

UNPRODUCTIVE LABOR AS PROFIT RATE MAXIMIZING LABOR

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1 - Taking unproductive labor seriously

When, at the beginning of *Capital*, Marx defines *value* as embodied labor, he also makes clear that only one category of labor, productive labor, creates values. He does not enter, however, into any serious discussion of what unproductive labor is.

There is no specific chapter or section of *Capital* devoted to the distinction between the two categories of labor, but a number of “local” treatments, in various contexts. A review of these passages reveals that Marx’s conception of productive labor is actually quite restrictive. For example, the labor of a sales employee in a store is not counted as productive labor, independently of his/her wages and conditions of labor. There is a contradiction between these two observations: If the separation between the two categories of labor is not trivial, a systematic treatment was required.

The reader of *Capital* may wonder what is actually at stake in such a rigorous distinction. At least two types of issues are relevant here. The first point is analytical. Why do capitalists undertake such unproductive tasks, or why do they hire unproductive workers? The second issue concerns political implications. Within the simple framework of the *Communist Manifesto*, the bourgeois class confronts a proletarian class in class struggle, and there is little room there for outsiders. What is a proletarian worker?: A salaried worker selling its labor power since he/she has no direct access to the means of production? This is obviously the case of the sales employee. But according to Marx’s analytical framework, exploitation, in capitalism, rests on the extraction of surplus-value and, as is well known, surplus-value is *surplus-productive labor*. Does this imply that unproductive employees are not exploited? What is their position within capitalist relations of production? The paper does not purport to answer all these questions, but elaborates on Marx’s treatment of unproductive labor. The main conclusion is that Marx does not simply set unproductive labor aside, but that his theory of labor (within enterprises) is actually *dual*. Unproductive labor must be taken seriously.

Section 2 introduces the definitions of productive and unproductive labor as components of the broader framework of the theory of capital. (The analysis is limited to unproductive labor within enterprises.) This is where Marx’s dual theory of labor is established. Section 3 is devoted to unproductive labor, its function, as profit rate maximizing labor, and the agents who perform it (capitalists or salaried workers). Section 4 restates the explanatory power of both the labor theory of value and the theory of unproductive labor, that is, of “non-value creating” labor.¹

1. This note elaborates on a broad set of earlier works, from G. Duménil, *La position de classe des cadres et employés. La fonction capitaliste parcellaire*, Grenoble: Presses Universitaires de Grenoble (1975), to G. Duménil, D. Lévy, “Production and Management: Marx’s Dual Theory of Labor”, in R. Westra, A. Zuege (eds.), *Value and the World Economy Today. Production, Finance and Globalization*, London: Palgrave, 2004, p. 137-157.

2 - The process of capital

At the center of Marx's analytical apparatus is the concept of capital. Capital, in the common sense of the term, is a "sum", expressed in monetary units invested in a firm or a security, or simply held as money. But Marx's definition refers to capital invested in a firm. There, capital does not conserve the form of money, since this money is spent to buy inputs: raw materials, energy, labor power, equipment, and buildings. But what has been spent is not supposed to be lost, but recovered when the product (good or service) is sold. "Something" circulates and is even supposed to increase and ensure a profit for the capitalist. This social substance is what Marx calls *capital*.

When Marx defines capital for the first time, he refers to "value taken into a movement of self-expansion".² Value is productive labor embodied in commodities (the labor socially necessary to the production of a commodity). The *movement* is the succession of the forms under which this value may exist: (1) Money-capital, M, (2) commodity-capital, C, and (3) productive capital, P, as in the workshop. Each fraction of capital goes through these forms at its own rhythm and, at a given point in time, the total stock of capital may be divided into three components: money, commodities, and means of production in the workshop. *Self-expansion* denotes the appropriation of surplus-value, which will appear as a profit. Thus, there are two facets to this *overall process of capital* (sometimes *reproduction process*): (1) circulation (the succession of forms); and (2) expansion (valorization). The general outline of *Capital*, in three volumes, is based on this distinction.

There is nothing automatic in this overall process of capital. Its successful progress requires cares. Inputs must be purchased at appropriate prices, including labor power; there must be no waste in the workshop, and workers must work efficiently in a disciplined and coordinated manner; products must be sold in due course, etc. Both circulation (in particular buying and selling) and expansion / valorization (discipline, organization) require such cares. Labor must be expended to "monitor" the process of capital. Not only labor is required, but also other inputs (telephone, paper, computers, offices, etc.). Thus, besides labor in production, another category of labor must be expended. This is what unproductive labor is about:

Besides the actual buying and selling, labour time is spent on book-keeping, which requires pens, ink, paper, desks and other office equipment as well as objectified labour. Thus it is spent in this function both as labour-power and as means of labour. In this connection, the same state of affairs obtains as with buying and selling time.³

Marx's analysis of labor is, therefore, *dual*. Both category of labor are directly related to the theory of capital: (1) Labor expended in the workshop for production purposes, and from which surplus-value is appropriated; and (2) Labor monitoring the process of capital.

Unproductive labor is useful. The most synthetic expression of its function is the *maximizing of the profit rate*: Economizing on inputs, producing as efficiently as possible,

2. This is the object of chapter IV, *The general formula for capital* (K. Marx, *Capital, Volume I*, New York: First Vintage Book Edition (1867)).

3. K. Marx, *Capital, Volume II*, New York: First Vintage Book Edition (1885), p. 211.

selling as rapidly as possible and at the best price. The purpose of this activity is to guarantee the maximum profit to the capitalist, in relation to the amount of capital invested. Obviously, unproductive costs must be subtracted from profits and, in this sense, encroach on the profit rate, but their function is to diminish other costs or to increase the total output or sale that can be realized on the basis of the same amount of capital.

In contemporary terminology, these tasks are denoted as *management*, at least the fractions of these tasks which are not merely repetitive but organizational. Taking the term management in a broad sense, it is possible to refer to unproductive labor as *managerial labor*, in the sense of Profit Rate Maximizing (PRM) labor. Thus, Marx's analysis of the two categories of labor echoes the common distinction between *production* and *management*.

3 - Profit Rate Maximizing (PRM) labor

Marx considers PRM labor in two distinct contexts: (1) As the tasks of the active capitalist or "entrepreneur"; and (2) As delegated to salaried workers. This is the object of section 3.1. A last section is devoted to the fact that, while all unproductive labor within firms is PRM labor, the converse is not rigorously true.

3.1 The tasks of the active capitalist as PRM labor, and their delegation to salaried workers

In Marx's analysis, PRM labor is approached, in a first step, as carried out by the active capitalist:

Just as the circulation time of capital forms a necessary part of its reproduction time, so the time during which the capitalist buys and sells, prowls around the market, forms a necessary part of the time in which he functions as a capitalist, i.e. as personified capital. It forms part of its business hours.⁴

The separation between ownership and management is an important aspect of Marx's analysis in Volume III of *Capital*. The active capitalist simultaneously contributes to the financing of the firm and to its management, while other capitalists only act as lenders or shareholders. But, finally, all tasks of the active capitalist are delegated to salaried workers:

[S]ince [...] the mere manager, who does not possess capital under any title, neither by loan nor in any other way, takes care of all real functions that fall to the functioning [*active*] capitalist as such, there remains only the functionary [*the one that assumes functions*], and the capitalist vanishes from the labor process as someone superfluous.⁵

4. K. Marx, *Capital, II, op. cit.* note 3, ch. 6, p. 207.

5. K. Marx, *Capital, Volume III*, New York: First Vintage Book Edition (1894), ch. 23, p. 512.

Actually, a whole pyramid of salaried workers is involved. Management is collective and hierarchical. One finds the following extracts concerning discipline in the workshop:

Just as at first the capitalist is relieved from actual labor as soon as its capital has reached that minimum amount with which capitalist production, properly speaking, first begins, so now he hands over the work of direct and constant supervision of the individual workers and groups of workers to a special kind of wage-labourer. An industrial army of workers under the command of a capitalist requires, like a real army, officers (managers) and N.C.O.s (foremen, overseers), who command during the labour process in the name of capital. The work of supervision becomes their established and unique function.⁶

It is quite explicit in Marx's analysis that the delegation of PRM labor does not alter its unproductive character:

[...] if we have a function which, although in and for itself unproductive, is nevertheless a necessary moment of reproduction, then when this is transformed, through the division of labor, from the secondary activity of many into the exclusive activity of a few, into their special business, this does not change the character of the function itself.⁷

Within the theory of capital, productive labor is not only defined as labor creating value but as labor from which a surplus-value is appropriated. But there is no surplus-value appropriated from a sales employee. This employee contributes to the acceleration of the circulation of capital (its rotation) and, therefore, to the realization of surplus-value, but does not *create* surplus-value. This is what the above passage establishes.

In a rather intuitive manner, Marx first interprets the monitoring of the process of capital as a "function" of the capitalist as such. The capitalist manages its firm, taking the term management in a very broad sense (for example, selling). We are here in a very simple, but also fundamental, framework of analysis: The capitalist finances the activity and "sees to it", as Marx sometimes writes, that things go correctly — that is, a maximum profit rate is ensured; while the worker works in the workshop, under the control of the capitalist, where value is created and surplus-value appropriated. This framework implies a dual conception of labor: unproductive and productive. The delegation of the functions of the capitalist to salaried workers does not alter their nature. Exploitation is at issue, but not the extraction of surplus-value.

3.2 A productive component of PRM labor

With the real subsumption of labor to capital, the production process is thoroughly transformed. (In the formal subsumption, the labor process basically conserves its precapitalist form, though under the supervision of the capitalist.) The disciplinary component of PRM labor is still required, but the organization of the labor process is now the main issue. Thus, the active capitalist enters the labor process as coordinator and concentrates in his/her hands and mind the "intellectual" component of production⁸:

6. K. Marx, *Capital, I, op. cit.* note 2, ch. 13, p. 450.

7. K. Marx, *Capital, II, op. cit.* note 3, ch. 6, p. 209.

8. See also K. Marx, *Capital, I, op. cit.* note 2, ch. 14, ch. 482.

[...] in all labour where many individuals cooperate, the interconnection and unity of the process is necessarily represented in a governing will, and in functions that concerned not the detailed work but rather the workplace and its activity as a whole, as with the conductor of an orchestra. This is productive labour that has to be performed in any combined mode of production.⁹

Thus, the maximizing of the profit rate compels the active capitalist to participate in the labor process. Obviously, not in any position, but as the master and organizer. *Management* also requires this participation. The fact must be acknowledged that part of the labor of the capitalist becomes productive, but *as capitalist*. When these tasks are delegated to salaried workers, their nature is unchanged: (1) These tasks are productive; (2) They are the expression of delegated capitalist functions whose purpose is maximizing the profit rate. These salaried workers are, to some extent, distinct from other unproductive workers, as in circulation or mere disciplinary tasks, but only secondarily. The main separation between the various components of clerical and managerial personnel in charge of PRM labor is hierarchical (as in “clerical” and “managerial”), not between technology and trade for example.

3.3 Polarization

Marx is perfectly aware of the hierarchical feature of the delegation of capitalist PRM labor. This polarization of tasks was clearly established from the origin, that is, prior to the managerial revolution (at the end of the 19th century and from the early 20th century onward). Technology was devised by the equivalent of nowadays engineers, while commercial tasks or basic accounting was performed by employees sometimes at the lower level of the hierarchy.

When these groups grew, with the managerial revolution, this polarization was maintained with a concentration of initiative at the top, and execution at the bottom, where labor conditions similar to those of productive workers tend to be reproduced. This division of unproductive labor is actually the outcome of a historical process, constantly reproduced and enhanced as a result of innovation. In our opinion, this polarization must be interpreted as a component of class relations (not merely inequality), whose transformation echoes that of the institutional framework in which the ownership of capital is expressed.

4 - The labor theory of value and the theory of non-value creating labor

This section restates basic facts about the labor theory of value (section 4.1) and, then, concludes about the importance of non-value creating labor, that is, PRM labor (section 4.2).

9. K. Marx, *Capital, III, op. cit.* note 5, ch. 23, p. 507.

4.1 Basic facts about the labor theory of value

The labor theory of value is central to the understanding of capitalism but it does not explain everything:

1. *Exploitation*. A major objective of *Capital* is the characterization of capitalism as a class society, meaning that a fraction of society lives from the result of the labor of another fraction; this exploitation is “structural”, that is, does not imply that any “law of capitalism” be violated; it is collective, in the sense that a capitalist does not realize the share of surplus-value he/she appropriated, but a fraction of total surplus-value. This latter point is the most difficult to understand: Surplus-value is appropriated proportionally¹⁰ to productive labor employed, and realized according the prevailing system of prices.

A social substance, directly the expression of productive labor embodied in commodities, is, thus, displaced, created here and realized there. Besides the *quantities* of commodities and their *prices*, a third concept is required: *value*.¹¹

This process of realization is independent from the prevailing set of prices. If it were not so, the theory of exploitation would lose its explanatory power whenever prices are not proportional to labor embodied or simply fluctuate, that is, always:

- Marx developed his analysis of exploitation assuming prices proportional to labor embodied. This is the simplest framework that can be devised to keep track of value around the economy. But this is a simplifying assumption.
- At the beginning of Volume III, Marx establishes that “regulating” prices in capitalist competition are not proportional to values, but to prices of production, with a uniform rate of profit among industries. This is a particular case. Equilibrium is, thus, again assumed in this new set of assumptions, but the entire mechanism of exploitation is fully independent from these particular conditions.
- These particular sets of assumptions has created a lot of confusion in Marxist economic thinking, and resulted in the “transformation” controversy. Often, the problem is posed in terms of “conserving” aggregates (value of the product and surplus-value). Actually, nothing is conserved: (1) The price form of the value created during one period in an economy is the value of the net output (output minus the inputs inherited from earlier periods); this is definitional (inherent to the definition of value); (2) Surplus-value is determined by the purchasing power of the wage of productive workers on a given fraction of this net output.¹²

2. *Capital*. Since capital is *value* in a movement of self-expansion, it is impossible to define capital prior to the elaboration of a theory of value. This is where the dual character of Marx’s theory of labor is crucial. In our opinion, the distinction between two categories of labor—labor that circulates and generate surplus-value, and labor that monitor this process—is fully relevant to the analysis of capitalism. In addition, the problem of the

10. Assuming a uniform rate of surplus-value.

11. G. Duménil, “Beyond the Transformation Riddle: A Labor Theory of Value”, *Science and Society*, XLVII (1983), p. 427-450.

12. G. Duménil, *De la valeur aux prix de production*, Paris: Économica (1980); D. Foley, “Value of Money, the Value of Labor Power and the Marxian Transformation Problem”, *Review of Radical Political Economics*, 14 (1982), p. 37-47.

identification of productive labor is metamorphosed when approached along such lines. “Hybridity” is an obvious characteristic of many components of labor.¹³

3. *Competition and the falling profit rate.* The law of value does not account for the “mechanisms” of capitalism, such as the competitive process, or technological change and the falling profit rate. It is not the law of value that explains the allocation of capital (including variable capital, thus labor), among industries, but the theory of competition, that is, what Marx denotes as the formation of prices of production within competition.¹⁴ In Volume III, analyzing the features of technological change, Marx balances between a framework in which commodities exchange at prices proportional to their values (when he writes the formula of the profit rate) and prices of production (in his theory of the choice of technology). But the labor theory — in spite of being the rational foundation of political economy, that is, the only way of escaping from what Marx called “vulgar economy”¹⁵ — does not explain the falling tendency of the profit rate. Such a tendency is the expression of the complex dynamics of capitalism, in particular the profit motive and rivalry in the innovation process.¹⁶

4.2 The theory of PRM labor

Writing before the managerial revolution, Marx went as far as possible, actually even further! To him, the transformations of capitalism he described in Volume III, meant a transition beyond capitalism, a preliminary step along the march to socialism. He was certainly conscious of the political implications involved in the consideration of new classes of unproductive salaried workers and, somehow, afraid of the political consequences of this evolution. In the class struggles in France, that he analyzed, this new social configuration did not play any role, anyhow no central role. To Marx, the political project remained determinant.

It is, however, intuitive that Marx’s most sophisticated framework of analysis, foreshadowing developments still to come, is now crucial in the understanding of contemporary capitalism; but additional elaboration is required. The pattern of class relations is more complex:

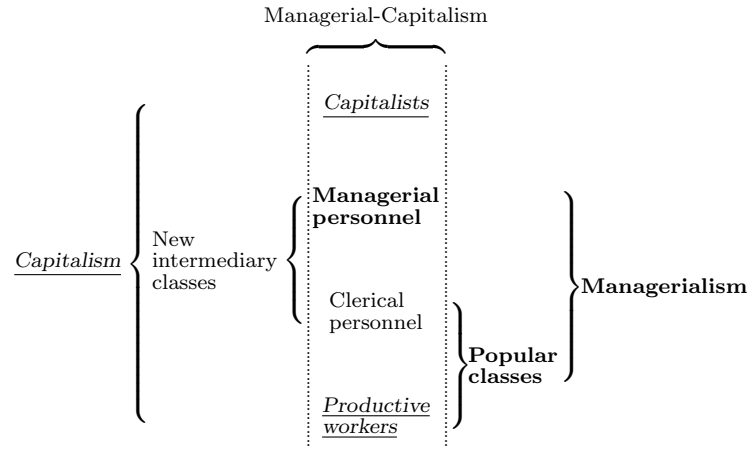
1. The classes in charge of PMR labor must be introduced between capitalists and productive workers, as shown in the diagram, but not as a homogeneous entity, a plain middle-class. From the separation between managerial and clerical personnel emerged a new group, which can be called *popular classes*, as productive workers and clerical personnel tend to

13. For example, despite Marx formulation, it is possible to contend that the work of a sales employee has two facets: the final act of production (cutting the cheese) and the acceleration of circulation by concentrating demand on this particular capital (smiling to the customer).

14. Using quotes in which Marx assumes that commodities exchange at prices proportional to values, Isaac Rubin contributed to the misunderstanding of these mechanisms. Contrary to what Rubin seems to believe, in all of these passages, *prices of production* must be substituted for *values* (still abstracting from rents) (I. Rubin, *Essays on Marx’s Theory of Value*, Rubin Archives: <http://www.marxists.org/subject/economy/authors/rubin/value/index.htm> (1928), ch. IV). This is not a unique case. When Marx writes that labor embodied governs, in the last instance, the movement of relative prices, he refers to a historical feature of technological change not to the formation of prices within competition.

15. In his theory of incomes, the famous trilogy.

16. G. Duménil, D. Lévy, “Technology and Distribution: Historical Trajectories à la Marx”, *Journal of Economic Behavior and Organization*, 52 (2003), p. 201-233.



form a dominated social entity. (The diagram abstracts from hierarchical distinctions in each class, such as petty and big capitalists, or managers.)

2. Managers define a new component of ruling classes, simultaneously cooperating and vying with the capitalist class. The theories of managerial capitalism reached their climax in the 1960s or the 1970s but were, then, abandoned because of the reassertion of the power of the capitalist class in neoliberalism, as stated below.¹⁷ This new social relation is, however, at issue here, as suggested in the diagram.

The balance of power between capitalists and managers is a key element in the historical dynamics of capitalism since the managerial revolution and, more generally, the emergence of the institutions of modern capitalism at the beginning of the 20th century.¹⁸ Three phases can be distinguished: (1) A first financial hegemony, that is, the unchallenged power of the capitalist class and its financial institutions; (2) the decades of the Keynesian compromise in the wake of the Great Depression and World War II; and (3) The new financial hegemony in neoliberalism since the beginning of the 1980s. During the Keynesian compromise, finance was contained and, in some countries like Japan or France, “repressed”, while managers controlled the economy and society in general, rather autonomously. They did so within a social compromise widely open to popular classes. There is a strong contrast between this social deal *to the left*, and the new neoliberal compromise, *to the right*, in which managers, in particular their upper fractions, cooperate with the capitalist class.¹⁹ This is, we believe, the class foundation of the polarization between left and right, in contemporary capitalism. In this framework of analysis, the distinction between productive and unproductive labor is central.

17. This abandonment is the expression of the inability to distinguish between relations of production and class patterns (the assertion of managerial capitalism), on the one hand, and power relations (the comparative power of the capitalist class in this social configuration), on the other. In neoliberalism, the power and income of the capitalist class has been reasserted, but managers do the capitalist work (PRM labor), more than ever.

18. G. Duménil, D. Lévy, *Capital Resurgent. Roots of the Neoliberal Revolution*, Harvard: Harvard University Press (2004).

19. G. Duménil, D. Lévy, “Neoliberal Income Trends. Wealth, Class and Ownership in the USA”, *New Left Review*, 30 (2004), p. 105-133.

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