor in a confined space is similar to slavery)[394]. The workers were motivated not only by the salary but also by intimidation and abuse; in addition, the medieval tradition of obedience played an important role as well.

10.4 The libertization of capitalism

A spontaneous mass transition to the labor of free hired workers occurred in Western Europe (England, first of all) at the end of the 18th and the beginning of the 19th centuries as a result of the Industrial Revolution. *The ubiquitous use of complex expensive machinery made slave labor an unviable anachronism*[395].

The libertization of the factory workers entailed the libertization from all forms of dependency for other layers of society in the Western European community. Human freedom became *a commonly recognized social norm in Western Europe*.

The natural development of capitalism leads to the liberalization of the whole society (provided there are no counteracting circumstances of a non-economic nature).

Can freedom be achieved by other ways, not through the establishment of capitalism? And, moreover, not through any other economic model? For instance, through religion or something else? Well, it seems it cannot. The free societies nowadays (Western Europe, North America, and Japan, among others) have reached freedom through the economy and through capitalism. Does this mean that societies with a non-economic basis are doomed to remain hindered[396]? It seems so.

10.5 Industrial capitalism

Is a hired factory worker free?

On the one hand, *their freedom* (in comparison to a home worker) *is restricted* by discipline, subordination, an often-rigid work schedule, assembly line work rhythm, and other objective factors without which it is impossible to organize the work process of a large staff.

On the other hand, the factory worker is free in other aspects. Firstly, a factory worker has the possibility to familiarize themselves with the work conditions and has the right to turn the work down. Secondly, a factory worker has the right to change jobs at their own discretion; thirdly, the freedom limitations are confined to the necessities of the industrial processes (for instance, today a manager would hardly be interested in the worker's religious beliefs or other principles); fourthly, the limitations apply only within the work schedule (a manager cannot tell workers how to spend their free time, whom to marry, how to raise children…).

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394 The horrors of manufactory capitalism are explored in detail by Marx in his *Capital* (Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 521–525).

395 Nevertheless, 19th-century England, a pioneer of industrial capitalism, still witnessed some backslides to the direct or indirect enforcement to labor (Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 272–273, 342–343, 405–407, 524–525, 537–538).

396 "Basis", in my interpretation, is a sphere of social life dominating other spheres. Some societies are governed by economy; other societies are governed by ideology (religious or communist ideology). There are societies with another basis (nationalistic, militarist, criminal). Sometimes, in the course of history, one basis can be replaced by another.

Therefore, *the factory worker* (unlike a slave or a mobilized soldier) *stays a subject* although this subjectivity is significantly restricted compared to other society layers.

10.6 Quasi- and pseudo- forms of capitalism[397]

If the freedom of entrepreneurship and trade is infringed, capitalism becomes deformed, acquiring various quasi- and pseudo forms (Nazi Germany, post-Soviet-Union Russia[398], many Latin American countries).

Quasi- and pseudo- forms of capitalism and the market economy present an interesting topic for research.

Here we enlist the main areas to be studied:

- Half-state economy
- Crime economy
- Deformations in various components of the market triad
- Perfunctory (surreal) private property
- Barter (non-monetary) relationships
- Competition of networks, bribes, and thuggish force (crime-sponsored cover or political clout)
- Profit sources
- Subjects and objects
- Free and not free workers

10.7 Capitalism and freedom, capitalism and slavery (conclusions and generalizations)

So, let us emphasize that *capitalism does not mean the same as liberty,* as some liberals were led to believe. In some conditions, capitalism indeed gives rise to and fortifies freedom, while in other conditions, it can give rise to slavery and take it to its ugliest form, turning workers into "speaking tools."

Capitalism is compatible with both freedom and slavery.
Combined with manual labor, capitalism gives rise to slavery.
Capitalism combined with machine production gives rise to and supports freedom.

It should be noted, however, that machine production does not guarantee freedom in a state or half-state economy. If a state is not opposed in active international market competition, it can afford non-profitable (and even extravagant) production. For example, bond slave plant workers in the USSR under Stalin, and slave labor in Nazi Germany.

Capitalism and slavery, capitalism and freedom, liberation terms in capitalism, and liberation terms in general are separate complex topics requiring thorough analysis. In particular, we admit the possibility of the libertization of capitalism stemming not only from the Industrial Revolution.

We have almost finished the explanation of the new theory of capitalism. What is left is for us to make a generalization and draw clear conclusions, comparing it, where possible, with the alternative theories.

11. Methodology of capitalism study

Compared to the study methodology of the simple non-capitalist market, the methodology of capitalism study has a number of hallmarks worth considering. We shall dwell on the key points.

1) *The capitalist market represents a complex self-regulating structure where the whole (the systemic), even in a broad outline, does not have an additive function with regard to the quotient or a fraction*. *The disparate actions* of many *standalone independent capitalists* directed towards profit generation give rise to the powerful systemic impact of economic *cyclic recurrence*, which, in turn, leads some capitalists to reconsider

[397] See "Quasi- and pseudo- forms of markets" (in "Market") and "Anti-crisis policy and anti-crisis behavior" (chapter "Anti-crisis policy in pseudo-capitalist economy").
[398] For more on Russia's criminal economy of the 1990s, refer to my "Life and Death of GKO" (section "Lessons of short-term government bonds", chapter "General causes: Russia's underground economy") (in Russian).

their strategies. Therefore, the artificial division of the capitalist reality into micro- and macro- is a terrible blunder[399].

In terms of capitalism, attempts to study macro- and micro-economics separately is a bad idea and doomed to failure.

When we turn to the simple commodity market, we shall see that, unlike a capitalist market, it seems to be additive; this means the activity of independent producers does not engender general economic effects like cyclicality and crises. So, we can infer that a simple commodity market allows the division into macro- and micro- levels.

2) *Local and temporary deviations of market variables from the average level* (which also undergoes changes) are part and parcel of the existence and development of capitalism.

Hence, the following are the requirements of the methodology that correspond to the objective reality:

a) *Infeasibility of the spatially-terminal "market averaging"—which depletes the very essence of capitalism—associated with the nonequivalence of exchange*. This mostly concerns rapidly changing features such as conjuncture, prices, and profits; however, fast variables, such as values, should be averaged very carefully[400]. In particular, it is incorrect to average values within one cycle, let alone on a transnational scale[401].

b) The necessity of *equilibrium conditions* in the analysis, normal for capitalism.

c) The necessity in the analysis of the *transitional processes* which capitalism needs to actualize itself[402].

When it comes to studying capitalism, the contemplative market averaging[403] and the search for truth in equilibrium[404] are inevitably futile.

Unlike the capitalist market, a simple commodity market is relatively stable. The deviation of the market variables from the equilibrium level are just statistical fluctuations, and that is why they can be averaged in both space and time. There is seldom any need for an analysis of the nonequilibrium conditions and transitional processes when studying a simple market.

The methodology of the study of capitalism differs fundamentally from the methodology of the study of the simple commodity market.
The lack of understanding of this fundamental difference between the two market systems creates insurmountable methodological barriers for researchers of capitalism.

12. Retrospective generalization

The new theory of capitalism is based on the distinguishing between the two market systems—the

[399] The neoclassic mainstream distinguishes between macro- and micro-economy; as many textbooks state, they can be studied separately (Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 5.) For more detail, refer to "Comparison with some other theories."

[400] You will find more on “fast” and “slow” market variables in "Logic and dynamics of the market" (“Value").

[401] See "The dynamics of value" (section "Capitalists cycles and crises"), and Appendix 2.

[402] It seems obvious to apply differential equations here (and math overall). However, the proponents of the mathematic methods must face the fact that their methods have limitations in both theory and practice: Capitalist development is naturally characterized by unpredictable spikes, off-peaks, and twists (not to mention unpredictable circumstances like political, military, or natural disasters). New technologies and products, opposition victory in elections, wars, tsunamis, and many other happenstances of an economic and non-economic nature are capable of depreciating any mathematic models. It should be added that the sophisticated neoclassicist’s mathematic constructions completely ignore the dynamic nature of capitalism; they often prove to be ivory-towered and, thus, useless (for more detail, see "Comparison with some other theories").

[403] "The income of one capitalist is by and large cancelled out by the losses of other capitalists – so, where does the normal average profit come from? It is squeezed from the workers!" This is the way the logics of Marx’s theory of surplus value works (see table 3.3 in "The Marxian school of economics").

[404] "Let’s balance the markets in our thoughts and see how it will work out"—this is how the authors of the neoclassic textbooks might think (Samuelson P. A., Nordhaus W. D. (2005), *Economics.* 18th ed. McGraw-Hill/Irwin, New York, p. 283–289; McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies.* 11th ed. McGraw-Hill/Irwin, New York, p. 632–639. You can find more on the topic in "Comparison with some other theories".

simple commodity market and the capitalist market. Descriptions of and formulas for them were laid down in the chapter "Market" (section "Simple and capitalist market").

We started our research by establishing the *basic definitions* of capitalism, capital, and profit. The formula for the capitalist market $M_1 \rightarrow C \rightarrow M_2$ served as an initial point. Based on this formula, capitalism was explained as a *market system based on the indirect exchange of monetary nonequivalences*. Correspondingly, the generation of profit and the accumulation of capital were emphasized as the main goals of capitalism.

Next, we established the potential sources of profit:

1) selling a product at a higher price than its actual value,
2) purchasing production means cheaper than their actual value,
3) purchasing labor cheaper than its actual value.

The detailed analysis of the profit sources led us to the following conclusions:

1) Local labor productivity growth and temporary market imbalances are the main profit sources.
2) *Capitalist behavior when synchronized does not make them a profit*.
3) *Capitalists' profit is always local and temporary*, i.e.,
    a) at any given point in time, not all capitalists make a profit (only the most enterprising or luckiest ones),
    b) profits (even for the most enterprising or luckiest) are not stable, have a pulsing character, and sooner or later reach zero (or are replaced by losses).
4) *The process of profit generation is associated with the temporary monopolization of the market*.
5) The accumulation of capital (in the hands of the most enterprising or luckiest capitalists) is possible when
    a) there is local labor productivity growth due to the cutting of production costs,
    b) the sales market for consumer goods is expanding rapidly or a new market for a new product is found quickly at the expense of the consumers' personal consumption fund,
    c) the hired workers' labor can be exploited directly or indirectly while the labor market is imbalanced.
6) *Capital accumulation* (the same as profit generation) *has a discrete, pulsing nature*.
7) If the labor and sales markets are balanced, the accumulation of capital is possible only at the expense of a dramatic production level of growth for some enterprises; the accumulation of capital is impossible when the production level of all the market players grows simultaneously at an equal pace.

Comparing the profit sources, we extended the notion of imbalance to a situation connected with local labor productivity growth, calling it a production imbalance (unlike the trade-and-conjuncture imbalance). The understanding of an imbalance as a supply-demand imbalance and the imbalance of costs proved to be fruitful and was used extensively in the given work.

The analysis of the profit sources has also allowed making the following conclusions about *the general trends and prospects of capitalism*:

1) In conditions where the global market has shaped itself and technologies have advanced, the development and existence of capitalism is impossible without further technical, technological, organizational, and scientific progress (uneven in space and time).

2) The natural development of capitalism led to the information society; the essence of capitalism, however, has stayed intact.

Next, the capitalist cycles and crises were analyzed. According to the data and conclusions obtained from our analysis of profit sources, one of the most common and deepest causes of crises is *the periodic zeroing of profits experienced by most entrepreneurs. We also discovered a connection between this zeroing and a periodic equilibrium* (product and trade-and-conjuncture equilibriums).

The phase structure of classic and modern cycles was analyzed. *The alternation of the phases in the classic cycle was attributed to the cyclic dynamics of profits and losses while the cyclic nature of profits and losses, in turn, was explained by the periodic disruption of the overall balance and periodic restoration of this*

balance. Depending on which side the balance disruption leaned, we can talk about impending profits and losses while, when the balance is restored, profits and losses zero out. Economic growth is associated with a general imbalance leaning the producers' way; this lack of equilibrium allows capitalists to make profits. Recession is accompanied by a general imbalance in favor of consumers, and capitalists suffer losses. A period of stagnation is accompanied by the ubiquitous equilibrium; it neither takes anything from capitalists nor benefits them.

Along with the cyclic dynamics of profits, we also considered the cyclic nature of capital. The conclusion was drawn that *the capitalist cyclic nature, which converts capital into profit and vice versa, sustains and supports itself*. Finally, a qualitative difference was shown between the capitalist cyclic nature and the static fluctuations experienced in highly competitive markets.

The favorable peculiarities of the modern cycle (such as the insignificance of recessions and, most importantly, no devastating economic slump/crash) have been presented as a result of the inner logics of capitalism development. The modern cycle has been presented as the most significant feature of the market maturity of capitalism.

Furthermore, based on the definition of capitalism and the conclusions reached in the analysis of the profit sources and nature of the capitalist cycle, we defined the most fundamental features of the capitalist economy and called them the *philosophy of capitalism*.

The key conclusions of the philosophy of capitalism are:

1) The capitalist market is a dynamic system which in normal conditions is far from equilibrium or perfect competition. *The temporary local imbalances and temporary local monopolies that accompany the imbalances are necessary features of capitalism*.
2) *General equilibrium and perfect competition are incompatible with the essence of capitalism. Even in their quasi-forms, they can cause a crisis*. The more perfect the competition and the more stable the equilibrium, the more devastating and longer the crisis.
3) *Capitalism does not feature anything straightforward or permanent*. Along with the market variables (prices and profits), speed and direction are also changeable. *The continuous movement in dashes and zigzags is a necessary condition for the existence and development of capitalism*.

In relation to the study of the philosophy of capitalism, we detected the differences between a capitalist economy and seemingly similar systems—nature and the simple commodity market. The main difference lies in the fact that for nature and a non-capitalist market, general stable equilibrium is a good thing and imbalance is a bad thing. It is the other way around with capitalism: *an imbalance in favor of producers, for instance, is healthy for capitalism while equilibrium is not*. That is why both a non-capitalist market and nature experience revolutionary changes as a result of balance disruption, while in the capitalist economy, such changes happen because of equilibrium. Therefore, *unlike nature and simple markets*, *capitalism features the inversion of balance and imbalance not only as a functional norm but also as the main source of development.*

The reason for such a radical inversion lies in the specific properties of money—the universal and, actually, the only value in the capitalist economy. *The qualitative uniformity of money (the starting and the ending point in the "formula*") *turns the nonequivalence of the exchange and market imbalances into functional norms of the capitalist market, while turning the source of its development, as well as the equivalent exchange and market balances, into a functional anomaly—an anomaly that engenders crises*.

During our study of the philosophy of capitalism, we paid special attention to the notions of competition and monopoly in the integral capitalist market. The general economic cycle was introduced as a sequence of monopolization and demonopolization phases (from perfect competition—through monopoly—back to perfect competition). *Monopolization is attributed to economic revival and growth while demonopolization is attributed to an upcoming crisis, and, finally, perfect competition is attributed to the crisis itself*. The comparison of static and dynamic monopolies allowed drawing an important conclusion concerning the abnormality of the former and the normality (necessity) of the latter.

Such questions as the qualitative development inherent to capitalism and the difference of this development from the simple quantitative development, predictability and unpredictability of the capitalist development, its continuity and discontinuity, sources of profit and principal differences from other sources of money were addressed.

Then, *hallmarks and properties* were grouped, summarized, and juxtaposed with the features and properties of a simple commodity market. It was emphasized that all the distinctions of one market from the other stem from *the difference between their formulas* ($C_1 \rightarrow M \rightarrow C_2$ for a simple market, and $M_1 \rightarrow C \rightarrow M_2$ for capitalism, where C is a commodity and M is money).

We also paid special attention to small (*half-capitalist*) *business*. Its specific role was identified, which lies in its backup function for capitalism in times of prosperity and for a simple market in times of crises.

Knowledge of the key properties of capitalism and understanding the depth of the causes of the cyclic nature of capitalism *allowed formulating the main objectives and the general principles of anti-crisis policies*. Bearing in mind these objectives and principles, we developed a *practical guide on mitigating and overcoming crises*.

We propose the following strategic foundation for anti-crisis policies: as hard as it may be, the government must not allow a *mass simultaneous zeroing out of profits*. It *must not allow a general economic equilibrium* and, consequently, *not encourage the perfect competition that leads to such an equilibrium*. This must be fulfilled through a prudent information policy *based on quality and timely profit statistics*.

Therefore, across-the-board stabilization and demonopolization should not be chosen as the right path. *The main principles for an anti-crisis policy* are local destabilization *(local imbalance) and local monopolization*.

To succeed in the implementation of these principles, the government should make sure that:

a) the clusters of instability connected with local imbalances and local monopolization keep pulsing in the economy,

b) these clusters keep moving from industry to industry, and from region to region, and

c) local instability/monopolization does not cause across-the-board instability and monopolization.

In other words, *governments must secure the conditions where there is always something going on in the economy, and this "something" constantly moves in time and space, from industry to industry, from capitalist to capitalist*. This being said, to secure the condition or take care means to not interfere.

Along with the general state anti-crisis policy principles, we developed *general anti-crisis behavior principles for economic subjects*. The most important guideline stemming from these principles lies in the idea that *entrepreneurs must move their capital in a timely manner from industries close to profitless equilibrium to other industries where there is no stable balance, meaning they are potentially profitable. If there are no imbalances anywhere close by*, entrepreneurs are advised to create those imbalances themselves.

We extended our conclusions to *capitalism in a non-free society*. We established that the general principles of capitalism are connected to the nonequivalence of exchange, and it would be safe to assume that they are also applicable to slave-owning capitalism.

The following conclusions have been drawn:

a) *In some conditions, capitalism establishes and facilitates freedom, while in others it gives rise to slavery and encourages it*.
b) *The natural development of capitalism encourages the libertization of the entire society.*

The second conclusion goes beyond the scope of our theory of capitalism (and economic theory on the whole). It should find application in theoretic sociology and theoretic history and fundamental history.

Knowledge of the essence of capitalist features allowed formulating the following necessary requirements for *the methodology of its study:*

1) the inadmissibility of the artificial division of capitalist economy into macro- and micro- levels,
2) the inadmissibility of the spatial-temporal averaging of the capitalist market, and
3) the necessity of the analysis of all the imbalances and transitional conditions typical of capitalism.

The general conclusion is:

a) the methodology of studying capitalism is fundamentally different from *the methodology of study of the simple commodity market (and the market as a whole)*, and, therefore,
b) *matching or identifying capitalism with the market turns the study of capitalism into a very difficult*

proposition.

Finishing our retrospective summary, we can outline the main stages of our path. Based on the *specifics of capitalism embodied in its formula* and basic notions, we addressed the *theory of profit, then* the theory of cycles and crises, the *philosophy of capitalism* (the most abstract part of our theory), and, finally, the *theory and practice of anti-crisis policy and anti-crisis behavior*. Every step was logically derived from the previous ones; and actual data from the history and practice of capitalism were used for explanatory and illustrative purposes.

We managed to explore capitalism *mostly deductively, basing on its classification formula simple logic and common sense*.

13. Comparison with some other theories

13.1 The Marxian school of economics[405]

Our theory of capitalism has one very important similarity with the political economy laid out by Marx and a number of significant differences. *The differences seem to be much weightier than the similarity*.

13.1.1 Similarity

Like Marx, our theory distinguishes two types of market economy—the simple commodity and the capitalist[406].

However, Marx does not seem to give this distinction much thought. He applies the same measurements to the circulation of money as capital and the simple circulation of commodities, which means he acknowledges the equivalence of exchange and equilibrium as a norm in any market[407]. To illustrate, summarizing his analysis of the controversy of the general formula for capital ($M_1 \rightarrow C \rightarrow M_2$), Marx arrives at the following conclusion: "The conversion of money into capital has to be explained on the basis of the laws that regulate the exchange of commodities in such a way that the starting-point is the exchange of equivalents."[408] However, from this formula we derive the following: commodity exchange laws are different in the simple market and in the capitalist market, and in the analysis of *a capitalist market,* we must *take the exchange of nonequivalents as a premise*[409].

The dual typology by Marx has a fundamental meaning in our theory and gives rise to many productive inferences and ideas—from the concept of profit to the recommendations for anti-crisis policy and anti-crisis behavior[410].

13.1.2 Main differences

Building on the general formula for capital through casuistic contemplations[411], Marx arrived at his theory of surplus value; meanwhile, based on the same formula, we used a simple transparent method and came to the theory of value described in the beginning of this part of the book.

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[405] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 104–138, Marx, K. (1969), *Value, Price and Profit*, International Co., Inc, New York, p. 17–23, Engels, F. (1996) Anti-Dühring, p. 141–154. Capital is surely the main source. However, in the two other works, the theory of surplus value as well as the Marxian school of economics, it is explained in a simpler way. It allows recommending these works to the audience who are not familiar with Marxism.

[406] See sections "Entity of capitalism" and "Market typology: contrastive summary", "Simple market and capitalist market", "Comparison with some other theories" (chapter "The concept of the two "forms of circulation" by Marx") in part "Market".

[407] Marx K. *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 111–115.

[408] Marx K. *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 116.

[409] See "Simple market and capitalist market" (in "Market").

[410] See "Retrospective generalization."

[411] Here is an example of such casuistic contemplations: "It is therefore impossible for capital to be produced by circulation, and it is equally impossible for it to originate apart from circulation. It must have its origin both in circulation and yet not in circulation." (Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 116.)

The theory of value underlying the new theory of capitalism and Marx's theory of surplus value, which the whole Marxian school of economy relies on, are polar opposites.

Table 3.3. The main differences between Marx's theory of surplus value and our theory of value

The theory of surplus value	*Our theory of profit*
1) It presumes that *equilibrium is the normal state* of any market, the capitalist market included; meaning *products are sold and bought at their actual values*. ***The possibility of an imbalance***, taking price away from value, is mentioned but mainly ignored. "It is true, commodities may be sold at prices deviating from their values, but *these deviations are to be considered as infractions of the laws of the exchange of commodities*, which in its normal state is **an *exchange of equivalents*,** consequently, no method for increasing value."[412] "If prices actually differ from values, we must, first of all, reduce the former to the latter, in other words, ***treat the difference as accidental*** in order that the phenomena may be observed in their purity, and our observations not interfered with by disturbing circumstances that have nothing to do with the process in question."[413]	It presumes a market can be in *any condition*: both equilibrium and nonequilibrium. Notably, a *condition of nonequilibrium* is seen to be *normal* and it creates the *nonequivalence of exchange*. See "Entity of capitalism" and "Philosophy of capitalism" (chapters "Balances and imbalances")
2) Normally, a capitalist gains profit—"*surplus value*"—in conditions of market equilibrium, buying and selling products **at their values**. "Our friend, Moneybags … must buy his commodities *at their value*, must sell them *at their value,* and yet at the end of the process must withdraw *more value* from circulation than he threw into it at starting."[414] "*The formation of capital must be possible even though the price and value of a Commodity be the same*; for its formation cannot be attributed to any deviation of the one from the other."[415]	In conditions of market equilibrium, *capitalists* buy and sell production tools and labor as well as products *at their values, turning a zero profit*. See "Profit and its sources" (chapter "Potential sources of profit") and "Philosophy of capitalism" (chapter "Profit and other income")
3) The surplus value is gained by the *purchase and usage of the labor* of the hired workers. "Human *labor power* in motion, or human *labor*, creates value, but is not itself value."[416] (see also:[417]) "In order to be able to extract value ["surplus value" - A. Zh.] from the consumption of a Commodity, our friend Moneybags must be so lucky as to find, within the sphere of circulation, in the market, *a Commodity, whose use value possesses the peculiar property of being a source of value*, whose actual consumption, therefore, is itself an embodiment of labor, and, consequently, a creation of value. The possessor of money does find on the market such a special Commodity in capacity for labor or labor-power."[418] (see also:[419]) "*The consumption of labor power* is at one and the same time the production of *commodities* and of *surplus value.*"[420] (see also:[421])	*Labor* is neither bought nor consumed by a capitalist; *Labor is what is bought* (the labor force is not bought but hired). *A capitalist makes a profit in the time of a temporary market imbalance*. See "Profit and its sources" Profit is also generated through the purchase of the *cheap labor of excess workers*. See "Profit and its sources," chapter "Source 3"

[412] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 112.
[413] Ibid, p. 118.
[414] Ibid, p. 116.
[415] Ibid, p. 118.
[416] According to Marx, labor that creates value does not have value. This paradox is described in detail by Engels in *Anti-Dühring*, p. 134, 140, 142, 219–220. Our theory acknowledges that like any other product, labor has value (see "Value", section "Labor value").
[417] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 35.
[418] Marx finds the source of the surplus value in the consumption of the work force only because there is no other source (if we follow the condition of the exchange of equivalences).
[419] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 119.
[420] Ibid, p. 123.
[421] Ibid, p. 119–123.

4) A hired worker differs from a slave only by the time for which their labor is sold. "[Not the owner of a work force - A. Zh.] and the owner of money meet in the market, and deal with each other as on the basis of equal rights, with this difference alone, that one is a buyer, the other a seller; both, therefore, equal in the eyes of the law[422]. The continuance of this relationship demands that the owner of the labor-power should sell it only for a definite period, for if he were to sell it rump and stump, once for all, he would be selling himself, converting himself from a free man into a slave, from an owner of a Commodity into a Commodity. He must constantly look upon his labor-power as his own property, his own Commodity, and this he can only do by placing it at the disposal of the buyer temporarily, for a definite period of time."[423]	The period of employment is not the only difference between a hired worker and a slave; the main difference is the subjectivity and freedom of a person. See "Capitalism and freedom, capitalism and slavery," chapter "Industrial capitalism"
5) The *value of the labor force of such a worker is defined by the value of the minimum required means of subsistence (with allowance for historical and moral variable*s) "The value of labor-power is the value of *the means of subsistence* necessary for the maintenance of the laborer."[424] "In contradistinction therefore to the case of other commodities, there enters into the determination of the value of labor-power *a historical and moral element."[425] (see also:[426])*	This is how the value of the *labor force of a slave* is defined. See "Capitalism and freedom, capitalism and slavery," chapter "Slave-owning capitalism" On the other hand, the value of a *free worker's labor* equals *the value they attach/add to the product they produce*[427]. See sections "Labor value" and "Labor value, salary and labor productivity" (part "Value")
6) *The salary/wages of a worker equals the value of their labor force if supply equals demand* in the labor market. "*Equivalent has been exchanged for equivalent*. For the capitalist as buyer paid for each Commodity, for the cotton, the spindle and the labor-power, its full value."[428]	*If supply equals demand* in the labor market, then the wages/salaries equal the *value of their labor force* See "Labor value" and "Labor value, salary and labor productivity" (part "Value") *Surplus value* (profit associated with the exploitation of a worker) is out of the question.
7) The value of a worker's labor force is in all cases smaller than the value they create. "The fact that half a day's labor is necessary to keep the laborer alive during 24 hours does not in any way prevent him from working a whole day[429]. Therefore, *the value of labor-power, and the value which that labor-power creates in the labor-process, are two entirely different magnitudes*; and this difference of the two values was what the capitalist had in view when he was purchasing the labor-power"[430] (see also:[431]).	

[422] Here, Marx definitively identifies hired labor as *free will labor*. Yet, it does not take much time to understand that freedom in Marx's understanding does not differ much from slavery.
[423] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 119.
[424] Ibid, p. 121.
[425] Ibid.
[426] Ibid, p. 121–123.
[427] Basically, it can work the other way around: newly created value equals the socially normal value of the labor used (see part "Value", section "Labor value, salaries/wages, and labor productivity").
[428] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 136.
[429] It does not "prevent" indeed. Yet, what makes *an independent worker* sell their labor at knowingly disadvantageous conditions? A dramatic labor imbalance? Mass unemployment? According to the problem specification, all the markets are balanced (see rubrics 1 and 2).
[430] *The Marxian capitalist means that the hired worker is in fact no one else but a slave.* The worker can be paid little (by only the "necessities of life") while made to work a lot (as much as they are told to). *What a real capitalist thinks, meanwhile,* (Western Europe in the 19th century) is that there is an excess of labor for hire so they can pay little to workers, and they will work a lot. The result appears to be the same: According to Marx "the difference in value" is an integral part of capitalism, while in fact, this "difference" is volatile (transient) (and even in Marx's time it was not common).
[431] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 135.

8) The margin between the value created by a worker and the value of his labor force is the surplus value, which a capitalist retains. "The use-value of labor-power, or in other words, labor, belongs just as little to its seller, as the use-value of oil after it has been sold belongs to the dealer who has sold it. *The owner of the money has paid the value of a day's labor-power; his, therefore, is the use of it for a day; a day's labor belongs to him*. The circumstance, that on the one hand the daily sustenance of labor-power costs only half a day's labor, while on the other hand the very same labor-power can work during a whole day, that consequently the value which its use during one day creates, is double what he pays for that use, this circumstance is, without doubt, a piece of good luck for the buyer, but by no means an injury to the seller"[432] (see also:[433] and[434]).	
9) *The worker is forced* to create surplus value (working overtime, more than necessary to make up for the labor force value). "Labor-power in use is labor itself. The purchaser of labor-power consumes it by *setting* the seller of it to work[435]. What the capitalist *sets* the laborer to produce, is a particular use-value, a specified article."[436] "He then proceeds to consume the Commodity, the labor-power that he has just bought, by *causing* the laborer[437], the impersonation of that labor-power, to consume the means of production by his labor"[438].	The worker *voluntarily* creates the surplus value (works longer hours than is needed to compensate the value of their labor) at a market conjuncture *not really favorable for them*. See "Profit and its sources," chapter "Source 3"

Therefore, unlike Marx's theory of surplus value, our theory states that:

a) profit is never guaranteed to anyone and bears a temporary character and general fragility;
b) profit is possible only when the market is off balance;
c) there are various sources of profit; the exploitation of the hired workers is rather an individual case (actualized when the labor market is off balance).

The understanding of *the capitalist norm* is viewed as the fundamental difference here.

In Marxist theory, the capitalist norm is ***equilibrium and equivalence of exchange****, while the proposed theory sees this norm in* ***imbalance and nonequivalence****.* Correspondingly, *Marx's theory of surplus value has an inadequately static character while our theory of capitalism is adequately dynamic.*

Along with the essential differences (table 3.3) between our theory and the theory of surplus value, there are the following differences of a methodological nature.

[432] The aforementioned "circumstance" can be a capitalist's dream only in two cases: 1) when they use slave labor (who eat as much as they are fed, and work as much as they are told); 2) when they use the labor of the excessive number of workers for hire (who have to put up with the salary, which is lower than the real value of their labor). A buyer's happiness does not last long: As a result of competition in the sales markets, the profit squeezed from slaves or excessive workers flows to the end-consumers (see "Profit and its sources", chapter "Source 3" and section "Capitalism and freedom, capitalism and slavery", chapter "Slave-owning capitalism"). According to Marx, a capitalist is happy hiring *free willing* workers *in the equilibrated labor market*, and their happiness *lasts infinitely* (competition from other capitalists does not scare them). Therefore, the author has made the local and the temporary "immanent laws" of capitalism.
[433] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 136.
[434] Ibid, p. 127–138.
[435] What does "setting the worker to work" mean? A worker got hired and is working willingly (see rubric 4)?
[436] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 127.
[437] The author does not mention how exactly a worker "is set to work".
[438] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 131.

Table 3.4. Methodological differences between Marx's theory of surplus value and the proposed theory of profit

Marx's theory of surplus value	*The proposed theory of profit*
1) Market is "averaged" in time and space "*The continual oscillations in prices*, their rising and falling, compensate each other, and *reduce themselves to an average price*, which is their hidden regulator[439]. It forms the guiding star of the merchant or the manufacturer in every undertaking that requires time. He knows that *when a long period of time is taken*, commodities are sold neither over nor under, but *at their average price*[440]. If therefore he [commodity owner – A. Zh.] thought about the matter at all[441], he would formulate the problem of the formation of capital as follows: How can we account for the origin of capital on the supposition that prices are regulated by the average price, i.e., ultimately by the value of the commodities?"[442] (see also:[443]).	"*Averaging*" *the capitalist market*, distorting its nonequilibrium entity, is in fact technically *unacceptable*. See "Methodology of capitalism study"
2) The market is artificially divided into "production" and "distribution"[444].	In capitalism, production and trade *are closely connected*. See "Entity of capitalism"
3) The *value equivalence* of commodities is understood as "*exchange values*". See table 2.1, rubric 2b	The value equivalence is viewed as: In the most important *isolated cases*—equality of *labor values*. In *general* cases, it is the equality of *supply values*. See "Law of equilibrium" and "Law of equilibrium (general case)" (in "Value")

The fundamental differences between our theory and the theory of surplus value shape fundamental differences in the understanding of capitalism itself.

In particular, cycles and crises are viewed completely differently; tendencies and prospects of capitalism are understood differently.

The key differences of practical and prognostic significance are shown in table 3.5.

[439] Only insignificant fluctuations "reduce themselves to an average price"—attributed to a geographically scattered nature, lack of information, and other circumstances.
[440] The averaging of a capitalist market—especially within the cycle—is a methodological and practical blunder (see headnote to "Capitalism", sections "Capitalist cycles and crises" and "Methodology of capitalism study").
[441] It seems like Marx has a certain vested interest: His theory of surplus value is designed to show the necessity and inevitability of the socialist reformation of the whole world. "Instead of the *conservative* motto: *—A fair day's wage for a fair day's work!* they ought to inscribe on their banner the *revolutionary* watchword: *—Abolition of the wages system!*" (Marx, K. (1969), *Value, Price and Profit*, International Co., Inc, New York, p. 29).
[442] The solution lies in the following: If the price is regulated by the product value, *capital cannot be formed.*
[443] Marx K., *Capital, A Critique of Political Economy, Volume I, Book One: The Process of Production of Capital*, Progress Publishers, Moscow, p. 118.
[444] Ibid, p. 111–118, 136–138.

Table 3.5. Differences of practical and prognostic significance between the theory of surplus value by Marx and our theory

Marxian political economy	*Our theory of capitalism*
1) Crises	
"Overproduction" peculiar to capitalism is the cause of crises[445]. "*The extension of the markets* [i.e., growth in demand, sales and consumption, - A. Z.] *cannot keep pace with the extension of production*. The collision becomes inevitable, and as this cannot produce any real solution, so long as it does not break in pieces the capitalist mode of production, the collisions become periodic. Capitalist production has begotten another "vicious circle"[446]. "The character of these crises is so clearly defined that Fourier hit all of them when he described the first as *crise plethorique*, a crisis from plethora"[447].	"Overproduction" is not a cause of a crisis but rather its manifestation. Whereas the actual cause is a simultaneous mass zeroing out of profits[448]. See "Capitalist cycles and crises"
2) Contradictions of capitalism	
It is peculiar of capitalism to bear *controversies,* insoluble within the capitalism frames. *The main controversy in capitalism* is the one between "the public nature of production and the private capitalist form of conversion/appropriation". "*The means of production, and production itself had become in essence socialised*[449]. But they were subjected to a form of appropriation which presupposes the private production of individuals… *The mode of production is subjected to this form of appropriation… This contradiction… contains the germ of the whole of the social antagonisms of today.* The greater the mastery obtained by the new mode of production… *the more clearly was brought out the incompatibility of socialised production with capitalistic appropriation"*[450] (see also:[451]).	It is normal for capitalism to bear *controversies*, though they are solvable. See "Profit and its sources" (chapters "Source 1: supply and demand" and "Waves of profit"), "Capitalist cycles and crises," "Anti-crisis policy and anti-crisis behavior" About issues of the modern capitalism, see appendices 2 and 3. "Contradiction", which Marxism views as the main one, is actually far-fetched. a) Production in capitalism was and is privately owned, separate from the state (see "Market attributes," in "Market"); b) Regardless of the scale of production and its organizational form, *private ownership of production* is perfectly combined with the *private acquisition/appropriation of profit* (see "Labor value, salary and labor productivity," in "Value").

[445] The concept of overproduction is consistent with the theory of surplus value: workers, who actually make up the biggest part of the population, do not receive "the whole product" as a salary for their labor, which means they are not able to buy out all of the products.
[446] Engels, F. (1996), *Anti-Dühring*, p. 196.
[447] Ibid.
[448] It is clear that such interpretation is incompatible with the theory of surplus value that "guarantees" capitalists significant 'mean' profits.
[449] Engels calls private production public production only because property has separated from labor (Engels, F. (1996*) Anti-Dühring*, p. 193).
[450] Engels, F. (1996), *Anti-Dühring*, p. 193.
[451] Ibid, p. 194–195.

3) Trends and perspectives for capitalism	
Prospects and tendencies of capitalism are *negative*. General forecast is *unfavorable*[452]. "In the progress of industry, *the demand for labor keeps, therefore, no pace with the accumulation of capital*. It will still increase but increase in a constantly diminishing ratio as compared with the increase of capital"[453] (see also:[454]). "*The general tendency of capitalistic production is not to raise, but to sink the average standard of wages*, or to push *the value of* labor more or less to *its minimum limit"*[455] *(see also:*[456]*).* "With all the miseries it imposes upon them, the present system simultaneously engenders the *material conditions* and the *social forms* necessary for an economic reconstruction of society[457] (see also:[458]). "The movement [of production] becomes more and more a spiral, and must come to an end, like the movement of the planets, by collision with the centre"[459] (see also:[460]). "It is the compelling force of anarchy in the production of society at large that more and more completely turns the great majority of men into proletarians[461] (see also:[462]).	The tendencies and perspective for capitalism are *positive*. See "Trends and prospects of capitalism" The general prognosis (despite serious issues of a non-economic nature) is *favorable*. See appendix 3

It should be added that Marx's capitalism allegedly implies freedom and equal rights for producers[463], while "our capitalism" is rather compatible with slavery and other forms of personal unfreedom[464].

13.1.3 The political economy by Marx and our theory of capitalism: Conclusions

The typology of market systems *(developed by Marx but never evolved) is an important, yet the only, similarity between the compared theories.*

However, the differences in the ***understanding of the capitalist norm create an unbridgeable gulf between*** *Marx's political economy and the proposed theory of capitalism (through the contradiction between the theory of surplus value and the theory of profit).*

[452] Not a single forecast by Engels or Marx has been proven by reality, which shows how flawed the theory underlying them is.
[453] The disproportion in the labor market of the Western Europe in the 19th century was caused by long-lasting, yet transient, historic events (see "Profit and its sources", chapter "Source 3"). Marx, however, believed that the excessive number of workers is an inherent feature of capitalism itself. If this was true, unemployment would have already crossed all the conceivable borders.
[454] Marx, K. (1969), *Value, Price and Profit*, International Co., Inc, New York, p. 29.
[455] The historical facts have defied this dire prognosis as well.
[456] Marx, K. (1969), *Value, Price and Profit*, International Co., Inc, New York, p. 29.
[457] Without any solid ground, Marx indulged in wishful thinking.
[458] Marx, K. (1969), *Value, Price and Profit*, International Co., Inc, New York, p. 29.
[459] Capitalist production truly has a spiral pattern yet this is an ascending spiral, with a historical trend to evolve into a "vibrating vertical line", not a point ("center"). It must be emphasized that the "spiral" movement leads to lasting qualitatively positive changes (see "Trends and prospects of capitalism").
[460] Engels, F. (1996), *Anti-Dühring*, p. 195.
[461] Another forecast that did not come true. On the contrary, from the beginning of the 20th century, the proletarian share of society was diminishing due to mass production automatization and the rapid growth of the service sector in the developed economies.
[462] Engels, F. (1996), *Anti-Dühring*, p. 195.
[463] For Marx, a worker is very similar to a slave (see table 3.3, rubric 4).
[464] See "Capitalism and freedom, capitalism and slavery".

13.2 Marginalism[465]

In "Value" we discussed the comparison between our theory and marginalism. We also made a preliminary conclusion *about the principal inapplicability of marginalism for studying capitalism*.

Now it is time to provide a detailed explanation for our conclusion. We shall follow on from the perfect explanation by Avtonomov[466].

Table 3.6. The main methodological principles of marginalism

Methodological principles of marginalism (according to Avtonomov)	*Critical comments*
1) *Methodological individualism* "Marginalists stuck with the methodological marginalism, which means they explained *social phenomena* (economic phenomena) *by the behavioral patterns of particular individuals* [1]. Society as a whole was viewed by marginalists as an array or a fusion of atomistic individuals" (Avtonomov, p. 178).	[1] which means *social psychology* and culture (subjectivity range of "values") were not taken into account. See "Value," sections "Labor value," "Use value," "Logic and dynamics of the market," "Value and its components". See also rubrics 8–9 in table 2.3 (in "Value")
2) *The static approach* [1] "*The static aspect of economic system attracted marginalists way more than the dynamic aspect, not a process but the architectonics*, which means they focused not on the way economics evolves or moves but what it consists of [2]. Dynamics was explained as a sequence of discontinuous static states (comparative statics)" (Avtonomov, p. 178).	[1] The static approach is principally incompatible with the analysis of capitalism where *capitalism is normally always dynamic*. [2] The design of the capitalist economy implies incessant change and movement. See "Philosophy of capitalism," chapter "Balances and imbalances"
3) *The equilibrium approach* [1] "Marginalists strived to explore not just static, but exactly the equilibrium state *not susceptible to temporary fluctuations of the economic variables*" (Avtonomov, p. 179).	[1] The equilibrium approach is principally incompatible with the analysis of capitalism where *capitalism is normally always off balance*. See "Philosophy of capitalism," chapter "Balances and imbalances"
4) *The economic rationality* "The condition of an individual is *equilibrium* if it is ultimately the best possible, when compared with other possible states [1]. As though marginalists were seeking an answer to the question: "What does the design of the world look like if this design is optimal?" [2] It explains why it is so important for marginalists that economic agents should optimize their objective functions: value and usability for consumers and profit for companies [3]. In other words, the rational behavior of the economic entities is the prerequisite of the marginalist theory" (Avtonomov, p. 179).	[1] so to say, "an individual, having found themselves in an optimal condition, gets balanced"; such a pacifying can be death for any entrepreneur capitalist. See "Philosophy of capitalism," chapter "Balances and imbalances" [2] What seems to be the best possible for one economy can be lethal for another. To illustrate, stability can be optimal for a simple economy *while for the capitalist economy it is vice versa; turbulent dynamics is optimal for the capitalist economy*. Marginalists seek optimal criteria common for all economic systems. [3] The optimal state of equilibrium implies *zero profits*. See "Profit and its sources," chapter "Potential sources of profit"

[465] Please find the historical reference in the footnote to the section title "The subjective theory of value (marginalism)" in "Value".
[466] Avtonomov, *The History of Economic Sciences*, p. 178–179.

5) *Marginal analysis* "*Marginal/limiting values* have their special place in the analytical views of marginalism. They characterize additional single or infinitesimal increment of benefits, incomes, labor efforts. In fact, the maximization principle of the objective function was specified: if the addition of a unit of produced or consumed goods/benefits does not increase the general level of value or profit, it means that the initial state is already *the best possible/optimal and balanced* [1]" (Avtonomov, p. 179).	[1] Marginal analysis is applicable only in the quasi-stationary *case of a simple commodity market*: when such a market reaches equilibrium, any irreducibility loses its sense. *Marginal analysis is not applicable* to a nonequilibrium dynamic capitalist market. See rubric 10 in table 2.3 ("Value")

As we can see, due to its static, irreducible, and balanced nature, *marginalism is actually not suitable for studying capitalism* either (rubrics 2 – 5) as it possesses a dynamic and nonequilibrium mode of functioning. In particular, marginalism is not suitable for studying the fundamental phenomenon of capitalism, which is profit[467].

When it comes to the study of capitalism, the neoclassic derivatives of marginalism must be rejected for the same reasons (the modern neoclassic "mainstream" included).

13.3 Schumpeter's theory of economic development[468]

The new theory of capitalism has both similarities and differences with Schumpeter's theory. *The similarities seem to be more meaningful.*

13.3.1 Main similarities

1) *Distinguishing the two market systems* (see the rubric "The typology of the market systems" in table 3.7).
2) Acknowledgement of *pulsing dynamics* as the inherent and most important feature of the capitalist market.
3) Acknowledgement of *production and supply* as the driving forces of capitalist development.
4) Taking into account both *labor value and use value*.
5) Acknowledgement of the independent and decisive role of *money* in capitalism.
6) Revealing and proving the temporary, transient character of *profit*.
7) Acknowledgement of the benefit that a *dynamic monopoly* generates.
8) Viewing the *cyclic nature* as the inherent and most important property of capitalist development.
9) Acknowledgement of the *information policy* as the most important and effective anti-crisis tool.
10) The high level of abstractivity; almost complete abstraction from historical and economic specifics.

The similarities listed here can serve as a dividing line between the theories compared and the theories of contemporary economists.

13.3.2 Main differences

Table 3.7 The main differences between Schumpeter's theory of economic development and our theory of capitalism

Theory of economic development by Schumpeter	*Our theory of capitalism*
1) The typology of the market systems	
The market economy has two essentially different forms: 1) (economic) circulation, and 2) (capitalist) *development*.	The market economy has two essentially different forms: 1) *simple commodity market,* and 2) *capitalist market*. See "Entity of capitalism" and "The market typology: comparative generalization"

[467] See Avtonomov, *The History of Economic Sciences*, p. 175–176; *Schumpeter and his Books*, p. 16–17.
[468] Schumpeter, J. A. (1934), *The Theory of Economic Development: An Inquiry Into Profits, Capital, Credit, Interest, and the Business Cycle,* Transaction Publishers, New Jersey, p. 3–255.

2) The general understanding of capitalism	
Equilibrium is acknowledged to be a normal state of the capitalist market. *Nonequilibrium is viewed as a deviation from the norm that leads to depression*[469].	*Nonequilibrium has been proven to be a normal state of the capitalist market.* *Equilibrium is viewed as a deviation from the norm, after which a crisis ensues*[470]. See "Capitalist cycles and crises," "Philosophy of capitalism" (chapters "Balances and imbalances")
The capitalist market is viewed as a *binominal object of two parts*, with capitalist and entrepreneurship components being separate from each other.	The capitalist market is regarded as one whole object. See "Entity of capitalism"
Capitalist development is represented by a *discrete set of vaults or upswings* brought about by the spontaneous revival of entrepreneurial activity.	Capitalist development is a self-sustainable *discontinuously continual process*. See "Capitalist crises and cycles" and "Philosophy of capitalism" (chapter "Discontinuity and continuity")
3) Entrepreneurship, capital, and profit	
A psychological concept of entrepreneurship underlies the theory.	*The economic concept of profit is at the core of the theory*. See "Entity of capitalism," "Profit and its sources" (chapter "Potential sources of profit"), "Philosophy of capitalism" (chapter "Profit and other income"), "Anti-crisis policy and anti-crisis behavior" (chapter "State anti-crisis policy: main objectives"), "Retrospective generalization"
The terms "entrepreneur" and "capitalist" are fundamentally *different*.	The terms "entrepreneur" and "capitalist" are identified as one and the same. See "Profit and its sources" (in footnotes to section "Potential sources of profit")
Profit is regarded as *a product* of capitalist development.	Profit is regarded as *the driving force* of capitalist development. See "Entity of capitalism," "Profit and its sources" (chapter "Potential sources of profit"), "Anti-crisis policy and anti-crisis behavior" (chapter "State anti-crisis policy: Main objectives"), "Retrospective generalization"
Profit is considered a byproduct of an *imbalance* created by capitalists.	Profit is considered a product *of capital and an imbalance* taken advantage of by capitalists. See "Philosophy of capitalism" (chapter "Profit as a product of capital and imbalance")
Profit *is not related* to the capital invested.	Profit *is related* to the capital invested. See "Entity of capitalism"
The connection of profit with the exploitation of workers *is denied*.	The connection of profit with the exploitation of workers *is admitted*. See "Profit and its sources" (chapters "Source 3," "Capital accumulation (conclusions and summary)")

[469] Schumpeter preserved this understanding of capitalism in his later work *Business Cycles* (p. 21–64, especially p. 62–64).
[470] Schumpeter's "depression" and our notion of "crisis" may be considered synonyms.

4) Cyclic nature	
The cyclic dynamic of entrepreneurship underlies the capitalist cyclic nature.	*The cyclic dynamic of profit underlies the capitalist cyclic nature.* See "Capitalist cycles and crises"
A cycle has *two* phases: growth and depression.	A classic cycle has three phases: growth, recession, and stagnation. See "Capitalist cycles and crises" (chapter ""Classic" cycle")
Economic growth starts from the state of balance and is interrupted *in the state of max imbalance.*	The economic growth starts from the state of balance and finishes *in the state of balance* as well. See section "Capitalist cycles and crises" (chapter ""Classic" cycle")
During a depression, the economy returns to its equilibrium.	The economy returns to its equilibrium *at the end of the growth phase.* See "Capitalist cycles and crises" (chapter ""Classic" cycle")
The cause of economic revival and growth is *a spike in entrepreneurial activity* conditioned by *some psychological factors.*	The cause of economic revival and growth is the actualization of some new *sources of profit* conditioned by a certain number of *economic factors.* See "Capitalist cycles and crises" (chapter ""Classic" cycle")
The growth phase hinges on *the balance disorder.*	The *balance disorder and subsequent recovery is the bedrock of a growth phase.* See "Capitalist cycles and crises" (chapter ""Classic" cycle")
The reason for a depression is viewed to be a balance disorder caused by disproportions during the growth phase (the "disproportionality concept"). It is emphasized that *profit zeroing out cannot be the cause of a depression.*	*The reason for crises is viewed to be the recovery of the balance at the end of the growth phase* and profit zeroing out (the "*proportionality concept*") See "Capitalist cycles and crises"
The essence of a depression lies in *the balance recovery.*	The essence of a crisis is in the *balance disorder and subsequent recovery.* Unlike in the growth phase, the balance is broken in favor of consumers. See "Capitalist cycles and crises" (chapter ""Classic" cycle")
Growth phases never directly follow one another and always alternate with depressions.	A new growth phase can start right after the previous one. See "Capitalist cycles and crises" (chapter "Modern cycle")
5) Methodology	
Relics of the static approach.	*A consistently dynamic approach.* See "Philosophy of capitalism" and "Methodology of studying capitalism"
Deductive methodology applied *erratically.*	Deductive methodology applied gradually. See "Retrospective generalization"
No formulas or graphs.	Formulas and graphs provided.

The main differences between our theory of capitalism and Schumpeter's theory of capitalist development are connected with the general understanding of capitalism. Understanding the capitalist norm is at the core of the diverging opinions.

These are found in the concepts of entrepreneurship, capital, and profit as well as the concepts of cycles and crises.

Methodology also features different opinions.

The differences in the understanding of cyclic nature are outlined in fig. 3.8.

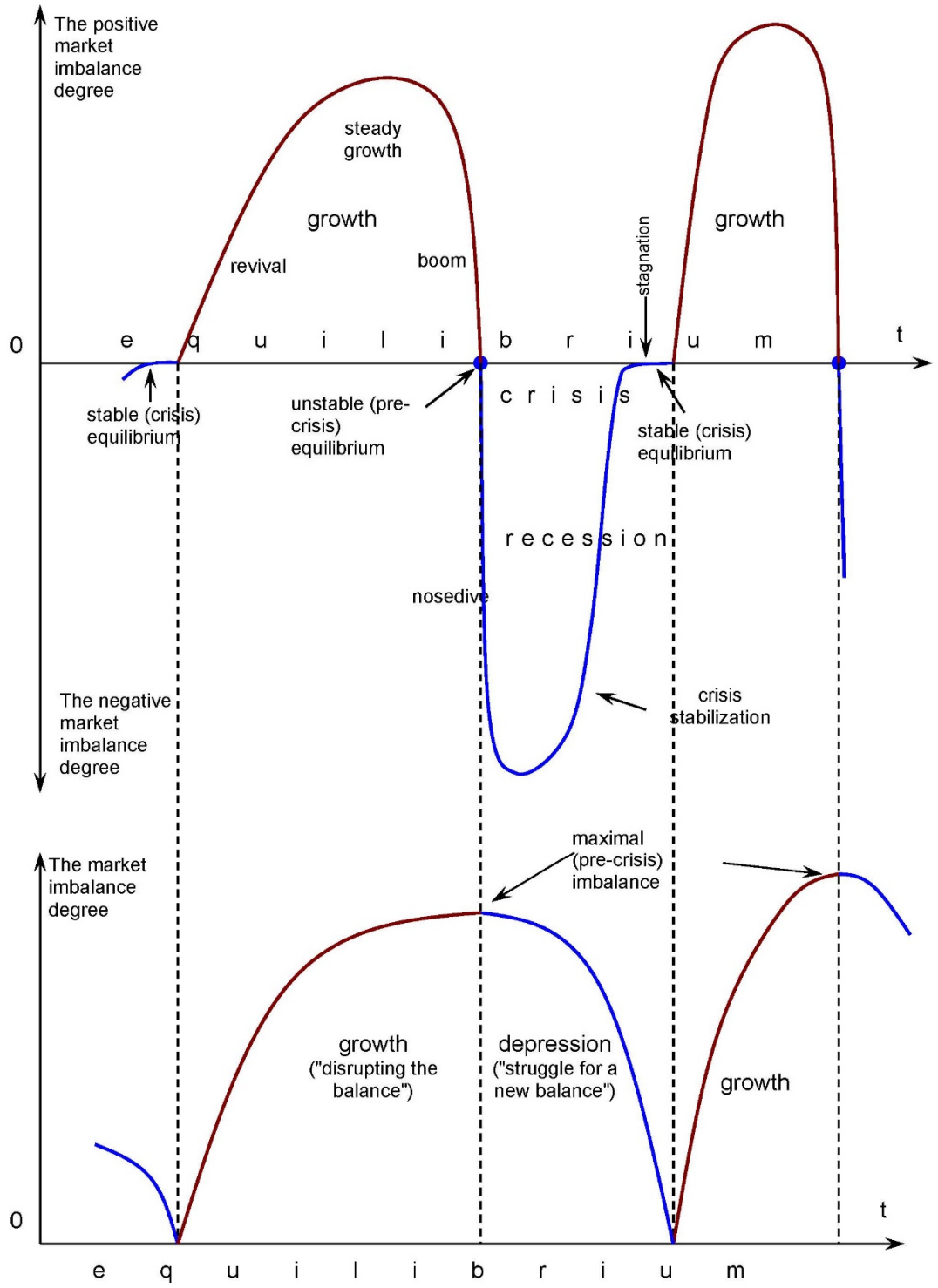

Fig. 3.8. Phases of the classic cycle: At the top, according to the new theory of capitalism; at the bottom, based on Schumpeter's theory of development

13.4 "Kondratiev's waves"[471]

13.4.1 Summary and conclusion

Statement

1) The concept by Kondratiev (unlike the theory of economic development by Schumpeter) is definitely related to capitalism ("economic circulation," the simple commodity market is not analyzed).

2) Kondratiev's method (unlike Schumpeter's) is *inductive* (specific-to-general method, with the theoretic model development, which explains specific facts).

Strengths

1) *Capitalist development is explained exclusively by internal economic reasons* (unlike Schumpeter, who connected development with "entrepreneurial" psychology).

2) *The approach is exclusively dynamic* (unlike in Schumpeter's theory, which contains relics of the static approach).

3) According to Kondratiev, the capitalist economy is always off balance. The relationship to equilibrium is not given much attention. However, the movement towards equilibrium is associated with a *growing depression*[472].

Weaknesses[473]

1) The theory of big waves is presented independently of any general theory of capitalism. There are no references to such either.

2) Historical materialism is an impact factor.

3) The dynamics of the *accumulation and dispersion of capital* underlie Kondratiev's theory (not the dynamics of profit as in the main points of "Capitalism"). So, the aspiration for profit, which is the main driving force of capitalism, is neglected.

Conclusion

1) Kondratiev's dynamic concept has the advantage over not only other modern economic theories but also the most dynamic theory of economic development by Schumpeter.

2) Kondratiev's "supercycles" have a comfortable place in the general theory of capitalism, laid out in the thesis of "Capitalism."

13.4.2 Kondratiev's cycles interpretation

Below you are going to find an interpretation of Kondratiev's big waves connected not with the dynamics of capital (as in Kondratiev's view) but with the dynamics of profit.

The upward trend of the big cycle: there are many different sources of profit; they are abundant since they are fed from those newly discovered powerful deposits of potential profit[474]. As a group of sources is depleted, a new one is soon activated. Therefore, intermittent crises are not long or significant.

Cycle downturn: "discovered deposits" of potential profit have by and large been depleted; they are scarce and sparse. It is hard to find a new one when the available one is finished; the new may turn out to be worse than the previous ones. "Mid-range crises" are usually long and fraught with consequences.

Thus, ***both big and medium cycles are related to the dynamics of profit and have the same nature!*** Big cycles are associated with the exploitation of serious deposits of profit while medium cycles deal

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[471] The author of this book died suddenly, leaving the section unfinished. However, he has a separate draft text (in Russian) dedicated specifically to the famous Kondratiev cycles and their interrelation with the proposed theory.
https://ap.box.com/s/zpif9p7cl997u3fzn6rj
Here, along with commentaries and summary on two texts by Kondratiev, the author
a) gives his interpretation of big economic cycles; this interpretation is based on the dynamics of profit, while Kondratiev relied on dynamics of capital;
b) puts forward the "hypothesis of multi-cyclism", uniting and explaining the economic cycles of varied length.
Its main conclusions are presented in the text of this book.

[472] Almost all economic theories (Schumpeter's theory of development included) view *balance* as the norm and ideal for a capitalist market; *imbalances* are perceived as reasons for crises.

[473] The mentioned "weaknesses" can be treated as flaws of the growth of the young scientist that he would have likely overcome had he stayed alive.

[474] The analogy with natural resources seems suitable here—differing only in the fact that unlike natural resource deposits, profit deposits can be not only discovered but also created.

with exploiting specific sources of profit. The quantitative difference between deposits of profit nourishing big and medium cycles causes a significant qualitative difference in how they run.

The big cycles are comparable with the human lifetime, have no clear boundaries, and overlap one another. This means that new deposits of profit are detected before the current ones are depleted. Therefore, unlike the classic mid-range one, the big cycle has the same structure as the *modern mid-range cycle, with an equilibrium point leaning towards producers' benefit* (see bullet points "Capitalism," section "Capitalist cycles and crises," chapter "Phases of the cycle," fig. 7).

If new deposits of profit cannot be found for many years (all this time the general market imbalance in favor of consumers is maintained), the capitalist economy, deprived of any stimuli, may collapse. This was happily avoided in the 1920s and 1930s when capitalism persevered only due to substantial government intervention and large-scale military preparations (see bullet points "Capitalism," section "Profit and its sources," chapter "Source 1a").

13.4.3 "Multi-cyclism hypothesis"

Below you will read about the multi-cyclism hypothesis inspired by the three equilibriums by Kondratiev.

Theoretically, it is possible to define a huge number of national economic good types, from the cheapest short-term available production means and consumer goods to the most expensive long-living ones. This means that, theoretically, it is possible to come up with *any number of cycles of varying lengths*—super short, very short, short, medium, long, very long, super long… (Kondratiev's cycles are defined as super long since they are related to the major production means and are similar in length to the period of capitalism existence). We can present the economic conjuncture as a quasi-periodic function, "harmonic wave components" (their number and frequency are determined by the objectives of an analysis). The hypothesis is empirically supported by a large number of elicited cycles (Kitchin cycle, Juglar cycle, Kuznets cycle, and Kondratiev's big wave)[475].

Why is it so easy to see usual cycles (Juglar cycles) while a Kondratiev wave, for instance, requires a sophisticated statistical analysis to be elicited? This can be attributed to the fact that with the flow of time, new goods/benefits appear. The human perception of time also changes: Ten-year cycles are perceived as tangible, they are remembered, while the shorter and longer ones tend to sink into oblivion.

The shorter the cycle, the bigger the role of consumer goods in its dynamics. The longer the cycle, the more important the production goods. Correspondingly, the frequency of short cycles is determined by demand whereas the frequency of long cycles is determined by supply. The fixed investment cycles of 7 to 11 years (Juglar cycles) should rather belong to the long cycles: demand swings have a modest role in their dynamics (except for the case described in "Source 1a" in "Capitalism").

Along with *general cycles*—related to goods of presumably the same value (and the same functionality time)—we can find also specific cycles; for example, conjuncture cycles related to the changes engendered by new generations of aircrafts, computers, communication technologies, and other necessary goods.

13.5 The modern theories of capitalism

When we say "modern theories", we mean, first of all, various kinds of neoclassical mainstream ones that trace their roots to Marshall and Samuelson. The flaws of this theory have long been known and described in the economic literature. Many authors regard this theory as completely invalid.

The critics of particular aspects of mainstream theory can be found in the footnotes to certain paragraphs of this part. Below are brief conclusions.

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[475] Spectral analysis has been applied multiple times while studying long cycles (see A. Korotayev, C. Tzyrel. *Kondratiev's waves in the global economic dynamics / System monitoring. Global and regional development*. Chief ed. D. Khalturina, A. Korotayev, Moscow: LIbrokom, URSS, 2010, p. 196–205). Kuznet's cycle can turn out to be the third harmonic in Kondratiev's cycle though this is not the reason why the proposed theory is a novelty (related works p. 202). The novelty of the proposed theory lies in the fact that ***it is possible to point out or segment as many conjuncture cycles as possible*** (the same as harmonics in the quasi-periodic function).

13.5.1. Market and capitalism

The thing is modern economists usually provide descriptive, and often confusing, definitions of capitalism, neglecting its essence (find next footnote for more detail).

Modern capitalists usually consider capitalism as a synonym for "market" and "market economy or distorted," ignoring the obvious difference between a capitalist market and a simple commodity market*; they don't see the difference* caused by *the nonequivalence of exchange in the former case and equivalency in the latter* (for more detail, see Samuelson and Nordhaus' "market," "capitalism," and "market economy" definitions p. 732, 744[476]; McConnell and Brue's descriptive definition of "capitalism" p. 38[477]; and file "Samuelson," section "Market and capitalism"). A superficial explanation of capitalism that ignores its specific nature leads to a manifold of mistakes, both in theory and in practice (for more detail, see section "Comparison with some other theories," chapter "Modern theories of capitalism").

13.5.2 Profit

All in all, by saying "profit" we mean "book profit" or "accounting income," the margin between income and actual (explicit) costs (operational and other *expenses*). *Implicit costs* (the unpaid work of the capitalists themselves, the loss of an obvious bank commission, the loss of possible royalties or other financial returns, and so on) are not taken into account to keep things simple (necessary clarifications will be made further).

Modern economists are used to considering all costs—both explicit and implicit costs (see an example:[478]), while the margin (worth) between general income and all costs is commonly known as *economic profit*[479]. When economic profit compensates for all implicit *costs*, it is called *normal profit*; anything above the normal is called *net profit*[480].

A detailed critique of the concepts of "normal" and "supernormal" profit, described in the aforementioned works, is not part of our task. It must be pointed out, however, that such an analysis causes confusion in the study of capitalism: "Normal profit" *is not normal for a capitalist* (unlike an agent of a simple commodity market); it is only temporary, if at all acceptable. "Superprofit" or "net profit" is desirable for a capitalist as it means income that exceeds all explicit and implicit costs (for more detail, see "Measurement units for value" in "Value"). It is impossible to understand the development and very essence of capitalism with a false understanding of the concept of profit. Capitalist cycles and crises cannot be understood, which undermines any attempts to enact anti-crisis policies.

As mentioned, the modern economists understand "profit" in a broader sense, attributing the implicit labor income of an entrepreneur (who operates in the capitalist or half-capitalist market) to profit[481] (see also:[482]). This broad interpretation of capital and profit causes even more confusion in the methodology and hampers the analysis of capitalism. In the given book, when we speak about profit, we imply exclusively *monetary profit and monetary capital*. And, again, profit is an exclusive attribute of capitalism; it is not applicable to a simple commodity economy.

The topic of "profit" is not given sufficient attention and its due recognition in the modern economics textbooks. For instance, in *Economics* by McConnell and Brue, there are only 3 pages out of 860 dedicated to profit[483]. Samuelson and Nordhaus, in their *Economics*, also do not go beyond 3 pages out of 730[484]; neither textbook features a separate chapter called "Profit." In the first book, this topic as a whole appears only on p. 620[485]; in the second book it is on p. 271[486]. The economic analysis of profit sources has actually been replaced

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[476] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed.* McGraw-Hill/Irwin, New York, p. 732, 744.
[477] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 38.
[478] Heyne P. T. (1983). *The Economic Way of Thinking, 4th ed*., Science Research Associates, Chicago, p. 191– 193, 202–203, 215.
[479]Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 150, 271, 741.
[480] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 87–88, 620–623.
[481] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 148–149, 272.
[482] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 87–88, 620–621.
[483] Ibid, p. 620–624.
[484] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 271–273.
[485] McConnell, C. R., Brue S. L. (1990), Economics: Principles, Problems and Policies. 11th ed. McGraw-Hill/Irwin, New York, p. 620–621.
[486] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 271.

by an analysis of its ethical considerations[487]. So-called "normal profit" is acknowledged as perfect. This actually means (in the condition of competitive equilibrium) a zero profit; any attribution of this profit to the "maximal efficiency of the economy" (see references in the footnotes below) is absolutely ungrounded. You can find a detailed critique of this concept in my commentaries about *Economics* by McConnell and Brue (chapters "Competition and monopoly, balance and imbalance" and "Profit") and *Economics* by Samuelson and Nordhaus (chapters "Competition and monopoly, balance and imbalance" and "Profit").

This conclusion is common to all the modern economic theories[488] (see also:[489]). These theories consider a highly competitive loss-making economy as *normal and efficient, and sometimes even as perfect*[490]. The proposed theory, in contrast, views a balanced non-profitable economy as something of an anomaly, something far from efficient and more of a crisis in nature (sections "Capitalist cycles and crises" and "Philosophy of capitalism").

However, these theories do not analyze any specific variants of imbalance that would cause qualitatively different profits; instead, they are only briefly described (see example:[491] and[492]) due to the general negative attitude towards market imbalances and the underestimated value of profit.

Modern economists have another point of view: They believe that profit that covers the implicit costs of the advanced capital is a sufficient stimulus to go on with the entrepreneurial activity.

This idea has found its brightest expression in the works of Heine and the "fundamental book" by Daniel L. Rubinfeld and Robert Pindyck: "When we include all these opportunity costs in our calculations of total costs, there seems to be no reason why any firm would have to earn revenues in excess of costs. Firms could get zero profits and continue in business. They could even be considered successful firms and be able to borrow new funds for expansion—as long as their revenues were adequate to cover all their costs."[493] "A firm earning zero economic profit is doing as well by investing its money in capital as it could by investing elsewhere—it is earning a competitive return on its money. Such a firm, therefore, is performing adequately and should stay in business"[494] (see also:[495] and[496]).

The author strongly disagrees with this opinion: There is simply no point in investing in production or trade if the same amount of profit can be generated from zero risk deposits or treasury bonds (more on zero risk investments:[497] and[498]).

Modern neoclassicists consider the *highly competitive, loss-making economic state as normal, efficient, and even perfect*[499] *(see also:*[500]*)*.

13.5.3 Capital

The modern capitalist understands "capital" in broader terms—as any means of production different from land and other natural resources. "Human-made resources used to produce commodities and services;

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[487] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 537, 588, 620–623.
[488] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 148–150, 152–155, 285–287.
[489] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 82 – 83, 88, 620 – 623.
[490] Ibid, p. 632 – 635.
[491] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 271–273.
[492] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 620–624.
[493] Heyne P. T. (1983). *The Economic Way of Thinking, 4th ed.*, Science Research Associates, Chicago, p. 202– 203.
[494] Pindyck R. S., Rubinfeld D. L., (2013), *Microeconomics, 8th ed*., Prentice Hall, New Jersey, p. 302.
[495] Samuelson P. A., Nordhaus W. D., (2005), *Economics*. 18th ed. McGraw-Hill/Irwin, New York, p. 148–150, 152 – 155, question 8 on p. 165.
[496] McConnell, C. R., Brue S. L. (1990), Economics: Principles, Problems and Policies. 11th ed. McGraw-Hill/Irwin, New York, p. 620, 633.
[497] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 506–510.
[498] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 619.
[499] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 160–165, 283 –289, 341.
[500] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 634–635.

commodities that do not directly satisfy human wants; capital commodities"[501] while the money invested in a business venture is not always mentioned as capital[502]. Such a distorted interpretation of capital hampers the very understanding of the nature of capitalism expressed in its formula.

In the given work, capital means exclusively monetary/financial capital. As we see it, it is an abstract and universal production means, allowing its holder to purchase any specific means and things (raw materials, equipment, and so on). Capital is an exclusive attribute of capitalism, peculiar to no other market system.

13.5.4 Balance/imbalance

General equilibrium, with which the modern neoclassicists—for no good reason—associate the "maximal efficiency" of an economy, is covered in detail in many textbooks[503].

G*eneral balance* is regarded as a norm (even an ideal) of capitalism in the modern economic mainstream[504]. Crisis, meanwhile, is viewed as an expression of *imbalances*. To illustrate, Heine saw it the following way: "A recession is simply a temporary disequilibrium. It will come to an end when prices and wages move to their equilibrium [...] level"[505]; "The causes of recessions are to be found in what happens while the economy is out of equilibrium"[506]; and "Recessions begin because imbalances have developed and accumulated over a period of time"[507] (see also:[508]). Misunderstanding the positive and negative trends in capitalism leads to real blunders in anti-crisis policies.

13.5.5 Competition and monopoly

Modern neoclassicists see perfect competition as an impossible ideal, an unattainable goal of the market; they associate the maximum efficiency of the market (capitalist) economy with it. Below we provide vivid examples from a textbook that a few generations of economists studied (scientists, teachers, and public officials): "Under perfect competition and with no market failures, markets will squeeze as many useful commodities and services out of the available resources as is possible"[509]; "Economic theory tends to glorify perfect competition as the most efficient market structure"[510]; "Knowing the efficiency properties of competitive markets is one of the central lessons of microeconomics"[511]; (see also:[512]); and "Economics teaches us that competitive markets can lead to efficient production and pricing"[513].

13.5.6 Cycles and crises

Modern economists do not agree on this point; they see the causes of crises in the fall of active total demand and many other phenomena; profit fall is considered as a secondary phenomenon, if considered at all[514] (see also:[515]).

Crises are getting milder, and the modern Western economists attribute this to subjective factors such as the achievements of economic science and the smart macroeconomic policies based on these achievements[516]. The reasons are quite clear. Just for the record, modern economic science is not so rich in "achievements", and the modern economic policies of many countries are far from perfect.

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[501] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, Glossary, G-3.
[502] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 267, 557– 558, 656.
[503] Ibid, pp 283–289.
[504] Ibid, p. 162–163, 283–289.
[505] Heyne P. T. (1983). *The Economic Way of Thinking*, 4th ed., Science Research Associates, Chicago, p. 362.
[506] Ibid, p. 362.
[507] Ibid, p. 400.
[508] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed.* McGraw-Hill/Irwin, New York, p. 469–471.
[509] Ibid, p. 30.
[510] Ibid, p. 193.
[511] Ibid, p. 289.
[512] Ibid, p. 289.
[513] Ibid, p. 341.
[514] Ibid, p. 467–476.
[515] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 156, 394–395.
[516] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed.* McGraw-Hill/Irwin, New York, p. 419, 477.

As has been mentioned, modern economists shy away from the topic of profit, dedicate very little attention to it, or boil the whole thing down to moral issues. Many economists (especially those employed in state-funded companies) do not bother about profit, concentrating on so-called "efficiency" instead, which is, according to their views, maximal only in the condition of balance[517]. They seem not to realize that in the condition of balance, the actual profit equals zero (see "Capitalist cycles and crises" and chapter "Balances and imbalances" in "Philosophy of capitalism"). We believe that economists and politicians must sacrifice this imaginary efficiency and start thinking seriously about capitalists' profit.

Western economists and public officials regard various signs as harbingers of crises—indirect or totally irrelevant signs as a rule[518] (see also:[519]).

Unfortunately, the governments of many developed countries (Europe, first of all) tend to fall back on false economic theories, with public opinion intruding more and more into economics and business (see appendix 3).

Modern capitalists often regard capitalism as a synonym for a market economy, neglecting the fundamental difference between a simple commodity market ($C_1 \rightarrow M \rightarrow C_2$) and a complex capitalist market ($M_1 \rightarrow C \rightarrow M_2$)[520].

As a result, economists either ignore or downplay:

a) *the nature of capitalism—nonequivalence of exchange*,
b) that *the purpose of the capitalist business initiative is* generating monetary profit, and
c) the most essential property of the capitalist market is its pulsing dynamism (any possible imbalances and irregularities).

Effective anti-crisis policy and anti-crisis behavior are not possible without understanding the inner logic of capitalism.

Science and economic practices particularly suffer from the dominant concept of profit. While Smith, Ricardo, and Marx believed that average ("average") profit is generated during a period of balance, modern economists seriously consider that there is no norm of profit or normal profit, and that this is not only acceptable but also positive for capitalism[521]. The mistake made by the classic minds of economic science has caused less harm than the anti-capitalist views of modern economists[522]. Capitalists having zero profit means workers have zero salary, zero pensions, and zero other benefits. *No capitalist profit means no capitalism, and without capitalism, democracy and freedom stand zero chance.*

The lack of a scientific understanding of capitalism leads to grave mistakes in state economic policies and private business practices.
The lack of a scientific understanding of capitalism causes countless material and moral losses.
Economic science owes a lot to the taxpayers and society as a whole.

14. Conclusion

The nodal points and the general logic of the new theory of capitalism are laid out in the section "Retrospective generalization." You can also find a comparison with other theories in the section with the respective titles. Here, however, you can find the generalized conclusion of our research.

The new theory of capitalism finds its foundation in the specific money-commodity-money nature of the capitalist market. Based on what we understand about the nature of capitalism, it is easy to see that *imbalance and imperfect competition should be acknowledged as the functional norms of capitalism*, whereas *balance/equilibrium and perfect competition should be seen as crisis-promising anomalies.* Such an

[517] Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 283–289.
[518] Ibid, p. 472–473.
[519] McConnell, C. R., Brue S. L. (1990), *Economics: Principles, Problems and Policies*. 11th ed. McGraw-Hill/Irwin, New York, p. 268–269, 274–276.
[520] F. Braudel seems to be an exception. He viewed capitalism and the market as similar/related coexisting notions (Braudel, *La Dynamique du Capitalism*).
[521] For more details concerning the neoclassic concept of profit and its defects, see the footnotes to the subsections in this part of the book.
[522] To find out more about the connection between the Western scientific world and anti-capitalist ideology, see Appendix 3.

understanding of the capitalist norm is the key distinctive feature of our theory.

Such a conceptual inversion of balance and imbalance allows us:

- to identify, explain, and analyze the most important features of capitalism—cyclical development, chronic imbalance, and unpredictable dynamism.
- to find explanations that were previously impossible within the framework of other theories, first of all for capitalist cycles and crises.
- to reach unconventional conclusions, in particular on the positive role of dynamic monopoly and the specific role of small business.

The conceptual inversion of balance and imbalance has enabled us to formulate fundamentally new principles and objectives for anti-crisis policy and anti-crisis behavior that can and should find *practical application* at the state level as well as on a business level.

Only in the initial point does the new theory of capitalism find something in common with the political economics of Marx. Instead, it has much more in common with the theory of economic development by Schumpeter.

As for the neoclassic mainstream, the proposed theory has nothing to do with it. What neoclassicists see as normal and healthy (equilibrium that does not produce any profit, and perfect competition), our theory regards as abnormal and unhealthy. On the contrary, we deem profitable nonequilibrium and imperfect competition (dynamic monopoly) as healthy.

The new theory of capitalism contests the neoclassic mainstream and its branches.
The new theory of capitalism enables us to explain the capitalist reality in its most important aspects.
The new theory of capitalism has the potential to resolve the main problem of capitalism—the problem of crises.
The new theory of capitalism, unlike the neoclassic mainstream, has a pro-capitalist nature.
The new theory of capitalism aims to become the leading economic theory of the 21st century.

Appendix 1. Capitalist and employee

The interests of a capitalist and an employee do not necessarily coincide. However, only one situation can make them exact opponents, the selling and buying of labor *since a worker, like any seller, wishes to sell their labor at the highest possible price, while a capitalist, like any other buyer, wants to buy it at its lowest possible price*. When it comes to closing a deal, their interests coincide—both wish to close the deal. A worker who does not have their own production means cannot avoid selling their labor to employers, *while an entrepreneur,* "burdened" by their production means, *cannot avoid buying an employee's labor*. The thing is, for a capitalist to make their capital actually work and make a profit is (almost) as important as for a worker to secure the wellbeing of their family.

This "almost" can be actualized if the labor market is off balance: When the demand for labor is lower than the supply, the game becomes more difficult for workers than for capitalists in the opposite situation of a lack of labor force in the market. If the labor market is big and more or less stable, the competition between labor buyers can be as dramatic as the competition between labor sellers (the competition is not for something that secures a life income but rather for some ultimate cost of the deal). When other markets are balanced as well (for instance, the markets for raw materials or production goods or sales markets), workers feel more confident than entrepreneurs: while workers are okay with a market-clearing wage, entrepreneurs are not. The difference in the approaches lies in the fact that for workers, the labor market looks like a simple commodity market (tolerant to the equivalent exchange) while for an entrepreneur, it is still a capitalist market (by definition, it is not tolerant to the equivalent exchange)[523].

Appendix 2. Modern sources of profit

Today, an important source of profit stems from the difference between national systems of value—first, we are talking about the different labor remuneration in developed and emerging economies[524].

Without extra detail we should point out that even with this condition, trailblazers in new markets *of a normally cheap labor force cannot rely on stable profit*. Either labor cost will level and equalize (as a result of cultural globalization), or profit, having slipped through the fingers of competing capitalists, will finally rest in the hands of consumers. The processes of labor cost growth in the developing countries and product price fall are parallel, with the latter process usually outrunning the former. This encourages capitalists to search for new countries in which to make potentially lucrative investments.

Appendix 3. Issues of contemporary capitalism

Modern capitalism faces the following issues:

1) Scientific and technological revolutions require increasingly bigger investments and, consequently, bigger scales of production and distribution, which is opposed by inadequate demand[525].
2) The relative value of the information components in the scientific and technological revolutions keeps growing while
   a) copycats among competitors act faster in the information sphere, actualizing their initiatives cheaper than the material sphere would allow;
   b) the replication and rollout of information takes little to no time and are cheaper than its production;
   c) in comparison with material objects, information is more vulnerable (hacking, viruses, DDoS attacks)[526].

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[523] For more on the specific nature of the labor market, refer to the end of the section "Simple market and capitalist market" (in "Market"); for more on the differences between a simple market and a capitalist market, see the sections "Entity of capitalism" and "Market typology: Contrastive summary".

[524] On the reasons for such a discrepancy, see the end of "Labor value, salaries/wages, and labor productivity" (in "Value").

[525] See "Profit and its sources", chapter "Source 1: Supply and demand".

[526] For more on issues of the "new economy", see also: Samuelson P. A., Nordhaus W. D., (2005), *Economics. 18th ed*. McGraw-Hill/Irwin, New York, p. 194–196, 470.

As a result, investments in material technologies may fail to generate an adequate return due to weak demand (even when there are no competitors, hardware producers cannot sell an adequate quantity of new products). Investments in the information technologies often fail to generate returns due to the active counteractions by competitors, copycats, or pirates. Because many profit sources cannot be actualized, the potential for economic growth remains unfeasible.

There are a few options for the natural resolution of the issues outlined above.

1) The demand for capital-intensive material goods is gradually satisfied by the country and people who are gradually becoming wealthier (the second option is more natural for capitalism and, therefore, more desirable, while the first one is a temporary or optional measure).
2) Information of mass application:
   a) becomes free or super cheap (electronic mass media, books, and music)[527];
   b) is packaged, like if one product is tied to another that is already popular in the market (operation systems and application software)[528];
3) Single-purpose information (data bases, industrial technologies, accounting programs) is massively protected (by law and security systems) against hacking and copying and is sold as any usual product.
4) Information components are integrated with material ones (laptops, telephones, robots, medical and scientific equipment, weapon systems, and spacecraft technologies).

These problems, so far unresolved, push capitalists to explore another source of profit—the difference between systems of value in the West and in the East[529]. Production (including information) facilities are increasingly relocated to countries with a better controlled, cheaper labor force, which provides a temporary profit for capitalists. The race must go on…

To recap, we have briefly outlined the *economic issues* of modern capitalism*, issues that are already being dealt with*. However, the 21st century has some more trouble in store for us. We must also deal with political and ideological issues. Anti-capitalist ideology is taking hold in *many developed capitalist countries, which causes the rise of anti-capitalist policies within the democratic society* on the level of state organizations and masters of the universe. This policy manifests itself in the niggling state regulation of production and trade, exorbitant taxes, and social insurance. Anti-capitalist ideology is reflected in the modern economic science that shies away from the non-PC concept of profit[530].

Appendix 4. Topics omitted or briefly discussed

- Financial (bank) capitalism
- Corporate capitalism
- Information capitalism
- Quasi- and pseudo- forms of capitalism
- Liberalization of capitalism

Appendix 5. Requests to capitalism historians

- To compare conclusions in terms of profit sources and capital accumulation as well as history and statistics
- To compare the proposed concept of cycles and crises with history and statistics (especially concerning the Great Depression of 1929–1933)
- To study capitalism in the ancient world (Any signs of capitalism? Profit sources? Reasons for the low profitability of slave-owning households)

[527] Consumers lose interest in fake copies (often no license and low quality).
[528] As a result, the products of copycats do not find sufficient demand.
[529] See Appendix 2.
[530] For more detail, see "Comparison with some other theories".

A FINAL WORD

So, why did the new theory of market and capitalism come into the picture so late, at the beginning of the 21st century, a few thousand years after its main research subject appeared? Could the world have seen such a theory earlier? It could have! Among the potential authors we could name such scientists as Marx, Schumpeter, and Kondratiev.

However, a number of objective and subjective impediments prevented the creation of a theory:

1) False theories (John Keynes),
2) The bureaucratization and authoritarianism of economic science,
3) Left-wing ideology.

From my point of view, to make sure the proposed theory has a chance to be applied in practice, it is necessary to develop practical guides ("How to generate profit?", "How to predict crisis?", and so on).

Furthermore, it is recommended that a number of independent teams of young unbiased economists be organized to collect, systematize, and process statistical data. The result of their activity is expected to enable the international community to predict crises (and conjuncture changes in the whole). It does not seem like an impossible task, yet humankind is known for choosing the roads less travelled….

GLOSSARY OF TERMS AND CONCEPTIONS

The terms and conceptions in this glossary are arranged in order of appearance in the text. The terms and concepts introduced by the author (or given a new definition) are in boldface italics.

Theory of Market

Market – a system of the goods/money relationship between independent commercial entities (producers) and consumers.

Big market triad – 1) private ownership (property), 2) free goods/money relationship, 3) free competition.

Simple commodity market – market based on the indirect commodity equivalents exchange.

Capitalist market – market based on the indirect monetary nonequivalences exchange.

Theory of Value

Commodity – any object of sale.

Price – sum of money assigned to sell and buy a product.

Value – combination of the internal price forming product features.

Market conjuncture – aggregate of the external price-forming circumstances (expressed in the correlation between supply and effective demand).

Supply value – combination of the internal price-forming product features as seen by a seller.

Demand value – combination of the internal price-forming product features as seen by a buyer.

Labor value (labor value of supply) – aggregate of socially acknowledged production features of a product (quantity and quality of labor necessary to produce a product).

Use value (use value of demand) – aggregate of socially acknowledged usability features of a product.

Equilibrium (balance) – balance between supply and effective demand in the market with perfect competition.

Naturally equilibrated market – a balanced market where demand does not depend on price and is determined exclusively by the usability (use value) of a product.

Artificially equilibrated market – a balanced market where demand is determined by the use value of a product and its price.

Sellers' market – market that is put off balance in favor of sellers (demand outruns supply).

Buyers' market – market that is put off balance in favor of buyers (supply exceeds demand).

Extremely imbalanced market – imbalanced market where the price is determined by the use value of a product and buyers' purchasing power.

Pseudo-equilibrium (pseudo-balance) – balance between supply and the effective demand in a market with imperfect competition.

Labor value of demand – quantity and quality of labor socially necessary to purchase and consume a product.

Use value of supply – socially acknowledged natural value of a product for producers/sellers.

Total labor value – quantity and quality of labor socially necessary to produce, sell, and consume a product.

Total use value – socially acknowledged natural value of a product (for both producers/sellers and buyers/consumers).

Total value of supply – quantity and quality of labor necessary to produce a product combined with the natural socially acknowledged value of the product for its producers/sellers.

Total value of demand – socially acknowledged value of a product for its buyers/consumers combined with the quantity and quality of labor necessary to purchase it.

Total value – the system-related internal characteristic of a product, with the following components:

a) total labor value,
b) total use value;
or
a) total value of supply,
b) total value of demand;
or
a) labor value of supply,
b) use value of supply,
c) labor value of demand,
d) use value of demand.

Theory of Capitalism

Capitalism – market system based on the indirect exchange of monetary nonequivalents.

Capital – money intended for investment in production with the view of multiplying it.

Trade and production cycle – the time of the full cycle of the invested funds.

Profit – capital augmentation at the end of a trade and production cycle = the difference between total expenses and total income.

Price normalization – bringing the product price to its socially normal labor value (production costs viewed as socially normal).

Imbalance (general sense) – the market condition that gives rise to directed price policies, dynamics, and (in favorable circumstances) positive profit.

Trade-and-conjuncture imbalance (between supply and demand) – imbalance connected with a mismatch of effective demand and supply.

Production imbalance (imbalance of costs) – imbalance connected with a specific discrepancy of individual and socially normal costs.

Value imbalance – imbalance connected with the discrepancy between value systems.

Perfect competition – kind of competition where the product price is a steady equilibrium price.

Imperfect competition – kind of competition where the product price deviates from the equilibrium price.

Trade-and-conjuncture competition (price competition) – imperfect competition causing trade-and-conjuncture imbalance (supply and demand mismatch).

Production competition (costs competition) – imperfect competition causing production imbalance (cost imbalances).

Monopoly – imperfect competition in sellers' markets, where the deviation of the product price from the equilibrium price is at its max.

Monopsony – imperfect competition in buyers' markets, where the deviation of the product price from the equilibrium price is at its max.

Oligopoly – imperfect competition in sellers' markets, with a considerable deviation of the product price from the equilibrium price.

Olygopsony – imperfect competition in buyers' markets, with a considerable deviation of the product price from the equilibrium price.

Polipoly – imperfect competition in buyers' markets, with an insignificant deviation of the product price from the equilibrium price.

Polyopsony – imperfect competition in buyers' markets, with the product price leaning insignificantly away from the equilibrium price.

The total economic cycle is a stage of capitalist development that lasts from the end of one crisis to the end of another crisis.

Static (quasi-static) monopolies are long-term monopolies, the existence of which can be attributed to some special circumstances that create impediments for any competition.

Dynamic monopolies are temporary short-term monopolies that arise when new sources of profit are discovered. These monopolies end as soon as competitors enter the market.

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