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MARX'S "CAPITAL" VOLUME II

Instructor: F. Forest  
Tuesdays: 7:30 - 8:45 P.M.  
First Session: November 13, 1946

BIBLIOGRAPHY

I - The Structure of the three volumes of CAPITAL

Required reading: Prefaces to all volumes of CAPITAL  
Marx-Engels Correspondence (Letters on CAPITAL)  
Lenin, N: Teachings of Karl Marx  
Trotsky, L: Living Thoughts of Karl Marx

Additional reading: Dobb, Maurice: Political Economy and Capitalism, Chs. I-2-IV

Robinson, Joan: An Essay in Marxian Economics

Roll, Erich: History of Economic Thought, Ch. VII

II - Part I, Chs. 1-2, pp. 31-98 \*

III - Part I, Chs. 3-5, pp. 98-147

IV - Part I, Ch. 6, pp. 147-173 and Review of Part I

V - Part II, Chs. 7-9, pp. 173-215

VI - Part II, Chs. 10-11, pp. 215-260

VII - Part II, Chs. 12-15, pp. 260-326

VIII - Part II, Ch. 16, pp. 326-367 and Review

\* All pages refer to Volume II.

DEFINITIONS for use in class in Vol. II of CAPITAL.

1) CONSTANT CAPITAL. Means of production and raw materials. These are of a constant value, a given magnitude which undergoes no change in value in the process of production, but are merely reproduced into the newly-produced product. They derive their original value not from the process in which they are ~~xxxxxx~~ used, but from that ~~xxx~~ from which they issued, and whose value there was determined, as in all cases, by the socially-necessary time used in their production. Only its consumed part (that is the wear and tear of machinery) reappears in the value of the product while the raw materials reappear in toto in the new product; the part of m.p. not consumed in production remains to be used until it has either worn out in use, or has become obsolete and is destroyed. For purposes of the main division of social production into departments I and II, Dep't. I representing means of production, thus designates the material form of c.c. as m.p., disregarding the raw materials since, for purposes of circulation, they do not exist apart from the product itself.  
 DEPT. LABOR. ~~NOT~~ FIXED LABOR. MACHINES.

2) VARIABLE CAPITAL. Labor power in the process of production. This does undergo a change in the magnitude of value, since labor power creates not only v.s., or the equivalent of value of itself, but surplus value, the unpaid labor. This is the only value-creating substance in society. V.C. is also used to designate the wage fund, or money, whether in the hands of the capitalist who will buy l.p., or in the hands of the ~~xxxx~~ worker who will buy means of consumption. But that is an entirely subordinate sense in which it is used by Marx. His fundamental use of it is always relation to the labor process, or production process, or process of creating value and surplus value. In its subordinate sense it enters of course the circulation process as circulating capital, but when Marx talks of it in that sense (see below) he qualifies it, and distinguishes it from the real meaning of v.c.  
 LIVING LABOR.

3) FIXED CAPITAL ) The only distinction between the two  
 4) CIRCULATING CAPITAL ) is the manner in which value is imparted; fixed giving up its value only piecemeal, since a machine would not give up its entire value till, say, 10 years; while circulating capital, whether it includes only raw materials or the money spent for l.p., imparts its entire at once to the new product, the former merely transferring itself into the new product, the latter (v.c.) creating a new value in the process of giving up its value. However, both fixed and circulating capital are used by Marx only as terms applicable to the process of circulation, ~~NEVER~~ NOT to the process of production, where only the strictly Marxian categories of constant and variable capital apply.

5) LIQUID CAPITAL, or MONEY, used as a circulating medium, obscuring the entire process of circulation of which it is the instrument. Does not occupy a separate department of social production, but is a sub-department of Dep't. I.

It is to be noted that Dep't. II is of means of consumption, whereas the material form of variable capital is living labor power itself and which finds no such equivalent in the departments of social production as does the material forms of constant capital in means of production. It is therefore a complicating a factor, and a great deal more fundamental one, as is money.

Basic to the whole conception of capital is of course Marx's definition that capital is not a thing, but a social relation of production established by the instrumentality of thing. Its instrumentality is of course means of production, but Marx said that m.c. also confronts the worker as capital, as a force of holding his, and reproducing

( Outline by F. Forest )  
CAPITAL, A Critique of Political Economy by KARL MARX  
VOL. II - THE PROCESS OF CIRCULATION OF CAPITAL

5 Introductory Note:

1. The Archives of Marx, II (VII) (Rus.&G)

In our outline of Volume I of CAPITAL, we mentioned the fact that Marx's original outline for that volume ended with a Chapter 6 entitled "The Direct Results of the Process of Production". The completed manuscript of Vol. I did not, as is well known, contain that chapter but since that chapter was to have served as a transition to Vol. II and does help in the understanding of the latter, we will consider it briefly here. The manuscript was first published in 1933 and ~~appears~~ appears as Vol. II (VII) of his Archives. The three major points of that chapter are contained in the three major subtitles:

- (a) Capitalist production is the production of surplus value.
- (b) Capitalist production is the production and reproduction of the whole relationship thanks to which this direct process of production is characterized as specifically capitalistic.
- (c) Commodities as products of capital, of capitalist production.

Under the first subsection, we read (p.7): "In this preliminary, simple value expression of capital (that which must become capital) where is abstracted from every relation to use-value, where it is abstracted likewise from every disturbing interference and, in the course of time, confusing incidental factors of the real process of production (the production of commodities, etc.), in that same abstractly simple manner there is revealed the characteristically specific nature of the capitalist process of production."

In making so drastic an abstraction of capitalist production as to eliminate from it its most characteristic phenomenon--the production of commodities--Marx imports the greatest significance to his analysis of value production. The production of surplus value is, of course, the motivating force of this system of production. In the second subsection, he further amplifies his major thesis thus: (pp.187,189)

"The product of capitalist production is not only surplus value but capital.

"Capital, as we saw, is M-C-M', a self-expanding value which generates value....The process of accumulation is only the immanent moment of the capitalist process of production. It includes in itself all bases for the creation of wage laborers.... Labor produces its conditions of production as capital and capital produces labor as means for its realization as capital, as wage labor. Capitalist production is not only the reproduction of this relationship; it is its reproduction on an ever expanding scale...."

Finally, in the third subsection, in the last paragraph, Marx poses the problem of Volume II: (p.229)

"The immediate result of the direct process of production, its product, that is, the commodities, in whose prices there is reimbursed not only the value of the advanced capital consumed ~~among~~ during the time of their production, but there is also materialized with it as surplus value, the surplus labor utilized during the time of their production. As a commodity, a product of capital must enter the process of exchange of commodities

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and at the same time not only enter the actual exchange of things but at the same time go through the transformations of form we described as the metamorphoses of commodities. To the extent that it is a question only of formal transformations--the transformation of these commodities into money and their reverse transformation into a commodity--this process has already been described in what we called "simple exchange"--exchange of commodities as such. But these commodities now are at the same time carriers of capital; they are now capital itself, augmenting in value, fructified by surplus value. And in this relation, their exchange that is not at the same time the process of the reproduction of capital, includes within itself further determinations which are alien to the abstract examination of the exchange of commodities. Therefore we must now turn to the exchange of commodities as the process of circulation of capital. This is done in the following book."

The "further determinations" which Marx considered in the "following book" comprise the content of Volume II. Let us first turn to Engels' preface to that volume in order to see what manuscripts were left by Marx as the material for the volume and what material finally went in to compose it. That is especially important since the exact state of completion of this volume has been in great dispute.

(b) Engels' Preface to Volume II

On pp. 8 Engels lists the material left by Marx:

(a) A Contribution to the Critique of Political Economy, written from Aug. 1851 to June 1853.

This is a continuation of the volume published under that name which, in part, served as the draft of Vol. I; and, in part, as draft of Vol. III; and finally the part entitled "Theories of Surplus Value", which has since been published separately.

(b) The next manuscript, written in 1864 & 1865, comprises Vol. III. It was only after this volume was completed, that Marx rewrote Vol. I which was 1st published in 1867.

(c) MS I-IV, written in 1865 or 1867. These four manuscripts for Volume II were used by Engels thus: (p.9) "Manuscript IV is an elaboration, ready for printing, of the 1st section and the 1st chapters of the 2nd section of Vol. II and has been used in its proper place. Although it was found that this manuscript had been written earlier than MS II, yet it was far more finished in form and could be used with advantage for the corresponding part of this volume. I had to add only a few supplementary parts of MS II. This last manuscript is the only fairly complete elaboration of Vol. II and dates from the year 1870. The notes for the final revision, which I shall mention immediately, say explicitly: 'The second elaboration must be used as a basis.'"

(d) We next have MS V-VIII, written in 1877 and 1878. pp. 10-11 "The most difficult part of the first section had been worked over in MS V. The remainder of the first, and the entire second section, with the exception of Ch. XVII, presented no great theoretical difficulties. But the third section, dealing with the reproduction and circulation of social capital, seemed to be very much in need of revision. Manuscript II, it must be pointed out, had first treated of this reproduction without regard to the circulation which is instrumental in effecting it, and then taken up the same question with regard to circulation. It was the intention of Marx to eliminate this section and to reconstruct it in such a way that it would conform to his wider grasp of the subject. This gave rise to MS VI.

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containing only 70 pages in quarto. A comparison with section III as printed after deducting the paragraphs inserted out of MS II shows the amount of matter compressed by Marx into this space."

This decision to eliminate the section dealing with the problem of reproduction purely from the point of view of circulation is of paramount importance since it shows the lack of importance Marx assigned to the question of circulation.

Finally, we have Engels' statement that, although Marx did not live to put the material for Vol. II in as finished form as he had for Vol. I, nevertheless "Marx expressed as nearly as possible what he intended to say on the subject."

## I --PART I -- THE METAMORPHOSES OF CAPITAL AND THEIR CYCLES

### 1. Ch. I -- The Circulation of Money Capital

We have studied the formula for the circulation of money:  $M-C-M'$ . However, the circulation process of money capital is not only divided into two stages,  $M-C$ ,  $C-M'$ , but into three,  $M-C...P...C'-M'$ ,  $P$  standing for the process of production, or the productive consumption of the commodities purchased by the capitalist, in which productive process  $C$  (commodities) and  $M$  (money) were increased by surplus value. Furthermore, the formula for the first stage of circulation  $M-C$  is now broadened to include the sum of commodities purchased and which can be divided into  $L$ , standing for labor power, and  $Fm$ , for means of production, thus  $C = L + Fm$ .

pp.34-5: " $M-C$   $Fm$ , or the more general formula  $M-C$ , a sum of purchases of commodities, a process within the general circulation of commodities, is therefore at the same time, seeing that it is a stage in the independent circulation of capital, a process of transforming capital-value from its money form into its productive form. It is the transformation of money capital into productive capital. In the diagram of the circulation which we are here discussing money appears as the first bearer of capital-value, and money-capital therefore represents the form in which capital is advanced."

p.37: "It makes no difference to money into what sort of commodities it is transformed. It is the general equivalent of all commodities...Once that labor power has come into the market as the commodity of its owner to be sold for wages in return for labor, its sale and purchase is no more startling than the sale and purchase of any other commodity. The peculiar characteristic is not that the commodity labor power is salable but that labor power appears in the shape of a commodity."

Although it makes no difference to money as to what commodities it is transformed into, the money relation between buyers and sellers in a capitalist society hides a class relationship:

p.38: "It is true, that in the act  $M-L$  the owner of money and the owner of labor-power enter into the relation of buyer and seller, or money-owner and commodity-owner. To this extent they enter into a money relation. But at the same time the buyer also appears in the role of an owner of means of production which are the material conditions for the productive expenditure of labor power on the part of its owner. The means of production, then, meet the owner of labor power in the form of the property of another. On the other hand, the

seller of labor meets its buyer in the form of the labor-power of another and it must pass into the buyer's possession, it must become part of his productive capital. The class relation between the capitalist and wage laborer is therefore established from the moment they meet in the act M-L, which signifies L-M from the standpoint of the laborer. It is indeed a sale and a purchase, a money relation, but it is a sale and a purchase in which the buyer is a capitalist and the seller a wage laborer."

p.39: "It is not money which by its nature creates this relation; it is rather the existence of this relation which permits of the transformation of a mere money-function into a capital-function."

p.40: "The fact which lies back of the process M-C<sub>m</sub> is distribution; not distribution in the ordinary meaning of a distribution of articles of consumption, but the distribution of elements of production themselves. These consist of the objective things which are concentrated on one side and labor power which is isolated on the other.

In order to emphasize this new meaning of distribution as a distribution of the means of production, Marx proceeds to show that where the farm laborer had not been fully expropriated from his means of production, he "is not yet a 'free wage worker' in the full capitalist meaning of the word." Marx then continues:

p.41: "But the existence of 'free' wage-workers is the indispensable condition for the realization of the act M-C, the exchange of money for commodities, the transformation of money-capital into productive capital.

"As a matter of course, the formula M-C...P...C'-M' does not represent the normal form of the circulation of money-capital until capitalist production is fully developed, because it is conditioned on the existence of a social class of wage-laborers."

The second stage in our formula for the circulation of money-capital is the productive process for the application of labor power which is productive of surplus value. This can be accomplished only in the labor process itself, thus the immediate result of M-C<sub>m</sub> is the interruption of the circulation of capital advanced in the form of money, which is designated as ...P.... The manner of union of labor power with the means of production in this productive process determines the specific nature of the entire economic epoch:

pp.44-5: "Whatever may be the social form of production, laborers and means of production always remain its main elements. But either of these factors can become effective only when they unite. The special manner in which this union is accomplished distinguishes the different economic epochs from one another. In the present case, the separation of the so-called free laborer from his means of production is the starting point.... The actual process of which combines the personal and objective materials of commodity production under these conditions, the process of production, thus becomes in its turn a function of capital, a capitalist process of production, the nature of which has been fully analyzed in the first volume of this work...XXXXXXXXXXXX

"The means of production and labor-power in so far as they are forms of existence of advanced capital values, are distinguished by the different roles assumed by them in the production of value, hence also of surplus-value.

and known under the names of constant and variable capital. As different parts of productive capital they are furthermore distinguished by the fact that the means of production in the possession of the capitalist remain his capital even outside of the process of production, while labor-power exists in the form of individual capital only within this process. "While labor-power is a commodity only in the hands of its seller, the wage worker, it becomes capital only in the hands of its buyer, the capitalist who uses it temporarily."

(It is as well to quote here the cross-reference to this explanation of variable capital which appears on p. 510 where Marx argues against the wrong conception of bourgeois economists who think that the variable capital serves as capital in the hands of the capitalist and also as revenue in the hands of the wage worker: "The variable capital exists first in the hands of the capitalist as money-capital; and it performs the function of money-capital, when he buys labor power with it. So long as it exists in the form of money in his hands, it is nothing but a given value existing in the form of money, in other words, a constant and not a variable magnitude. It is only a potential variable capital, owing to its convertibility into labor power. It becomes actually a variable capital only after divesting itself of its money-form and assuming the form of labor-power serving as an element of productive capital in the capitalist process....

"We have here but the simple fact that the money in the hands of the buyer in this case the capitalist, passes from these hands into those of the seller, in this case a seller of labor-power, the wage worker. It is not the variable capital which serves twice, first as capital for the capitalist and then as revenue for the laborer. It is merely the same money...")

The commodities that issue out of the process of production are not simple commodities, but commodities pregnant with surplus value. Hence, in the 3rd stage of the circulation of money-capital, commodities are represented as  $O'$  and thence are transformed into  $M'$ . In his summary of the rotation of money-capital, which includes its process of production and process of circulation, Marx makes the following main points; he lays stress upon:

- (1) the dominating position of  $P$ , where the change in the value of commodities occurred: p.59: "The change of value is due exclusively to the metamorphosis  $P$ , the process of production, which thus appears as a natural metamorphosis of capital, as compared to the merely formal metamorphosis of circulation."
- (2) the fact that capital which assumes the different forms of money-capital, commodity-capital and productive-capital performs but special functions of industrial capital: p.59: "The term industrial applies to every branch of industry run on a capitalist basis.  
"Money-capital, commodity-capital, productive capital are not, therefore, terms indicating independent classes of capital, nor are their functions processes of independent and separate branches of industry. They are here used only to indicate special functions of industrial capital, assumed by it seriatim."
- (3) the fact that there are certain branches of industry in which the result of the process of production is not a new material product, not a commodity that is. An example of that is transportation which moves commodities from where they have been produced to where they are to be consumed: p.32: "Now transportation as an industry sells this change of location. This utility is inseparably connected

with the process of transportation, which is the productive process of transportation. Men and commodities travel by the help of the means of transportation, and this traveling, this change of location, constitutes the production in which these means of transportation are consumed. The utility of transportation can be consumed only in this process of production. It does not exist as a use-value apart from this process, it does not, like other commodities, serve as a commodity which circulates after its process of production. The exchange value of this utility is determined, like that of any other commodity, ~~which circulates~~ by the value of the elements of production (labor power and means of production) plus the surplus value created by the surplus labor of the laborers employed in transportation. This utility also entertains the same relations to consumption that all other commodities do. If it is consumed individually, its value is used up in consumption; if it is consumed productively by entering into the process of production of the transported commodities, its value is added to that of the commodity. The formula for the transportation industry would, therefore be  $M-C_{MP} \dots P-M'$  since it is the process of production itself which is paid for and consumed, not a product distinct and separate from it."

(The above definition of the transportation industry must be kept in mind when we deal with the transportation industry later, from the point of view of expenses of circulation. It is best, therefore, to quote the ~~correct~~ reference here, pp.139-170: "Even though the transportation industry under capitalist production appears as a cause of expenses of circulation, this special form does not alter the nature of the problem.

"Quantities of products are not increased by transportation, neither is the eventual alteration of their natural qualities, with a few exceptions, the result of premeditated action, but an ~~an~~ inevitable evil. But the use-value of things has no existence except in consumption, and this may necessitate a change of place on the part of the product, in other words, it may require the additional process of production of the transportation industry. The productive capital invested in this industry adds value from the means of transportation, partly by adding value through the labor power used in transportation. This last named addition of value consists, as it does in all capitalist production, of a reproduction of wages and of surplus value.")

(4) that the distinguishing feature of industrial capital, say, from commercial capital is that p.83: "Industrial capital is the only form of existence of capital, in which not only the appropriation of surplus value or surplus product, but also its creation is a function of capital. Therefore it gives to ~~production~~ its capitalist character. Its existence includes that of class antagonisms between capitalists and laborers. To the extent that it assumes control over social production, the technique and social organization of the labor process are revolutionized and with them the economic and historical type of society."

(5) Finally, Marx emphasizes the continuity of the process of production, p71: "The continuous movement of this process of production requires the persistent renewal of the cycle  $P \dots P$ . Even the first stage,  $M-C_{MP}$  reveals this basic condition. For it requires on one side the existence of the wage-working class. On the other side, that which is  $M-C$  for the buyer of means of production, is  $C'-M'$  for their seller. Hence  $C'$  presupposes the existence of commodity-capital, and thus of commodities as the result of capitalist production, and this implies the function of productive capital."

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2. Ch. IV--The Diagrams of the Process of Circulation

Chapters II and III, dealing with the rotation of productive capital and the circulation of commodity capital will, for brevity's sake, be skipped, or rather will be covered only to the extent that they are summarized in Chapter IV which deals with all three diagrams of the process of circulation.

p.114: "The three diagrams may be formulated in the following manner, using the sign  $\Sigma$  for 'total process of circulation':  
I.  $M-C...P...C'-M'$   
II.  $P...C...P$   
III.  $\Sigma...P (C')/...$

"All three cycles have the following point in common: The creation of more value as the compelling motive. Diagram I expresses this by its form. Diagram II begins with  $P$ , the process of creating surplus-value. Diagram III begins the cycle with the utilized value and closes with renewed utilized value, even if the movement is repeated on the same scale."

"...if we...consider the actual connection of the metamorphoses of the various individual capitals, in other words, if we study the interrelation of the cycles of individual capitals as partial movements of the process of reproduction of the total social capital, then the mere change of form between money and commodities does not explain matters."

The expression "interrelation of the cycles of individual capitals as partial movements of the process of reproduction of the total social capital" (my emphasis) is of key importance to an understanding of Vol. II as a whole and especially for Part III on Reproduction and Circulation of Aggregate Social Capital since Marx does not treat individual capital as independent entities, but only as aliquot parts of aggregate capital.

In stressing the continuity of the process of circulation and the different manners of expression of this continuity, let us not forget, however, that of the 3 formulas, Marx considered  $C'$  (or  $\Sigma$ )..  $C'$  as the most specifically characteristic of capitalist production. There is a very valid reason for choosing  $C'...C'$  as the specific differentia of the capitalist circulation for the transformation of form "does not merely concern the functional form of capital, but also its magnitude as a value; and in the second place, the transformation is not the result of a formal change of position pertaining to the circulation process, but an actual modification experienced by the use-form and value of the commodity parts of productive capital in the process of production." (p.107)

The continuity characteristic of capitalist production involves the unity of the process of production and circulation as well as the unity of the three cycles. "Therefore it (capital) can be understood only as a thing in motion, not as a thing at rest." (pp.118-20)

It is here, where Marx speaks of capital as a thing in motion, that he comes to the crux of his entire analysis of capitalist production as value production. The analysis of the "self-development of value" is the analysis of the very essence of the capitalist mode of production and it is done in terms of Hegelian dialectic, by use of abstraction which, with Marx as with all scientists, is used not to abstract from reality, but to abstract from the incidental in order to see the reality "in its fundamental simplicity" and thus find the law of motion of that society:

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p.120: "Those who look upon the self-development of value as a mere abstraction forget that the movement of industrial capital in the realization of this abstraction. Value here passes through forms in which it maintains itself and at the same time increases its value. As we are here concerned in the form of this movement, we shall not take into consideration the revolutions, which capital-value may undergo during its rotation. But it is clear that capitalist production can only exist and endure, in a life of the revolutions in capital-value, so long as this value creates more value, that is to say, so long as it goes through its cycles as a self-developing value, or so long as the revolutions in value can be overcome and balanced in some way. The movements of capital appear as the actions of some individual industrial capitalist who performs the functions of a buyer of labor-power, a seller of commodities and an owner of productive capital, and who brings about the rotation process of rotation by his activity. If social capital-value experiences a revolution in value, it may happen, that the capital of the individual capitalist succumbs and fails, because it cannot adapt itself to the conditions of this conversion of values. To the extent that such revolutions in value become acute and frequent, the automatic nature of self-developing value makes itself felt with the force of elementary powers against the foresight and calculations of the individual capitalist, the course of normal production becomes subject to abnormal speculation and the existence of individual capitals is endangered. These periodical revolutions in value, therefore, prove that which they are alleged to refute, namely, the independent nature of value in the form of capital and its increasing independence in the course of its development."

Marx further warns against confusing a mere change in the mode of transactions with a real change in the development of social production. It is wrong, for instance, to classify production into natural economy, the money system and the credit system as if they were "three characteristic stages of economy in the development of social production:"

pp.131-2: "But in the first place these three forms do not represent any equivalent phases of development. The so-called credit system is itself merely a modification of the money system, so far as both terms express transactions between the producers themselves... The money-system and credit-system thus correspond only to different stages in the development of capitalist production, but they are by no means independent modes of economy as compared to natural economy....

"In the second place, it is not the process of production itself which is emphasized as the distinguishing mark of the two systems of that classification, the money-system, the credit system, but rather the mode of transaction between the various producers under those systems....

"In the third place, the money system is common to all production of commodities... The characteristic mark of capitalist production would then be only the extent to which the product is manufactured for purposes of trade, as a commodity....

"It is true that capitalist production has for its general form the production of commodities. But it is so and becomes more so in its development, only because labor itself appears as a commodity, because the laborer sells labor, that is to say the function of his labor power, and our assumption is that he sells it at a value determined by its cost of production. To the extent that labor becomes wage labor, the producer becomes an industrial capitalist... In the relation of capitalist and wage-laborer, the relation between the buyer and the seller, the money-relation, becomes an eminent relation of production. And this relation has its foundation in the social character of production, not of circulation.

The character of the circulation rather depends on that of production. It is however, quite characteristic of the bourgeois horizon, which is entirely bounded by the craze for making money, not to see in the character of the mode of production the basis of the corresponding mode of circulation, but vice versa."

The remaining chapters of Part I deal with the time of circulation and the expenses of circulation, with which we deal with very briefly. First, as to time of circulation:

p.143: "In short, the time for of circulation of a certain capital limits its time of production and the process of creating surplus value. And this limitation is proportion to the duration of the time of circulation. Seeing that this time may increase or decrease in different ratios, it may limit the time of production in various degrees. But political economy sees only the speeding affect, that is to say the effect of the time of circulation on the creation of surplus-values in general. It takes this negative effect for a positive one, because its results are positive."

The main point regarding the expenses of circulation concerns the type of labor which is creative of value or preserves value and that which neither adds nor preserves the value of commodities:

p.159: "The general law is that all expenses of circulation which arise only from changes of form, do not add any value to the commodities. They are merely expenses required for the realization of value, or for its conversion from one form into another. The capital invested in those expenses (including the labor employed by it) belongs to the dead expenses of ~~materialist~~ capitalist production."

The "dead expenses of capitalist production" include the genuine expenses of circulation, such as the time of purchase and sale, bookkeeping and money. Note footnote on p. 159: "but production and bookkeeping for production remain as much two different things as a cargo of a ship and the way-bill." (Ex. of bookkeeper of primitive Indian customs).

In contrast to this, there are the expenses of storage and of transportation. With the latter we have previously dealt with, and of the former Marx writes, p.164: "Expenses of circulation which are due to a mere change of form of circulation, ideally speaking, do not enter into the value of commodities...Not so the expenses of circulation which we shall consider now. They may arise from the process of production which are continued only in circulation, the productive character of which is merely concealed by the form of the circulation...Value of commodities in this case is maintained (or increased) because the use-value, i.e. the product itself, is subjected to operations which permit of additional labor influencing that use-value."

"Likewise with transportation. Aggregates of products do not increase through being transported. But the use-value of things is realized only in their consumption and their consumption may render a displacement necessary. Transport thus completes the process of production."

Finally, p.172: "The circulation, that is to say the actual permeation of the commodities through space, is carried on in the form of transportation. The transportation industry forms on one hand an independent branch of production, and thus a special sphere of investment of productive capital. On the other hand, it is distinguished from other spheres of production by the fact that it represents a continuation of a process of production within the process of circulation and for its benefit."

II. Part II - THE TURN-OVER OF CAPITAL

Part II deals with the definitions of turn-over of capital, the distinction between fixed and circulating capital, the theories of fixed and circulating capital, the determination of the working period and of variable capital and surplus value. Engels tells us in the preface that the only difficult chapter in this section is Chapter XVII dealing with the Circulation of Surplus Value. Since Engels' time that chapter had been used by Luxemburg ~~as a basic~~ as a basic for her counter-theory of accumulation. It is therefore extremely important to study that chapter very carefully. On the whole, we will not deal with every chapter formally, but will pay more attention to certain sections than to others. For example, it is necessary also to follow carefully the theories of fixed and circulating capital because the entire Part III hinges upon, or rather refutes those theories.

First, briefly on the period and number of turn-overs (Ch. VII), p.178: "If we designate the year as the unit of the time of turn-over by T, the time of turn-over of a given capital by t, and the number of turn-overs by n, then  $n = \frac{T}{t}$ . If, for instance, the time of turnover t is 3 mon., then n is equal to  $\frac{12}{3}$ , or 4; in other words, capital is turned over four times per year. If it is equal to 18 months, then  $n = \frac{12}{18} = \frac{2}{3}$ , capital completes only two-thirds of its turn-over in one year. If its time of turn-over is several years, it is completed in multiples of one year....."

"Before we can study the influence of the turn-over on the processes of production and self-expansion, we must take a look at two new forms which accrue to capital from the process of circulation and influence the form of its turn-over."

These new forms, or distinctions of form, are the fixed and circulating capital.

1. Ch. VIII - Fixed Capital and Circulating Capital

The only distinction between these two forms of capital is the manner in which they impart their value to the finished product, p.181: "The definite distinctions of the forms of fixed and circulating capital arise merely from the different turn-overs of capital value employed in the process of production, the productive capital. This difference of turn-over arises in its turn from the different manner in which the various elements of productive capital transfer their value to the product; they are not due to different participation of these elements in the production of value, nor to their characteristic role in the process of self-expansion. The difference in the transfer of value to the product--and therefore the different manner of circulating this value by means of the product and renewing it in its original material form by means of its metamorphosis--arises from the difference of the material forms in which the productive capital exists, one portion of it being entirely consumed during the creation of the individual product and another being used up gradually. Hence it is only the productive capital which can be divided into fixed and circulating capital."

"We must not confuse circulating capital with circulation capital, p.180: "Money-capital and commodity-capital are indeed circulation capital as distinguished from productive capital, but they are not circulating capital as opposed to fixed capital."

Of special importance is it to remember that labor power reproduces not only its own value but a surplus value and this

p.11

circulated as part of the commodities, p.189: "Together with its value, labor power always adds surplus-value to the product, and this surplus-value represents unpaid labor. This is just as continuously circulated by the finished product and converted into money as its other elements of value."

In considering the next chapter on the total turn-over of advanced capital and the cycles of turn-over, we remember also the distinction in form between the fixed and circulating capital since both concepts help us grasp one of the causes of commercial crises. Whereas the circulating capital enters fully into the process of production and must continually be reproduced in its natural form by the sale of the product, fixed capital is not reproduced at such short intervals. Moreover, when fixed capital does need to be reproduced, it brings about a spurt of investment for it needs to be reproduced all at once.

p.211: "To the same extent that the value and the duration of the fixed capital develop with the evolution of the capitalist mode of production, does the life of industry and of industrial capital develop in such particular investment into one of many years, say of ten years on an average. If the development of fixed capital extends the length of this life on one side, it is on the other side shortened by the continuous revolution of the instruments of production, which likewise increases incessantly with the development of capitalist production. This implies a change in the instruments of production, ~~which~~ and the necessity of continuous replacement on account of virtual wear and tear, long before they are worn out physically. One may assume that this life-cycle, in the essential branches of great industry, ~~is~~ not average ten years. However, it is not a question of any one definite number here. So much at least is evident that this cycle comprising a number of years, through which capital is compelled to pass by its fixed part, furnishes a material basis for the periodical commercial crises in which business goes through successive periods of lassitude, average activity, overspending and crisis. It is true that the periods in which capital is invested are different in time and place. But a crisis is always the starting point of a large amount of new investments. Therefore it also constitutes, from the point of view of society, more or less of a new material basis for the next cycle of turn-over."

*Sp. Schumpeter - Business Cycle*

2. Chg. I & XI. Theories of Fixed and Circulating Capital.  
The Physiocrats, Adam Smith and Ricardo

p.215: "In Quesnay's analysis, the distinction between fixed and circulating capital assumes the form of avances primitives and avances annuelles. He correctly represents this distinction as one to be made with regard to productive capital, to capital directly engaged in the process of production. But owing to the fact that he regards the capital invested in agriculture, the capital of the capitalist farmer as the only really productive capital, he makes these distinctions only for the capital of this farmer."

p.218: "The only progress made by Adam Smith is the generalization of these categories. He no longer applies them to one special form of capital, the tenant's capital, but to every form of productive capital.... But his progress is confined to this generalization of the categories. His analyses are far inferior to Quesnay's."

P.12-

p.219: "Adam Smith says furthermore: 'The goods of the merchant yield him no revenue or profit till he sells them for money, and the money yields him as little till it is again exchanged for goods. His capital is continually going from him, in one shape, and returning to him in another, and is only by means of such circulation, or successive exchanges, that it can yield him any profit. Such capitals, therefore, may very properly be called circulating capital.'

"That which Adam Smith here calls circulating capital, is a thing which I shall call capital of circulation, that is to say, capital in a form characteristic of the process of circulation, changes of form due to exchange (a change of substance and of hands), in other words, commodity capital and money-capital, as distinguished from the form of productive capital, which is characteristic of the process of production. These are not special divisions made by the industrial capitalist of his capital, but different forms assumed and discarded by the advanced capital-value during its course of life, in ever renewed cycles. The great backward step of Adam Smith as compared with the physiocrats is that he does not discriminate between these forms and those which arise in the circulation of capital-value through its successive metamorphoses while it exists in the form of productive capital, and which are due to different ways in which the various elements of productive capital take part in the formation of value and transfer their own value to the products."

In Vol. I Marx stated that he was the first to make the distinction between constant capital and variable capital, which the classical economists had confused with fixed and circulating capital, and which kept them from seeing how it is that labor power alone is creatrix of surplus value, or a variation in the magnitude of the values employed by it. And even their distinction between fixed and circulating capital, as we see here, was confused and hindered them from unearthing the source of surplus value. Marx quotes Smith as stating: "If (the stock) is employed in procuring future profit, it must procure this profit by staying with him (the employer) or by going from him. In the one case it is a fixed, in the other it is a circulating capital." And Marx comments, p.225:

"In this statement, it is a crudely empirical conception of profit derived from the ideas of the ordinary capitalist, which is remarkable, being contrary to the better esoteric understanding of Adam Smith. Not only the price of the materials, but also that of the labor-power, is reproduced by the price of the product, and so is that part of value which is transferred by wear and tear from the instruments of labor to the product. Under no circumstances does this reproduction yield any profits. Whether a value advanced for the production of a commodity is reproduced entirely or in part, at one time or gradually, by the case of that commodity, cannot change anything except the manner and time of its reproduction. But it can in no way transform that which is common to both, the reproduction of value, into a production of surplus value. We meet here once more the common idea that surplus value arises only through sale, in the circulation, because it is not realized until the product is sold, until it circulates. As a matter of fact, the different genesis of the profit is in this case but a mistaken phrase for the truth that the different elements of productive capital are differently employed, and have a different effect in the labor-process as different productive elements."

p.233: "It is a great mistake on the part of Smith to divide the entire social wealth into (1) a fund for immediate consumption, (2) fixed capital and (3) circulating capital. According to this, wealth would have to be classified as (1) a fund for consumption, which would not represent a part of social capital engaged in the performance of its functions, although some parts of it may continually assist in this performance; and (2) as capital. In other words, a part of the wealth would be performing the functions of capital, another those of non-capital or a fund for consumption. And it seems that it is here an indispensable requirement for all capital to be either fixed or circulating, about in the same way that it is a natural necessity for a mammal to be either male or female. But we have seen that the distinction of being fixed or circulating applies solely to the elements of productive capital, that, therefore, there is also a considerable quantity of capital—commodity-capital and money-capital—existing in a form which does not permit of its being either fixed or circulating."

p.243: "The fact that the capital invested in wages belongs to the circulating ~~capital~~ part of productive capital and shares this circulating quality, as distinguished from the fixed character of productive capital, with a part of the material objects, the raw materials, etc., instrumental in creating the product, has nothing whatever to do with the role played by this variable part of capital in the process of self-expansion, as distinguished from the constant part of capital. It refers merely to the manner in which this part of the invested capital-value is reproduced out of the value of the product by way of circulation. The purchase and repeated purchase of labor power belongs in the process of circulation. But it is only within the process of production that the value invested in labor power (not for the benefit of the the laborer, but ~~that~~ of the capitalist) is converted from a definite constant into a variable magnitude and only thus the advanced value is converted into capital-value into self-expanding value. But by classing the value advanced for articles of consumption among the circulating elements of productive capital, as Smith does, instead of the value invested in labor power, the understanding of the difference between variable and constant capital, and thus the understanding of the capitalist process of production in general is rendered impossible."

*Smith 5:101  
Circulating  
vs. fixed; this  
highly variable  
fixed  
of*

Ricardo only repeats the mistake of Adam Smith and the Smithian confusion remains part the dogma of political economy. (read pp.258-9 for the summation of the results brought about by this confusion.)

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3. Chs. XII-XIV - The Working Period. The Time of Production.  
The Time of Circulation. *The Circulation of C.*

The one point in the chapter on the working period is rather obvious since it concerns the difference in the working period in the different branches of production, such as, a dress factories which produce its commodities daily or weekly, and that in a shipyard where the commodity may take months to complete and the branch of industry with the longer working period requires of course a greater investment of capital. The important historic point is that works, such as building of roads, which take long working periods and must be done on a large scale do not become capitalistic until the concentration of capital and the credit system have been highly developed. Hence, pp.255-6:

"In undeveloped stages of capitalist production, enterprises requiring a long working period, and hence a large investment of capital for a long time, such as the building of streets, canals, etc., especially when they are carried out only on a large scale, are either not managed on a capitalist basis at all, but rather at the expense of the municipality or state (in older times generally by means of forced labor, so far as labor-power was concerned.)"

*Chs. 12  
Circulation*

-p.14-

The time of production includes, of course, the working time. However these do not coincide as the time of production is greater than the working time.

p.272: "For instance, grape juice, after being pressed, must ferment for a while and then rest for some time, in order to reach a certain degree of perfection.... Winter grain needs about nine months to mature. Between the time of sowing and harvesting the labor-process is almost entirely suspended."

Thus the advanced capital is really advanced for two periods: (1) for the labor process itself and (2) for the time "during which its form of existence--being that of an unfinished product--is surrendered to the influence of natural processes, without being in the labor process." (p.273)

Since the period of turnover of capital is equal to the sum of its time of production plus its time of circulation, a difference in the time of circulation changes the time of turnover and hence the length of the period of turnover.

p.287: "While on the one hand, the development of the means of transportation and communication by the progress of capitalist production reduces the time of circulation for a given quantity of commodities, the same progress, on the other hand, coupled to the growing possibility of reaching more distant markets to the extent that the means of transportation and communication are improved, leads to the necessity of producing for ever more remote markets, in one word, for the world market."

In a brief outline of this sort, we must <sup>also</sup> stipulate the influence of the time of circulation on the magnitude of an advance of capital. The various cases where capital is advanced for longer or shorter periods and which have either equal or unequal periods of circulation do not change any of the laws arising from the production of value and surplus value, nor these laws suffer no change during the turnover of variable capital:

p.349: "The essential result of the preceding analysis is that the annual rate of surplus-value coincides only in one single case with the current rate of surplus-value which expresses the intensity of exploitation, namely in the case that the advanced capital is turned over only once a year, so that the capital advanced is equal to the capital turned over in the course of the year, so that the ratio of the quantity of surplus value producing during the year to the capital employed during the year in this production coincides with and is identical with the ratio of the quantity of surplus-value produced during the year to the capital advanced during the year.

(A) The annual rate of surplus value is equal to

the Quantity of Surplus-Value produced during the Year  
Variable Capital Advanced

But the quantity of the surplus-value produced during the year is equal to the current rate of surplus value multiplied by the variable capital employed in its production. The capital employed in the production of the annual quantity of surplus-value is equal to the advanced capital multiplied by the number of its turn-overs, which we shall call  $n$  in the present case. Substituting these terms in formula (A) we obtain:

400

(B) The annual rate of surplus value is equal to the

*Where the no is only one turnover a year*

Cur. Rate of E.V. mltpl. b. the V.C. Adv. mltpl. b. n  
V. J. Advanced

For instance, in the case of capital E, we should have

$$\frac{100 \text{ times } 500 \text{ times } 1}{500}, \text{ or } 100\%$$

Only when n is equal to 1, that is to say, when the variable capital advanced is turned over once a year, so that it is equal to the capital employed or turned over, the annual rate of surplus-value is equal to the current rate of surplus-value."

This 13th chapter on the turn-over of variable capital is not, however, famous because of these formulae for these formulae expound no new laws. Rather the chapter gathered its fame because of a footnote appearing on page 363 and which has been used by underconsumptionists as "proof" of their position; The footnote reads:

"Contradiction in the capitalist mode of production; the laborers as buyers of commodities are important for the market. But as sellers of their own commodity--labor-power--capitalist society tends to depress them to the lowest price. Further contradiction: The epochs in which capitalist production exerts all its forces are always periods of overproduction, because the forces of production can never be utilized to such a degree that more value is not only produced but also realized; but the sale of the commodities, the realization on the commodity capital, and thus on surplus value, is limited not only by the consumptive demand of a society in which the majority are poor and must always remain poor. However, this belongs into the next part."

Now the "next part" where this thought is developed is Part III ~~IX~~, and the applicable paragraph reads: pp.475-8:

"It is purely a tautology to say that crises are caused by the scarcity of solvent consumers, or of a paying consumption. The capitalist system does not know any other modes of consumption but a paying one, except that of the papper or of the "thief". If any commodities are unsaleable, it means that no solvent purchases have been found for them, in other words, consumers (whether commodities are bought in the last instance for productive or individual consumption). But if one were to attempt to clothe this tautology with a semblance of a profounder justification by saying that the working class receive too small a portion of their own product, and the evil would be remedied by giving them a larger share of it, or raising their wages, we should reply that crises are precisely always preceded by a period in which wages rise generally and the working class actually get a larger share of the annual product intended for consumption. From the point of view of the advocates of "simple" (!) common sense, such a period should rather remove a crisis. It seems, then, that capitalist production comprises certain conditions which are independent of good or bad will and permit the working class to enjoy that relative prosperity only momentarily, and at that always as a harbinger of a coming crisis

And this analysis also has a footnote regarding the outstanding underconsumptionists of Marx's time. The footnote reads: "Advocates of the theory of crises of Rodbertus are requested to make note of this."

Incidentally, the footnote on p.333 is from MGII, written in 1837, while the above analysis from pp.475-8 is from MGIII, written in 1845\*\*\*\*\*

And neither are any special problems presented by the fact that surplus value also needs to be realized:

p.403: "That which is true of the other portion of the annual product, is also true of that portion of it which represents surplus-value in the form of commodities. A certain sum of money is required for its circulation. This sum of money belongs to the capitalist class quite as much as the annually produced quantity of commodities which represents surplus-value. It is originally thrown into circulation by the capitalist class itself. It is constantly redistributed among them by means of circulation itself."

We will turn to p.552 for the cross-reference to this section for there Marx summarizes this chapter. Moreover, this summary is done from what Engels called his broadened grasp of the subject which had induced him to reconstruct the part on reproduction. Originally he had dealt with reproduction from two separate points of view (1) without regard to circulation "which is instrumental in effecting it", and (2) with regard to circulation. In the final draft, however, he had compressed both sections into one.

p.552: "The only essential, namely, that there is money enough available for the exchange of the various elements of annual reproduction, is not touched by the fact that a portion of the value of commodities consists of surplus-value...The question...is only: Where does the money come from which serves as a medium of exchange for this quantity of commodity-values? It is not at all: Where does the money come from which monetizes the surplus-value?"

"In the first place, if we analyze only the circulation and the turn-over of capital, regarding the capitalist merely as a personification of capital, not as a capitalist consumer and sport, then we see indeed that he is continually throwing surplus-value into circulation, as a part of his commodity-capital, but we never see money as a form of revenue in his hands. We never see him throwing money into circulation for the consumption of his surplus-value.

"In the second place, if the capitalist class throw a certain amount of money into circulation in the shape of revenue, it seems as though they were paying an equivalent for this portion of the total annual product, so that this portion is then no longer surplus-value. But the surplus product in which the surplus value is incorporated does not cost the capitalist anything. As a class, they possess and enjoy it gratuitously and the circulation of money cannot alter this fact. The alteration due to this circulation consists merely in the fact that every capitalist, instead of consuming his surplus-product in its natural form, a thing which is generally impossible, draws commodities of all sorts up to the amount of his surplus-value out of the general stock of the annual surplus-product of society and appropriates them for his own use. But the mechanism of the circulation has shown that the capitalist class, while throwing money into the circulation for the purpose of spending their revenue, also recover this money from the circulation, so that they can continue the same process over and over; so that, as a class of the capitalists, they always remain in possession of the amount of money necessary for the monetization of their surplus-value. Hence, seeing that the capitalist does not only withdraw his s-v from the market in the form

of commodities for his individual consumption, but also the money which he has paid for these commodities, it is evident that he secures them without paying an equivalent for them...."

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p.17-

#### 4. Ch. XVII - The Circulation of Surplus Value

In this, the concluding chapter of Part II, Marx begins by stressing that accumulation is expanded reproduction.

p.338: "We have seen in Vol. I, Ch. XIV, that accumulation, the conversion of surplus value into capital, is substantially a process of reproduction on an enlarged scale, no matter whether this expansion is expressed extensively in the form of an addition of new factories to the old ones, or intensively by the expansion of the existing scale of production."

p.339: "Along with the actual accumulation, or conversion of surplus value into productive capital, (and a corresponding reproduction on an enlarged scale), there is, then, an accumulation of money, a hoarding of a portion of the surplus value in the form of latent money-capital, which is not intended for service as additional productive capital until later."

Marx then proceeds to analyze the formation of this hoard in a case of reproduction, first on a simple than on an expanded scale. Let us note carefully that he gives the full analysis in the section on simple reproduction. Once he has analyzed the conditions for simple reproduction, no great difficulties are offered by the case of expanded reproduction, and thus he treats the latter section briefly. The same method of analysis will be followed by Marx in the crucial Part III, hence it is all the more important to follow Marx's method in the description of the circulation of surplus value.

First, there is the question of a hoard:

p.374: "Even if simple reproduction is assumed, a portion of the surplus value must, therefore, always exist in the form of money, not of products, because it could otherwise not be converted for purposes of consumption from money into products. This conversion of the surplus value from its original commodity-form into money must be further analyzed at this place. In order to simplify the matter, we assume the most elementary form of the problem, namely the exclusive circulation of metal coin, of money which is a real equivalent."

p.375: "A portion of the social labor power and a portion of the social means of production must, therefore, be expended annually in the production of gold and silver."

"The capitalists, who are engaged in the production of gold and silver, and who, according to our assumption of simple reproduction, carry on their production only within the limits of the annual average wear and the resulting average consumption of gold and silver, throw their surplus value, which they consume annually, according to our assumption, without capitalising any of it, directly into circulation in the form of money, which is the natural form for them, not as in the case of the other capitalists, the converted form of their product."

Now watch how Marx attacks those who take the secret of surplus value for granted, but make a great ado about the question of money:

p.379: "An opponent of Locke, who clings to the formula M-C-M', asks him how the capitalist manages to always withdraw more money from circulation than he

money from circulation than he threw into it. Mark well! It is not here a question of the formation of surplus value. This, the only secret, is a matter of course from the capitalist standpoint. The quantity of value employed would not be capital, if it did not secure an increment of surplus-value. But as it is capital, according to our assumption, there must be surplus-value as a matter of course."

p.380: "The question, then, is not,--where does the surplus-value ~~come from?~~ It is rather: thence comes the money for which it is exchanged?"

p.381: "This question seems difficult at the first glance, and neither Locke nor any one else has answered it so far."

This seemingly difficult question arises because the surplus value is abstracted from the value of the commodities as if surplus value could circulate and be realized as a disembodied spirit. Marx dismisses this seemingly difficult question thus:

p.383: "When a mass of commodities valued at x times 1,000 p.st. has to circulate, it changes absolutely nothing in the quantity of ~~surplus-value~~ required for this circulation, whether this mass of commodities has been produced capitalistically or not. In other words, the problem itself does not exist!"

From the point of view of capitalist production, Marx states, the question of the money necessary to circulate the commodities of a country does assume "the semblance of a special problem..." (p.384)

p.385: "Indeed, paradoxical as it may appear at first sight, it is the capitalist class itself that throws the money into circulation which serves for the realization of the surplus value incorporated in the commodities. But, mark well, it is not thrown into circulation as advanced money, not as capital. The capitalist class spends it for their individual consumption. The money is not advanced by them, altho they are the point of departure of its circulation."

First, the surplus value must be produced and that is done in the process of production and nowhere else. If the capitalist withdraws \$800 from circulation though the cost of the products (that is of the labor power and the materials) he threw into circulation was only \$500, it is because the extra \$300 were produced in the labor process, and "the surplus-value incorporated in the commodities will find money for its monetization in circulation for the simple reason that surplus-value is annually produced in the form of gold on the other side." (p.389) Gold production developed simultaneously with capitalist production.

p.393: "The additional commodities which are to be converted into money find the necessary amount of money at hand, because on the other side additional gold (or silver) intended for conversion into commodities is thrown into circulation, not by means of exchange but by production itself."

When Marx approaches the second section on accumulation and reproduction on an enlarged scale, he states:

p.397: "To the extent that accumulation takes place in the form of reproduction on an enlarged scale, it is evident it does not offer any new problem in matter of the circulation of money....The money is already present in the hands of the capitalists. Only its employment is different."

III--PART III --THE REPRODUCTION AND CIRCULATION OF THE AGGREGATE SOCIAL CAPITAL

This part contains four chapters, the first (Ch. XVIII) is an introductory chapter which defines the object of the analysis, the second (Ch. XIX) deals with the former discussions of the subject of reproduction by bourgeois political economy. The remaining chapters expound Marx's analysis of simple and expanded reproduction in positive terms. We dealt with the former discussions when we dealt with the theories of fixed and circulating capital. We now deal with not only their confusion of fixed and circulating capital, but their more important and fatal disregard of constant capital.

So important does Marx consider the error of Smith that he divides the section on "with" into 5 sub-sections, in each of which he tirelessly stresses the importance of the constant portion of capital in capitalist society. We should by now be well armed with the discussions of constant and variable capital from Volume I as well as with the analysis of the labor process under capitalism as a process in which it is not the laborer who uses the means of production, but the means of production the laborer. The precise method in which accumulated labor dominates over living labor is through the use-value or what Marx in the Archives called "the real being of capital."

theoretic

In the very last writing we have from Marx's pen, he returns to his explanation of the specific manner in which he uses the concept of use-value. He writes (Archives of Marx, V, Moscow, 1930, p.395:) "that in the development of the form of commodity value in the last instance, its money form, i.e., money, value of one commodity is represented in the use-value, i.e. in the natural form of another; that surplus value itself results from the specific use value of labor power, characteristic exclusively of the latter, etc.; that consequently, with me, use value plays an entirely different, more important role than in previous political economy...."

*Specific features of use-value*

In any case, this discussion does not proceed either under simple or expanded reproduction, but is dealt with separately and precedes the positive presentation of Marx's views on reproduction. In other words, in the discussion of bourgeois political economy Marx is dealing with aggregate social capital and his critique pillories the exponents of bourgeois political economy on social capital as a whole. Now let us follow Marx.

1. Ch. XVIII - Introduction  
A. The object of the analysis

p.404: "The immediate process of production of capital in its labor process and self-expansion, the process whose result is the commodity-product, and whose compelling motive is the production of surplus value."

Now watch the following sentence, and particularly the expression, "individual fraction" and "individualized fractional parts" since upon this hinges the entire analysis, that is, Marx's entire analysis hinges upon the fact that he does not treat individual capital as a separate entity but only as an individual fraction of the social capital. He deals with aggregates, not with individualized or aliquot parts of these aggregates, and does not

p.405: "however, every individual capital forms but an individual fraction, endowed with individual life, as it were, of the aggregate social capital, just as every individual capitalist is but an individual ~~capital~~ element of the capitalist class. The movement of the social capital consists of the totality of the movements of its individualized fractional parts, the turn-overs of the individual capitals. Just as the metamorphosis of the individual commodity is a link in the series of metamorphoses of the commodity-world--the circulation of commodities--so the metamorphosis of the individual capital, its turn-over, is a link in the rotation of the social capital."

b. the role of money-capital

p.412: "On the basis of capitalist production, it must be ascertained, on what scale those operations which withdraw labor and means of production from it for a long time without furnishing in return any useful product, can be carried on without injuring those lines of production which do not only withdraw continually, or at several intervals, labor power and means of production from it, but also supply it with means of subsistence and of production. Under social or capitalist production, the laborers in lines with short working periods will always withdraw products only for a short time without giving any products in return; while lines of business with long working periods withdraw products for a long time without any returns. This circumstance, then, is due to the material conditions of the respective labor process, not to its social form. In the case of socialized production, the money-capital is eliminated. Society distributes labor-power and means of production to the different lines of occupation. The producers may eventually receive paper checks, by means of which they withdraw from the social supply of means of consumption a share corresponding to their labor-time. These checks are not money. They do not circulate."

3. Ch. XIX - Former Discussions of the Subject

a. The Physiocrats

p.415: "The label of a system differs from that of other articles, among other things, by the fact that it cheats not only the buyer but also often the seller. Queenay himself and his immediate disciples believed in their feudal shop sign. So did our school scientists to this day. But as a matter of fact, the system of the physiocrats is the first systematic conception of capitalist production. The representative of capitalist production, the class of capitalist farmers, directs the entire economic ~~system~~ movement. Agriculture is carried on capitalistically.... Production creates not only articles of use, but also their value; its compelling motive is the production of surplus-value, whose birthplace is the sphere of production, not that of circulation. Among the three classes which figure as the bearers of the process of reproduction promoted by the circulation the immediate exploiter of "productive" labor, the producer of surplus-value, the capitalist farmer, is distinguished from those who merely appropriate surplus-value."

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b - Adam Smith

p.423: "The main difficulties, the greater part of which has been solved in the preceding analyses, are not offered by a study of accumulation, but by that of simple reproduction."

In other words, not only do we not need to wait the chapter on expanded reproduction before we know the solution to the difficulty, since that difficulty shows itself in simple reproduction. But we have already solved them in part --that is, when we dealt with the theories of fixed and circulating capital.

1. Smith Resolves Cx-V into V plus S

p.427: "The dogma of Adam Smith, to the effect that exchangeable value, or the price of any commodity--and therefore of all commodities constituting the annual product of society ... is made up of three component parts, or resolves itself into wages, profit and rent, say reduced to the fact that the value of a commodity is equal to v plus s, that is to say is equal to the value of the advanced variable capital plus the surplus value."

p.429: "Various inconsistencies are jumbled together when Adam Smith says: 'wages, profit and ground rent are the three primary sources of all revenue as well as all ex-v. Every other revenue is derived, in the last instance, from one of these.'....."

p.430: "Here the ridiculous mistake of Adam Smith reaches its climax. After having taken his departure from a correct determination of the component parts of the value of commodities and the sum of values of the product incorporated in them, and having demonstrated that these component parts form so many different sources of revenue; after having in this way deducted the revenue from value, he proceeds in the opposite way--and this remains the ruling conception with him--and makes of the revenues 'primary sources of all exchange-value' instead of 'component parts', hereby throwing the doors wide open to vulgar economy."

II. The Constant Portion of Capital

Marx next deals with the manner in which Adam Smith "tries to spirit away the constant portion of the value of commodities" (p.430) and after quoting from Smith, Marx comments:

p.435: "The first mistake of Adam Smith consists in identifying the value of the annual product with the annual product in value. The latter is only the product of labor of the current year, the former includes furthermore all elements of value consumed in the making of the annual product, but which have been produced in the preceding or even in earlier years, means of production whose value merely reappears, but which have been neither produced nor reproduced by the labor expended in the current year. By this mistake Adam Smith spirits away the constant portion of the value of the annual product. His mistake rests on another error in his fundamental conception: He does not distinguish the two-fold nature of labor itself, of labor which creates exchange-value by the expenditure of labor-power and labor which creates articles of use (use-values) as a concrete, useful, activity. The total quantity of the commodities made annually, in other

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words, the total annual product, is the product of the useful labor active during the past year; all these commodities exist only because socially employed labor has been spent in a systematized network of many kinds of useful labor....The total annual product, then, is the result of the useful labor expended during the year; but only a portion of the value of the annual product has been created during the year; this portion is the annual product in values, in which the quantity of labor set in motion during the year itself is represented."

### iii. Recapitulation

p.445: "The substance of value is and remains nothing but expended labor-power--labor independent of the specific, useful character of this labor--and the production of values is nothing but the process of this expenditure."

p.446: "The process of production ends in a commodity. The fact that labor power has been expended in its creation now is manifest in its attribute of value; the magnitude of this value is measured by the quantity of labor expended in it; the value of a commodity resolves itself into nothing else and is not composed of anything else. If I have drawn a straight line of definite length, I have produced a straight line.. by means of a certain model of drawing which is determined by certain laws independent of myself. If I divide this line into three sections (which may correspond to a certain problem), every one of these sections remains a straight line, and the entire line, whose sections they are, does not resolve itself, by this division, into anything different from a straight line, for instance, a curve of some kind. Neither can I divide the line of a given magnitude in such a way that the sum of its division is greater of the undivided line is not determined by any arbitrary division of its part. Vice versa, the relative magnitudes of these divisions are limited from the outset by the size of the line whose parts they are."

p.449: "But the fact that the value of a commodity may serve as a revenue for this or that man does not change the nature of value as such any more than the value of a commodity as such or of money as such may serve as capital changes their nature. The commodity with which Adam Smith is dealing represents from the outset a commodity-capital...it is a commodity produced by capitalist methods, a result of the capitalist method of production. It would have been necessary, then, to analyze first this process and this would have implied an analysis of the process of self-expansion and of the formation of value, which it includes."

The economists after Smith have done nothing but repeat the mistake of Smith. That is true of vulgar economy as well as of the economists who did have a feeling as to the inherent contradictions in capitalism, such as Sismondi, who "did not say one scientific word, did not contribute one atom toward a clarification of this problem." (p.452)

3--Ch. XI - Simple Reproduction

a) The formulation of the question

p.454: "This process of reproduction/<sup>new</sup> must be considered for the purposes of our study, both from the point of view of the reproduction of the value and of the substance of the individual component parts of G'."

In considering the reproduction both of value and material, we abstract any revolutions in value that may occur during the reproduction since "they do not alter anything in the proportion of the elements of value of the various component parts of the total annual product, provided they are universally and uniformly distributed." (p.455)

p.458: "Simple reproduction on the same scale appears as an abstraction, inasmuch as the absence of all accumulation or reproduction on an enlarged scale is an irrelevant assumption in capitalist society.....However, while accumulation does take place, simple reproduction is always a part of it and may, therefore, be studied in itself, being an actual factor in accumulation."

b) The Two Departments of Social Production

p.457: "The total product, and therefore the total production, of society, is divided into two great sections:

"I. Means of production, commodities having a form in which they must, or at least may, pass over into productive consumption.

"II. Means of consumption, commodities having a form in which they pass into the individual consumption of the capitalist and working classes."

The capital invested in each of these two Departments consists:

- (1) Variable capital which "so far as its substance is concerned, consists of the active labor power itself, that is of the living labor set in motion by this value of capital; and <sup>fixed</sup>
- (2) Constant capital, which includes both ~~constant~~ and circulating capital.

The value of the total annual product produced by the capital of each of these departments consists of:

- (1) constant capital consumed in the process of production
- (2) variable capital, reproduced by labor
- and (3) surplus value, an excess over the variable capital, or value newly produced by labor

p.458: "And just as the value of every individual commodity, so that of the annual product of each department consists of c plus v plus s."

The diagram for simple reproduction with which we deal consists of a value of 8000 "exclusive of fixed capital persisting in its natural form", thus:

p.458: "I. Prod. of Means of Production  
Capital....4000 c plus 1000v = 5,000  
Product in commodities, 4000c plus 1000v plus 1000s = 6000  
These exist in the form of means of production.

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II. Prod. of Means of Consumption  
Capital--2000c plus 500 v = 2500  
Product in commodities, 2000c plus 500v plus 500s = 3000  
These exist in articles of consumption."

The transactions between these two Departments bring it about that I v plus s is equal to IIc, thus: (1) I v plus s, or 2000 is exchanged for 2000 IIc. (2) the remaining 1,000 of Department II is consumed by its own workers and capitalists (v plus s), and (3) the remaining 4000 which consist of means of production are used in Department I; p.480: "They serve for the reproduction of its consumed constant capital, and are disposed of by the mutual exchange between the individual capitalists of I..." Thus I c plus v plus s = II c plus IIc, or the output of Department I is balanced by the replacement of capital ~~in Department II~~. Let us go over this in detail.

c. The transactions between the two departments

I (v plus s) versus II c

p.480: "Now, this mutual transaction is accomplished by means of a circulation of money, which facilitates it as much as it renders its understanding difficult, but which is of fundamental importance, because the variable portion of capital must resume the form of money, or money-capital converting itself from the form of money into labor-power."

p.485: "It follows that, on the basis of simple reproduction the sum of the values of v plus s of the commodity-capital of I (and therefore a corresponding proportional part of the total product in commodities of I) must be equal to the constant capital c of dep't. II, which is likewise disposed of as a proportional part of the entire product in commodities of dep't. II; or I (v plus s) = II c."

We need not, in a brief outline, follow through the transactions within Dep't. II consisting of the necessities of life and articles of luxury. But it is necessary to remember that it is in this section that there occurs the famous quotation (already quoted previously) about the relationship between paying consumers & origin

The section on the promotion of the transactions by means of money does not offer any new laws, but repeats the general law "that money advanced to the circulation by producers of commodities returns to them in the normal circulation of commodities." (473)

Neither is the law regarding the circulation of surplus value modified in any way: p.484: "The capitalists of I withdrew only as much value in money as they threw into circulation in the form of commodities; the fact that this value is surplus value, that is to say, that it does not cost the capitalists anything, does not alter the value of these commodities in any way; so far as the exchange of values in circulation is concerned is entirely irrelevant."

And again, p.487: "The monetization of every individual commodity (each constituting an element of the product in commodities) is at the same time a monetization of a certain portion of the surplus-value contained in the entire product."

Watch how, in this section on the promotion of the transactions through the circulation of money, Marx brings us back not to question of monetization but to the source of surplus value;

pp.488-489: "So far as the entire capitalist class are concerned, the statement that they must themselves throw into circulation the money required for the realization of their surplus value (eventually for the circulation of their constant and variable capital) is not only no paradox, but is the necessary premise of the entire mechanism. For there are only two classes in this case, the working class disposing of their labor-power, and the capitalist class owning the social means of production and the money. It would rather be a paradox if the working class were to advance in the first instance out of its own pockets the money required for the realization of the surplus-value contained in the commodities. But the individual capitalist makes this advance only by acting as a buyer, expending money in the purchase of articles of consumption, or advancing money in the purchase of elements of his productive capital. He never parts with his money unless he gets an equivalent for it. He advances money to the circulation only in the same way that he advances commodities to it. He acts in both instances at the point of departure of their circulation.

The actual transaction is obscured by two circumstances:

"(1) The fact that merchant's capital (the first form of which is always money, since the merchant as such does not create any 'product' or 'commodity') and money-capital are manipulated by a special class of capitalists in the process of circulation of industrial capital.

"(2) The division of surplus-value--which must always be first in the hands of the industrial capitalist--into various categories, represented, aside from industrial capitalists, by the land owner (for ground rent), the usurer (for interest); etc., furthermore by the government and its officials, by people living on their income, etc. This gentry appear as buyers as compared to the industrial capitalist, and to that extent as monetizers of his commodities; they likewise throw "money" into circulation on their part and the industrial gets it from them. But in that case, it is always forgotten from what source they derived it originally, and continue deriving it ever anew."

d - The constant capital of Dep't. I, and variable capital and surplus value in both dep'ts.

p.490: "The difficulty is solved very easily, when we remember that the entire product of I in its natural form consists of means of production, that is to say, of material elements of the constant capital itself. We meet here the same phenomenon which we witnessed under II, only under a different aspect. In the case of II, the entire product consisted of articles of consumption. Hence one portion of it, measured by the wages plus surplus-value contained in this product, could be consumed by its own producers. Here, in the case of I, the entire product consists of means of production, such as buildings, machinery, tools, raw and auxiliary materials, etc. One portion of these, namely, that reproducing the constant capital employed in this sphere, can, therefore, be immediately set to work in its natural form to serve once more as an element of productive capital. So far as it goes into circulation, it circulates within department I."

p.493: "The total social working day is divided into two parts: (1) Necessary labor, which creates in the course of the year a value of 1500 v; (2) surplus labor which creates an additional value, or surplus value, of 1500 s. The sum of these values, 3000, is equal to the value of the annually produced articles of consumption of 3000. The

total value of articles of consumption produced during the year is therefore equal to the total value produced by the social working day during the year, equal to the value of the variable social capital plus the social surplus-value, equal to the total new product of the year."

p.494: "But we know that the total value of the commodities of II, the articles of consumption, is not produced in the department of social production, although these two classes of value are identical. They are identical, because the value of the c.c. reappearing in dept. II is equal to the value newly produced by I (value of  $v.c.$  plus  $s.v.$ ); so that I ( $v$  plus  $s$ ) can buy that portion of product of II which represents the value of the c.c. of the producers in dept. II. This shows why the value of the product of the capitalists of II, from the point of view of society, may be resolved into  $v$  plus  $s$ , although from their standpoint it is divided into  $c$  plus  $v$  plus  $s$ . It is because  $IIc$  is equal to I ( $v$  plus  $s$ ), and because these two elements of the social product are mutually exchanged in their natural form so that after this exchange  $IIc$  exists once more in means of production, and I ( $v$  plus  $s$ ) in articles of consumption."

p.495: "...nevertheless, from the point of view of society, one portion of the social working day is exclusively devoted to the production of new constant capital, namely of product exclusively intended for service as means of production in the labor process and thus as constant capital in the accompanying process of self-expansion. According to our assumption...., two thirds of the social working day are employed in the production of new constant capital. Although from the standpoint of the individual capitalists and laborers of dept. I, these two thirds of the social working day serve merely for the production of variable capital plus surplus value, the same as the last third of the social working day in dept. II, nevertheless, from the point of view of society, and of the use-value of the product, these two-thirds of the social working day serve only for the reproduction of c.c. in process of productive consumption or already so consumed."

p.497: "The sum of the social product of I and II, comprising means of production and articles of consumption, so far as its concrete use-value in its natural form is concerned, is indeed the result of this year's labor, but only to the extent that this labor is regarded as useful and concrete, not as an expenditure of labor-power and creator of values."

a - The Constant Capital in both Departments

p.498: "The analysis of the total value of the product of 8000, and of the categories into which it is divided, does not present any greater difficulties than that of the value produced by some individual capital. It is rather identical with it."

p.499: "The difficulty, then, does not consist in the analysis of the social product in values. It arises in the comparison of the component parts of the value of the social product with its material elements."

pp.500-1: "The difficulty in the analysis of the annual social product arises, therefore, from the fact that the constant portion of value is represented by a different class of products (means of production) than the new portion of value ( $v$  plus  $s$ ) added to this constant portion and represented by articles of consumption."

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p.503: "Speaking of looking at things from the point of view of society as a whole, in this instance at the aggregate product of society, which comprises both the reproduction of social capital and individual consumption, we must not follow the manner copied by Proudhon from bourgeois economy, which looks upon this matter as though a society with a capitalist mode of production would lose its specific historical and economic characteristics by being taken as a unit. Not at all. We have, in that case, to deal with the aggregate capitalist. The aggregate capital appears as the capital stock of all individual capitalists combined. This stock company shares with many other stock companies the peculiarity that every one knows what he puts in, but not what he will get out of it."

(The above is important not only because Marx shows that the aggregate capitalist or aggregate capital, taken as a unit, is characteristic of capitalist production as much as the individual capitalist, but also for the expression that in a stock company "every one knows what he puts in, but not what he will get out of it" since that will be useful to us in understanding the average rate of profit and declining rate of profit in Volume III.)

#### f--Capital and Revenue: Variable Capital and Wages

p.508: "The entire annual production, the entire product of a year, is the product of the useful labor of that year. But the value of this total product is greater than that portion of it which the labor-power expended on production during the last year is incorporated. The product in value of this year, the new value created in its course in the form of commodities, is smaller than the value of the product, that is to say, THE TOTAL VALUE OF THE COMMODITIES FINISHED DURING THE ENTIRE YEAR. The difference obtained by deducted from the total value of the annual product that portion of value which was added by labor of the last year, is not an actually reproduced value, but merely one re-appearing in a different form of existence. It is value transferred to the annual product from previously existing value....."

"We have already dealt with the remaining section of this part regarding the supposed fact that what is capital for one is revenue for another.

#### g--Reproduction of the Fixed Capital in understanding

The great difficulty ~~xxxxxxxxxxxxxxx~~ the reproduction of fixed capital is dealt with by Marx from many angles and in detail but there are only two major theses flowing from this: ~~it~~ And before we deal with these, we must be aware of Marx's method of tackling the problem:

p.532: "We see then, that, aside from our ultimate purpose, it is quite necessary to view the process of reproduction in its fundamental simplicity, in order to get rid of all obscuring interference and dispose of the false subterfuges, which assume the semblance of scientific analysis, but which cannot be removed so long as the process of social reproduction is immediately analysed in its concrete and complicated form."

$$I \quad c + v + s = c'$$

$$II \quad c + v + s = c'$$

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The two major points, now that we understand the method of Marx, relate (1) to the proportion between expiring and continuing fixed capital for equilibrium conditions to exist (2) what occurs in case of disequilibrium. The important thing re the latter is that Marx shows that even in case of simple reproduction, reproduction is not free from danger of disequilibrium; moreover the cyclical crisis are not merely a monetary phenomenon: (As we learned previously, p.335): "that which appears as a crisis on the money market is in reality an expression of abnormal conditions in the process of production and reproduction." (read also p.341)

pp.345-346: "In short, unless a constant proportion between expiring (and about to be renewed) fixed capital and still continuing (merely transferring the value of its depreciation to its product) fixed capital is assumed...the mass of circulating elements to be reproduced in one case would remain the same while the mass of fixed elements to be reproduced would have increased. Therefore the aggregate production of I would have to increase, or, there would be a deficit in the reproduction, even aside from money matters.

"In the other case...there would be either a decrease of the aggregate production of I, or a surplus (the same as previously a deficit) which could not be converted into money...I must contract its production, which implies a crisis for its laborers and capitalists, or produce a surplus, which implies another crisis. Such a surplus is not an evil in itself, but it is an evil under the capitalist system of production."

Foreign trade could relieve the pressure in either case. In the first case it would convert products of I held in the form of money into articles of consumption, in the second case it would dispose of the surplus of commodities. But foreign trade, so far as it does not merely reproduce certain elements of production, only transfers these contradictions to a wider sphere and gives them a greater latitude."

The sub-section on the reproduction of the money supply is famous because, in his consideration of it, Marx assumes that gold production occurs in the country whose annual reproduction he is analyzing, that is, that it does not have to be imported. He makes the assumption because foreign trade cannot solve the problem of reproduction:

p.348: "Capitalist production does not exist at all without foreign commerce. But when we assume annual reproduction on a given scale, we also assume that foreign commerce replaces home products only by articles of other use-value, or natural form, without affecting the relations of value, such as those of the two categories, known as means of production and articles of consumption and their transactions, nor the relations of constant capital, variable capital and surplus value, into which the value of the products of each of these categories may be dissolved. The introduction of foreign commerce into the analysis of the annually reproduced value of products can, therefore, produce only confusion, without furnishing any new point in the aspect or solution of the problem. For this reason we leave it aside."

Most of the rest of the section is taken up with a summarization of Ch. XVII and with which we dealt when we outlined that chapter.

4. ACCUMULATION AND REPRODUCTION ON AN ENLARGED SCALE

a. Accumulation in Department I

1. The formation of a hoard

p.545: "One portion of the capitalists, then, is continually converting its potential capital, when grown into a sufficient size, into productive capital, that is to say, they buy with the money hoarded by the monetization of surplus value means of production, additional elements of constant capital. Another portion of the capitalists is meanwhile still engaged in accumulating potential money-capital. Capitalists belonging to these two categories meet as buyers and sellers, each one of them exclusively in one of these roles. The formation of a hoard, then, is not a production, nor is it an increment of production."

11. The Additional constant capital

p.576: "The surplus-product, the bearer of surplus value, does not cost its appropriators, the capitalists of I, anything. They are in no way obliged to advance any money or commodities in order to secure it. An advance means even in the writings of the physiocrats the general form of value materialized in elements of productive capital. Hence what they advance is nothing but their constant and variable capital. The laborer preserves by his labor not only their c.c.; he reproduces not only the value of their v.c. by creating corresponding qualities of new values; he supplies them also by his surplus-labor with surplus-values in the form of surplus-products. By the successive sale of this surplus-product they accumulate a hoard, additional potential money capital. In the present case, this surplus product consists at the outset of means of production used in the creation of means of production. It is not until it reaches the hands of B, B', B'', etc. (I) that this surplus product serves as additional constant capital."

111. The Additional variable capital

p.585: "We have explained at great length in Vol. I that labor-power is always held available under the capitalist system of production, and that more labor can be set in motion, if necessary, without increasing the number of laborers, or quantity of labor-power, employed. We need not detail this any further for the present, but assume without ceremony that the portion of the newly created money-capital which is to be converted into v.c. will always find as much labor-power as it cares to transform."

b. Accumulation in Department 2.

pp.587-8: "Hence, if we view the entire social reproduction, which comprises both the capitalists of I and II, then the conversion of the surplus-product of A (I) into a virtual money-capital implies the impossibility of effecting an equal portion of the value of the commodity-capital of B (II) into productive (constant) capital, in other words, not a virtual production on an enlarged scale, but an obstruction of simple reproduction, a deficit in the simple reproduction. As the formation and sale of the surplus product of A (I) are normal phenomena of simple reproduction, we have here even on the basis

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of simple reproduction the following mutually interdependent phenomena: The formation of virtual additional money-capital in dept. I (implying underconsumption in dept. II); the stagnation of commodities of dept. II which cannot be reconverted into productive capital (implying a relative overprod. in dept. II); a surplus of money capital in dept. I and a deficit in the reproduction of II. .... That accumulation should take place at the expense of consumption is, as a general assumption, an illusion contradicting the nature of capitalist production. For it takes for granted that the aim and compelling motive of capitalist production is consumption, instead of the gain of  $s-v$  & its capitalization, in other words, accumulation."

p.591: "The simple circumstance that the difficulty which must be overcome did not show itself in the analysis of simple reproduc. proves that it is a specific phenomenon ~~exists~~ due solely to the different arrangement of the elements of dept. I with a view to reproduction, an arrangement without which reproduction on an expanded scale cannot take place at all."

g. Diagrammatic Presentation of Accumulation

p.592: "We now study reproduction by means of the following diagram:

"Diagram a) I. 4000c plus 1000v plus 100s = 3000 Total 8252  
 b) II. 1500 c " 375v " 375s = 2252"

"We note in the first place that the total volume of the annual product is smaller than that of the first diagram, being 8252 instead of 9000. We might as well assume a much larger sum, for instance one ten times larger. We have chosen a smaller sum than in our first diagram, in order to demonstrate, that reproduction on an enlarged scale (which is here regarded merely as a production carried on with a larger investment of capital) has nothing to do with the absolute volume of the product, and that it implies merely a different arrangement, a different distribution of functions to the various elements of a certain product, so that it is but a simple reproduction so far as the value of the product is concerned. It is not the quantity but the destination of the given elements of simple reproduction which is changed and this change is the material basis of a subsequent reproduction on an enlarged scale."

After considering the transactions between the Departments on the assumption that both I and II accumulate half of their surplus value, Marx states the problem thus:

p.593: "The only thing which remains for us to examine is 500 I and (375 v plus 375 s) II, both as regards the internal conditions of the two departments and the movements between them. Since we have assumed that dept. II is likewise accumulating one-half of its surplus-value, 188 are ~~xxxxxx~~ to be converted into capital, of which one-fourth, or 47, or, to round it off, 48, are variable capital, so that 140 remain to be converted into constant capital.

"Here we come across a new problem, whose very existence must appear strange to the current idea that commodities of one kind are exchanged for commodities of another kind, or commodities for money and the same money for commodities of another kind. The 140 II c can be converted into productive capital only by exchanging them for commodities of I of the same value. It is a matter of course that that portion

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of I s which must be exchanged for II c must consist of means of production, which may either be fit for service in the production of both I and II, or exclusively adapted to the production of II. This change of place can be made only by means of a one-sided purchase on the part of II, as the entire remaining surplus-product of 500 I s, which we shall presently examine, is reserved for commodities of II; in other words, it cannot be simultaneously accumulated and consumed by I. Therefore dept. II must buy 140 I s for cash without recovering this money by a subsequent sale of its commodities to I. And this is a process which is continually repeated in every annual production so far as it is a reproduction on an enlarged scale. Where does II get the money for this?"

p.595: "There seem to be only two ways by which this money can be withdrawn from circulation for the purpose of forming virtual additional money-capital. Either one portion of capitalists of II cheats the others and thus robs them of their money....

\* "Or a certain portion of IIs, represented by necessities of life, might be directly converted into new variable capital of dept. II. Now that is done, we shall examine at the close of this chapter (in section IV)."

It will help the solution considerably if we immediately proceed to this section IV instead of considering that section, which comprise the last two pages of this volume, as if they opened some new problem unanswered by Marx because of the "incompletion" of the volume. The truth is that no matter how Marx would have enlarged and polished this part, the one purpose this section serves in the answer to the problem Marx has just posed. The answer can be divided into 3 parts: (1) the original source of money of II is gold producers of I; (2) a preliminary condition for accumulation is the formation of a hoard through one-sided sales; and (3) the direct method of accumulation is accomplished by the material elements of the two depts; (a) for I through converting means of production into c.c. and (b) for II through converting m.c. into labor power

pp.609+610: "The original source for money of II is v plus s of the gold producers of dept. I, exchanged for a portion of IIc.....From this money derived from I (v plus s) of gold production must be deducted that portion of gold which is employed by certain lines of II as raw material, etc....An element of preliminary reproduction, for the purpose of future expanded reproduction, is created for either I or II under the following conditions: For I only when a portion of I s is sold one-sidedly without a balancing purchase, to II and serves there as additional constant capital, to II and serves there as additional c.c.; for II, when the same case occurs on the part of I with reference to the variable capital; furthermore, when a portion of the s.v. spent by I as revenue is not covered by II c, so that a portion of II s is bought with it and thus converted into money....(p.611) The question is, to what extent hoarding may take place within the exchange of the capitalists of II among themselves, an exchange which can consist only of a mutual crossing of II s. We know that direct accumulation takes place within II by means of direct conversion of II s into variable capital (just as dept. I converts a portion of I s directly into constant capital). In the various stages of accumulation within the different lines of business of II, and for the individual capitalists of these lines, the matter explains itself, with the self-understood modifications, in the same way as in I. One side is still engaged in hoarding and

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sells without buying, the other is on the point of actual expansion of reproduction and buys without selling. The additional variable money-capital is first advanced for additional labor-power, but this, in turn, buys articles of consumption from the hoarding owners of the additional articles of consumption used by the laborers. To the extent that these owners hoard the money, it does not return to its point of departure."

The error we had skipped from Marx's posing of the question on p. 393 to his answer to the question on p. 310 dealt with various diagrammatic illustration of expanded reproduction. In the first illustration Marx emphasizes the different arrangement introduced into the diagram of simple reproduction to make the same total capital represent expanded reproduction. He had dealt with this previously, when he first approached this section, but here the diagram is made to cover not only the first, but four years, of expanded reproduction. In the second illustration Marx assumes a 5:1 relationship of constant to variable capital:

p. 300: "This presupposes a considerable development of capitalist production & accordingly of the productivity of social labor, a previous expansion of the scale of production to a considerable extent, and finally a development of all circumstances which bring about a relative overpopulation among the working class."

(We are back again to the reserve army of labor and, it is well for the glass to remember the significance of Marx's naming that unemployed army the general absolute law of capitalist production.)

pp. 301-2: "It goes without saying that as soon as we assume a process of accumulation,  $I (v \text{ plus } s)$  is greater than  $IIc$ , not equal to  $IIc$ , as it is in simple reproduction. For in the first place, dept. I incorporates a portion of its own surplus-product in its productive capital, and converts five-sixths of it into c.o., so that it cannot exchange these five-sixths simultaneously for articles of consumption of dept. II. In the second place, dept. I has to supply out of its surplus-product the material for the accumulation of the constant capital of II, just as II has to supply I with the material for the variable capital, which sets in motion a portion of the surplus product of I used as additional constant capital. We know that the actual variable capital consists of labor-power, and therefore the additional must consist of the same thing. It is not the capitalist of I who among other things buys from II a supply of necessities of life for his laborers, or accumulates them for this purpose, as the slaveholder had to do. It is the laborers themselves who trade with II. But this does not prevent the capitalist from regarding the articles of consumption of his eventual additional labor power as so many means of production and maintenance of that labor power, or the natural form of his variable capital."

p. 304: "To repeat then just as dept. I has to supply the additional c.o. of II out of its s.v., so II supplies the additional v.c. for I. Dept. II accumulates for itself and for I, so far as the variable capital is concerned, by reproducing a greater portion of its total product, especially of its surplus-product, in the shape of necessary articles of consumption.

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" $I (v \text{ plus } s)$ , in the case of production on the basis of

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increasing capital, must be equal to  $Ic$  plus that portion of the surplus product, which is reincorporated as capital, plus the additional portion of  $c.c.$  required for the expansion of production of  $II$ ; and the minus of this expansion is that without which actual accumulation, that is to say, an actual expansion of the production of  $I$ , is impossible."

p.507: "Under reproduction on an expanded scale, it is above all the rate of accumulation which is important. In the preceding cases we had assumed that the rate of accumulation in dept.  $I$  was equal to one-half of  $Is$ , and also that it remained constant from year to year. We changed merely the proportion in which this accumulated capital was divided between variable and constant capital."

p.508: "To repeat, then, under capitalist production  $I$  ( $v$  plus  $s$ ) cannot be equal to  $Ic$ , in other words, the two cannot balance. On the other hand, naming  $I s-x$  that portion of  $I s$  which is spent by the capitalists as revenue, we see that  $I$  ( $v$  plus  $s-x$ ) may be equal to, greater or smaller than,  $II c$ . But  $I$  ( $v$  plus  $s-x$ ) must always be smaller than  $II$  ( $c$  plus  $s$ ), namely, as much smaller as that portion of  $II s$  which must be consumed under all circumstances by the capitalist class of  $II$ ."

And finally Marx offers one word of caution regarding his premises for the value of constant capital was not exactly represented since we dealt only with value of constant capital actually consumed, or transferred to the finished product, & not that which persisted or remained, or the fixed portion of constant capital.

p.510: "While in the calculation of the rate of profit the surplus value is figured on the total capital, regardless of whether the fixed elements transfer periodically much or little value to the product, the fixed portion of constant capital is included in the calculation of any periodically created commodity-capital only to the extent that it yields a certain average of value to the product."

In other words, do not attempt to solve the problem of Volume III regarding the declining rate of profit and based on prices of production on the bases of diagrams of Vol. II based on value premises and calculated to illustrate the process of capitalist reproduction in an ideal world and not in the phenomenal real world analysed in Vol. III which concerns itself with the process of production ~~xxxxxx~~ "taken as a whole."

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Postscript: The German edition of Volume II published by the Marx-Engels-Lenin Institute includes, as appendices, extracts from Lenin's writings on the question. In the main this is taken from "The Theoretic Mistakes of the Herodnik-Economists" (the first chapter of Lenin's Development of Capitalism in Russia) with which we dealt with in class. There are ~~some~~ other quotations from Lenin's "Once More on the Theory of Realization" (Lenin, Works, II, Rus.) which are fitting conclusions to this outline:

p.429: "In the first place Struve confuses the theory of markets of the bourgeois economists who taught that products

exchanged for ~~the~~ products and that there must therefore be a consonance between production and consumption, with the Marxist theory of realization which showed by its analysis how reproduction and circulation of the entire social capital occurs, i.e. the realization of the production in a capitalist society."

p.411: "Regarding the question of the significance of the schema of Marx's Part III of Vol. II of Capital, Struve asserts that the abstract theory of realization can be described well by the most different methods of the social product.....

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"Only thanks to this misunderstanding, Struve asserts that the 'natural inter-relation between the elements of social consumption--the social exchange of things -- can best be demonstrated not with the help of the Marxist division of the product, but with the help of the following division -- means of production plus means of consumption plus surplus value. In what does the social exchange of things consist? First, of all, in the exchange of means of production for means of consumption. How then can one show this ex., single out especially surplus value from means of production and from means of consumption? For surplus value is embodied in both m.p. and in m.c.! Is it not clear that a similar division is inconsistent logically (because it confuses division into the natural form of the product with the division into the elements of value), beclouds the process of the social exchange of things?"

p.415: "What ~~then~~ is the really scientific value of the theory of realization? Exactly the same as the value of all the other postulates of Marxist abstract theory. If Struve insists that the circumstance that the entire realization is the ideal of capitalist production and not at all its reality', then we beg to remind him that all other laws of capitalism, discovered by Marx, describe exactly in the same manner only the ideal of capitalism and not at all its reality. 'Our aim,' wrote Marx, 'is to present the inner organization of capitalist method production only in its ideal-average type' (III, 688, Rus.). The theory of capital presupposes that the worker receives the full value of his labor power. That is the ideal of capitalism but not at all its reality....The theory of realization presupposes the proportionate distribution of production. That is the ideal of capitalism and not at all its reality.

"Further Marxist theory showed how the contradiction so characteristic of capitalism is realized, that the tremendous growth of means of production is not accompanied by a corresponding growth of national consumption --from the theory it follows that even under the ideally-smooth proportion of reproduction and circulation of the whole social capital, there is inevitably a contradiction between the growth of production and the limitations of consumption. In reality besides this the process of realization does not proceed along the ideally-smooth proportionality but only with 'difficulties', 'fluctuations', 'crisis, etc.'

p.414: "Whether we take one country or the whole world the basic laws of realization discovered by Marx remain the same."

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