“Reading guide to Capital” by Simon Clarke

Capital, volume 1, Chapter 1.

Background:

The first chapter of Capital is both the most important, in that it introduces the basic concepts of Marx's theory of value, and the most difficult.

Marx first began to work out his theory of value in the *Grundrisse* (1857), but the discussion there is very convoluted and incomplete. The first version of Chapter One of *Capital* is to be found in the *Critique of Political Economy* (1859), whose first chapter is in many ways the best introduction to Chapter One of *Capital*. The discussion of the *Critique* differs in a number of ways from that of *Capital*:

i) In the *Critique* Marx does not make the fundamental distinction between value and exchange-value that is made in *Capital*

ii) in the *Critique* the argument has a much more 'Hegelian' flavour: the argument is entirely formulated in terms of the development of the contradiction between (exchange)-value and use-value

iii) the logical and historical development of the argument are both present, but are separated: a logical analysis is followed by a historical one, whereas in *Capital* the two are more closely integrated

iv) Marx devotes much more attention to money in the *Critique* (and in the *Grundrisse*) than he does in Capital, (the discussion of money in Capital refers the reader back to the *Critique)*

v) The explanation of the theory of value in the *Critique* is rather different from that in *Capital*. In the *Critique* the discussion of commodity fetishism is more closely integrated into the discussion of the theory of value and it is clear that for Marx it is the 'qualitative' rather than the 'quantitative' dimension that is important: i.e. the theory of value is a theory of the way in which, through money and exchange, private labours are brought into social relation with one another. In *Capital* the exposition emphasises the quantitative dimension first: the theory of value as a theory of the ratio in which commodities exchange, before discussing the qualitative dimension.

The version of the first chapter of *Capital* in the English translations is a revised version that first appeared in the third German edition. In the first two editions the first chapter was shorter (roughly the first two sections of the later version and shorter versions of the third and fourth sections), and there was also an Appendix on 'The form of value' that was integrated into the third section in the rewrite. The change was made in an attempt to make the first chapter more comprehensible but it does introduce some differences in emphasis. (A translation of the first version of Ch. 1 and the Appendix is published, in a very tortuous translation, in *Value Studies by Marx* (A. Dragstedt, ed.). A much better translation of the Appendix has been published in *Capital and Class*, 4, 1978.)

Chapter One of Capital offers us a sociological theory of the market. Marx does not see the market simply as an institution in which individuals meet to exchange commodities, to be understood in isolation from the production of commodities, for exchange itself has implications for production. It is through the price mechanism that apparently independent producers are persuaded to produce in accordance with social needs: if too much of a commodity is produced, the price falls and less will be produced: producers will direct their labour into the production of other goods. If a producer is inefficient he or she will not get full recognition in the market for the work he or she has done, and so will be compelled to increase efficiency. Thus the market is the place in which the labour of individual producers is brought into relation with that of other producers, and so of society as a whole. The market is a particular way of allocating social labour, appropriate to a particular kind of society in which individuals work independently of one another to produce goods for the use of others. Thus the relation between individual producers in a commodity producing society is not directly recognised as a social relation – the producers do not get together to plan production as interdependent members of society. Instead the social relation between these producers takes the form of a relation between things, between the goods they exchange for one another. The exchange ratio, or exchange value, of commodities, is not, therefore, merely a relation between inanimate objects, but it expresses the relation between the labours of the individuals who have produced those commodities. This idea is the basis of Marx's theory of value.

Chapter One.

The theory of value introduced in Chapter One is the basis of Marx's theory of capitalist society. Chapter One introduces the basic concepts of this theory. The concept of value itself is the most difficult to grasp.

The chapter falls into four sections. *The first section* introduces the basic concepts of value and use-value: the commodity, something produced for sale and not for immediate consumption, is both a use-value and a value. Value appears in the form of exchange-value

Definitions:

1. "it is therefore the physical body of the commodity itself...which is the *use-value* or useful thing." p. 126. Two points: 1) a thing is a use-value if it can find a use, thus the term is not used evaluatively – a neutron bomb is a use-value. 2) the term use-value does not refer to *how* useful a thing is, but only to the physical properties that make it potentially an object of use. Thus the use-value of the commodity is simply its quality of being a thing.

2. "*Exchange-value* appears first of all as the quantitative relation...in which use-values of one kind exchange for use-values of another kind" (p. 126), exchange value is the 'mode of expression, the 'form of appearance "' (p. 127) of value.

3. The term *value* refers to the fact that as products of labour commodities embody a certain amount of labour-time. Value expresses the fact that the commodity is the product of *social labour,* of a part of the labour-time of society as a whole, and not simply the private labour of a particular individual. Thus: the *substance* of value is 'human labour power in the abstract", "homogeneous human labour", 'human labour-power expended without regard to the form of its expenditure" (p. 128). The *magnitude* of value is determined by the labour-time socially necessary to produce the commodity, defined as "the labour-time required to produce any use-value under the conditions of production normal for a given society and with the average degree of skill and intensity of labour prevalent in that society." (p. 129).

Thus the commodity is a *thing* (a "use-value") that embodies a certain portion of society’s labour-time (a 'value").

The *second section* discusses the concept of abstract labour more fully. Behind the distinction between use-value and value lies that between useful ("concrete") and abstract ("social") labour.

Definitions:

1. *Useful labour* "is labour whose utility is represented by the use-value of its product, or by the fact that its product is a use-value...i.e. productive activity of a definite kind, carried on with a definite aim" (pp. 132_3). Again the term is not used evaluatively: it refers to the particular, concrete, characteristics of the labour of e.g. the spinner or the weaver that go into making the commodity as a particular thing.

2. The value of a commodity does not express these concrete characteristics of particular labours, it expresses the common quality of labour as social 'homogeneous" labour. Homogeneous labour (abstract labour) refers to the labour expended as "different forms of the expenditure of human labour-power" (134), measured by labour-time. The basis on which different useful labours can be compared as simple expenditures of labour time is the fact that the same individual can perform a whole range of different kinds of useful labour.

   (Note that in this section the impression might be given that the concept of abstract labour is a physiological one. This is misleading – elsewhere in the chapter Marx makes it repeatedly clear that abstract labour is *social labour*, i.e. the expenditure of human labour-power *insofar* as such expenditure is socially necessary. In this sense, the value of a commodity does not represent the amount of labour actually expended by a given individual, but that portion of social labour that is credited to that commodity. This cannot be discovered simply by looking at the time spent producing the commodity, for it is only in exchange that the producer finds out how much of his or her labour-time was socially necessary. This is precisely what exchange does: it validates the socially necessary character of the labour-power expended in producing a particular commodity as that commodity is compared in the market with others of the same, or of different, kinds. The concept is discussed in I. Rubin: Abstract Labour and Value in Marx's System, *Capital and Class*, 5, 1978 and in C. Arthur: Abstract Labour, *CSE Bulletin* V.2, 1976.

The third section of chapter One returns from value to exchange-value. In the first section Marx simply asserted that exchange-value is the expression of an underlying value, and then concentrated on value. In the third section he tries to show how it comes about that the value of a commodity is not expressed directly, but is only expressed in the form of exchange-value. The argument may seem very pedantic, but it is important for its implications. Exchange-value is thus analysed as the "value-form" of the commodity: the use-value is the natural form of the commodity, exchange-value is its social form (correspondingly the use-value concerns only the final consumer of the commodity, it is the value that is of social significance).

Since value is a purely social phenomenon it cannot find any direct natural expression, but can only be expressed in the relation between commodities: the "social relation between commodity and commodity", the exchange-value, is the relation between the labour expended on each as part of the labour of society as a whole.

This section brings out Marx's methodology well, for in the section Marx offers both a logical and a historical account of the emergence of money on the basis of the exchange relation. He does not simply show that money is an expression of value, he also shows that the imperatives of commodity exchange *give rise* to money as such an expression. In this way he avoids the pitfalls of functionalism: he explains the origins as well as the functions of money.

Marx starts off with the simplest possible sort of exchange and then introduces successively more sophisticated forms until he eventually reaches the money form. He wants to penetrate beneath the purely quantitative exchange relation to discover the real social content of that relation. Thus the analysis of forms of exchange must be seen as an analysis of different kinds of social relation corresponding to different degrees of development (analytically if not historically) of exchange. The purpose of the analysis is to show that the relationship between values is the basis of all forms of exchange, from the simplest to the most developed. Consequently, that analysis seeks to show that it is exchange that gives rise to money and not money that gives rise to exchange. Money is therefore the most developed form in which the social relations of commodity exchange appear: money is itself a form of social relation.

The *fourth section* draws the argument of chapter one together. What Marx calls the 'fetishism of commodities' is the fact that in a commodity producing society the social relationships among the producers, the fact that they are all members of a society in which they produce for other members of that society, take on the form of a "social relation between the products of labour" (164). Thus the value of the commodity, which is really simply an expression of the portion of social labour embodied in the commodity, appears to be an inherent and semi-natural property of the commodity, its price. The exchange relation, which is really only a relation between the amounts of social labour embodied in the commodities in question, appears to be a relation that exists between the commodities themselves, without reference to the producers.

The fetishism of commodities arises from the fact that commodity producing labour is not directly social. Commodities are produced by individuals working independently of one another. Although the total of these individual labours is the total social labour devoted to producing the total social product, these producers do not come into contact with one another until they exchange their products. Hence the social character of their labour only appears in exchange, and they exchange their labour for that of others only by exchanging products.

"To the producers, therefore, the social relations between their private labours appear as what they are, i.e. they do not appear as direct social relations between persons in their work, but rather as material relations between persons and social relations between things." (166) (Note that Marx is not saying that the appearance is simply an illusion: the appearance is perfectly real, it really is only through the exchange of commodities that the social relation between producers exists). Because of this fetishism the producer does not consciously exchange his labour against that of others, he or she does so without realising it by selling his or her products as commodities (166). Thus value appears to be an inherent quality of the product that dictates to the producer rather than vice versa, for people decide how much to produce in accordance with the price they can get for the product. Thus the exchange of commodities is simply one social form of the division of labour, one way of relating individual labours to one another in society but a way that is mystified.

Comments.

Part of the difficulty of Chapter One of *Capital* derives from the way in which Marx presents his argument. It appears that the first three sections of the Chapter are offering a technical economic argument, while the fourth section offers a kind of sociological commentary on the illusions fostered by exchange. This is misleading, because if Marx's argument is to make any sense at all the fourth section has to be seen as the basis of the whole chapter, indeed of the whole theory of value This is argued in I.I. Rubin: *Essays on Marx's Theory of Value*. It is the fourth section that clearly differentiates Marx's theory of value from that of the classical political economists, especially Ricardo, who preceded him.

Marx points out (esp p.174 n.34) that his theory differs from previous ones in examining closely the *form of value,* that is to say in understanding the exchange of commodities not simply in terms of technical economic relations that take exchange itself as a social phenomenon for granted, but rather as one means by which the social division of labour can be regulated. Thus Marx does not see exchange relations simply as the quantitative market relations between commodities (although the first three sections could be read in this way). Marx sees exchange relations as the particular social form through which the labour of producers who work independently of one another without reference to social needs can be brought into relation with one another and so with the needs of society. Thus for Marx exchange relations are a form of the social relations of production: the market regulates the interdependence of producers who appear to be working independently of one another.

The idea that exchange relations reflect the amount of labour-time expended on particular commodities was not original: it was central to all of classical political economy. The idea that Marx introduces is the idea that exchange is a particular system of social relationships and not simply an institution through which prices are mechanically derived from labour-times. Thus for Marx, unlike the classical political economists, value is a characteristic only of a particular kind of society, a society in which the relations between producers as members of society are regulated through the market.

This has a fundamental effect on Marx's theory of value. It is through his examination of the form of value that Marx was led to argue that exchange value is not an expression of labour-time (of the amount of time actually spent by the labourer), but is an expression of value. Value, in turn, does not simply express the labour-time actually embodied in the commodity (either individually or on average), but the *socially-necessary* labour-time, the portion of the total labour-time of the society allocated to that commodity, the labour-time of the individual producer *in relation to the labour-time of society as a whole.* This *relationship* cannot be found in the individual commodity, or in the relationship of the individual producer to that commodity, but only in the relationship between producers that manifests itself in the exchange relation between commodities. Hence for Marx the concept of value is not a technological concept, it is a fundamentally social concept: value expresses the social relation between producers, a social relation that does not appear directly but appears only in the exchange of commodities between producers, or in the sale of a commodity for money Thus, while for Ricardo value expressed the labour of the individual producer, for Marx it expressed the labour of the producer as a member of society.

For Marx the value of a commodity is not inherent in the isolated individual commodity, prior to its entry into exchange, for the process in which portions of social labour are equated is the process of exchange. Thus, despite the impression given at the beginning of chapter One, it is only *analytically* that Marx separates value from its expression in exchange value. Thus "It is only the expression of equivalence between different sorts of commodities which brings to view the specific character of value-creating labour, by actually reducing the different kinds of labour embedded in the different kinds of commodity to their common quality of being human labour in general." (p. 142).

These points are very important,, because a quite different interpretation of Marx's theory, that equates it with the Ricardian theory, is very common. This interpretation concentrates on the argument of the first two sections of chapter one, that have undoubted Ricardian undertones, and neglects the third and fourth sections with Marx's own repeated emphasis on the importance of his analysis of the *form of value* (i.e. of the 'fetishism of commodities') as the feature that distinguished his analysis from that of his predecessors.

If you look back to the first two sections you will find that Marx expounds his theory of value as though it were simply a technical economic argument about the quantitative relationships between commodities as things, about the determination of prices: "the valid exchange values of a particular commodity express something equal, and... exchange value cannot be anything other than the mode of expression, the 'form of appearance' of a content distinguishable from it." (p. 127) "If then we disregard the use-value of commodities, only one property remains, that of being products of labour.... reduced to the same kind of labour, human labour in the abstract." (p. 128) "all labour is an expenditure of human labour power, in the physiological sense, and it is in this quality of being equal, or abstract, human labour that it forms the value of commodities." (137)

In these quotes Marx appears to be saying that to discover the basis of exchange value we have to find something equal in the commodities being exchanged, that the something equal must be distinct from the exchange-value itself, and that the only thing this can possibly be is the amount of labour-time spent on the commodity. This argument is wholly fallacious. It is true that the existence of exchange implies that commodities are evaluated in relation to one another on a common basis: every theory of exchange must be based on some theory of value which is a theory of the basis on which commodities are commensurated. But it is not true (1) that this implies that it must be something inherent in the commodity itself, or (2) that this something must be equal or 3) that the only possible thing it could be is labour-time. 1) we have already seen that another interpretation of Marx's theory does not see value as inherent in the commodity, in isolation from the exchange relation - indeed that it is not is the core of Marx's theory of the form of value 2) it is also not true that values are necessarily equated in exchange: there are all sorts of reasons why commodities might not exchange in a proportion that reflects their relative values. This was something that Ricardo could not account for, and something that Marx saw as essential to his theory. In particular, in a capitalist society prices diverge systematically from values because of the tendency for profits to be equalised between different capitals. Ricardo could not explain this because he saw exchange value as the direct equation of values. Marx is able to offer an explanation for this precisely because he does not assume such a direct equation. 3) it is not true that the labour theory of value is the only possible theory of value. In fact the labour theory was abandoned by academic economists at the end of the 19th century and replaced by a utility theory that argued that the value of a commodity expressed the subjective evaluation of the consumer in accordance with the amount of pleasure the commodity gave the consumer. Moreover it is not true that all things with an exchange-value are products of labour: virgin land can be bought but is not a product of labour, and nor are all products of labour commodities. (Incidentally the first edition of Capital did not claim that labour is the only common property of commodities. There Marx argues, much more appropriately: "Commodities as objects of use or goods are corporeally different things. Their reality as *values* forms, on the other hand, their *unity.* This unity does not arise out of nature but out of society. The common social substance which merely manifests itself differently in different use-values is labour." (*Value Studies*, p 9).

This interpretation of the theory of value as a technical economic theory is important because it underlies most of the critiques of Marx's theory of value. If this interpretation of the theory is correct, then the critiques are fully justified and Marx's theory of value is thoroughly unsound. There are a number of reasons for rejecting these interpretations though:

1) If they are correct then there is no difference between Marx and Ricardo, despite the fact that *Capital,* and especially the *Theories of Surplus Value,* are dominated by the critique of Ricardo.

2) They completely ignore Marx's repeated emphasis on the importance of his analysis of the form of value and on the sociological and not simply economic character of his theory.

3) They deprive Marx's theory of any significance, which is hard to credit given its influence over the last century.

However, this `neo-Ricardian’ interpretation is firmly based on Marx's own words. So why did Marx present his argument in the first two sections of chapter one in a form he must have known to be wrong? I think the answer is that he wanted to simplify the exposition to make it more comprehensible, developing his argument in stages. Thus the false claims on which the 'economistic' interpretation is based have to be seen, I think, as expository devices that probably obscure more than they clarify. This claim is given added weight by the fact that it is only in the revised version of Chapter One, that sought to simplify the chapter, that the argument is developed in this way.

Chapter Two

This Chapter begins the transition from the commodity to capital by developing Marx's understanding of money. The Chapter starts with a summary of the basic argument of Chapter One: We cannot understand the commodity without looking at the social relations that lie behind it:

"Commodities are things, and therefore lack the power to resist man" p. 178

Commodities can only exchange with one another if their owners relate to one another through the exchange of commodities. Thus exchange presupposes that they "recognise each other as owners of private property".

It might seem that this implies that exchange presupposes the development of a legal system embodying private property, i.e. that 'economic' developments presuppose 'legal' developments. However, Marx immediately emphasises that this juridical relation 'mirrors' the economic relation, that its content is 'determined by the economic relation'. How this could be becomes clearer in the summary account of the development of exchange that makes up the bulk of this chapter. It is only when members of society become independent producers that both commodity exchange and the concept of private property can develop. Thus Marx is not arguing that the legal system reflects the economic system of commodity exchange. Rather he is arguing that *both* the legal system (mutual recognition by commodity owners of each Other as owners of private property) *and* the more narrow economic relation of exchange are forms of expression of the fundamental social relation which is that between social subjects who have become independent producers.

The bulk of Chapter 2 discusses the historical development of the commodity and of commodity relations. As an isolated exchange of use-values, Marx argues, exchange is an individual process. On the other hand, once the process of exchange becomes general commodity owners seek not isolated exchanges, but rather seek to exchange their product for anything and everything they need. In other words exchange becomes a "general social process" (p. 180). Every commodity owner wants his own commodity to be universally acceptable in exchange, but it is impossible for every commodity to have this status. Hence, until a universal equivalent emerges exchange as a general social process is impossible, and so exchange can only be a series of individual exchange relations of use-values and not the exchange of fully-fledged commodities.

The universal equivalent emerges, Marx argues, out of the development of exchange itself, as a particular commodity is fixed upon to serve as universal equivalent.

Marx emphasises that this universal equivalent is such because it is itself a commodity that has value, and so can serve to express the value of other commodity Thus money is not a mere symbol which acquires its value through exchange, let alone a thing whose value is inherent in its physical properties. Money is a commodity which has a value like any other commodity. In becoming the universal equivalent, that commodity serves to express the universal, social, character of the relations between commodity owners: It marks the transition from exchange as a discrete relation between private individuals to exchange as an expression of social relations between interdependent individuals. Thus the fetishism of money corresponds closely to that of commodities.

Chapter Three.

This chapter looks at money in more detail. You can skip most of it if you are pressed for time, a lot of the argument being rather technical. The chapter is concerned primarily with the various functions of money and with the different ‘features attached to each’ The main theme of the chapter develops the argument of the first two chapters that money is the product of exchange, developing in accordance with the needs of exchange. Thus it is not money that creates exchange, nor the quantity of money that determines prices. Thus the fetishism of money is a development of the fetishism of commodities. Note that until the section on coin Marx is dealing with commodity money, i.e. money based on gold. Since his day domestic (but not international) monetary systems have largely broken the link with gold. Recognition of this modifies some of Marx's arguments. (For further reading see: de Brunhoff: Marx on Money). This chapter of Capital is a less detailed version of the chapter on money in the Contribution to the Critique of Political Economy).

The first section of the chapter deals with money as the ‘measure of value', the commodity in terms of which the value of other commodities is expressed. Although no money is actually present when the value of a commodity is established (e.g. a price label is attached to it), the price is not arbitrary, for it is a relation between the labour embodied in the commodity and the labour embodied in gold (19O). Gold is not only measure of value, it is also standard of price. The two must not be confused: setting the standard of price is arbitrary, carried out by governments (which decree that e.g. 1 oz of gold will he called £1).

The second section deals with money as means of circulation. To analyse this Marx returns to the formal analysis of exchange. You should read the first part of this section. Don't worry about the Hegelian language - the main point is that in order to exchange one commodity for another the value of the first commodity has to be realised in the form of money and the money then realised in the use-value of the second commodity. The circulation of commodities has the form C —M—C. This is quite different from the simple exchange of use-values C—C: the separation of purchase and sale introduces the possibility that the whole system can break down: a commercial crisis, for every sale is conditional on previous purchases since the buyer must have money.

Within the circulation of commodities money serves as a means of purchase (211) While commodities enter and leave circulation, money remains within circulation. Thus a certain given quantity of money is necessary and sufficient to maintain the circulation of commodities. pp. 212-2O contain a long discussion of the quantity of money required for circulation. You can skip this if you like. Marx argues that the quantity of money required depends on the level of prices, the number of transactions and the velocity of circulation of money. Many economists have concluded from this it is the quantity of money that determines the level of prices (this is the monetarist view fashionable today). Marx argues that *with commodity money* it is circulation that determines the movement of money and not vice versa, hence it is the level of prices that determines the quantity of money required.

The third part of the second section you can also skip. Here Marx argues that token money can replace commodity money in the function of means of circulation, in which function it represents commodity money symbolically. With token money if. too much money is issued the currency will be devalued and price will rise (p. 225).

In the third section Marx turns to those forms of money in which gold serves as money neither in ideal form (as measure of value) nor in symbolic form (when token money serves as means of circulation), but in the forms of the hoard and of means of payment. In these forms money must have a substance which has an inherent value, as becomes clear in a crisis, for token money can easily be devalued. You can skip this section, but some of it makes very good reading. The main point of it is to conclude the discussion of the quantity of money required: hoarding increases the required quantity; the separation of sale from payment and the rise of credit money, reduce the quantity required. Finally, money is also required for international transactions.

Chapter Four.

We now move from the rather technical discussion of money towards the heart of Marx's analysis, capital. Like that of Chapter One, the exposition of chapters Four to Six is rather artificial: it is again based on a number of implicit assumptions that focus attention on the fundamental social relation towards which Marx is working, that between labour and capital. In Chapter Four Marx is concerned to distinguish between money and capital, or, rather, between money as money and money as capital. The first form of capital both historically and logically is money. Marx distinguishes money as money and money as capital first of all by distinguishing the two forms of circulation: the circulation of commodities C - M - C, and the circulation of capital M - C - M. In each case a purchase and a sale are combined, but in the first case to exchange use-values, in the second to change money into money, or, more rationally, money into more money. The addition to the money laid out is called by Marx surplus value. (251). (Marx here introduces the term Verwertung that is translated in the Penguin edition as valorisation. This unfamiliar term describes the process by which a value laid out returns to the starting point with an increase. It is thus the motivation of the circulation of capital. Other translators use the clearer but less accurate, term self-expansion). This definition of capital leads straight on to the definition of the capitalist (p. 254): "capital personified and endowed with consciousness and a will". Here Marx emphasises strongly a central point of his argument: the aim of the capitalist is the constant accumulation of value, not the pursuit of use-values, thus it is always money that is the end result of his activities. For the capitalist the particular commodities he buys in the course of his activities function not as use-values but as particular embodiments of value (p. 255). Thus the circulation of capital represents a constant movement of value from one form to another as capital takes the form now of commodities and now of money. Value therefore becomes "value in process, money in process, and, as such, capital" (p. 256).

It is very important that you understand what Marx means by capital. He does not initially define capital in its relation to labour, either as the social relation between capitalist and labourer, or the technical relation between machines and men (that is often the everyday meaning of the term. Here Marx is concerned with the "general formula of capital", independent of its particular forms as merchant’s capital, industrial capital or interest-bearing capital. In its most general form capital is defined as value that expands itself `self-valorising value'. We do not yet know how value is able to do this. This is the subject of the next two chapters.

Chapter Five.

In this chapter Marx investigates the possibility that surplus value may arise within circulation. Firstly he argues that if commodities exchange at their value, which is the normal form of circulation, no surplus value can be created (258-62). To think otherwise is to confuse value with use-value (Marx finds this confusion to be the source of many of the errors of previous economists). He then argues that surplus value cannot be created if all commodities are sold either above or below their values(262-3), because gains are cancelled by losses. He further argues that no other distinction than that between buyers and sellers can be conceptualised on the basis of simple circulation alone (264-5): to introduce other distinctions is to introduce new considerations. Finally, Marx argues that even if some buyers can manage to buy cheap and/or some sellers sell dear (e.g. merchants), for whatever reason, no surplus value is created for one's gain is another's loss. Thus only the distribution of value is affected, not the total value. The conclusion is that, leaving aside this case (merchant's and usurer's capital) that will be considered later, surplus value can be created neither within nor outside circulation. This is the "contradiction" in the general formula for capital, to be resolved in the next chapter.

Chapter Six.

The solution to the contradiction is found in identifying a commodity which, when purchased, can be used to create more value than it has itself. Such a commodity is labour power.

Definition: Labour power is "the aggregate of those mental and physical capabilities existing in the physical form, the living personality, of a human being, capabilities which he sets in motion whenever he produces a use-value of any kind. (270).
For labour-power to be a commodity certain preconditions are required: the labourer must be a free individual, owner of his own labour-power, selling it for a limited period (e.g. not a slave or serf). Secondly, the labourer must be unable to produce commodities or subsist on the basis of his own labour: he must be free in the double sense of being a free commodity owner and being free of all the objects necessary for the realisation of his labour power (271-3). Just as the commodity and money, so also capital is an economic category that does not have a natural origin but rests on the development of particular social relations. Thus again behind the level of economic appearances, Marx finds definite social relations on which the economic categories rest. (273-4).

The value of labour-power "is determined by the labour-time necessary for the production, and consequently also the reproduction, of this specific article … the value of labour-power is the value of the means of subsistence necessary for the maintenance of its owner" (274). This is the quantity of means of subsistence necessary to "maintain him in his normal state as a working individual" it includes a "moral and historical element", an allowance for the production of a new generation, and the education and training of the worker (275-6). (Marx's definition of the value labour-power is not always consistent and has been the subject of some debate. c.f. Rosdolsky, pp. 282-314. Aummeruddy, Lautier and Tortajada: Labour-power and the State, Capital and Class 6, 1978). The value of labour-power depends, therefore, on the quantity of means of subsistence required, and on the value of those means of subsistence (276). Labour-power is quite distinct from labour. Labour-power, the commodity sold by the worker, is only the capacity to labour. Thus when the buyer purchases labour- power he does not, unlike other commodities, have in his hands the use-value of the commodity (277), he still has to realise the labour-power by setting the worker to work in the sphere of production. Thus the examination of labour-power takes us beyond circulation, to the "hidden abode of production" where surplus value is created as the labourer is set to labour.

Comments.

In these chapters the procedure adopted by Marx in Chapter One is repeated. He starts from the level of economic appearances, from the formal analysis of the circulation of commodities, of money and of capital. Just as Marx found behind the circulation of commodities a particular kind of social relationship, that between independent producers participating in a division of labour, so he finds behind the circulation of money a developed form of this division of labour and behind the circulation of capital a new social relationship, that between the capitalist and the free wage-labourer. Thus again Marx starts off with a purely economic analysis, but by looking behind the economic categories Marx finds that these are in fact the economic forms of appearance of particular social relationships, forms of appearance that hide as much as they reveal. Thus it is only analysis that shows us behind the commodity the labour of interdependent producers, behind money the social character of labour, and behind capital the relationship between capitalist and wage-labourer. To remain at the level of these economic appearances, to study the economy as a self-sufficient sphere, is to ignore the social foundation of the economy and so to take the social relations on which it rests for granted, to treat them as though they were natural rather than social and historical phenomena.

Just as in Chapter One, the analytical argument depends on a number of assumptions that may seem arbitrary at first: the assumption that commodities exchange at their value or that surplus value cannot derive from an unequal exchange. But again, the rationale of these assumptions is to be found in the nature of the abstraction Marx is engaged in. Thus he assumes that commodities exchange at their value because he is concentrating on one social relationship only, that between commodity owners. He assumes that surplus value cannot derive from unequal exchange because this form of surplus value represents a transfer from one section of the dominant class to another (e.g. from feudal landowners to merchants or usurers; from one sort of capitalist to another), whereas Marx is concentrating for now on the relationship between the capitalist and the worker alone, and in this relationship there is no reason why the capitalist should be able to buy labour-power from the worker below its value, or sell means of subsistence to the worker above their value (competition between capitalists normally prevents this happening). The other forms of surplus value (merchants' or usurers' capital) are derivative in the sense that they involve a redistribution of surplus value that is already produced. Hence the analysis must first focus on the production of surplus value that is found in the relation between capitalist and wage-labourer.

Chapter Seven

This chapter looks at production from two points of view: the production of use-values, without regard to the social relations within which that production takes place, and the production of value. The first part of the chapter thus looks at those aspects of the labour process common to all societies: production as the action of labour, by means of instruments of labour to produce a product. At the end of the first section Marx notes that in the first instance the nature of the labour - process is not changed by the fact that it is a capitalist labour process (he considers the development of the specifically capitalist form of the labour process in chapters 13 - 15). In the first instance the main differences are 1) that the labour process is directed by the capitalist 2) the capitalist appropriates the product (291-2).

The second section looks at the specifically capitalist aspects of the labour process, at the labour process as the production of value and of surplus value. He stresses that the aim of the capitalist is not the production of use-values in themselves, but the production of use-values as the bearers of exchange value. Thus the capitalist labour process is a combination of the production of use-values already discussed, and of the production of value and surplus value (293). As a process of production of value the labour process is simply a process in which abstract labour is expended, is incorporated in the product. Thus the product serves not as a specific use-value, but as a `definite quantity of labour, definite masses of crystallised labour-time." (297). The discussion (pp 294-300) is rather long-winded. The main point is to show that the source of surplus value lies in the difference between the value of labour-power and the value created in the course of the working day (pp. 294-300). Marx shows that if the worker only works for 6 hours then no surplus value is created. p. 300 he emphasises the crucial distinction between the value of labour-power and the value created by that labour power when it is set to work: it only takes half a day to produce the worker's means of subsistence, but he can work for a full day. This is the source of surplus-value. Thus (3O1-2) the `contradiction' is resolved: surplus value is created without violating the laws of commodity exchange.

The distinction between labour process and valorisation process is a fundamental one. It is the unity of the two that constitutes the capitalist production process: the production of use-values <u>dominated by</u> the production of surplus value. Thus in a capitalist society it is only insofar as the production process produces surplus value that it will be undertaken by the capitalist: the production of use-values is conditional on the production of surplus value.

Chapter Eight

This chapter introduces the important concepts of constant and variable capital. Marx argues that the value of the product is made up of the value <u>added</u> by the worker, on the one hand, and the value <u>transferred</u> from the means of production to the product. This division corresponds to the division between abstract labour (the expenditure of socially necessary labour-time) and concrete labour (the production of a specific product by a specific kind of labour) (307-9). 3O9-313 goes into this in more detail. 314 Marx emphasises that the value of the means of production is determined by the labour required to produce those means of production, thus exists prior to the labour process, while the new value created by labour is created in the labour process itself. The new value added may exceed the value of labour power (i.e. the worker may work for longer than the number of hours socially necessary to produce his or her means of subsistence) 315-6. This difference between labour and means of production (distinct roles in the valorisation process falling to distinct elements of the labour process), corresponds to the different roles of different parts of capital - means of production and labour power are different forms of existence of the original capital. Thus constant capital is "that part of capital ... which is turned into means of production (and) does not undergo any quantitative alteration of value in the process of production" while variable capital, "that part of capital which is turned into labour power, does undergo an alteration of value in the process of production" 317. N.b. for Marx capital is not simply the means of production. Capital is a sum of money (value) laid out on means of production and labour power. In this sense labour power is therefore a part of capital (and so shares in the fate of capital e.g. when a firm goes bankrupt). Do not confuse the distinction between constant and variable capital, which refers to different roles in the valorisation process, with what are known as fixed and circulating capital, which refers to the difference between capital tied up for a long time (e.g. machines) and that which turns over quickly (e.g. labour power and raw materials). Finally you might wonder why it is that only the using up of labour power creates new value. In the last analysis it is simply because of the definition of value that Marx uses: value is an expenditure of labour. The labour embodied in means of production has already been expended, so their value is given in advance. Labour power has the unique property of creating value anew as it is used up.

Chapter Nine.

This chapter introduces the concept of the rate of surplus value (rate of exploitation). Although the whole capital advanced appears to increase in the valorisation process, it is in fact only the variable part that increases (320-2). The ratio of surplus-value to the total capital advanced (the rate of profit) is important, but Marx leaves it aside for now (323), to define the rate of surplus value which is "the ratio of the surplus value to the variable capital" (324). This is the same thing as the ratio of surplus labour (the labour time spent beyond that sufficient to replace the value of the worker's labour power) to necessary labour (the labour time spent replacing the value of labour-power, i.e. the number of hours socially necessary to produce the means of subsistence) (324-5). Thus surplus value simply represents a portion of the worker’s labour-time.

You can skip pp. 327 - 339. pp. 327-9 give numerical examples, pp. 329-332 a different way of calculating the relation between necessary and surplus labour in terms of portions of the product. pp. 333-8 is a polemic against the theory that profit is produced only in the last hour of labour put forward by Nassau Senior.

Chapter Ten.

Here Marx argues that the length of the working day cannot be determined analytically. It is set within limits of the necessary labour-time (the minimum) and the physiological and social maximum that can be sustained (341). The capitalist demands as much as possible, the worker demands a shorter working day. Thus between these limits it is the struggle between capital and labour, the capitalist class and the working class, that determines the length of the working day. In the second section Marx argues that it is only when production is for exchange- value that the "boundless thirst for surplus labour arises" because before this the demand for surplus labour is limited by the needs of the exploiting class. (345). The rest of the chapter looks at the struggle over the length of the working day. Marx points to the tendency for capital to lengthen the working day as much as possible, far beyond the limits of endurance of the worker so that the labour force is debilitated. He notes that this happens although it might seem to be in the interests of the capitalist to limit the exploitation of labour so as not to undermine the steength and numbers of the labour force in the future (376-7), but in fact capital does nothing because of overpopulation, which constantly provides new workers, and because competition between capitalists imposes such practices on every capitalist if he is to compete (381). Thus it is the class struggle that determines the length of the working day. The bulk of the chapter goes over the legislation that has regulated the working day. Until the 19th century such legislation was imposed by capital to try to lengthen the working day (382-89), although the length established was less than that which became normal in the 19th century. In the 19th century legislation has resulted from the struggle of workers (exploiting divisions within the capitalist class, and between capitalists and landowners) but even the legislative gains have been eroded by employers. Thus the workers have had to struggle for enforcement as much as for the initial legislation.

Chapter 11.

The chapter on the working day describes the attempts of capital to increase the amount of surplus labour by extending the working day. This chapter tidies up a few loose ends. Marx establishes that the total mass of surplus value produced is equal to the variable capital advanced multiplied by the rate of surplus value (418). Secondly, he notes that there are limits to the extent to which capital can compensate for a reduction in the variable capital advanced (by employing fewer workers) by an increase in the rate of exploitation (by lengthening the working day) (42O). Thirdly, he notes that if the value of labour power and the rate of exploitation. are fixed, then the mass of surplus value produced is proportional to the variable capital advanced (421). Marx then notes "This law clearly contradicts all experience based on immediate appearances" (since in practice capitals receive profit in proportion to the total capital laid out - the rate of profit). Clearly this apparent contradiction will have to be resolved, but not by `violent abstraction' (i.e. asserting that there is no contradiction without a thorough analysis), or by abandoning the regulative law for the appearance (as vulgar economy does). Marx postpones the task to volume 3.

To be a capitalist it is necessary to have a certain minimum quantity of money that can serve as capital (i.e. enough to bring back sufficient surplus value to live on the labour of others) (422).

As capital takes command of production, the capitalist directs the labour of the worker, and the capital relation (the relation between capital and labour) becomes a coercive one (424). At first capital does not change the methods of production inherited from the past. The production of surplus value by the extension of the working day was as effective in old-fashioned forms of production as in the newest. (425) FinalIy, when capital takes hold of production, an "inversion" takes place. When it is the worker, directing production, who is the subject of the labour process, master of the machine, it is capital that is the subject of the valorisation process, so that the machine is the master of the worker (425).

Chapter 12.

This chapter introduces the concept of relative surplus value. Surplus value can be increased not only by lengthening the working day, but equally, with a given length of working day, by reducing the length of the period of necessary labour. Although in practice this is often done by paying labour-power below its value, Marx is assuming that all commodities exchange at their value for now, so this possibility must be left aside (429-431). Thus the necessary labour-time can only be reduced by reducing the value of labour power, i.e. the amount of labour-time required to produce the worker’s means of subsistence. This in turn depends on an increase in the productivity of labour. Thus "the conditions of production of his labour, i.e. his mode of production, and the labour process itself, must be revolutionised" (431) - capital can no longer take the mode of production as given. 432 (n.b. a fall in the value of labour power does not mean a fall in the real wage, but rather a reduction in the time required to produce the means of subsistence). This leads Marx to distinguish <u>absolute surplus value</u> "which is produced by the lengthening of the working day" from <u>relative surplus value</u> "which arises from the curtailment of the necessary labour-time" (432).

How is relative surplus value produced? It cannot be produced directly by a single capitalist, for it depends on a reduction in the time taken to produce the worker's means of subsistence, and thus involves a large number of capitalists improving their methods of production. Thus relative surplus value is produced by the generalised development of the productivity of labour in those industries that supply the means of subsistence or the means of production of means of subsistence. (Hence improvements in the productivity of labour in industries producing `luxury' goods do not affect the rate of surplus value - they simply cheapen capitalists' consumption goods). 432.

Improvements in productivity do not benefit the capitalist who introduces them as much as they benefit all capitalists taken together. If the productivity of labour in baking is improved so that bread is cheapened and money wages correspondingly reduced, the gains accrue to all capitalists, not only to the bakers, Since capitalists are no more philanthropic towards their fellow capitalists than they are towards their workers, we have to ask why they introduce these improvement in productivity. "The general and necessary tendencies of capital must be distinguished from their forms of appearance" (433).

In fact it is competition that drives each individual capitalist to increase the productivity of labour. If a capitalist can improve methods of production, and so produce with less than the currently socially necessary labour-time, then he can make extra profits, since the price will still correspond to the old methods of production. As other capitalists introduce the new method of production the price will fall and the extra profits will be eroded. Those capitalists who stick with the old methods of production will find their profits eliminated altogether because they now produce with more than the socially necessary labour-time.

Thus every capitalist will seek to improve the productivity of labour to increase his profits, or to defend his profits from competitive erosion. In the short-run the extra profits produced will accrue to the capitalist who introduced the new technique. But soon competition will erode this extra profit and the price of the commodity will fall. If this commodity enters into the production of the workers' means of consumption, or enters their consumption directly, the fall in price will reduce the value of labour-power, and so the necessary labour-time, and so the rate of surplus value for all capitalists. If it is a luxury item the cost of living of capitalists will fall, but there will be no increase in surplus value (433-7).

It is important to understand that the earning of extra profits by an individual capitalist who introduces an improved method of production is not the same thing as the production of relative surplus value, which involves the capitalist system as a whole. In particular, the capitalist who produces luxury goods can earn an extra profit, but make no contribution to increasing relative surplus value. Thus the individual capitalist seeks to economise on labour, to reduce the amount of labour needed to make his product. The implication of the constant advance of productivity for the system as a whole, however, is a "cheapening of the worker" , a reduction of the value of labour power, and so an increase in surplus value. Thus surplus value can be increased not only by extending the working day, but also, as capital transforms methods of production, by increasing the productivity of labour.

Chapters 13,14, 15.

These three chapters deal with the progressive transformation of the mode of production carried out as capital took hold of production. It is this progressive transformation that leads to the steady increase in the productivity of labour, and so the production of relative surplus value. These three chapters therefore sketch out the material foundation of the production of relative surplus value, i.e. the development in the social relations of production to which the production of relative surplus value corresponds.

Chapter 13 considers 'cooperation', which is the basis of all capitalist production: the bringing together of a large number of workers under the command of a single capitalist (439). This is both the logical foundation and the historical starting point of capitalist production. Initially capital simply increases the scale of handicraft production. This increase in scale has its effects: 1) the differences between individual workers are evened out, so that labour comes to have from the start a `socially average character' (440-1). ii) the increase in scale "produces a revolution in the objective conditions of the labour process" , e.g. buildings are transformed and economies of scale reduce costs of production 'even before the labour process itself is affected’ (441-2). Cooperation makes possible advances in productivity, but workers can only cooperate if brought together, thus the scale of cooperation depends on the size of capital in the hands of the capitalist who must combine workers and means of production (443-8). Moreover cooperation makes the subjection of labour to capital no longer something accidental, but makes it into a "real condition of production" (448), since it is only capital that can bring - the workers together (in a capitalist society). Thus "the work of directing, superintending and adjusting becomes one of the functions of capital" 449. But capitalist control is also a function of the exploitation of the labour process and in both functions the form of capitalist control is "despotic" (449-50). The increase in productivity that becomes possible with cooperation, because it only appears with the subordination of labour to capital, appears to be the product of capital itself: the productive power of collective labour appears to be a "productive power inherent in capital" 451. Capitalist cooperation is only one social form of cooperation, but cooperation is the fundamental form of the capitalist mode of production (452-4).

Chapter 14 considers in some detail the development of manufacture, the form of cooperation based on the division of labour, in some detail. The manufacturing period runs from the mid-16th to the late 18th centuries. Marx examines closely the development of the manufacturing labour process out of the handicrafts on which it is based. Manufacture assembles specia1ised workers in one place, and breaks down the process of production into a series of distinct tasks. Thus it divides up the skills of handicraft produbtion to give a labour force of workers with very narrow specialisations, on the one hand, and unskilled workers, on the other. (This is important, and again brings out the sociological character of Marx's approach: for Marx manufacture is not a technical development that involves the development of methods of production appropriate to different abilities, but is a social development of the labour process, under the domination of particular social relations, that implies the creation of particular kinds of ability). Marx contrasts the division of labour in the workshop in which the allocation of tasks and the regulation of labour is planned and executed by one will, that of the capitalist, with the division of labour in society, where it is only through the exchange of products as commodities that labour of different forms is brought into contact with one another. The social division of labour, whether it takes the form of the exchange of commodities or the primitive community etc., is common to many forms of society. The manufacturing form of the technical division of labour is specifically capitalist. (Note that the commonly used terms social and technical division of labour do not imply that the technical division of labour is not also a social phenomenon).

Manufacturing is still based on the skills handed down from the handicraft era, fragmenting and rationalising the methods of handicraft production. As such it is limited in the possibilities for increased productivity that it opens up. However manufacturing not only leads to the extreme specialisation of labour, but also to the extreme specialisation of tools, and from this develops the machine (486-91). Thus Chapter 15 turns to the most highly `developed form of capitalist production, based on the machine. Marx discusses the development of machinery on the basis of the manufacturing division of labour, (section 1). With machinery the cooperative character of labour is integrated into the instrument of labour itself, the machine (5O8). Machinery makes possible the expansion in the employment of women and children (517), it imposes a further lengthening of the working day (526-533), it leads to the intensification of labour, which is the inevitable corollary of the shortening of the working day as capitalists try to pack more labour into the shorter time (so generating renewed pressure for a shorter working day) (533-542).

Marx then analyses the development of social relations within the factory: the new form of division of labour that appears, the deskilling of labour, the domination of man by the machine, the separation of mental from manual labour, the rigid discipline (542-553), the use of the machine as a weapon in the struggle of capital against labour, and the worker's illusion that it is the machine, rather than capital, that oppresses him (553-564). Then follows a long discussion of the impact of the introduction of machinery on employment: it may throw workers out of work. Although increased accumulation creates more jobs, even when workers can get new employment their situation becomes unstable: in and out of work, changing occupations etc. Cyclical fluctuations become important (564-588). Finally Marx looks at the wider impact of large-scale industry on society: on manufacture, handicrafts and domestic industry which are transformed, where they are not eliminated by competition, in response to the escalating industrial demand for their products, so as to present even worse labour conditions than industry itself. Marx looks briefly at the impact on education (613-5) and the family (62O-1), and on agriculture.

Chapter Sixteen.

This short chapter sums up the discussion of absolute and relative surplus value. Firstly Marx points out that under the factory system the product becomes the "joint product of a collective labourer" rather than an individual product. Thus the definition of the productive labourer is extend to cover all those who, even if not working directly on the product, form part of the collective labourer. On the other hand, the definition of the productive labourer also becomes more narrow. Since capitalist production is the production of surplus value, only workers who produce surplus value, and so contribute to the self-valorisation of capital, are productive.

Marx then returns to the concept of absolute surplus value. The production of absolute surplus value is the extension of the working day beyond the point of necessary labour. "It forms the general foundation of the capitalist system, and the starting point for the production of relative surplus-value." Relative surplus value production involves shortening the necessary labour time by revolutionising methods of production. Thus relative surplus value depends on the development of capitalist methods of production and the real subsumption of labour under capital (in which the worker is subordinated by the very methods of production: machinery) that develops out of the formal subsumption of labour (in which capital has taken control of the labour process but not yet transformed it). While the production of absolute surplus value is characteristic when labour has been only formally subsumed, it continues with real subsumption and the production of relative surplus value.

In some respects absolute and relative surplus value cannot be distinguished: all surplus value is both absolute and relative. However the distinction is meaningful when we consider the need to increase surplus value: the capitalist then has to choose between lengthening the working day or increasing the productivity or intensity of labour. (Increasing the intensity of labour in some senses falls between increasing productivity (relative s.v.) and lengthening the working day (absolute s.v.) because intensified labour counts as a greater quantity of simple labour).

Chapter 17

You can skip this chapter, which considers a series of examples in which Marx explores the relationship between variations in the length of working day, intensity of labour and productivity of labour, on the one hand, and the rate of surplus value, on the other. In the chapter Marx makes it clear that he regards it as quite possible for wages to rise if productivity is rising (which gives the lie to the claim that Marx regarded a progressive decline in living standards as inevitable - the `immiseration thesis'). The point is that as productivity rises the value of labour power falls because the labour-time required to produce the worker's consumption falls. The price of labour (the wage) may fall less than this, however, in which case the living standards of the workers will rise at the same time as the rate of surplus value rises (in this sense, workers and capitalists "share" in the benefits of productivity advance).

Chapter 18.

This brief note contrasts Marx's formula for the rate of surplus value (S/V) with that of classical political economy. Because the latter had no concept of the value of labour-power or of variable capital the classics defined the rate of surplus value as the share of surplus value in the product. This both misrepresents the degree of exploitation of labour, leads to the assumption of a working day of given length, and conceals the "specific character of the capital-relation", instead giving the impression that capitalists and workers share in the product.

Chapter 19This chapter examines the wage-form, in which the value of labour-power appears in the form of wages for labour, and so makes it appear as though the worker is paid not for his labour-power, but for the labour he has performed. Thus, just as with commodity fetishism, we find that appearances are quite different from reality. This form of appearance is fundamental to the ideology of capitalist society, for in it all labour appears as paid labour (p. 680).

Chapters 20 - 22.

Within the wage-form there are a number of variants. Chapter 20 looks at the variant of time-wages, which is especially appropriate for part-time labour and for lengthening the working day through overtime. Chapter 21 looks at piece-wages, which are seen as simply a converted form of time-wages, especially appropriate to the capitalist mode of production because of their use to intensify labour. Chapter 22 looks at differences in wages between countries. This is important for the discussion of international economic relations. Marx argues that in taking account of different national wage levels we have to take account of the social conditions of labour in different countries - the historically developed level of the workers' needs, the price of necessities, the extent to which the labour of women and children is used, the length of the working day, the productivity and intensity of labour. Since the productivity and intensity of labour vary from country to country, labour-times cannot be directly compared across national boundaries. Thus commodities do not have a common international value. Correspondingly, capitals of countries with high productivity and intensity of labour are able to appropriate super-profits through international trade, by selling their commodities abroad at prices above the national value in the supplying country, but below that in the buying country. Finally, high wages should not be equated with a lower level of exploitation. Since higher wages correspond to a higher degree of development of the productive forces, and thus a greater intensity and productivity of labour, higher wages more characteristically correspond to a higher rate of exploitation.

The Accumulation of capital.

We now begin to move out from the "immediate process of production". It is perhaps a good idea at this point to look back over the reading so far. Marx started off by examining the commodity, and the commodity relation as the social relation between commodity owners. He examined money as a developed form of value, that emerged out of exchange, and then introduced the concept of capital, self- expanding value. The concept of capital then took Marx beyond the commodity relation and relations of exchange. Starting from the relation between capitalist and labourer as an exchange relation between commodity owners, Marx moved behind this relation to the sphere of production in which the capitalist set the labourer to work. He then analysed in detail the production of surplus value in the immediate process of production, where the relation between labourer and capitalist is no longer a relation of equality between commodity owners, but an exploitative relation in which capital seeks to maximise the surplus value it appropriates. Marx distinguished the labour process from the valorisation process and argued that capitalist production is a combination of the two in which it is valorisation that is in command. He then went on to examine absolute surplus value, and the means of producing absolute surplus value by lengthening the working day. He then turned to relative surplus value and the means of producing this by revolutionising the means of production. This led him to examine in great detail the way in which capitalist control of the process of production transforms production as both a social and a technical process in the search for relative surplus value. Finally Marx had a digression on wages, arguing that wages are the form of appearance of the price of labour power in which it appears that all labour is paid for. It is thus a form of fetishism, just like the value-form, in which reality is concealed.

So far the analysis of the production of surplus value has looked simply at one production period. However, once surplus value has been produced and incorporated into the original capital, the new enlarged capital is laid out again. Thus capitalist production has a fundamental dynamic, the dynamic of accumulation, in which the scale of capitalist production constantly expands. It is the dynamic of accumulation that governs the development of capitalist society, for it is not simply a quantitative expansion. The increasing scale of accumulation also produces qualitative changes. The concept of capital accumulation is therefore central to Marx's understanding of the historical development, of the "laws of motion", of capitalist society.

Chapter 23.

We now move on to accumulation. In an introductory note to part Seven Marx notes the abstract character of this initial discussion. He defines the circulation of capital, in which capital passes through its various forms: money is transformed into means of production and labour power in circulation. Means of production and labour power are converted into products, that embody the original capital plus the surplus value, in production. The products are then sold in circulation, with the aim of realising the original capital plus surplus value in order to throw the augmented capital back into the fray by buying more means of production and labour power. The whole of the rest of the analysis of Capital is formulated within this framework.

For the moment Marx simplifies the analysis of accumulation by making two fundamental assumptions. Firstly, he abstracts from the sphere of circulation altogether, and assumes that all commodities are sold, without any difficulty (or selling costs), at their value. This is obviously a very restrictive assumption, for circulation is as much a part of the cycle of accumulation as is production. It is relaxed in volume 2 , that discusses production and circulation. Secondly, Marx assumes that there are only capitalists and workers, ignoring the different forms of capital - so ignoring rent, interest, money and the credit system. This assumption is relaxed in volume 3 when the division of surplus value between individual capitalists, and between profits, rent and interest, is discussed. Thus Marx focuses his attention on one phase of the process of accumulation alone. The fact that in the analysis of volumes 1 and 2 Marx does not consider the division of surplus value between different capitalists, but only considers the total relation between capital and labour, is very important. Marx, for the bulk of his analysis, ignores the fact that there are many capitals, each independent of the others, to conduct the analysis at the level of capital-in-general. (Although the existence of many capitals is implicit in e.g. his introduction of competition between capitals at various points in the analysis. Implicitly, of course, such competition is always assumed in the argument, for it is only through competition that the law of value is imposed on particular capitals, and so can be assumed at the level of capital - in - general) (On the concepts of capital-in-general and many capitals see R. Rosdolsky: *The Making of Marx's Capital*, pp. 41 - 50, and &n Fine's review in *Capital and Class* 6).

The restrictive assumptions made in volume 1 must be borne in mind when reading the analysis of accumulation presented here. The relaxation of these assumptions in volumes 2 and 3 considerably modifies the account. Beware of those who try to apply the analysis of volume 1 directly to the real world!

Chapter Twenty-three considers the case of simple reproduction. In the first place reproduction is simply another way of regarding production (711). If the surplus value, that "acquires the form of a revenue arising out of capital" (712) is consumed by the capitalist, then the capital laid out in the next period will be unchanged: we are dealing with simple reproduction, where there is no change in scale because surplus value is consumed rather than being reinvested. However, looking at the process as a process of reproduction does introduce some changes in our understanding of it. Thus it becomes clear that the worker is paid a portion of his own product, although this transaction "is veiled by the commodity-form of the product and the money-form of the commodity".

Thus "variable capital is therefore only a particular historical form of appearance of the fund for providing the means of subsistence…" (Note again the concept of "form" being used to conceptualise the historically specific character of a particular social process). It is only when the process is seen within the context of reproduction that this becomes clear, and the idea that variable capital is advanced by the capitalist disappears. Even if the capitalist advanced the variable capital in the first place, it is not long before the capitalist has consumed all his original capital, so that all that is left is capitalised surplus-value.

Thus we see that the confrontation of capital and labour, that originally appeared as the starting point of capitalist production, is in fact its result Capitalist production is in fact the production of capital at one pole and free labour at the other. When we look at the reproduction of the system as a whole even the individual consumption of the worker becomes a part of the reproduction of the whole, since it is the reproduction of labour power (although in a capitalist society, at least, this reproduction is left to the worker's own desire to reproduce him or herself). Since in this consumption the worker consumes his means of subsistence he, or she, has to return again to the labour market as wage labour.

Thus the worker is as much an "appendage of capital" as is the machine, his independence being an independence of any particular -capitalist, but not of the capitalist class as a whole. Finally, after a long quotation, Marx sums up: "The capitalist process of production, therefore, seen as a total, connected process, i.e. a process of reproduction, produces not only commodities, not only surplus-value, but it also produces and reproduces the capital-relation itself: on the one hand the capitalist, on the other the wage-labourer." (724).

Chapter 24.

Marx now considers reproduction on an increasing scale as surplus value is converted into capital: "The employment of surplus-value as capital, or its reconversion into capital, is called accumulation of capital." (725). The accumulation of capital implies that the means of production and means of subsistence that are to be purchased by the reinvested surplus value have in fact been produced, thus accumulation depends on a certain physical composition of production (Marx examines this in more detail through his `reproduction schemes' in volume 2). Marx goes on to look at the implications of the fact that the working class is employed by capital that is the product of its own surplus labour. He argues that the real meaning of the laws of private property (“laws of appropriation" p. 729) based on the production and circulation of commodities is inverted. Originally property develops as property in the product of one's own labour and exchange is the exchange of equivalents. Yet when the capitalist and worker confront one another, although every exchange continues to obey the laws of commodity exchange, the relation as a whole is one in which capital is "itself merely a portion of the product of labour which has been appropriated without an equivalent" that is reproduced, with a surplus, by its producer. Thus the form of the relation between capitalist and worker (the form of exchange) becomes a mere `semblance' (that only has any reality if we restrict our attention to circulation). The content of the relation is quite different, for on the basis of the equal exchange in the sphere of circulation, the capitalist is able to appropriate labour without an equivalent in the process as a whole.

Thus the real law of capitalist appropriation is the inverse of the formal law that continues to be the law of appropriation (property law) of commodity production. It is only if we focus on individual buyers and sellers (i.e. on circulation) that this reality is concealed, for within circulation there is no basis for the class relation between capitalists and workers that is at the root of capitalist appropriation (732-3 n.b. Marx is arguing that it is only as a class that the exploitation of labour by capital appears (since a particular individual is e.g. not necessarily employed by a capital that represents his or her own past labour), and that classes cannot be conceptualised on the basis of commodity exchange).

Section 2 briefly refers to the erroneous conception the political economists' had of reproduction: they believed that all surplus-value is converted into labour-power, as capitalists consume it unproductively by taking on more retainers etc, or as they employ it for accumulation by taking on productive (of surplus value) labourers. Marx notes that this is not the case: the additional capital has to be laid out to buy both labour-power and means of production if it is to enter the accumulation process. He will return to this illusion later.

In the third section Marx goes on to look at the development of the concept of capitalists' saving and consumption. This is an interesting section because it has an extended discussion of the way in which the motivation of the capitalist develops historically, and of the way in which political economists' conception of the capitalist has developed correspondingly. In the early stages of accumulation the capitalist was compelled to be miserly and abstemious, and political economy contrasted him with the wanton and idle aristocrat who wasted capital in consumption, thus all consumption by the capitalist was seen as a betrayal of his capitalist duty. Later, as accumulation progresses, it becomes possible, and even necessary, for capitalist consumption to increase. As the capitalist came to be confronted, from 1848, by the working class, rather than the landowner, vulgar economics came to replace political economy (for Marx vulgar economy is a purely apologetic recitation of the superficialities of capitalist society, political economy is a genuinely scientific, though still bourgeois, attempt to understand it). Suddenly, instead of accumulation being considered the sacred duty of the capitalist, the means by which he remained a capitalist, it becomes an act of self-denial, of abstinence from consumption, so that profit comes to be seen as the reward for this self-denial. To criticise this view Marx simply points out that reproduction on an increasing scale (and so `abstinence' from consumption) is characteristic in the economic formations of many kinds of society without those societies having capital: abstinence is a universal feature of expanded reproduction, while capital is a particular economic category and social relation.

Given the rate at which capitalists consume out of surplus value, the rate of accumulation will depend on the magnitude of surplus value, and so on the factors that determine that magnitude. Marx discusses such factors as forcing wages below the value of labour-power, increasing the duration and/or intensity of labour (so as to economise on means of production), and increasing the productivity of labour. An increase in the productivity of labour means that the same quantity of goods cost less. Thus the capitalist can maintain the same standard of living while increasing the amount of surplus value thrown back into production. In the same way a given magnitude of capital can employ more labourers and more means of production, and so both the physical and the value rate of accumulation increases. As accumulation progresses, the role of past labour, in the form of the instruments of labour, increases. Just as with all the powers of labour, this power of past labour comes to appear as the power of capital: qualities of the means of production are attributed to the specific social form in which they confront labour, i.e. to capital.

In the last section Marx criticises the labour-fund theory, that argued that there was only a fixed fund available to supply the workers, so that the total wage bill was invariable. Hence if one worker had a pay increase, others would either have their pay reduced or lose their lobs. This theory presupposes both that the supple of wage-goods is fixed (and that workers cannot encroach on capitalists' consumption) and that a given number of workers provide a given amount of labour (so that a given labour fund sets a fixed limit to accumulation). It is a theory that persists today.

Chapter 25.

This chapter investigates the accumulation of capital more closely. Marx firstly introduces the concept of the composition of capital. The value composition of capital is the proportion in which the capital is divided between constant and variable capital. The technical composition of capital refers to the physical relationship between means of production and labour in the process of production. The organic composition of capital is defined as "the value composition of capital, insofar as it is determined by its technical composition and mirrors the changes in the latter" (p. 762). This definition is not altogether clear. It seems that what Marx is saying is that the organic composition is the same thing as the value composition if we abstract from changes in the value of labour power or of means of production: it is the ratio of means of production to labour power valued at constant prices, and so abstracting from changes in the productivity of labour in the production of means of production or of labour power.

With a given organic composition of capital, accumulation of capital implies an increase in the number of workers. Eventually such an increase may outstrip the supply of labour-power, so that wages rise. However such a rise in wages does not affect the nature of exploitation or of accumulation: it can never go so far as to erode altogether surplus labour, thus "this reduction can never go so far as to threaten the system itself." (769-70). If the price of labour rises enough to reduce the rate of accumulation, then the demand for labour falls and the pressure on wages is reduced. Thus "the mechanism of the capitalist production process removes the very obstacles it temporarily creates" (770). Hence the rate of accumulation is not determined by the supply of labour, rather it is fluctuations in the rate of accumulation that determine the amount of exploitable labour-power. (Here Marx is arguing against those who see accumulation as being determined by the rate of growth of population. He argues instead that it is accumulation that determines the growth of employment, i.e. accumulation is a social process expressing the exploitation of labour, and not a natural process, expressing population growth).

In the second section Marx considers changes in the organic composition of capital. Accumulation is associated with a steadily increasing productivity of labour, and this in turn implies a steady increase in the technical composition of capital: as a consequence of increasing productivity each worker turns more raw materials into products; while correspondingly the introduction of more massive machinery etc to assist the worker is a cause of increasing productivity. Finally Marx argues that this change in the technical composition of capital is reflected in an increase in the value composition as the proportion of capital laid out as constant capital steadily increases. (n.b. this in fact assumes that the prices of means of production do not fall (as a result of increases in productivity) faster than their volume increases). The process of accumulation is a process of the expansion of capitalist production and an increase in its scale. This involves both the increasing concentration of the means of production in the hands of ever larger capita1ists, and the appearance of new capitalists in competition with one another. Apart from this concentration of capital that is a result of accumulation, there is also a centralisation of capital as more profitable capitals swallow up less profitable ones. Centralisation is a result of i) the economies of scale that enable large capitals to out-compete small ones ii) the intense competition between smaller capitals that drives many to ruin iii) the operation of the credit system. Centralisation, fostered by the rise of the credit system and the joint- stock company, serves itself to accelerate accumulation by bringing together much larger masses of capital than could be amassed by concentration alone, thus permitting large scale enterprises, e.g. railways. Finally, the rising organic composition of capital means that fewer and fewer workers are employed by a given size of capital, and correspondingly the renewal of old capital (ie old means of production, outdated machines) tends to displace workers.

In the third section Marx considers the displacement of labour in the course of accumulation. He argues that a rising organic composition of capital means that a larger capital is required to maintain a given level of employment. Thus to maintain employment accumulation must become progressively more rapid. At the same time, though, more rapid accumulation means a more rapid increase in the organic composition. Thus (to the extent that accumulation cannot be rapid enough to absorb the whole working population) accumulation itself produces a "relatively redundant working population" (i.e. creates unemployment): this is the relative surplus population. Because of the unevenness of capitalist development this relative surplus population is constantly being created in some branches of production, and is often reabsorbed in others, and this on an ever-increasing scale. This surplus population is "a condition for the existence of the capitalist mode of production" as the industrial reserve army that provides a mass of available labour power independent of the natural growth of population, and permits accumulation to proceed unevenly. This relative surplus population is both created by, and makes possible, the cyclical character of developed capitalism, that is associated with rapid and uneven changes in the composition of capital. The industrial reserve army also, by its competition, forces the employed workers to submit to intensified labour, so further reducing employment. Finally it is the expansion and contraction of the industrial reserve army that "exclusively" regulates the general movements of wages (790). Thus the supply and demand for labour are not independent of one another, but both are aspects of the accumulation of capital: accumulation both employs workers and throws them onto the labour market and "the mechanism of capitalist production takes care that the absolute increase of capital is not accompanied by a corresponding rise in the general demand for labour" (793) (i.e. if accumulation exhausts the reserve army and wages rise, then this gives a stimulus to the increasing organic composition of capital that displaces workers so that wages fall back).

The fourth section looks in more depth at the relative surplus population. There are three basic forms: the floating, which refers to those workers who are in and out of work, displaced by cyclical fluctuations, technical advance, younger workers etc. The latent form of the relative surplus population refers to those workers who are in employment, but in backward sectors and bad conditions, especially in agriculture, who are therefore always ready to flow into alternative employment. The stagnant form is in very irregular employment and then on very bad terms (casual workers, seasonal workers etc). Beneath these forms, but part of the reserve army, are paupers, and beneath them the lumpenproletariat. (Note that Marx sees the stagnant form of the reserve army as a "self-reproducing and self-perpetuating element of the working class" (796) - the theory of relative surplus population is also part of a theory of the internal differentiation of the working class). Marx sees the constant growth of the reserve army and of pauperism as the counterpart to the process of capital accumulation. "This is the absolute general law of capitalist accumulation" (798) - although Marx adds "Like all other laws, it is modified in its working by many circumstances" thus he does not necessarily regard it as an inevitable or universal law. The following two pages spell out the general point involved here: that under capitalism accumulation is not for the benefit of the worker but is the means by which his or her position is steadily worsened (not simply in an economic sense). The final section of this chapter illustrates the "general law of capitalist accumulation" by providing a succession of examples of the growth of poverty and unemployment in the midst of rapid accumulation, concentration and centralisation of capital. Note at the beginning of sub-section d (p. 822) Marx refers to the best-paid section of the working class as its "aristocracy".

Marx's examination of accumulation in part VII of volume 1 ties together his earlier analysis by relating the parts of the system together into an interdependent, and dynamic, whole. Thus, for example, the separation of the labourer from the means of production and subsistence, on the one hand, and the confrontation of this labourer with money capital, on the other, were initially seen as being separate preconditions of capitalist production. The analysis of accumulation ties these together and shows how capitalist production creates not only use-values, not only values, but also capitalist social relations: capital and wage labour are both products of the accumulation of capital. In the same way the growth of the labour force or of the market are not factors external to capitalist production, but are themselves aspects of the accumulation process.

In part VIII of volume 1, Marx rounds off his account of the social relation between labour and capital by examining the origins of that relation. Just as in the process of accumulation capital and free labour are the "joint-products" of capitalist production, so the origins of capitalist production are sought by Marx in the social process that created jointly capital and free labour. This is the process in which the workers (peasants and artisans) are dispossessed of their means of production and subsistence, the process of "primitive accumulation".

In Chapter XXVI Marx argues that we cannot find the origins of capitalist production simply in a sum of money,, perhaps saved by an industrious worker, for money can only be transformed into capital through the purchase of labour power. Thus feudal exploitation had to be changed into capitalist exploitation through the dispossession of the working population. Chapter XXVII looks in detail at the expulsion of the agricultural population from the land. Chapter XXVIII looks at the role of the state in the creation of a submissive working class, when extra-economic force had to be used to do what in a developed capitalist society is done by capital itself (p. 899): "The organisation of the capita1ist process of production, once it 15 fully developed breaks down all resistance...The silent compulsion of economic relations sets the seal on the domination of the capitalist over the worker". Chapter 29 looks at the origins of the class of capitalist farmers in the rural middle class. Chapter 30 looks at the creation of the home market as a product of the expropriation of the mass of the population (who now had to buy means of production and subsistence that they had previously provided for themselves). Chapter 31 looks at the relation between commercial and financial capitalist activities and the rise of the industrial capitalist (and includes the famous quote: "Force is the midwife of every old society pregnant with a new one. It is itself an economic power. "(916). Chapter 32 sums up the whole of volume 1: primitive accumulation is the expropriation of petty private property by capital, capitalist accumulation continues this process with the centralisation of capital and the socialisation of labour until they "become incompatible with their capitalist integument. This integument is burst asunder.!'...

Volume Two Production and circulation.

Volume 1 of Capital started with an examination of the commodity and of the process of exchange, before turning to the study of production as the process of production of surplus value. In volume 1, therefore, production and circulation were examined independently of one another, with circulation being treated in parentheses. In volume 2 Marx turns to the role of circulation in a capitalist society and examines the relationship between capitalist production and circulation. A lot of the discussion is detailed and technical, and we will skip. But the basic argument is fundamental to Marx's account of capitalist society, and both modifies and complements the analysis of volume 1. Marx's main concern is to show in a systematic and rigorous way that circulation is subordinate to production: that capitalist social relations are rooted in production rather than in circulation; that the role of circulation is to provide a mechanism that can, through the exchange of products and the operation of markets, ensure that commodities of particular types (i.e. particular use- values) are produced in the quantities and in the proportions required for the reproduction of the system. Thus the market serves to co-ordinate the different branches of capitalist production: it regulates the "social division of labour" in a capitalist society as in simple commodity production. The secondary literature on volume 2 of Capital , and especially on the "circuits" of capital, is almost non-existent. Ben Fine: Marx's Capital, ch 7 gives a brief account, as does his article: "The Circulation of Capital, Ideology and Crisis". CSE Bulletin, 12, Oct 1975 (was once in SRC!). The latter article indicates the importance of the analysis for Marx's account of ideology and of crises.

Chapter 1. In the first three chapters Marx looks at the circuit of capital from three different points of view. The elements of the circuit are the same in each case, but approaching the same thing from different angles both gives a complete picture of the whole, and an understanding of the kinds of illusions to which a partial view can give rise.

The basic circuit under examination is the circuit of industrial capital. This is composed of the purchase of labour power and means of production, the act of production, and the sale of the commodities produced in a constantly repeated cycle. If we look at the cycle starting from a sum of money capital we have the circuit of money capital that is looked at in chapter 1: M – C – L/MP...........P..... C' - M'.

In this formula M is money-capital, C is commodity-capital (here composed of means of production and labour-power), P is productive-capital, C' is again commodity-capital (now composed of products), M' is again money-capital. Thus M,C,C',M' are various forms of capital, appropriate to various phases in the circuit of industrial capital. What Marx wants examine is these different forms of capital. What he wants to show is i) that these different forms of capital are not inherently capital but only become capital because of their roles within the circuit as a whole. Thus neither money, nor commodities are inherently capital. ii) that the circuit as a whole is defined as a circuit of capital because it includes within it the capitalist process of production within which surplus value is produced. Thus it is through their functional relationship to the production of surplus value that money and commodities within this circuit function as capital. Marx tries to show this by examining each form of capital in turn.

The first stage of the circuit is the purchase of commodities with money: M - C. This act is not capitalist in itself: it is a simple act of circulation. Thus there is nothing inherent within it to stamp either M or C as capital. Thus what makes this act capitalist, and M and C forms of capital, is not "the form of the act but its material content " (24), the fact that C is made up of means of production and labour power in definite proportions appropriate for capitalist production. Thus C here takes the form of productive-capital, capital that can produce surplus-value. It is only because the original money-capital is turned into productive capital that it represents a form of canita1– In itself it performs only the functions of money - it purchases a set of commodities. Thus the initial sum of money serves as capital because of its function within the circuit, which is to buy productive capital and so to make possible the production of surplus value (26).

In the transformation of money-capital into productive-capital the status of the two purchases M - L and M - MP is different. Means of production have to be purchased in order to set the labour power to work, labour-power is purchased because it is productive of surplus value. Thus M - L is the core of the circuit, the characteristic transaction of the capitalist mode of production. (Not simply because of the existence of wage-labour; i.e. not because of the form of the transaction, but because the transaction is the prelude to the production of surplus value. It is only when the purchase of labour-power becomes the means of producing surplus value (when labour power appears characteristically as a commodity) that such a purchase converts the money involved in it into money-capital. Thus money does not become money-capital simply by virtue of employing somebody (e.g. a servant)). (28). Consequently M-L is only a phase in the circuit of capital when the class relation between capital and labour has developed (and the worker has been separated from the means of production and subsistence), and "the class relation between capitalist and wage-labourer therefore exists, is presupposed from the moment that the two face each other in the act M - L" (29) (This is very important: it means that the exchange of money for labour-power is not a relation between two individual commodity owners; thus it does not have the form of exchange analysed in volume 1. It is an exchange between individual members of two antagonistic social classes. The capitalist comes to market as a capitalist, not simply as an isolated individual, while the worker comes as a worker). It is this class relation between capital and labour that is the basis of capitalist production and so that makes possible the transformation of money into capital. (30) Thus the economic categories examined in the circuit of capital reveal on examination a definite set of social relations lying behind them, and it is these social relations that make it possible for money to act as capital (30-31). Thus the circuit of money-capital, in which money appears to generate surplus value, on examination presupposes the circuit of productive capital, within which, as we shall see, the purchase of labour-power by money is subordinate to the production of surplus value (i.e. the role of money is simply to bring together the elements for the production of surplus value) (32).

The circuit also presupposes the development of commodity production on an extensive scale (31-33): the capitalist must have money-capital to start with and this must come from the prior sale of commodities. The workers must be able to buy commodities with their wages if they are to reproduce their labour-power. Hence capitalist production is also the generalisation of commodity production. Thus the separation of the worker from his or her means of production and subsistence, which is the basis of the extensive development of commodity production, is again found to be a condition of the circuit of capital.

If we look at the stage of productive capital we see the capitalist setting means of production and labour-power to work. It is not, however, their character as means of production or labour-power that makes these factors of production into capital. It is only because of their role in the production of surplus value that they become capital. Thus labour-power is simply a commodity in the hands of the worker, only becoming capital when bought by the capitalist, while the means of production only function as capital when combined with labour-power. Hence again it is only the historically developed social relations in which the capitalist monopolises means of production and subsistence and so confronts free labour that give labour power and means of production ("productive capital') their character of forms of capital (35).

Capitalist production finishes up with commodities. As the results of capitalist production these are the form of commodity-capital. Again there is nothing in the commodities themselves, or in their sale, that makes them capital. They are capital because of their role in the circuit of capital as the bodily form of the valorised capital: capital plus surplus value. Just as the original money-capital was a form of capital because it prefigured the process of production of surplus value, 'so commodity capital is a form of capital because it expresses it (37). The sale of the commodities that comprise commodity capital is a realisation of the capital-value and surplus-value embodied in those commodities. While capital is in the form of commodity -capital, awaiting a seller in the market, it is not creating new value and so is not creating surplus-value. Thus the amount of surplus value a capital can `produce' in a certain time depends on the amount of time it is tied up as commodity-capital: the more rapidly a capital can be "turned-over" the more surplus value it can produce. This introduces a determinant of the rate of surplus value other than the rate of exploitation (38).

With the sale of commodity-capital the original capital is restored to its money-form. From the point of view of the original capital the whole `circuit is simply a series of changes in form. However the transformation of commodity capital into money also represents the realisation of surplus value in the form of money for the first time. Thus the final money-capital, M’, plays two roles: it restores the original capital to the money-form, and it realises the surplus value. This final sum of money is again capital only because of its functional role in the circuit of capital, i.e. it is only because the commodities which are sold are the embodiment of the original capital plus the new surplus value that the sum of money their sale realises is a sum of money-capital. (40-42).

If the circuit of money-capital is looked at as a whole, in summary form, it looks as though it is the original capital that has given rise to the surplus value on its own (42-4): it appears that the surplus value is the product of the original capital, rather than deriving from the process of production. This is the <u>irrational</u> expression of money-capital (Irrational because money cannot breed money on its own - Marx has tried to show that it is only in its relation to the production of surplus value in the circuit of capital that the original sum of money, the productive capital, the commodity capital and the final sum of money are all forms of capital. In themselves they are only money or commodities with no miraculous powers of self-expansion) Thus the final form of money-capital, M', contains no trace of the process of production from which it derived its character as capital (45-6).

When we examine the circuit as a whole we see that it is only the process of production that is " a real metamorphosis of capital, as compared with the purely formal metamorphosis of circulation" (47). Within the circuit money-capital, productive-capital, commodity-capital are not independent capitals, but are different forms of industrial capital, each with a functional role to fulfil in the circuit of industrial capital. It is only as forms of industrial capital that the money and commodities in question function as capital. (48). But because capital has to pass through all these functional forms it can be blocked e.g. in the form of a hoard of money, a stock of unsold commodities, or idle labour and means of production, with the result that the production of surplus value, and so accumulation of capital, is slowed (48). This is quite normal with regard to fixed capital: a certain amount of capital is immobilised in the form of machines (51). Transport and communications, like gold production, are exceptional in that the product does not take an independent commodity form (52-5).

Before the era of capitalist production commodity-capital (merchants) and money-capital (bankers) existed as independent forms of capital. With the rise of capitalist production, and so of industrial capital in which capital is involved in the production as well as the appropriation of surplus value, money-capital and commodity-capital lose their independence and become simply functional forms of industrial capital, subordinate to it. (55)

Looking at the circuit of industrial capital from the starting point of money-capital imposes a particular perspective on the circuit: 1) It makes it clear that the purpose of production is exchange-value, and not use-value, so that the process of production appears "merely as an unavoidable intermediate link" 2) Production itself is seen as merely the means of expanding value in between two phases of circulation 3) It portrays the generation of surplus value explicitly as the basis of the circuit of capital by expressing it in the money-form (since there is no change of form between the beginning and the end of the circuit its aim can only be to increase the quantity of value). 4) This form of the circuit of capital does not include individual consumption, but only productive consumption of labour power and means of production (although it implies that the labourers are in fact consuming). Thus at the end of the circuit M’ is available for further accumulation, so the circuit expresses "simply the process of self-expansion and accumulation" (57).

Although in some respects the circuit of money-capital is "the most striking and typical form in which the circuit of industrial capital appears" (59), it is also misleading if it is treated in isolation. It gives rise to the illusion of the "monetary system", that surplus value derives from circulation, and the illusion of the "mercantile system" that the purpose of accumulation is to accumulate money. The former illusion is dissipated when it is realised that the circuit depends on capitalist production, so points to the circuit of productive capital. The latter illusion is dissipated when it is realised that the single circuit is merely part of an endless repetition of the circuit as money-capital is thrown back in. Thus the aim is renewed accumulation, not the hoarding of money. (61).

Chapter II.

I have devoted a lot of attention to chapter one because once you have got the points in that chapter clear, the rest is fairly straightforward. Marx has looked in considerable detail at the circuit of money-capital in order to show, most fundamentally, that within a capitalist society circulation is subordinate to production: it is within the sphere of production that surplus-va1ue is produced. Circulation has a role to plan in providing the capitalist with the requisite labour power and means of production and in realising the commodity-capital, embodying both the original capital and the surplus value. But it is only in their relation to capitalist production that money-capital and commodity-capital become forms of capital. However the circuit of money-capital does not directly reveal the centrality of production. Thus in chapter II Marx moves on to look at the circuit of capital from a different point of view, starting with production.

The circuit of productive-capital complements the circuit of money-capital in drawing attention to the two central features concealed by the latter: i) the role of production ii) the character of the circuit as a part of the constant reproduction of capital. Instead of production appearing as an interruption to circulation, circulation now appears simply as a means of reproduction.

If the capitalist consumes the entire surplus value this leaks out of the circuit and we have simple reproduction. In this case it may appear that the purpose of production is the production of use-values (since its `product' is capitalist consumption), despite the fact that it is at precisely the point at which the capitalist diverts the surplus value to his consumption that it falls out of the circuit of capital. (Don't get bogged down in this section: it is very obvious here that volume II was edited from notes after Marx's death!) In this circuit the significance of money-capital now appears quite different: it is no longer the beginning and end of the process based on an advance of money. Money now appears simply as the converted form of productive capital, thus as a "money-expression of past labour" (70). In fact credit etc means that capital may never actually exist in the form of money, and the labourer may be paid not with money representing past labour, but with money representing a draft on future labour (71-2).

Thus in this circuit the role of money-capital is simply to promote the "retransformation of commodity-capital into productive-capital" (72). Money is simply the circulating medium of capital, and it becomes clear that it has no power of self-generation - so long as capital remains in the money-form its reproduction and self-expansion is interrupted. Thus the circuit of productive- capital makes it clear that the apparent independence and privilege of the money-form of capital that characterised the circuit of money-capital is illusory, based on the perspective adopted. Thus the circuit of productive- capital " is a criticism of form I and reduces it merely to a special form. " (73).

The consumption of commodities at some point is implied by the circuit of capital (e.g, workers must consume), but consumption is not a part of the circuit itself. Thus the capitalist need only sell the commodities produced, and it makes no difference to him whether they are sold for consumption, or are sold to a merchant to lie in a warehouse. If, however, production is outrunning consumption a crisis will eventually break out (75-6).

In fact capitalist reproduction takes the form of accumulation, or reproduction on an extended scale, in which the surplus value is itself, at least in part, converted into capital rather than being consumed by the capitalist. The increase in magnitude of the productive capital at the end of the circuit in relation to the beginning now expresses not the production of surplus value (because that was completed in the initial process of production) but its capitalisation (80). (Skip over the paragraphs where Marx discusses the implications of different sorts of credit etc), Within the circuit the capitalist may need to hold money in the form of a hoard, ready to be thrown later into the circuit, or in the form of a reserve fund. In both cases the money is functioning within the circuit as money-capital, but only in a potential or latent form. (82-5). While the Monetary School and the Mercantile School, as we have seen, focused their attention on the circuit of money-capital, Classical Political Economy focussed on the circuit of productive capital (see below re p.92).

Chapter III.

The circuit of commodity-capital differs from the previous two circuits in that i) the starting point is commodity-capital, the product of a capitalist production process (otherwise it is not capital). Hence, unlike the previous two circuits, surplus value already exists at the beginning of the circuit. (87-91) ii) like the circuit of productive-capital, but unlike that of money-capital, the end point of the circuit prefigures its repetition: it implies reproduction of the circuit. While the circuit of productive-capital implies accumulation, and is thus a critique of the circuit of money-capital, it at the same time does not indicate that the object of the whole process is the self-expansion of value (valorisation), which was the advantage of the circuit of money-capital. Thus classical political economy tended to see the circuit as a circuit whose aim was the production of use-values, and so to ignore the capitalist social form of the process. They also could not understand money and money-capital because they saw money only in its role as means of circulation (92). The circuit of commodity capital includes both reproduction and the capitalist character of production (92-3). iii) The circuit of commodity-capital, because it starts off with capital plus surplus value, includes consumption within it. iv) The circuit of commodity-capital implies at each stage the existence of other commodities outside this individual circuit: e,g. to provide the means of production for the circuit etc (94-5). For these reasons the circuit of commodity-capital "clamours to be considered not only as the general form of the circuit...but simultaneously also as a form of movement of the sum of the individual capitals"(96). Thus the circuit of commodity capital leads us to look at the interconnections between the circuits of individual capitals which form interdependent parts of the total social capital, e.g. to look at the system as a whole in order to bring out the interdependence of individual capitals as buyers and sellers of commodities. Thus it is only through the circuit of commodity capital that we can progress from the individual capital to the total social capital.

The start1ing point of this circuit is a particular bundle of commodities. For the individual capitalist this presumes that there are others who will a) purchase his commodities b) sell him the commodities he needs: L and MP. For the total social capital the circuit of capital is only possible if the commodities in the bundle are just those commodities required for production and consumption in the next period (e.g. must comprise foodstuffs, means of production, luxury goods in appropriate proportions). Thus in examining the reproduction of the total social capital this is the appropriate formula to use (as Quesnay did, and as Marx will in part III of volume 2).

Chapter IV.

Marx now turns to look at the circuit as a whole. The total circulation process of capital comprises i) the unity of the processes of production and circulation: each is necessary to the other ii) the unity of the three forms of the circuit. Capital does not take now the form of money-capital, now the form of productive-capital and now the form of commodity-capital. The process is continuous, therefore a given capital always exists in all three forms, in definite proportions (100-104). Hence capital can only be understood as motion, it is the constantly renewed process in which value passes from one form to another, and only acts as capital by passing through these different forms Hence, if the process is blocked by e.g. a crisis the money and commodities cease to act as capital. This movement of the total social capital appears in the form of "the action of some individual capitalist... who.. promotes the circuit by his own activity" (105). Thus the circuit of the total social capital is made up of the movements of a whole series of interconnected individual capitals. But the interdependence of the individual capitals within the process means that each individual is subordinate to the process as a whole. Marx illustrates by examining at some length the implications of a "revolution in value" i.e. a reduction in the value of an individual commodity or series of commodities, which interrupts the process by changing the conditions under which individual capitals operate. (105-9).

It is possible that the circuit of capital encompasses precapitalist forms of production. E.g. some means of production may be produced by peasants or slaves, but this doesn't affect the form of the circuit because once they enter the circuit they still function as commodities On the other hand, by integrating precapitalist modes of production into the circulation of capital these modes are transformed into forms of commodity production. Thus the expansion of capital transforms precapitalist modes into forms of commodity production and ultimately into capitalist forms, as the most developed form of commodity production (110). The rest of this chapter comprises a number of rather rambling observations that will probably confuse more than they enlighten. Except: pp. 115- 117 Marx argues that because production dominates exchange: in a capitalist society exchange is an aspect of the circuits of capital, it is inappropriate to characterise societies by their mode of exchange: such a characterisation leads to a confusion of commodity production with capitalist production.

Guide questions:

1) How do a) money and b) commodities become capital?

2) What does it mean to describe money-capital, commodity-capital and productive-capita1 as different functional forms of capital?

3) How does Marx's analysis of the circuit of capital modify the conception of the sphere of exchange as "the exclusive realm of Freedom, Equality, Property and Bentham"?

4) Why is the circuit of money-capital "irrational"? What illusions does it foster?

5) How does the circuit of productive capital complement that of money-capital? To what illusions does it in turn give rise?

6) Why can capital be understood "only as motion, not as a thing at rest"? Why must it be seen as the motion of a value that has an "independent existence"(105)?

7) Why is it that, if the circuit of capital is the "unity of the processes of production and circulation", production is dominant within that unity?

The rest of volume 2 develops the analysis of circulation. ***Chapter V*** notes that while a capital is tied up in circulation it cannot be employed in the production of surplus value. Thus capitals seek to reduce the circulation time in order to reduce the period for which their capital is unproductive, and thereby increase the rate of profit (since the same capital can now produce more surplus value). Thus the amount of surplus value produced by a given capital no longer simply corresponds to the rate of exploitation. ***Chapter VI*** discusses the costs involved in circulation, some of which (e.g. transport) involve a genuine transformation of the product as a use-value and can therefore add value, others of which (e.g. storage) do not change the product as a use-value and so cannot increase value (because a commodity that has been stored is indistinguishable from one which has not the seller cannot hope to realise more for it as it is the same use-value). Hence the labour employed in the sphere of circulation (storekeepers, bookkeepers, shop workers, advertising agents, reps etc.) is unproductive labour. And the outlay on that labour is a drain on capital, reducing rather than creating surplus value.

Part II of volume II is centred on a very lengthy analysis of the "turnover" of capital. In general, as we have just seen, the more rapidly a capital can turn over, the more surplus value it can produce, because the sooner it can complete its circuit and can be thrown back again. Some parts of capital (e.g. machines - fixed capital) are tied up for longer, and so circulate more slowly (have a longer turnover time) than other parts (e.g. raw materials or labour-power – circulating capital). Some commodities take much longer to produce than others (they have a long production time), while some stay longer in circulation than others. All these factors affect the turnover time of capital and so the amount of surplus value a given capital can produce, independently of the rate of exploitation. Thus the rate of profit depends not only, as in volume 1, on the rate of exploitation and the organic composition of capital, but also on the turnover time.

Part III of volume II looks at the circulation of individual capitals as parts of the total social capital. In looking at the circuit of each individual capital in the first chapters of volume II we saw that the existence of a market for certain commodities was presupposed. Thus for the individual capital to be able to lay out money as capital not only labour power, but also specific means of production had to be available. In order for labour power to be reproduced, and so available, means of consumption must be available in the market, For the capitalist to sell his product to realise his commodity capital in the form of money there has to be a market for that product. It is through these purchases and sales of commodities that the interdependence of the various individual capitals as parts of the total social capital is expressed. They are the material content of the individual exchange relationships between individual capitalists and between capitalist and workers. The exchange between capital and workers can be seen as a form of the exchange between capitals: if workers' consumption is seen as productive consumption, i.e. as consumption for capital as a part of the reproduction of capital, then the payment of wages and the purchase of means of consumption by the worker can be telescoped and looked at as the purchase in which the worker simply mediates in a transaction between his employer and the supplier of means of consumption.

Marx analyses these relations of interdependence in terms of the two departments of social production: Department I is the production of means of production. Department II is the production of means of consumption (subdivided into department IIa producing workers' means of consumption and department IIb producing 'luxuries" for capitalists' consumption).

Capitals of department I produce means of production for department I and II, capitals of department IIa produce means of consumption for workers of departments I and II, capitals of department IIb produce for the consumption of all capitalists.

Thus $C_1 + V_1 + S_1 = MP$

$C_2 + V_2 + S_2 = MC$

In simple reproduction all of the surplus value is simply consumed, thus the system will be in equilibrium when MC (the amount of means of consumption produced) equals $V_1 + V_2 + S_1 + S_2$ (the amount consumed by capitalists and workers) and when MP (the amount of means of production produced) equals $C_1 + C_2$ (the amount consumed by both departments). If this is the case then every Individual capitalist will be able to buy what he needs at its value, and will be able to sell his product (and so realise his surplus value) at its value. In expanded reproduction the capitalist will devote some of S to buying means of consumption for himself, and some to buying means of production and labour power (and so means of consumption) in order to expand production. Thus for expanded reproduction the output of departments I and IIa must be increased and that of department IIb reduced. In the same way, if capitalists are steadily increasing the value composition of capital, then the output of department I will have to increase relative to that of department II.

Most of Marx's account in part 3 is devoted to showing how the market mediates these interrelationships in order to make sure that commodities are in fact produced in the required proportions (that equilibrium is indeed achieved). E.g. if too few means of consumption and too many means of production are produced, the price of means of production falls below their value and that of means of consumption rises above their value. Capital will therefore flow into the production of means of consumption and out of the production of means of production so that equilibrium is restored. Thus the market operates in order to ensure proportionality between departments. This implies that disproportionality on its own cannot give rise to a crisis, because the market automatically adjusts the proportions between departments. Hence a crisis cannot arise out of circulation alone. Even if a crisis breaks out in the sphere of circulation (e.g. capitalists are burdened with unsold commodities), the source of the crisis must be sought in the conditions of production of surplus value (i.e. some capitalists cannot sell their commodities because others have stopped buying them. Other capitalists have stopped buying them because they have decided to withhold their capital: they are neither buying means of consumption, nor are they buying means of production and labour power. But if they are not buying means of production and labour-power it must be because they judge the conditions for the production of surplus value to be unfavourable (e.g. the rate of profit too low). Thus a fall in the rate of profit is expressed in the refusal of some capitalists to invest, so that others find themselves with unsold commodities: the crisis first appears in the sphere of circulation but it has its roots in production).

Marx's reproduction schemes have played an important role in subsequent Marxist debate about the breakdown of capitalism. Some have argued that for Marx the source of crisis was a disproportionality between departments so that e.g. too much means of production is produced. This leads to the reformist argument that state intervention can regulate production to solve problems of disproportionality and so resolve capitalist crises. This argument is simply based on a misreading of Marx, because Marx certainly felt that the market could look after problems of proportionality. Others have argued that capitalism has an inherent tendency to underconsumption (i.e. to produce more than can be sold – this is a variant of the disproportionality thesis). The argument is that as more and more surplus value is produced the problems of "spending" that surplus value increase: the total that department II can produce is limited by the size of the consumption of workers and capitalists, thus the bulk of the increase in production must take place in department I. But the argument then goes, why should capitalists go on producing means of production without limit, if those means of production are not destined to produce more means of consumption in the end? This leads to the argument therefore that the survival of capitalism depends on a massive increase in unproductive consumption (ie. of luxuries, weapons etc.) to absorb the ever increasing surplus value (this is the argument of Baran and Sweezy: Monopoly Capitalism as well as of some theorists of the "permanent arms economy"). The answer to this argument is that capitalists will go on buying more means of production not without limit, but so long as it is profitable for them to do so. If the amount of surplus value produced cannot be spent on labour power and means of production in the existing proportions (because there are not enough new workers), then it can be spent by increasing the organic composition of capital (i.e. precisely spending more on means of production relative to labour power), and capitalists will do this so long as it is profitable to do so. Thus again it is not underconsumption that precipitates a crisis, but the unfavourable conditions for the production of surplus value. (See on this use of the reproduction schemes P. Sweezy: *Theory of Capitalist Development*, Part III which offers a survey and a variant of the underconsumptionist argument, Rosdolsky, Chapter 30. Bleaney: *Underconsumption Theories*, H. Grossmann: Marx, Classical Political Economy and the Problem of Dynamics, Part VI, *Capital and Class*, 3, pp. 78-89, Ben Fine: *Marx's Capital*, Ch 8 and Simon Clarke: *Marx’s Theory of Crisis*. The classic underconsumptionist interpretation of Marx is Rosa Luxemburg: *The Accumulation of Capital*)

Volume 3

Volume 3 is subtitled "The process of capitalist production as a whole" and is concerned primarily with the internal differentiation of the capitalist class. The first three parts are concerned with the division of surplus value amongst individual capitals, where it takes the form of profit. The following parts are concerned with merchants' capital, interest-bearing capital and landed capital. The last part draws the whole account together. The aim of the volume as a whole is to 'locate and describe the concrete forms which grow out of the movements of capital as a whole. ..The various forms of capital, as evolved in this book, thus approach step by step the form which they assume on the surface of society, in the action of different capitals on one another in competition, and in the ordinary consciousness of the agents of production themselves." (25).

Chapter One.

This chapter introduces the notion of cost price. The actual production cost of a commodity is c + v + s (the amount of labour time embodied in it) However the capitalist does not pay for s, thus the cost appears to the capitalist as c + v = k, the cost

price, the expenditure of capital (while the actual cost is measured by the expenditure of labour) 26. The category of cost price has nothing to do with the formation of value. Thus an increase in the cost price that arises out of an increase in wages does not have any effect on the value created, but only on the division of that value between capitalist and worker.

However, for the capitalist there is no apparent difference between labour power and means of production as costs. The capitalist does not distinguish between constant and variable capital. Thus for the capitalist the surplus value produced appears to derive not from the variable component of capital, but from the whole capital advanced. As such, the surplus value appears in the converted form of profit on capital, thus the value appears as cost price + profit = k + p. "The profit.. is thus the same as surplus value, only in a mystified form that is nevertheless a necessary outgrowth of the capitalist mode of production.... Because at one pole the price of labour power assumes the transmuted form of wages, surplus value appears at the opposite pole in the transmuted form of profit." 36.

Chapter Two.

This chapter introduces the concept of the rate of profit. The capitalist relates his profit not to the advanced variable capital, but to the total capital advanced, and this measures the extent of his gain. The rate of profit is therefore different from the rate of exploitation (s/v) . It is s/(c +v). Thus the profit produced appears not as a form of surplus labour, but as the product of capital itself. Moreover, because the capitalist can increase his profits by selling his commodity above its value, it appears that the profit derives as much from the ability of the capitalist to exploit market possibilities as on his ability to exploit his workers, whereas in fact, of course, if the capitalist sells his product above its value to another capitalist he is simply diverting surplus value from the other capitalist to himself. Thus we have another form of fetishism in which "the relationships of capital are obscured by the fact that all parts of capital appear equally as the source of excess value (profit)" 45.

Chapter Three.

In this chapter Marx examines at considerable length the relationship between the rate of profit and the rate of surplus value. The rate of profit is always smaller than the rate of surplus value. In fact the extent to which it differs from the rate of surplus value is indicated by the value composition of capital (c/v).

Thus the rate of profit =

$$\frac{S}{C+V} = \frac{S}{V} \times \frac{V}{C+V} = \frac{S}{V} \times \frac{1}{(C/V+1)}$$

Hence, with a given rate of exploitation, the higher the organic composition the lower the rate of profit.

Chapter Four.

The more rapidly capital turns over (the shorter the turnover time) the higher the rate of profit. Marx generally leaves turnover time out of account in this volume.

Chapter Five.

Because the rate of profit depends on the composition of capital as well as the rate of exploitation it can be increased by economy in the use of constant capital. Thus capitalists try to save on plant and buildings, to reduce wastage of raw material, and to invent cheaper machinery. This economy is at the expense of the working conditions of the working class, as they receive inadequate protection from the elements, workplaces are overcrowded, and machinery is run at dangerously high rates.

Chapter Six.

The rate of profit can also be increased by cheapening raw materials, especially through foreign trade, by cheapening the workers' means of consumption, and so labour power, and by accelerating the depreciation of machinery.

Chapter Seven.

We can therefore see that there is a whole series of different factors that can affect the rate of profit quite independently of the rate of exploitation, through their effect on the value composition of capital or on its turnover time. None of these factors affect the total profit (i.e. total surplus value) produced, but they all serve to alter the size of the capital to which it is related. Thus the capitalist sees that his rate of profit depends on a whole series of factors that are quite independent of his ability to produce surplus value in the immediate process of production.

Chapter VIII.

From now on Marx assumes that the rate of exploitation is the same in all departments. This is obviously a simplifying assumption, but it is not unrealistic. (It depends on an approximate equalisation of wage levels, intensity of labour, and length of the working day between industries) p172. Given this assumption, the rate of profit on a particular capital, so long as everything exchanges at its value, will depend on the organic composition of capital and the turnover time of that capital. The higher the organic composition, or the longer the turnover time, the lower will be the rate of profit because the less will be the portion of the capital (i.e. variable capital in the productive phase) that is actually producing surplus value. However "there is no doubt that...differences in the rate of profit in the various branches of industry do not exist in reality, and could not exist without abolishing the entire system of capitalist production. It would seem, therefore, that here the theory of value is incompatible with the real phenomena of production, and that for this reason any attempt to understand these phenomena should be given up. " (151)

If commodities exchange at their values, then the rate of profit in different industries must be different. If the rate of profit is to be equalised, as it in practice is in capitalist society, then commodities cannot exchange at their values. It seems that the labour theory of value, that underlies Marx's whole account, has come unstuck at last. To try to reconcile the theory with reality Marx returns to the concept of cost price, and argues that we have to understand the equalisation of the rate of profit in terms of the competition between capitals on the basis of cost price.

Chapter IX.

Marx continues to assume a constant rate of exploitation, and now abstracts from differences in turnover times. The rate of profit on a particular capital therefore depends on the organic composition of that capital, so long as commodities exchange at their values.

If we take all the capitals together we can work out an average rate of profit (= total surplus value / total capital advanced). If each individual capital is to earn the average rate of profit, then prices must diverge from values (in those branches with an above average organic composition the price will be higher than the value, so raising the rate of profit; in branches with a below average organic composition the price will be lower than value, so depressing the rate of profit). Thus the price of the commodity will be equal to the cost price (c + v) plus an amount of profit calculated on the initial capital at the average rate. (If the constant capital is all used up in one period, then the initial capital is the cost price and the final price, the price of production, is equal to (c + v) x (1 + r), where r is the rate of profit. Marx's example is rather more complicated than this because he also allows different turnover times, so that the cost price (i.e. the constant capital used up in producing the commodity plus the variable capital employed) does not equal the initial capital outlay (since only a part of the total constant capital is used up)).

It is the competition between capitals that ensures an equalisation of the rate of profit: capitals will move out of industries with a low rate of profit into industries with a high rate of profit until prices diverge sufficiently from values to equalise the rate of profit. Marx insists that, although prices diverge from values, the prices can only be calculated on the basis of values. They cannot be directly calculated as cost price plus average profit, so by-passing the labour theory of value, because to perform this calculation it is necessary to know what the average rate of profit is, and this can only be calculated in value terms, as the total surplus value divided by the total capital. Thus, although prices of production diverge from values, Marx argues that they are transformed forms of value. All that happens is that the process of competition redistributes surplus value amongst the capitals, some getting more s.v. than they have themselves produced (prices above value), and others less (prices below value). This redistribution does not, for Marx, affect the total surplus value, nor, since it is simply a market phenomenon, a phenomenon of circulation, does it affect the analysis of capitalist production that was conducted in value terms: capitalists still seek to increase the surplus value they can produce by all means at their disposal, even though they will ultimately have to share the increase with others (just as they have to do when they introduce an innovation that will eventually reduce prices).

Marx's development of this argument is not terribly clear. He puts it in terms of the argument that "the sum of the prices of production of all commodities produced in society.. is equal to the sum of their values" 157, i.e. the divergences of price from value compensate one another. The easiest way to see this is to remember that circulation cannot create value, or surplus value. Thus the divergence of prices from values can only redistribute an existing quantity of value, so that gains and losses all balance out.

Marx assumed that the transformation of values into prices of production did not affect the magnitude of surplus value, but only its distribution amongst the various capitals. This is to assume that the transformation does not affect the rate of exploitation (since we know that the total sum of value cannot change). If, however. the industries producing workers' means of consumption have a below average organic composition of capital, the price of those means of consumption falls. This will only leave the rate of exploitation unchanged if wages fall to compensate for this. Thus the transformation of values into prices also involves the transformation of the wage.

The transformation of values into prices affects not only the prices that individual capitalists receive for their commodities, but also the prices they pay for labour power and for means of production. Thus the total effect of the transformation is very complex. Working out the precise effect is the so-called "transformation problem". Marx did not in fact do this, and it is quite a complex mathematical exercise. However, it can be shown that it is possible to derive a set of prices of production consistent with an equal rate of profit from the set of values.

How does the transformation of values into prices affect the analysis that Marx has so far carried out in terms of values? Marx argues that the effect of the transformation is that a capitalist no longer receives an amount of profit corresponding to the amount of surplus value he produces. Thus the capitalist is producing surplus value not directly for himself, but for all the capitalists. Thus "the mass of surplus value produced in a particular sphere of production is then more important for the average profit of social capital, and thus for the capitalist class in general, than for the individual capitalist in any specific branch of production. It is of importance for the latter only in so far as the quantity of surplus value produced in his branch helps to regulate the average profit. But this is a process which occurs behind his back, one he does not see, nor understand, and indeed which does not interest him. The actual difference of magnitude between profit and surplus value...now completely conceals the true nature and origin of profit not only from the capitalist...but also from the labourer." 165. Thus profit appears to derive not from the labour of the worker, but from capital itself. Thus the fact that surplus value appears in the converted form of profit completes the fetishism of the category by concealing the source of profit.

On the other hand the category of value continues to regulate the capitalist mode of production in two senses: 1) it continues to apply at the level of capital in general: the laws already discussed "are the laws of the general rate of profit" (166) 2) it continues to apply to the individual capitalist to the extent that he is able to retain the advantages he gains by increasing the rate of exploitation. Thus, in the short term the individual capitalist can increase his rate of profit by means of all the methods already discussed (lengthening the working day, increasing productivity, increasing the intensity of labour, economising on means of production and subsistence, reducing the turnover time of his capital), but in the longer term competition will erode his extra profits and so distribute the gains amongst the capitalist class. Thus the transformation of values into prices affects the distribution of surplus value among the individual capitalists, but it does not affect the underlying dynamic of capitalist production.

Chapter X.

This chapter develops the argument of the previous one by examining the actual mechanism of equalisation. Marx points out that what is involved is a tendency for all capitals to achieve the average rate of profit. What is at issue is how this comes about. It must be something that takes place in exchange. "The whole difficulty arises from the fact that commodities are not exchanged simply as commodities, but as products of capital" (172). Thus it involves a modification of the laws of commodity exchange discussed in volume 1, chapter 1, which were only appropriate to simple commodity production. (And thus, Marx argues, are appropriate to a pre-capitalist stage of production. This is an argument that many disagree with, claiming that commodities have never in practice exchanged at their values since there has never been such a thing as a non-capitalist form of developed commodity production). Of course even in such circumstances the market price could diverge from the value of the commodity, but in this case the divergences even out. Thus the pattern of market prices, and equally of prices of production, is dominated by movements of value. This is achieved as a result of the process of competition. Thus competition between capitalists in the same branch of production produces a single social value as a result of the equalisation of the various individual values (i.e. the value is regulated by the socially necessary labour time, and not the individual labour time). Supply and demand can lead the market price to fluctuate around this social value, but it is the value that determines the centre of these fluctuations. An increase in demand means that commodities produced under less favourable conditions must be able to enter the market, so the market price rises, and vice versa. (You can skip the lengthy discussion of supply and demand if you like). The overall effect of competition, however, is to press market prices towards the market value (corresponding to the socially necessary labour time).

When we turn to the capitalist market (p. 191), we find that we are no longer dealing with the simple purchase and sale of commodities. It is not simply a matter of converting the value of the commodity into the money form (price), because it is not simple commodity producers, but capitalists, who meet in the market. As we saw in Volume 2 the capitalist is seeking to realise his surplus value in selling his commodity capital, and it is to realise surplus value that the capitalist enters the market. The capitalist is not interested in the specific use-value of the product, or the branch of production in which he is engaged, thus is not concerned with realising the value of a particular commodity, but seeks the maximum rate of profit on his capital advanced. Therefore capitals are mobile, moving into spheres with an above average rate of profit and out of spheres with a below average rate. Thus the social division of labour is regulated in a capitalist society not by the exchange of commodities according to their values, but by the exchange of commodities according to their prices of production, i.e. by their exchange at prices corresponding to a uniform rate of profit. Thus the law of capitalist exchange, of exchange according to prices of production that differ from values, is a modified form of the law of exchange of simple commodity production.

The effect of exchange according to prices of production is that surplus value is redistributed among capitals according to the size of the original capital. Hence capitalists are interdependent in their exploitation of the working class: an increase in surplus value achieved by one capitalist is shared among all capitalists, and capitalists therefore have a common class interest in the exploitation of labour, and this common class interest in maximising the total amount of surplus value produced is the basis on which they engage in competition with one another for the division of this surplus value.

Chapter XI.

Skip this chapter. Marx looks at the effect of a wage increase on prices. In value terms an increase in wages has no effect on value, it simply reduces the surplus value accruing to the capitalist. However, if different branches have different organic compositions of capital (V/C) the rate of profit will be affected differently since the wage increase will alter the organic composition differently (by increasing V). Thus prices will have to readjust to equalise the rate of profit again. The price of production of commodities of low organic composition rises, that of average oc remains unchanged, that of high oc falls.

Chapter XII.

Skip this chapter. The only important point is the development of the idea of the inversion of the real relations in the forms in which they appear: The phenomena revealed by competition " seem to contradict the determination of value by labour-time as much as the nature of surplus-value consisting of unpaid surplus-labour. Thus everything appears reversed in competition. The final pattern of economic relations as seen on the surface, in their real existence and consequently in the conceptions by which the bearers and agents of these relations seek to understand them, is very much different from, and indeed quite the reverse of, their inner but concealed essential pattern and the conception corresponding to it." (205) The conception that profit derives not from surplus value but, pro rata, from capital, gives rise to the capitalist expectation that he will earn such profits, and so to capitalist forms of calculation. In these forms of calculation it seems that profit derives from capital itself (from its size and its turnover).

Chapter XIII.

We now move on from the transformation of values into prices and the equalisation of the rate of profit to the <u>'law of the tendency of the rate of profit to fall</u>". As in the previous chapters it is important to remember that these chapters were put together by Engels from notes after Marx's death. The argument is therefore not always clear, it is incomplete, and is sometimes rather rambling. Don't be intimidated by this!

The basic point is very simple. With a given rate of surplus value, the rate of profit falls as the organic composition of capital rises. Marx asserts that a rising composition of capital is a corollary of the specific methods of increasing the productivity of labour characteristic of a capitalist society. Thus "The progressive tendency of the general rate of profit to fall, is, therefore, just <u>an expression peculiar to the capitalist mode of production</u> of the progressive development of the social productivity of labour" (209).

The rest of the chapter contains a lot that is not very clear. The main points Marx makes are

1) the falling rate of profit is not the result of a <u>decline</u> in the productivity of labour (as

political economy believed), but is an expression of the way in which it is <u>increased</u> in a capitalist society.

2) the falling <u>rate</u> of profit is quite compatible with an increase in the <u>amount</u> of surplus value and so profit, indeed it is necessarily associated with such an increase. Thus the rate of profit falls because a large total of surplus value is spread over a still larger total capital (because of the increasing organic composition).

3) Marx also examines the way in which the falling rate of profit appears to individual capitalists through its effect on the price of commodities, and he examines the effect on population and the level of employment (he has a very peculiar discussion on page 214 where he claims that population will increase if there is a shortage of workers because wages rise so that people marry earlier and more children survive, and that it will also increase if there is a surplus of labour because nobody breeds like the poor).

The important points to grasp are the first two.

Marx's argument here gives rise to two fundamental criticisms:

1) although it is quite plausible that the <u>technical</u> composition of capital should rise steadily under capitalism, it is not so clear that the value composition will so rise. The value composition relates the <u>value</u> laid out in means of production to the <u>value</u> laid out in labour power, and not the physical quantities. If the productivity of labour in producing means of production increases then the <u>value</u> of constant capital does not increase as rapidly as its <u>quantity</u>: more machines of a new type might be cheaper than fewer machines of an old type. Of course the value of labour power is also declining as means of consumption are cheapened. But the point is that it is at least conceivable that if productivity increases in the production of means of production run far ahead of productivity increases in the means of consumption then the organic composition may not rise at all.

What Marx in fact does is to separate the influence of technical change and the influence of productivity change on the value composition of capital. Thus in this chapter he ignores the effect of productivity change, so using the concept of the organic composition of capital and not the value composition, and then brings in productivity change in the next chapter under the heading of the "cheapening of the elements of constant capital” as one of the counteracting influences on the falling rate of profit. The issue then is whether it is legitimate to do this and to treat the technical changes as more fundamental than the value changes, the former being considered in relation to the law as such, the latter relegated to counteracting tendencies. I think it is not legitimate, for the capitalist is not concerned with the technical composition of capital but with the value composition (i.e. is not concerned with increasing the productivity of labour, but with increasing the profitability of capital). I think that Marx makes the separation because of his attempt to get a neat separation between the forces and relations of production.

2) While it may be conceded that the organic composition of capital will tend to rise, and the value composition may equally tend to rise, it is also argued that the rate of exploitation will tend to rise as part of the same process of increasing productivity of labour, and it is argued that there is no *a priori* reason why the effect on the organic composition should outweigh the effect on the rate of exploitation (Remember that increasing productivity implies a rising organic composition and a rising rate of exploitation. While a rising organic composition reduces the rate of profit, a rising rate

of exploitation increases it). Marx discusses the effect of a rising rate of exploitation in the next chapter on counteracting influences, but here concentrates on increasing the length of the working day and the intensity of labour. Thus it appears that Marx ignores the effect of the increase in relative surplus value consequent on increasing productivity, and this is why he sees a tendency for the rate of profit to fall as being the fundamental tendency. Although he does recognise the effect of the creation of relative surplus value on the rate of exploitation in this chapter, in arguing that the mass of surplus value will increase while the rate of profit falls, he does not seem to consider the possibility that this increase will be sufficient to counteract the rising organic composition of capital. Thus it would appear that Marx has not worked out his argument sufficiently clearly. In the last analysis it is an empirical question whether productivity advance will be sufficiently rapid for the increase in the rate of exploitation to counteract the increase in the organic composition so that the rate of profit rises rather than falls.

Finally, some people argue that the rate of profit will never in fact fall because of the rising organic composition. The argument is that no capitalist will willingly introduce a method of production that involves a fall in the rate of profit, thus if a rising organic composition would involve a fall in the rate of profit, capitalists will not introduce the new method of production but will persist with the old one at the lower organic composition. The rate of profit will therefore only actually fall if a fall is forced on capitalists by e.g. rising wages. Thus the mechanism is that accumulation proceeds at the lower organic composition until the reserve of labour is absorbed, wages then rise and reduce the rate of profit, and capitalists then introduce methods with a higher organic composition in order to economise on labour. The net result is then a higher organic composition and a lower rate of profit. Thus the tendency for the rate of profit does not manifest itself directly.

Chapter XIV

In practice the rate of profit does not necessarily fall, because capitalists take a series of measures to sustain the rate of profit. Thus the tendency for the rate of profit to fall is only a <u>tendency</u> whose effect is modified by the counteracting influences that may outweigh the fundamental tendency. Marx considers these counteracting tendencies in this chapter.

1. increasing the intensity of exploitation, by lengthening the working day and intensifying labour. Some of these measures increase the rate of exploitation, but also increase the organic composition, but others, and especially the lengthening of the working day, leave the organic composition unchanged or even reduce it, and so check or even counteract the fall in the rate of profit (thus capitalists increasing the organic composition often try to lengthen the working day, work double shifts etc to counteract the effect of the rising organic composition on the rate of profit). Marx also recognises here the contradictory effect of the production of relative surplus value on the rate of profit: the consequent increase in exploitation counteracts the increase in the organic composition. (c.f. point 2 above: the issue is why he didn't recognise this in the last chapter).

2. reducing wages below the value of labour power "is one of the most important factors checking the tendency of the rate of profit to fall".

3. Cheapening the elements of constant capital. The point here is that the value

composition of capital may not increase as much as the technical composition because the elements of constant capital (raw materials and machines) become cheaper. Again the point is why this does not appear in the previous chapter.

4. Relative over-population. The relative surplus population created by accumulation provides a body of cheap workers who sustain branches of industry with a low organic composition and a high rate of exploitation, and so boost the rate of profit.

5. Foreign trade. On the one hand foreign trade increases the rate of profit by cheapening the elements of constant and variable capital. On the other hand by so doing it increases the rate of accumulation which, supposedly, in turn tends to reduce the rate of profit.

6. If some industries, e.g. railways, have a low rate of profit, this increases the rate of profit for other capitals by providing cheaper inputs.

Chapter XV.

This chapter moves towards an account of the role of crises in capitalism. The first three pages sum up and then digress. The main point Marx makes is that there are no limits to capitalist production of surplus value beyond the available population and the rate of surplus value. But the capitalist then has to realise this surplus value by selling his commodities. Thus capital has to constantly seek to expand its market. However the more the market expands, the more capitalism develops, this higher the mass of surplus value produced (despite the lower rate of profit), the more intense is "the contradiction between the conditions under which this surplus value is produced and those under which it is realised" (240). Here Marx appears to be offering an underconsumptionist version of the theory of crisis, for he refers particularly to the limited consumer demand in a capitalist society, where consumption of the bulk of society is driven to a minimum, thus he seems to argue that the barrier to accumulation is the limited demand that means that the capitalist cannot sell all his products and so cannot realise his surplus value (see earlier notes on volume 2, where Marx seems to reject underconsumptionism). Marx doesn't develop an underconsumptionist theory here, for he digresses again, and the rest of the chapter doesn't present the crisis in this light. Thus an alternative interpretation of this passage is that a crisis appears as the inability of the capitalist to realise his surplus value, but that it has its origins elsewhere, in the conditions of production of sv.

The second section stresses the contradictory character of the processes already discussed: the capitalist mode of production tends to develop the forces of production without limit, but this development comes into conflict with the need to produce and to realise surplus value. The overaccumulation of capital leads to a fall in the rate of profit that is checked by the "periodical depreciation of existing capital", that itself upsets the circulation process, leading to a crisis and a stoppage of production. (The mechanism is discussed in the next section) Thus the contradiction between the forces and relations of production gives rise to a crisis that permits a renewed bout of accumulation by restoring the rate of profit, paving the way for another crisis. Thus "the real barrier of capitalist production is capital itself" (i.e. not nature as the classics had argued) (245).

The third section at last discusses the mechanism of the crisis. The process of concentration of capital and the declining rate of profit reinforce one another: the higher the development of the productivity of labour and the organic composition of capital, the greater the advantages of the large capital. Thus a fall in the rate of profit hits the smaller capitals which are unable to survive. Thus a fall in the rate of profit produces both unemployed capital and unemployed labour.

This "overproduction of capital" (i,e. too much capital to be employed) implies overproduction of commodities (i.e. the redundant capitals cannot sell their commodities to realise their profit), but is essentially the "overaccumulation of capital". Marx studies this by looking at the case in which overproduction is not characteristic of one industry, but of the economy as a whole. This is the case when no more capital can be profitably employed, i.e. where an addition to capital will not produce any more surplus value, i.e. where an addition to capital will cause a sharp fall in the rate of profit. This is the case when accumulation is checked by a shortage of labour so that wages suddenly increase. In reality the shortage of labour means that some capitals will simply lie idle, and some accumulate at a reduced rate. Thus there is a fierce competitive struggle between capitals. However this increasing competition is not the cause of the decline in profitability. Rather a decline in profitablity precipitates a fierce competitive struggle. If the rate of profit is to be restored then some of the capital must be removed. This happens through the destruction of capital as factories close, the devaluation of credit, the losses made in the market, the depreciation of the elements of fixed capital as prices fall. All this leads to a commercial crisis and the collapse of credit. On the other hand, the crisis creates unemployment and the conditions for a fall in wages and so restoration of profitability, while the competitive struggle drives all capitalists to adopt the most advanced methods of production to economise on labour and to cut costs. Thus the crisis prepares the way for a resumption of accumulation. But the overproduction of capital that precipitates the crisis is only an overproduction within capitalist social relations, it is overproduction in relation to the possibilities for profit.

Parts IV-VI of volume 3 deal with merchant's capital, interest-bearing capital and landed capital. Marx argues that in the capitalist mode of production the profit derived by merchants, the interest accruing to money-capitalists and the rent accruing to landowners represent diversions from the surplus value produced by labour in production, and are therefore developed forms of surplus value. For our purposes the one significant point made is in the discussion of interest-bearing capital. Marx argues that when interest-bearing capital is separated from productive capital a division is introduced between the share of surplus-value accruing to money-capital, interest, and the profits that remain to productive capital after the payment of interest, that appear as the 'profits of enterprise'. Thus it comes to appear that capital generates interest, so that profit is completely divorced from production, while the 'profits of enterprise' appear as the reward for management, thus as a form of 'wage'.

Marx's Theory of Class.

Chapter XLVIII.

This chapter considers the form in which class relations appear on the surface in a capitalist society, which is the form in which they are conceptualised by 'vulgar economy'. Class relations appear in the form of the 'trinity formula' in which profit (or, more specifically, interest) appears as the reward of capital, wages as the share of labour, rent as the share of land. Thus it appears that capital produces interest, labour – wages and land – rent. Revenues thus appear to derive from things.

However, Marx argues, capital is not a thing, but a social relation. Means of production are not themselves capital, but only become capital when monopolised by a particular social class. Land, on the other hand, is a thing, but cannot produce surplus value. Labour, looked at in isolation from the social relations within which it is performed, simply does not exist. Thus wage-labour and landed property cannot be seen as things either, but must be seen as "historically determined social forms", both corresponding to capital and being part of capitalist society. Lastly, things cannot produce value in any case: land contributes to the creation of use-values, but not to the creation of value, which is created by labour.

Vulgar economy, that simply systematises the conceptions of the agents of bourgeois production that emerge from the appearances of economic relations, takes up the trinity formula as its basis to show that the 'revenues' of the different classes of society have a natural, so eternal, origin in means of production, land and labour.

Surplus labour is necessary in all forms of society, to provide insurance against shortfalls and resources for expansion of production. In capitalist society it assumes an antagonistic form, but does have the advantage of preparing the social and material conditions for a classless society in which the basis of freedom has been created.

The three factors of production appear to their owners as the actual sources of their revenues, and, although they are in fact simply parts of the total value that accrue because of the insertion of these factors in particular social relations, because the factors are independent of one another, it appears that it is land, capital and labour that each actually produce their revenues. Thus the total product is the sum of the contributions of land, labour and capital, and each of the three revenues appear to have independent sources.

Thus the world of commodity fetishism develops still further.

Chapter XLIX

Profit and rent correspond to the total surplus value, wages to the variable capital. Thus the total annual value created by labour equals the total of profit, wages and rent. The value of constant capital is not re-created (since it is simply transferred unchanged), but it is a part of the total annual product. Thus the total product appears to exceed the total revenue by C, thus there appears to be overproduction. Correspondingly the total new labour added appears to be consumed by the sum of revenue, so where is the labour that can produce new means of production? These dilemmas arise for those who consider that land, labour and capital are independent sources of revenue, for in seeing wages, rent and profit as exhausting the product, there is no room for constant capital. Marx resolves this by recapitulating his reproduction schemes, which shows that the total product does not simply resolve itself into the three revenues, but also Includes a value component corresponding to the constant capital used up. For the rest of the chapter (skip if you like) Marx ridicules the classical notion (shared by Smith and Ricardo) that the value of a commodity resolves itself into the three component parts of profits, wages and rent. The classics made this mistake a) because they could not understand the concept of constant capital (whose value is simply transferred to the product) as distinct from variable capital b) because they argued from the individual capitalist instead of seeing the system as a whole, thus they thought that the constant capital of the individual capitalist (machines and raw materials) comprised the rent, profit and wages of some others (i.e. the capitalist, landlord and workers involved in the production of machines).

Chapter L.

Marx reiterates the points of the previous chapter: the total value produced is made up of the constant capital value transferred, the variable capital and the total surplus value. Variable capital and surplus value together constituted the newly created value and take the form of revenues: wages, rent and profit. Although the newly created value is equal to this sum, it is by no means the case that these three categories are constituent elements of the value: i.e. they refer to the manner in which the value is distributed, not to the manner in which it is produced. To see this Marx notes that a rise in wages does not increase the value of the commodity, but rather represents an erosion of surplus value. He then argues that the total value, in conjunction with the irreducible minimum value of labour power, therefore sets limits to profit and to rent, limits which are not transgressed by the existence of monopolies, by the transformation of values into prices of production or by the existence of any barriers to capital's mobility.

Hence, Marx repeats, profits, rent and wages are not three independent magnitudes, whose value is independently determined (corresponding to three supposedly independent 'factors of production': land, labour and means of production), so the value of the commodity is not to be determined by its 'cost' as the sum of wages, profit and rent. Rather the value is the prior category, and rent, profit and wages are portions of the value newly added. This "adding-up" theory of price involves 1) ignoring constant capital altogether: resolving it into rent, wages and profit in turn 2) abolishing the concept of value and retaining only the concept of price: but this presupposes the concept of money which can only be understood as the form of value. Otherwise the argument is purely circular: prices are explained in terms of other prices in an endless succession.

The illusion that the newly added value splits into three independent revenues is an illusion that arises through competition: it is the form in which the value of labour power and surplus value appear. This happens because 1) of the relation of revenues to ownership of the factors of production that gives rise to the illusion that it is these factors of production that create the revenues. Since the factors of production are dissimilar, the revenues appear to have independent sources. This illusion is fostered all the more because on the surface it appears that the revenues are each determined by different laws and are not component parts of a given value (e.g. because of the transformation of values into prices of production so that the profit earned does not simply depend on the surplus value produced; because of the various factors discussed in Part l of vol 3 that affect the rate of profit independently of the rate of exploitation etc.). 2) Prices do in fact vary with the fluctuation of wages: the prices of commodities produced by capital's of below-average organic compositions rise with a rise in wages, and fall with a decline. A local wage increase will lead to a price rise, thus prices do appear to rise and fall with wages, just as wages appear to rise and fall in response to changing prices. 3) Even if we ignore price fluctuations the illusion persists because the components of value appear to be preconditions of value rather than the other way around. To the capitalist the cost price, the cost of wages and constant capital, is given first, before the commodity and its value have been produced. The need to earn a given rate of profit is also given to the capitalist, as is the need to pay rent and interest. Finally, to the capitalist even the cost of constant capital appears ultimately, for someone else, to resolve itself into wages, profit and rent. 4) The regulation of prices ultimately by movements of value is not something that takes place directly and so that is experienced as such by capitalists. The capitalist is concerned with interest, profits, rent and wages and with earning enough from his sale to cover these categories. Thus he is not concerned with the realisation of value and surplus value. For him the fluctuations of price are fluctuations around the price of production, i.e. he experiences the cost price plus rent and average profit to be the regulative price. He makes more or less profit depending on the extent to which he can reduce wages, rent of interest or the extent to which he can get a price more than sufficient to cover his anticipated costs and earn average profit. 5) The idea that value is made up by adding wages, profit and rent together becomes so firmly established that the concepts are even applied where they are wholly inappropriate, e.g. in looking at the small self-employed farmer. This subsumption of non-capitalist forms of production under capital's forms of revenue further strengthens the idea that capitalist relations are natural.

Chapter LI.

What we have been looking at in the last three chapters, the apportionment of the produced value to different social categories, are the relations or forms of distribution. These relations appear "as natural relations, as relations arising directly from the nature of all social production, from the laws of human production in general". Precapitalist forms of distribution are seen as imperfect forms of capitalist distribution relations.

A more sophisticated approach sees that different societies have different forms of distribution, but still considers production relations to be eternal and natural. However, Marx notes, a 'scientific' approach reveals that production relations themselves are historically transitory and that relations of distribution are merely the other side of relations of production. These distribution relations cannot be seen in terms of the distribution of the annual product considered independently of the social relations underlying production. Thus, wages are the revenue of the labourer only because the labourer enters capitalist production relations, because the means of production confront the labourer as capital. Moreover, this system of social relations of production reproduces itself and so the corresponding relations of distribution: the relations of distribution are indeed a moment of the process of reproduction of capitalist production relations.

The view that considers only relations of distribution to be historically specific, but not relations of production, rests on a confusion of the labour process and the valorisation process: the social relations of production are seen as purely technical relations.

Chapter LII.

The three great classes are those made up of the owners of labour-power, the owners of capital, and landowners. The intermediate strata tend to be dissolved by the advance of the capitalist mode of production. What makes these the great classes? At first sight it is the fact that they have something in common as owners of particular revenue sources. But if this were the case then any common 'revenue source' would be sufficient to constitute a class.......

Questions to ponder:

1) How does the 'trinity formula' underlie the cost of production theory of price?

2) How does Marx's critique of the trinity formula enable us to complete his unfinished chapter on social classes?

3) If social classes are not defined by a common revenue, how are they defined?

4) What are the implications for the understanding of the concept of class of Marx's discussion of production relations and distribution relations?