

SIGNIFICANCE OF MARX'S VOLUME II OF CAPITAL FOR OUR DAY

A summary lecture for the Capital class by F. Forest

Introductory remarks

Bourgeois economists think they can solve the problem not solved by the imperialist slaughter and are readying "new" theories on how to keep the capitalist system intact. They look at the destruction wrought by the war and it means but one thing to them: The European and Asiatic markets are destroyed, and something must be done to rebuild them if there is to be an outlet for the goods of the productive system; the "something" that must be done includes the loaning of billions of dollars to "create" the market. *Hence World Bank*

Petty-bourgeois economists think that the problem should be posed not so much from the point of view of the foreign market, as from that of the development of the internal market, that is, raising the wages of the workers so that they can "buy back" the products created.

The debates that are occurring over the Robert Nathan report have revealed that the same malady--a decline in the rate of profit--which faced American economy during the depression when profits were low and there was a deflationary period faces the American economy now when the mass of profits amassed during the war *has never been* higher and when we are faced with ^{continuing} such/inflation that it challenges to upset the "law" of supply and demand which should by now have brought about a fall in prices. What the "new" political economy of Keynes could not accomplish through stretching the "propensity to consume", lowering interest rates, pump priming and waiting for the "euthanasia of the rentier" while elaborating schemes for "full employment"--the war has accomplished, not only creating full employment but giving to industry an even better and more indiscriminating "customer"--one that was willing to buy everything from clothes to guns, and subsidizing everything from coffee to atom bombs--and all at "cost plus". And yet the contradictions of capitalism remain and we are faced on the one hand by a decline in the rate of profit and on the other hand

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such a lowering of the standard of living of the workers that their "propensity to consume", even when fully employed, remains within very defined limits. At the same time the enterprise of private enterprise is proving to be ^{not} very enterprising so that, to cite but one example, though demand for housing is without precedent, lack of investment in that field is likewise without precedent.

The problems of 1947 are ~~thus seen~~ ^{only not} to be radically different from those of 1929, but, in essence, the same problem, including even that of housing, that faced Marx in the 1870s when he was writing Volume II of Capital. In his analysis of capitalist accumulation, which caused these problems, we will find much of significance for our day. As historical materialists, we view not only the evolution of bourgeois political economy in the light of the actual economic and social development, but also view Marxism in the light of events that helped develop its concepts. It is not merely because Lenin was "smarter" than Kautsky that he knew how to apply the concepts Marx developed in Vo..II to the actual development of the Russian economy, while Kautsky was writing sophomoric essays on it. It was the concrete historic situation.

In 1898 he anticipated all the underconsumptionist arguments which Luxemburg was to pose in 1913. (We will be able to mention her views in passing, and the comrades are advised to read my study of her work on the Accumulation of Capital in the April And May 1946 NI.)

The problems posed for us today did not descend upon us like a bolt from the blue; it came out of the past and our answers to the problems of our day will help shape the future course. In Krupskaya's pamphlet, "How Lenin Studied Marx" she reveals that often when every one was agitated with some current problems in the turbulent days of the early Soviet regime, you could find Lenin so absorbed in a book by Marx on the 1848 revolutions or 1871 Commune that you could not tear him away. That was not scholasticism, but the application of Marxism to the problem of his day, and Lenin did this not only ~~xxxxx~~ when he looked for guidance on the political front, but also in the economic field. To be able to do half so well for our day, we must ~~xxxxxxx~~ ^{be on solid} theoretic ~~xxxxxxx~~ ^{ground}, and for this we turn to our review of Volume II.

1. Structure of Vol. II, The Circulation of Capital

Marx divided this volume into three parts: Part I deals with The Metamorphoses of Capital and their Cycles; Part II with the Turnover of Capital; and Part III with the Reproduction and Circulation of Aggregate Social Capital. Implicit in the structure of the volume is its content; the one and the other are so integrally connected that we deal not merely with phenomena but with the law of the phenomena. In the preface, ^(p.11) Engels tells us; regarding the many manuscripts left for this volume: "Manuscript II, it must be pointed out, had first treated of this reproduction (he is referring to Part III) without regard to 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 Manuscript VIII... The logical sequence was frequently interrupted, the treatment of the subject was incomplete in various places, and especially the conclusion was fragmentary. But Marx expressed as nearly as possible what he intended to say on the subject."

There is more significance in Marx's reconstruction of the volume to eliminate the question of circulation of aggregate

capital as a separate part, but to treat it as an integral part of reproduction, than there is in all the "proof" adduced to show that Vol. II is "incomplete". ~~Engels says in his preface to Vol. II that those who think otherwise should consult the chapter on "A Contribution to the Analysis of the Process of Production" in Vol. III of Capital, where Marx summarizes the essentials of Vol. II. So clear were Marx's conclusions to himself, that he was able to write this summary before Vol. II was completed. Also as an integral part of Vol. II, the part on "Accumulation and Crises" in Marx's Theories of Surplus Value, which Engels lists (p. 8) as among the manuscripts left for Vol. II which he had not used, but which have since been published, and from which I will quote later.~~

2. PART I

From the very first Marx builds on the premises he had already established in Volume I. Marx was able to transform the classical labor theory of value to a theory of surplus value, through his distinction between labor power, the ability of labor which is sold at value, and labor itself, which is not a commodity, and which in the process of production creates a greater value than the mere ability

~~xxxxxx~~ was able to command on the market. Here, in Vol. II, (p. 37) Marx tells us "The peculiar characteristic is not that the commodity labor power is salable, but that labor power appears in the shape of a commodity." Marx therefore puts

the class relationship right in the center of the market where all appear as equals, with but one distinction between them--the type of commodities they sell: "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." It is not money which by its nature creates this relation; it is rather the existence of this relation, which permits the transformation of a mere money-function into a capital function." (pp. 38, 39)

This capital-labor relation is not only what is behind the very first act-M-C_m--(money for the commodities labor power and means of production), but it precedes that act:

"The fact which lies back of the process M-C_m is distribution; not distribution in the ordinary meaning of a distribution of articles of consumption, but the distribution of the elements of production themselves." (p. 40)

Since the application of labor power, labor itself, can occur nowhere but in the actual labor process itself, that is

in the factory, the process of circulation --M-C-M--money for commodities ~~XXXXXXXX~~ is interrupted by P--process of production-- before the capitalist can return to the market with the finished product and reconvert it into M':

"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 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."

This ~~xxxx~~ manner of creating value, then, is the premise of Vol.I and of Vol.II. The significance of the first part of this volume lies in the analysis of the continuity of the three cycles of money-capital, productive-capital and commodity-capital by which it is shown that the very continuity of the process of circulation involves the reproduction of capital and that reproduction/^{does not} depends upon demand:

* "The quantity of commodities produced by capitalist production depends on the scale of production and on the continual necessity of expansion following from this production. It does not depend on a predestined circle of supply and demand, nor on certain wants to be supplied." (p.86)

The totality of the movements is thus described by Marx:

"The three diagrams may be formulated in the following manner, using the sign Tc for 'total process of circulation':

- I. M-C...P...C'-M'
- II. P...Tc...P
- III. Tc...P(C').....

"The industrial capital thus exists simultaneously in all the successive stages of its rotation and in the various forms corresponding to its function....The actual rotation of industrial capital in its continuity is therefore not alone the unity of the process of production and circulation, but also the unity of its three cycles...The magnitude of the available capital determines the volume of the process of production, and this, again determines the size of the commodity-capital and money-capital which perform their functions simultaneously with the process of production." (p.114, 117.)

In the process of explaining the continuity of the aggregate process, Marx has one of the most dialectical passages on the self-expansion of value which we will quote in full, because it so profoundly explains what is meant by the domination of the law of value, and how it is that the "independent nature of value" asserts its dominance over the individual capitalist. (Parenthetically, this passage is in the non-edited Part, although from a MS written late, 1877):

"Those who look upon the self-development of value as a mere abstraction forget that the movement of industrial capital is the realization of this abstraction. Value here passes through various 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 spite of the revolutions of 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 ~~XXXXX~~ 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 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." (p.120)

So overpowering is the domination of value and hence the role of labor power, the only substance creative of value, that Marx, in arguing against those who confusing different stages in the development of capitalist production with different modes of

production, that Marx write: "The characteristic mark of capitalist production would then only be the extent to which the product is manufactured for purposes of trade, as a commodity, and the extent to which its own elements of formation enter as commodities into the economy which creates that product.

"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 here appears as a commodity, because that 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 reproduction. 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 seller, the money-relation becomes an immanent 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." (p.132-3)

This inverted form of appearance of the real relations of production also has its effects in attributing to the time of circulation a power of "creating" surplus value. Just because the time of circulation of a certain capital limits its time of production and thus of creation of surplus value, "political

economy sees only the ~~seeming~~ effect, 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." (pp.142-3)

Part I concludes with a chapter on the Expenses of Circulation upon which we have no time to stop, other than to say that these expenses are divided into two categories: (1) those, like the spent on purchase and sale, bookkeeping and money, which add nothing to the value of the product and are called by Marx "dead expenses of circulation" (p.154), and (2) and those like storage and transportation, which actually arise "from the process of production, which are continued only in circulation, the productive character of which is merely concealed by the form of circulation" and which help preserve the value of the products.

(Parenthetically, both kinds of expenses are really connected with productive and non-productive labor which Marx explains in Volume I, but for which the full explanation is first found in The Theories of Surplus Value.)

3.--PART II

In this part Marx is concerned mainly with ~~xxx~~ ^{three} things: (1) the distinction between fixed and circulating capital, which involves a critique of bourgeois theories on the subject; ~~and~~ (2) the turnover of variable capital, which is the only which produces surplus value, and (3) the ~~xxxxx~~ circulation of surplus value, which involves the role of money and which has done so much to sidetrack Luxemburg.

Marx shows that the distinction in the forms of fixed and circulating capital appertains merely to a distinction in the manner in which the various elements of productive capital

transfer their value to the finished product--raw materials being fully absorbed and thus ^{fully} transferring their value, whereas machines transfer their value only piecemeal. As simple as this distinction seems to be it is not clearly understood by bourgeois

economics because it has failed to make the primary distinction

between constant and variable capital, that is between means of production and raw materials/whose value remains a constant magnitude on the one hand, and labor power whose value undergoes a variation in magnitude.

Marx writes that "it is worthy of note that Adam Smith forgave to mention labor-power as one of the elements of productive capital. And there are two reasons for this...."

"Not until labor power has been sold and incorporated in the process of production, in other words, until it has ceased to circulate as a commodity, does it become an element of productive capital, variable capital and the source of surplus-value, a circulating part of productive capital so far as the turnover of the capital-value invested in it is concerned. Since Smith here confounds the circulating capital with commodity-capital, he cannot place labor power under his category of circulating capital. Hence the commodity-capital here appears in the form of commodities which the laborer buys with his wages, that is to say, means of subsistence. In this form, the capital value invested in wages is supposed to belong to the circulating capital. That which is incorporated in the process of production is labor-power, the laborer himself, not the means of subsistence by which the laborer maintains himself. True, we have seen in Vol. I, ch. XXIII, that, from the point of view of society, the reproduction of the laborer himself by means of his individual consumption belongs to the process of reproduction of social capital. But this does not apply to the individual and isolated process of production which we are studying here." (pp.235-6)

Note the express, "his (laborer's) individual consumption belongs to the process of reproduction of social capital", and note that this is said not in the controversial Part III, but in the non-disputed Part II, and, moreover, is a restatement of a postulate of Vol. I, which is not supposed to have the "flaws" Volume II has. Here he goes even so far as to say: "It is immaterial whether the value of labor power is advanced in money or immediately in articles of consumption." (p.245) And again:

"It does not alter this essential fact (in determination of v.c., ff) that the capitalist may pay the laborer either in money or in means of subsistence.... A developed capitalist production rests indeed on the assumption that the laborer is paid in money and more generally on the assumption that the process of production is promoted by the process of circulation, in other words, by the monetary system. But the production of surplus value--and consequently the capitalization of the advanced sum of values--has its source neither in the money-form, not in the natural form, of wages, or of the capital invested in the purchase of labor power. It arises out of the exchange of value for a power creating value, the conversion of a constant into a variable magnitude." (pp.250-1)

Proceeding from the distinction between fixed and circulating capital, Marx shows that, in the turnover of capital, only that concerning the turnover of variable capital influences the creation of surplus value, and in this the law of value remains

intact: "It is only the capital actually invested in the working process which produces any surplus value and for which all laws relating to surplus value are in force, including for instance the law according to which the quantity of surplus value is determined by the relative magnitude of the variable capital if the rate of surplus value is given." (p.341)

Thus the law regarding the annual rate of surplus value is that it is equal to the quantity of surplus value producing during the year over the variable capital advanced, and since the quantity of surplus value producing during the year is equal

to the variable capital employed, or the advanced capital multiplied by the number of turn-overs, we get the following formula:

$$\text{Annual rate of s.v. } \frac{1}{n} = \frac{\text{Current r. of s.v.} \times \text{V.C. adv.} \times \text{b. n.}}{\text{V.C. adv.}}$$

It is in this chapter on the turnover of variable capital that Engels introduces in a footnote a remark found in Marx's manuscript which has been used by underconsumptionists. It 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 commodities, the realization on the commodity-capital, and thus on surplus value, is limited not by the consumptive demand of society in general, but 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." (p. 363, ftn)

That this is no more than a restatement of Marx's law of value, which is at the same time his law of surplus value, that is that the laborer is constantly the producer of overproduction, and that this could not be changed except with the abrogation of the law of value can be seen clearly enough in "the next part" that is Part III, to which Marx refers. The following passage, incidentally, which answers the above, was written in 1878, while the one just quoted was written in 1870:

"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 pauper or of the "thief" But if one were to attempt to clothe this tautology with a semblance of 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." (pp. 475-6) And in a footnote to this passage Marx says: "Advocates of the theory of crises of Rodbertus are requested to make a note of this."

This part is concluded with the chapter on the Circulation of Surplus Value, which, in part, belongs to Part III, and is restated there; however, we will deal with both as a summary and the original statement of it here, in order to gather together all the material on the role of money, which has caused Luxemburg to be sidetracked.

The question which arises in the question of the circulation of surplus value is the monetization of surplus value. This, Marx, shows, should be no different that the monetization of the entire value of the commodity, since surplus value too cannot be disconnected from its material form; it is an integral part of the means of production and the means of consumption and has no existence outside of that. The question is posed that way nevertheless because, to the bourgeoisie who takes for granted the surplus value inherent in commodities, do not ask "why ~~axixkix~~ are they worth more than they cost to produce", and thus get to the process of production where surplus value is created; but merely ask since he spent \$100 to produce them, how is he now to extract \$110 from the market which he has priced them?

Marx answers: "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 s.v. incorporated in 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, although they are the point of departure of its circulation." (389) And again: "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 (and silver) intended for conversion into commodities is thrown into circulation, not by means of exchange, but by production itself." (396)

The production of gold has developed simultaneously with the development of capitalism in general. Gold is measured by no other standards than all other commodities: the socially necessary labor time needed to produce them. The laws we learned in I as to how much money is needed to circulate commodities holds valid here too. The semblance of a problem appears here because we see the capitalist as a consumer and spendthrift and as that profligate buyer he seems to be some one other than the exploiter in the factory, and also because we have a habit to draw in the

"The actual transaction is obscured by two circumstances: merchant: ~~xxxxxxx~~
 (1) The fact that merchant's capital (the first form which is always ~~xxxxxxx~~ money since the merchant as such does not create any "product or ~~xxxxxxx~~ 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." 489

Note the expression "special capitalist class of capitalists" when Marx is referring to the merchants. The premise for the entire mechanism for the entire volume is that there are only two classes in society: workers and capitalists, and that work
structure of only 2 classes we also exclude for trade

PART III

Part III
This part is the heart of the entire volume, and its most disputed part. Here especially we must keep in mind the two main purposes Volume was designed to serve: (1) an answer to Smith's attempt "to spirit away" the constant portion of capital, and (2) an answer to the underconsumptionist theory of Rodbertus. In the first is included also Say's law of the market; in the second Malthus's theory of gluts and Sismond's theory of maldistribution of income.

Thus we see that early in its history, political economy produced two theories between which it has varied: (1) that production created its own market, and (2) that it was impossible for the worker to "buy back" the products he himself produced. Marx's great contribution consisted of dialectically combining these. The dominant feature remained the fact that production did create its own market. *But* this did not negate the existence of underconsumption. It *showed* that within capitalist production there resides a disregard for the limits of consumption. Marx's answer to these two schools of thought *was* anticipated the Keynesian school of imperfect competition and effective demand as well as the most recent Wall Street theorists who think all we have to worry about is production and more production and somehow every problem from inflation to poor living standards of the masses will work out for "the best of society as a whole".

Now, to Part III which is both a critique of bourgeois thought and an analysis of the actual movement of capitalist

production. It consists of four chapters, the first, Chapter 18, describes the object of the analysis--the process of reproduction, which includes in it (1) "The immediate process of production of capital is its labor process and self-expansion, the process, whose result is the commodity-product, and whose compelling motive is the production of surplus value." (p.404) And (2) the two phases of circulation--the circulation of individual capitals in isolation and as component parts of aggregate social capital, ~~which~~ Marx does not weary of reiterating here that thus "circulation constitutes in its entirety the process of reproduction, that is to say, the process of rotation of this aggregate social capital." (p.407)

It was a profound ~~was~~ understanding of this which, Engels tells us, impelled him to rewrite Part III so as to compress the consideration of reproduction from the point of view of circulation as an integral part of reproduction itself "to conform", as Engels puts it, "to his wider grasp of the subject." (p.11)

Advised by [unclear]
The second chapter in this part, Ch. XIX, is a critique of bourgeois theories of accumulation, especially that of Adam Smith. The basis for this has already been laid in his critique of ~~his~~ theories of fixed and circulating capital in Part II. There ~~is~~ their confusion ~~there~~ arose out of the fact that they had not fathomed that the real significance resided not in the manner productive capital ceded its value to the finished product but in the distinction between constant capital, or what remained a constant magnitude, and variable capital, or the labor power which produced the surplus value. Here the error arose from the failure to distinguish between the dual nature of labor--abstract labor productive of values and concrete labor productive of use-values. Concrete labor, while produces concrete products, transfers the value of the cc to the finished product just as the value of the raw material gets entirely absorbed in this new product. This concrete labor has cost the capitalist nothing, just as the abstract labor has cost him only the equivalent of the wages. But whereas the surplus appears as part of the ~~xxxxx~~ value of the ~~xxxxx~~ product, ^{net} the value of the gross product, which includes the value of last year's labor, or cc, seems not to count. Thus Smith concludes that it (cc) does not exist, or where he finally recognizes it, says that "in the final instance" it "resolves" itself into wages.

Marx writes: (p.435)

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We did not stop on this aspect of it however because the practical reason for retaining the dogma, based as it is on the antagonistic relationship between capital and labor, would have and did produce a similar challenge, though differently motivated, from the side of labor. Where Smith spirited the cc away for the capitalists, the underconsumptionists--from Sismondi ~~to~~ Keynes ^{through} to Robert Nathan ^{hope} that the capitalists themselves will spirit away the the cc. Sismondi asked that the productive forces be not allowed to expand until production and consumption could be made to balance. Keynes asked us to wait for the "euthanasia of the rentier". And Robert Nathan expects the capitalists to grant ~~for~~ a 25% increase in wages--if only the CIO will threaten to strike for it.

None of them point to the obvious because it is the revolutionary answer;; that cc has not only not dissolved into wages but has been the very instrumentality by which the capitalist has retained his mastery over the worker--and it can only be "dissolved" by changing dead labor's domination over living labor in the process of production.

In approaching the ~~the~~/third chapter of Part III, Ch. XX, dealing with Simple Reproduction we must remember Marx's premise for his entire theoretical work is that there are only two classes in society: workers and capitalists. This capital-labor relationship which dominates capitalist society, and hence is primary in ^{the} theory, ~~is~~ was seen in Volume I as the domination of the constant over the variable capital. It will now assume a new form--the domination of means of production over means of consumption.

Marx formulates the question as follows: "This process of reproduction, now, must be considered for the purposes of our study, both from the point of view of the reproduction of the value and the substance of the individual component parts of C'." (p.454)

"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."

This is not a hypothesis, as he tells us in Volume III, but a fact. Any one who thinks otherwise cannot understand this

great contribution of Marx to the analysis of capitalist production, which is as significant ~~xxx~~ as Marx's establishment of the law of value as the dominant law of capitalist production. Lenin quotes Bulgakov approvingly that this division of social production into two departments has more theoretic sense than all which political economy has produced on the question of markets. Why? Because it cuts through the whole tangle of markets.

How? It directs attention away from the subordinate fact of sale, to the primary question of destination. What kinds of products are produced? Are they for individual consumption or for productive consumption, that is for greater production? The material form will tell you. In thus dividing production, Marx therefore puts luxuries from tobacco to diamonds in a sub-department of II; and gold production, though it is not means of production, in a sub-department of I. The importance of this cannot be overemphasized, and the importance cannot be understood if we ~~xxx~~ forget the premise: that there are but two classes in society. This isolated society is a capitalist society, and hence the articles both of Dept. I and of Dept. II have the same value components: c, v, s.

Let us look at the diagram for simple reproduction:
I 4000 c + 1000v + 1000s = 6000 means of production
II 2000c + 500v + 500s = 3000 means of consumption

Since the whole purpose of simple reproduction is to produce means of consumption for the workers and capitalists in both departments: $II\ c + v + s = I\ v + s$ plus $II\ v + s$. The only other purpose of simple reproduction is to have enough means of production to replace cc in both depts. Hence $I\ c + v + s = Ic$ plus Iic .

In one word, simply stated, and the key formula for simple reproduction is: $I\ v$ plus $s = Iic$.

But even in simple reproduction, where it is merely a question of production for consumption and replacement, we see that the constant capital in both departments amount, in value, to 6000, or two-thirds of the value of the annual product. "If we are to say a social working day is equal to a year, then two-thirds of that social working date "is exclusively," says Marx, "devoted to the production of new constant capital." (p.495)

In other words, Marx is saying, do not get so enamored of the equilibrium conditions that exist in my formula as not to realize that the greater part of production is that of means of production. That fact, of course helps in resolving the difficulty as to how that constant capital gets reproduced (p.490): "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." (p.499)

But this only sheds the light on a further contradiction of capitalism; added to that of value contradiction we now have the contradiction between that and the material form, and within the material form, between means of production and means of consumption:

"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 product (m of p) than the new portion of value (v+s) added to this constant portion and represented by the articles of consumption. Thus the appearance is created so far as the question of values is concerned, as though two thirds of the consumed mass of products were reproduced in a new form, without any labor having been expended by society in their production." (pp.500-501) This answers Smith.

We can see how Marx's critique is at the same time an affirmation of what capitalist production is. Along with getting our attention away from seeing merely the value form of capital, instead of the antagonistic relationship between value and material form, Marx here warns us against repeating the error of Proudhon and think that the specificity of capitalism is lost if the individual capitalist disappears, that is, if we view the question of reproduction not from the viewpoint of an individual capitalist, but of the capitalist class as a whole. Marx writes that:

"...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 unity. 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." (p.503)

In dealing with the totality of production, or the aggregate social capital, then we are dealing not with the individual capitalist, or capital, in isolation, but as a component part of the aggregate capitalist and aggregate capital.

There is one element which made it difficult to see in what Marx calls simple reproduction/"~~as~~ its fundamental simplicity" --and that

is the role of money, since the exchanges between the departments are not made directly but through the instrumentality of money. We have dealt with one aspect of money in the circulation of surplus value and hence of circulation of commodities which helped add to the confusion about this complex instrument, and that was the appearance of the capitalist in the role of spend-thrift, and shown that what he spent has been produced by the laborers. We now have to deal with that aspect of it which

that what is makes it appear as capital for one is revenue for another.

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Marx shows : "The labor power is a commodity not a capital in the hands of the laborer, and it constitutes for him a revenue, so long as he can repeat its sale; it serves as capital, after its sale, in the hands of the capitalist, during the process of production itself... Hence it is not the money which serves twice here; first as the money-form of the variable capital; and then as wages. It is labor power which has served twice.....Labor power first supplies, in the form of commodities, the equivalent which is to be paid to the laborer, and then only is it paid by the capitalist to the laborer in money. In other words, the laborer himself creates the fund out of which the capitalist pays him.." (p.439)

p.511
He now explains: "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, which exists first in the hands of the capitalist as the money-form of his variable capital representing a potential variable capital, and which serves in the hands of the laborer as an equivalent for sold labor-power, as soon as the capitalist has converted it into labor power. But the fact that the same money serves another useful purpose in the hands of the buyer than in those of the seller is a peculiarity of the sale and purchase of all commodities."

Ch. XXI

We have now reached the final and most controversial chapter of this controversial part. It is of pivotal importance here to know that the formulae of Marx are integrated with reality and are not deductive. Luxemburg made the error to think so just because the figures chosen were arbitrary. ~~Figures~~ The figures were arbitrarily chosen but they were chosen merely to illustrate a MOVEMENT, the movement of capitalist production, Accumulation in Department II depends upon accumulation in Department I not because of the figures chosen, but because that is the real movement of capitalist production and development. The relation between the two departments

is not a fictitious relationship between things; this abstract relationship between things reflects the actual relationship between classes.

Marx first establishes that accumulation in Department I requires three conditions: (1) formation of a hoard, which is conditioned upon one-sided sales,
(2) additional constant capital
(d) additional variable capital

It is clear, he states in the Theories of Surplus Value, that the conditions of expanded reproduction are the same as for simple reproduction (p.166), except that quantitatively more is needed. This quantitative change does however bring about a qualitative change. If $I v + s$ can no longer equal $II c$, as for simple reproduction, but $I v + s > II c$, it means that accumulation can take place only at the expense of consumption:

"Actual accumulation can take place only on this condition. 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 surplus-value and its capitalization, in other words, accumulation." (p.598)

Let us consider the diagrammatic presentation of accumulation:

I. 4000c + 1000v + 1000s = 6000) total 8252
II. 1500c + 376v + 376s = 2252)

Note that Marx is so little concerned with the volume of production that he makes/his first diagrammatic less than the total we dealt with in simple reproduction.

"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." (pp. 591-2)

This is crucial for the new problem that we do meet in accumulation: how can II accumulate when I has decided to spend their surplus not on consumption but on accumulation. II must therefore now make a one-sided purchase. The question where it gets the money for this ~~xxxx~~ one-sided purchase obscures the question, but Marx quickly returns to the real problem and states:

"...a certain portion of II s, represented by necessities of life, might be directly converted into new variable capital of Dept. II. How this is done we shall examine at the close of this chapter (in section IV)." (p.596 This reference is to the last page of the volume. There Marx first tells us that :

"The original source for the money of II is v plus s of the gold producers in Dept. I, exchanged for a portion of IIc." (p.610)

However, the question is as to the original source of the money as to the condition of reproduction, and these he shows are 2:

(1) "An element of preliminary reproduction, p.610

and (2) "We know that direct accumulation takes place within II by means of direct conversion of a portion of IIc into variable capital (just as Dept. I converts ~~xxxxxx~~ a portion of I s directly into constant capital). (p.611)

For those, like Luxemburg, who consider that this cannot be considered the answer ~~xxxx~~ (1) because it is not the capitalists who ~~trade~~ in this case, but the workers and the workers must have money, and (2) the state of the book is so unfinished is proven by this section which practically ends on a half word.

First, let us answer the second point, and point to the fact that this is merely a repetition of what has already been stated

previously on p.604: "To repeat, then, just as Dept. I has to supply the additional cc of II out of its sv , so II supplies the additional vc 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."

That is why Marx insisted that in the direct accumulation possible for Dept. I is seen the significance ^{determination that} that the ~~use-value~~ has for the determination of economic orders (Theories, II, 2, 176)-- and that the preponderance of means of production over means of consumption ~~xxx~~ so distinguishes capitalism.

As for accumulation in Dept. II, and this answers Luxemburg's first objection, Marx from the first had shown that the reproduction of labor power is part of capitalist production and in Vol. I went so far as to say that it is not the ^{worker who buys the} means of consumption, but the means of consumption the worker. Here he merely repeats: "We have explained at great length in Vol. I that labor power is always held available under the capitalist system of production." (p.595) It is true that the direct products of two are means of consumption, not living laborers, and that the living laborers obtain these through instrumentality of money, but it is not money or means of consumption which is the very foundation of capitalism but labor power.

Marx has elaborated his diagrams of expanded reproduction on the basis of a 4:1 and 3:1 organic composition of capital

with half of the surplus value in each of the two departments going back into expanded reproduction. "Under reproduction on an expanded scale, it is above all the rate of accumulation which is important." (p.607)

What results from an organic composition of capital of 5:1 with an increasing rate of accumulation we cannot see fully here, whatever still deal in values, instead of the prices of production at which commodities actually sell, though in the totality all values and all prices of production are equal. We cannot deal with prices of production before we have dealt with how value becomes transformed into that. Hence, in Accumulation of Capital and Crises, where he deals with the same problem as in Vol. II, Marx says that the explanation of crises is "incomplete" and must be "supplemented" by the chapter on the rate of profit, that is ^{Law} ~~Part III of Volume III which deals with the~~ ^{Falling} ~~Tendency~~ of the Rate of Profit.

Suffice it here to say: ^{just for} ~~that~~ (1) the transformation of value into price implies both competition and monopoly for it means that in addition to accumulation as a class relationship, and the domination of dead over living laborer, there is accumulation through realization of surplus value which is not merely sale but sale and concentration. For the manner in which an average rate of profit is arrived at is through big capital swallowing little capital. The individual capitalist does not realize the surplus value produced in his individual shop, but only an aliquot portion of the ^{aggregate} surplus value which his individual capital can command. Marx mentions monopoly and passes on, and yet this is the whole answer to the Imperfect Competition school. ~~Whether~~ ^{manipulation} big capital swallows little capital through competition or through establishment of monopoly price, surplus value remains a given magnitude, the total number of unpaid hours of labor. That is the straight-jacket of capitalism from which it cannot get out, and when capitalists can get nowhere through their ^{manipulation} manipulations, they bear down upon the worker who, in the process of production, and not the market, creates a greater value than it itself is.

Secondly, the rate of surplus value is not a ratio of surplus value to variable capital alone, but the ratio of surplus value to total capital, variable and constant. Since surplus value comes only from variable capital and variable capital is ever a smaller portion of total capital, the capitalist is confronted with the falling rate of profit.

The contradiction between the value form of capital and its material form erupts in crises. This was implicit in Vol. II. We see it explicitly in III where there is an ever greater mass of use-values and yet each of these commodities contains less of surplus value in it, and in their totality too there is a lesser ratio of ~~xxxxxxxxxx~~ living labor incorporated in relation to dead labor.

Thus, of course, expanded production means expansion of the market, but this only intensifies "the contradiction between the conditions under which this surplus value is produced and those under which it is realized." (III, 287)

Of course, there is a contradiction between production and consumption. But it is not --as all empiric data is here to prove what Marx postulated as a mere "hypothesis"--production that follows consumption, but consumption production.

Of course there is an inability to sell. But that inability to sell manifests itself as such because of the fundamental antecedent decline in the rate of profit which has nothing whatever to do with the inability to sell.

But though the explanation for crises--and we merely hastily brushed by it--is not seen until we reach Volume III, we must remember that neither Vol. III nor any other volume can resolve the contradictions of capitalism. As Marx put it when he explained Vol. III to Engels: "Finally, since these three (wages, ground rent, profit, (interest) constitute the respective sources of income of the three classes of landowners, capitalists and wage labourers, we have, in conclusion, the class struggle into which the movement of the whole Schleisse ^{is} resolved. ~~xxxxxx~~ (p. 245)

But although the collapse of capitalism, which the decline in the rate of profit signals, can be accomplished only in the live class struggle, and not in books, what books do do is to reveal ^{economic} the/laws which dominate over society and reveal its law of

motion, or law of collapse.

The particular significance of Volume II is that it shows that the market is not the problem. The foreign market is entirely excluded:

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"Capitalist production does not exist, p. 548."

And the consumption market is shown to be limited to the luxuries of the capitalists and the workers paid at value. It cannot be larger. The crisis is shown not to be caused by a shortage of "effective demand"; wages are never so high as just before a crisis. On the contrary, it is the crisis which causes a shortage of "effective demand". A crisis occurs not because there has been a scarcity of markets-- in the ideal capitalist society Marx has here pictured the capitalist has all the market he wants--but because from the capitalist viewpoint there is occurring an unsatisfactory distribution of income between recipients of wages and those of surplus value. A different relationship of s/v has to be established, which involves a different relationship between c/v .

The only market that can expand beyond the limits of workers paid at value is the capital goods market. In our day of the flourishing of effective demand schools, it can be seen how penetrating was Marx's division of social production into but two departments, Dept. I is the larger of these, and hence of the market. To have to fall back on the nasty little consumption market would mean the end of capitalism. The so-called equilibrating condition which exists in the ideal capitalist society where "planning" permits a "balance" between the departments even under a 5:1 organic composition of capital exists because (1) the products are consumed not by people but by capital, and (2) because of the disequilibrium in the process of production where worker produces a greater value than it itself is. That remains the innermost cause of crises of all three volumes because it is the innermost causes of crises if the actual capitalist world, who in this age of totalitarian states and capitalist-planning would dare treat Marx's isolated society as a mere fiction?

"Capitalist production being a transitory economical phase,"

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wrote Engels to Danielson in 1892, "is full of internal contradictions which develop and become evident in proportion as it develops. This tendency to destroy its own market at the same it creates it, is one of them. Another one is the insoluble situation to which it leads, and which is developed sooner in a country without a foreign market, like Russia, than in countries which are more less capable of competing in the open world market."

So long as the worker continues to be paid the minimum it takes to reproduce him and the motive force of production, ^{to} extract from him the maximum unpaid labor, so long capitalist crises will continue, with or without foreign market, with or without planning. That is why Marx from the very first maintains that the domination of the capitalist ~~xxx~~ over the worker means the domination of dead over living labor, and though this instrumentality of dead labor the capitalist not only alienates ~~the worker's product~~ from the worker what he has produced, but alienates his very activity: "In the alienation of the object of labor is only crystallized the alienation, the renunciation of the activity of labor itself." The only solution to the contradiction of capitalism is the abrogation of the law of value, which means the abolition of this alien mode of labor. "We have reached a stage where this is not merely an ideal, but an economic necessity."
