Final Examination
GEOG 2064

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David Harvey's book, *The Enigma of Capital* (2010), serves to explain the role and transition of capital and capitalism in the modern world and economy. Throughout, Harvey uses a variety of sources and broad examples ranging from Karl Marx to the recent financial crises of the late 2000's, all the while explaining how intricate the flow and circulation of capital really is.

For capitalism to become a mode of production, Harvey goes through various ways as to how capitalism is assembled, and how different aspects of the necessary framework for capitalism work with and around each other to make capitalism function. Harvey introduces his definition of capital early on in order to make it clear what and whom he is referencing. "Capital is not a thing but a process in which money is perpetually sent in search of more money," (pg. 40). By stating this, Harvey is describing what capital and consequently capitalism is in today's modern economy. As a result, capitalism can be described as the ideology in which people create more money through the investment of old money. To put it in simpler terms, Harvey describes that the form of capital circulation that has dominated is that of production capital, where an individual (the capitalist) will begin with a given sum of money, acquires an asset at a certain value, and then proceeds to sell that asset at a greater value in the end (pg. 40). This process demonstrates a new thinking that was famously described by Karl Marx in his work, *Capital*. Marx described a basic formula, which marked a shift from the traditional view of capital in his section on the transformation of money into capital (Marx, pg. 260):

(1) Modified: $M \to C \to M', where\ M < M'\ (objective\ valuation)$

(2) Traditional: $C \to M \to C', where\ C \cong C'\ (subjective\ valuation)$

$$where\ C = commodity, M = money$$

Harvey, who discusses heavily what is to be done with the difference between monies invested and gained, focuses on this new viewing of capital heavily. He clearly states that, "The continuity of flow in circulation of capital is very important," (Harvey, pg. 41). He also states that the reduction of spatial barriers is an important concept that historically has followed the rise of capitalism since the beginning (pg. 42).

Harvey also lists seven "activity spheres" which are "embedded in a set of institutional arrangements… and administrative structures," (pg. 122). These "activity spheres" provide a medium through which capital functions. The spheres, as described by Harvey are: technologies and organizational forms; social relations; institutional and administrative arrangements; production and labour processes; relations to nature; the reproduction of daily life and of the species; and 'mental conceptions of the world' (pg. 123). These spheres evolve on their own but work in tandem through dynamic forms of interaction. Harvey stresses the importance of these spheres by stating that capital cannot circulate but more importantly cannot accumulate with out each one of them. He analogizes the spheres to an eco-system in which capital can circulate and accumulate through the inter-connectivity of the spheres (pg. 128).

Another important note to make is the role of competition in keeping capitalism afloat. "If it takes competition to keep the permanent expansion of production going, then it flows that keeping capitalism competitive is also necessary to capitalism's survival," (pg. 113). By stating this, Harvey describes a condition (which some could associate with the primal and intrinsic condition of humans) in which capitalism must be continuously in motion and in constant change so that the capitalist may not lose ground to his or her other capitalists. The survival of capitalism, according to Harvey, "depends on the perpetual overcoming or circumvention of [profit squeeze] to sustained accumulation," (pg. 66).

The process through which capitalism transforms money into more money is reflected through Equation (1) previously stated: A capitalist will invest a given amount of money into a commodity with the hope that selling the commodity at a later date for a greater amount of money than previously invested, in hopes of profiting on the differences in money invested and money gained. For this reinvestment to succeed, three fundamental rules must be followed, as dictated by Harvey: yesterday's money must be thrown back into circulation as new capital; bridging the gab between surplus and reinvestment; and using received moneys to purchase extra wage goods and means of production that have already been produced (pg. 111-2).

Since capital is the process through "which money is perpetually sent in search of more money," (pg. 40), it goes to reason that initial money, otherwise known as the investment, must go through some transformation in order to become the return. The transformation necessitates that commodity be purchased and then sold for a profit. Though Marx, who famously developed the concept, focused more on the creation of surplus value with regards to labour, Harvey confronts the problem from the capitalist's point of view. The lynchpin of his discussion into how money creates more money is by being "launched into circulation at the beginning of the day…" though it may not necessarily be realized as profit at the end (pg. 53) and how the capitalist uses reinvestments of new money to further the process and solidify their position.

Harvey describes two inputs to find extra means of productions when capitalist reinvest: intermediate products that can be used during the production process, and machinery and fixed capital equipment which support the activity of production (pg. 67). "The conversion of part of yesterday's profit into fresh capital depends, therefore, on the availability of an ever-increasing quantity of means of production, as well as an increasing quantity of wage goods to feed the extra workers to be employed," (pg. 67). Harvey is describing that parts of the profits realized must be reinvested into the production processes that produced the profit in the first place. Therefore, part of today's profit will help fuel tomorrow's profit. But this process and the flow of capital cannot be sustained without relying on the "existence of adequate institutional arrangements that facilitate the continuity of that flow across space and time," (pg. 69).

The capitalism process can be disrupted through a multitude of ways. Harvey goes through six potential barriers to accumulation that need be negotiated in order for capital to be produced. These barriers are: insufficient initial money capital; scarcities of labour supply; inadequate means of production; inappropriate technologies and organizational forms; resistance or inefficiencies in the labour process; and lack of demand backed by money to pay in the market (pg. 47). "Blockage at any one of these points will disrupt the continuity of capital flow and, if prolonged, eventually produce a crisis of devaluation," (pg. 47). This statement makes it pretty clear that Harvey believes that in order for capitalism to succeed and continue to succeed efficiently all barriers must be avoided. Should one of these barriers not be negotiate, Harvey describes the consequence as a crisis, "defined as a condition in which surplus production and reinvestment are blocked," (pg. 45). Harvey states that crises arise due to a systemic misallocation of capital flow by individual capitalist in a desire to maximize the rate of profit (pg. 70). To overcome these moments of crises, Harvey suggests that technology and innovations are the primary impetus for bringing an economy and capitalists out of a crisis; "Financial crises serve to rationalize the irrationalities of capitalism. They typically lead to reconfigurations, new models of development, new spheres of investment and new forms of class power," (pg. 11).

Harvey has an interesting perspective as to how the circulation of capital is prone to the crises he describes. First, he explains that the capitalist prefers to reinvest in expansion rather than use their profits for commodity consumption. This is because if the capitalist chooses not to reinvest in the process that garnered profit then surely their competitor will attempt to push them out of business, meaning a loss of any future revenue (pg. 43). Harvey also discusses the role of money as a social power, a power that can be “appropriated by private persons…that has no inherent limit,” (pg. 43). Simply, Harvey states that the circulation of capital crumbles, not only due to the barriers not overcome mentioned previously, but also due to “limitlessness of money, and the inevitable desire to command the social power it confers,” (pg. 43), essentially, greed.

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One of the most helpful perspectives described by Harvey is the role of the “state-finance nexus” and how this set of arrangements lies at the heart of the credit system, and blurs the line distinguishing capital from the state and vice versa (pg. 48). Not only does the state protect capital and allow for capitalist to operate (at times in rather lax conditions) but it also extracts taxes and revenues that are used much in the same way as reinvested profits by the capitalist (pg. 51), all the while operating as the “‘central nervous system’ for capital accumulation,” (pg. 54). Another area where Harvey lays the framework for a simple idea regarding the intricateness of the circulation of capital are the “spheres of activity” and how each, though evolved independently, is in constant and dynamic interaction with other spheres.

To decide what Harvey does not explain in his book is rather open to interpretation depending on the reader and the expectations that are formed when first starting. Arguably, most of the points and theories Harvey attempts to explain are somewhat weakly substantiated. For examples, with the “spheres of activity” Harvey could have provided a real-world connection showing how the one sphere dynamically affected another, such as with the recent economic crisis where manufacturing and housing affected and were affected by the risky profiteering in the financial sector. Another area which would have been helpful in solidifying Harvey’s position on the flow of capital and capitalism as a whole would be to elaborate on the inefficiencies, rather than social stigmas, of socialist and communists economies. It is easy to agree with Harvey that competition spurs the most innovative and beneficial technologies for the masses, but correlating this benefit with the potential benefits of other market structures would have made the argument for capitalism sounder. Lastly, and Paul Collier in *The Bottom Billion* does a much better attempt at this, Harvey does not focus enough attention as to the rest of the world and how they have missed the capitalism boat, so to speak, but focuses rather on the fraction of the population who have a commanding role in capitalism as it functions today. Granted, Harvey clearly states that his book is about the flow of capital and how it interacts with crisis, but to further understand how societies form into capitalist markets, it would be rather helpful to understand why other societies do not.

Each other book that has been studied this semester brings a useful set of observation to the “global economic round table”. Dani Rodrik described in detail how the world has become much more interlocked together from the time of the first explorers to the present day where globalization is providing more solidarity within nation states. Paul Collier brings a valuable observation as to why a large portion of the world’s population remains in poverty despite a global rise in various indexes. The examination of the current financial and economic crisis and what is to be done to rectify the situation was well explained by Joseph Stiglitz. Not to be forgotten, Jeffry Frieden also brings up two good points that economies work best when they are open to the world (as reiterated by Rodrik) and when their governments address the sources of dissatisfaction with global capitalism (which could be praised by Harvey) (Frieden, pg. 476). Interestingly enough, Frieden provides a line of text that groups each other’s opinions into an all-encompassing eloquent statement, “The challenge of global capitalism in the twenty-first century is to combine international integration with politically responsive, socially responsible government,” (pg. 476).

Works Cited

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