Chapter 19: Former Presentations of the Subject

I Purpose

Despite the title of the chapter, its contents almost exclusively refer to what Marx called ‘[Adam] Smith’s dogma’, that is, the widely held classical political economic view that that the price of commodities, and hence that of the total social product, is entirely ‘resolved’ into ‘revenue’, i.e. into wages, profit and rent (a resolution which excludes constant capital). As Marx wrote to Engels in 1863 (when he was working on a draft of material that was to form a part of volume 2):

You know that according to Adam Smith, the ‘natural price’ or ‘necessary price’ is composed of wages, profit (interest), rent – and is thus entirely resolved into revenue. [...] Nearly all economists have accepted this from Smith [...]. According to this, society would have to start afresh, without capital, every year. Marx’s famous reproduction schemes, which appear in the following two chapters, are based in good part on his refutation of this ‘dogma’.

II Quesnay’s Conception of Reproduction

Marx begins by complimenting Quesnay for showing, in his Tableau économique, how ‘[t]he numberless individual acts of circulation [...] are grouped together [...] as a mass circulation between major economic classes of society that are defined by their functions.’ In his demonstration of simple reproduction ‘one part of the total product [...] is [...] a bearer of old capital value reappearing in the same natural form’, i.e. ‘he comes to grips with the main question’, that reproduction includes the reproduction of constant capital.

III Smith’s Conception of Fixed and Circulating Capital

It is with respect to this that Smith represents a ‘regression:’ ‘[t]he narrowness of Smith’s conception lies in his failure to see what Quesnay had already seen, namely the reappearance of the value of the constant capital in a renewed form.’

Smith argues that the price of every commodity, and hence the total social product, ‘resolves itself’ into three parts, wages, profits and rent, and that these three categories constitute the source of all ‘revenue’, revenue shared...
out in society in function of its origin. Clearly absent here – from our point of view – is that ‘revenue’ necessary to replace constant capital; from Smith’s, capital *per se*. This latter, in Marx’s phrase, is ‘smuggled in’ by means of Smith’s distinction between total gross and ‘net’ revenue: the former, the total produce of ‘land and labour’, the latter that total produce less what is necessary for ‘maintaining’ capital. As Marx points out, ‘[i]f capital is to come in as revenue [in the form of gross revenue less net revenue], then capital must previously have been spent [and therefore appear in the value of the product].’

Not only does Smith’s conception of fixed capital as capital which does not ‘circulate’ exclude constant capital from effective ‘net revenue’ but it also excludes that (really) circulating capital required to maintain, repair and replace fixed capital, i.e. excludes ‘all capital that does not exist in a natural form destined for the consumption fund.’

Nevertheless, Smith, excluding the cost of maintaining fixed capital from net revenue, does distinguish between the labour necessary for this, i.e. that involved in the production of means of production, and the labour involved in production of means of consumption. In the former case, the price of labour may indeed form a part of revenue, in that wages form part of the stock for consumption; in the latter, both the price of labour and its produce end up as consumption. But as Marx points out, while it is true that the product in the former case contains a sum of value equivalent to wages, which form a revenue for the workers involved, even though they have produced no consumable product, i.e. their product does not enter into ‘net revenue’, it is also true that that value part of the means of production which forms the revenue of the industrial capitalists as profit and rent too exists in (non-consumable) means of production, which, before being used to provide means of consumption produced by the second case of worker for the owners of capital must first be converted into money. A similar point may be made for this second class of worker: even though their wages (and their product) enter into the consumption fund, their wages, to be consumed, must be first transformed into product, and not necessarily product produced by the workers themselves.

Smith argues that, even though circulating capital can form no part of an *individual*’s net revenue, and can form a part of the net revenue of society (even though the total circulating capital is no more than the sum of individual capitals).

Marx now outlines the steps Smith *should* have made at this point in his analysis.

1 Total social product can be divided into two parts: means of production, and means of consumption.

2 The total value of the former can be divided into that of the means of production consumed in the creation of means of consumption, thus reappearing in new form; that equivalent to the sum of wages laid out by the capitalists; and that which forms the source of profits. For Smith, this first element forms no part of the net revenue, for neither the individual capitalist nor society. The other two elements, however, form revenue for the productive agents (wages for workers, profits and rents for capitalists), but not for society, for which they form *capital*; but the revenue-forming value components of the means of production department function as capital not in the hands of their producers, but in those of:

3 The capitalists of the means of consumption department, for whom they replace the capital used up in

---

10 Smith’s scheme admits the possibility that the price of certain individual commodities may only be resolved into two, and in exceptional cases, one of these categories.

11 C2, p. 439.

12 Which, for Smith (as often for Marx), means national.

13 C2, p. 440. Smith also introduces the notion of gross and net profit, the latter the former less what is necessary to ‘compensate for occasional losses of stock’, which Marx points out is just another way of saying that ‘the workers provide surplus labour for the [...] insurance fund.’ (C2, p. 441)

14 C2, p. 441.

15 Smith cites the example of the goods in a merchant’s shop; Marx counters that he ‘should have chosen the stocks amassed in the storehouses of the industrial capitalists.’ (C2, p. 444)
production of means of consumption (less that representing the sum of wages), capital now existing in the hands of the capitalists producing as means of production and thus the consumption fund for the capitalists and workers in the means of production department.

Two conclusions now stand out:

1. Even though: total social capital is the sum of individual capitals, and (therefore) total commodity product/capital is the sum of that of the individual capitals, and (therefore) that the decomposition of commodity value into its component parts holds (‘in the final analysis’\(^{16}\)) for the total product as it does for the individual commodities, ‘the form of appearance which these components assume in the overall process of social production is [...] different.’\(^ {17}\)

2. Even under simple reproduction, the labour spent in reproducing means or production – whose value decomposes into wages (necessary labour) and surplus-value (surplus labour) – is realised in new means of production which replace the constant capital component expended in the production of means of production.

IV The Missing Constant Capital Component in ‘Smith’s Dogma’

According to the proposition that price decomposes into wages, profit and rent, commodity value = \(v+s\).\(^ {18}\) This proposition is qualitative, and not quantitative, i.e. the formation of price ‘is absolutely independent of its distribution among three kinds of person.’\(^ {19}\) Smith now needs ‘to conjure the constant part of capital out of commodity value.’\(^ {20}\) He does so like this; as for the capital replacement cost, Smith argues that the price of the items that make this up is itself resolvable into wages, profit and rent (i.e., \(v+s\)), and so on \(ad\) \(infinitum\). Marx’s critique of this proposition is as follows:

His proof consists simply in the repetition of the same assertion. He concedes [...] that the price of corn not only consists of \(v+s\), but also of the price of the means of production consumed in the production of corn, i.e. that it consists of a capital value that the farmer did not invest in labour-power. Nevertheless, [...], the prices of all these means of production can themselves be decomposed [...] , just like the price of corn itself, into \(v+s\). Smith simply forgets to add: as well as into the price of the means of production used up in their own creation. [...]. The statement that the entire price of commodities is either ‘immediately’ or ‘ultimately’ resolvable into \(v+s\) would only cease to be an empty subterfuge if Smith could demonstrate that the commodity products whose price is immediately resolved into \(c\) (the price of the means of production consumed) + \(v+s\) are finally compensated for by commodity products which entirely replace these ‘consumed means of production’, and which are for their part produced simply by the outlay of variable capital, i.e. capital laid out on labour-power.\(^ {21}\)

And this not only does he not do but he strongly implies elsewhere that it is not the case.

V The Distinction between the Value of the Annual Product and the Annual Value Product

The source of Smith’s error lies in his own premises. If capital converted into labour power produces a value greater than its own, whence this excess? Smith argues that the workers impart to the things they work on a (surplus) value in excess of the value of their wages; and, as we know, here he is right.\(^ {22}\) But this holds true for the

\(^{16}\) C2, p. 445.
\(^{17}\) C2, p. 445, italicisation in original.
\(^{18}\) It is explicit in Smith’s theory, Marx shows us, that both rent and profit arise from surplus-value.
\(^{19}\) C2, p. 449.
\(^{20}\) C2, p. 449.
\(^{21}\) C2, p. 450.
\(^{22}\) ‘[T]hey can do no other’, comments Marx (C2, p. 451).
total social product as well; again, ‘where can still more labour come from to produce a capital value not laid out on labour-power?’

The source of Smith’s error lies in equating

the value of the annual product with the annual value product. [...] The latter is simply the product of the current year’s labour; the former includes, on top of this, all those elements of value that were used in the production of this annual product, but which were produced in [...] previous year[s] [...] means of production whose value only reappears – and which, as far as their value is concerned, have been neither produced nor reproduced by the labour spent during the current year.

This error is based on another, more fundamental: Smith’s failure to distinguish the elements of the twofold nature of labour itself:

[the] labour that creates value, by the expenditure of labour-power, and [the] labour that creates objects of use [...]. The [...] total annual product is the product of the useful labour operating in the current year [...]. The total annual product is thus the result of the useful labour expended during the year; but only one part of the value of this product has been created during the year; this part is the annual value product, which represents the amount of labour actually performed during the year [...].

VI The Distinct Processes of Circulation and Exchange Hidden in Smith’s Account

The component of the value of the commodity product equivalent to wages – the variable capital advanced – returns to the capitalist in the form of a part of the value component of the commodities produced by the workers, i.e. in commodity form; the worker receives in money the value equivalent of the labour-power she has sold. This last the worker uses to buy means of subsistence – means of reproduction of labour-power.

There are different process of circulation and production here not distinguished in Smith’s account.

(1) circulation process: The worker sells her commodity labour-power and receives money advanced by the capitalist.

(2) production process: The labour-power forms part of functioning capital: the worker reproduces in commodity form the value advanced by the capitalist in wages – value eventually to be advanced afresh, dependent on:

(3) the sale of the commodity product

Two points to bear in mind here are:

1. Commodity exchange considered as commodity exchange is nothing other than commodity exchange: it is immaterial, one, what happens to the money in the hands of the seller, and, two, what happens to the commodities in the hands of the buyer.

2. Because the value of labour-power is determined by the amount of labour necessary to produce it, i.e. by the amount of labour necessary to produce the means of subsistence, i.e. the amount labour needed to maintain her life, the wage becomes the revenue the worker needs to live.

Smith says that that part of capital that serves as wages constitutes a revenue for the workers after having served as capital for the capitalist. This is wrong, and in two senses.

(1) the dual function of labour-power

- Money paid for wages serves as capital to the extent – and only to the extent – that it incorporates labour-
power into production. Labour-power here is capital.

- But labour-power in the hands of the worker is not capital: it is a commodity, and only functions as capital after its sale.

- Labour-power thus serves two purposes.

- The worker receives the money from the capitalist after she has given the use of her labour-power; the capitalist thus receives this value before she pays for it.

- Therefore it is not the money which functions twice (as variable capital and wages), but the labour-power – as first capital and then commodity. ‘The worker therefore himself creates the payment fund from which the capitalist pays him.’

(2) the determination of the worker’s revenue

The worker spends her wages on maintaining her labour-power, and hence on maintaining for the capitalist the means for remaining a capitalist. Thus:

- The repeated sale and purchase of labour-power perpetuates the function of labour-power as an element of capital; the capital that buys labour-power is restored by labour-power itself.

- The repeated sale of labour-power is the means of maintaining the worker’s life: labour-power appears as the means through which she draws the revenue to live.

- ‘Revenue’ here, then, is ‘the appropriation of values effected by the constantly repeated sale of [...] labour-power, [...] values [which] themselves serve only towards the constant reproduction of the commodity to be sold.’

- That the value component of the product for which the capitalist pays as equivalent as wages becomes a source of revenue for the worker is true, but this says nothing about the magnitude of this value, for this latter is determined independently. This component of value does not consist of revenue, nor is it resolved into revenue. That it is revenue is that it becomes to be disposed of by the worker. Thus, rather than the magnitude of the worker’s revenue determining the share of new value she receives, it is the share of this value that determines the magnitude of her ‘revenue’.

VII Smith’s Misguided Conception of ‘Revenue’

We see, then, that ‘the root cause of Smith’s whole trouble’ is the concept of ‘revenue’. For Smith, it is the different types of revenue that form the component parts of the commodity value. In reality, it is the other way around: it is the equivalent of variable capital that returns to the capitalist, along with surplus-value, from which revenue arises. But these two parts are no more than labour-power expended in commodity production.

If it is the case that commodity value is composed of its component parts, then the question is what determines the magnitude of each of these component parts; but, if it is that commodity value is resolved into its component parts, now the question is what determines the magnitude of the whole commodity value. The two questions are different; both cannot be posed at the same time.

27 C2, p. 457.
28 C2, p. 457.
29 C2, p. 458.
The truth is that the newly-created value contained in the annual product is equal to the sum of variable capital advanced plus surplus-value produced.

VIII Labour-power as the Source of ‘Revenue’

Marx now summarises his case against Smith.

The notion that wages, profit and rent, as ‘revenues’, form three components of commodity value, Marx labels as ‘absurd’.

This notion in turn is based on that which says that the commodity value resolves itself into these three component parts, a notion which Marx sees as ‘more plausible’, but which is also false, and on two counts.

First, as we have seen, because the ‘component’ of constant capital is missing from this scheme. But, argues Marx, even allowing for this, there is a deeper error.

Insofar as a commodity has value, it does so because labour has been expended – directly and indirectly – in its production. ‘The magnitude of this value is measured by the amount of labour expended; the commodity value cannot be resolved into anything further, and consists of nothing more.’

Under capitalist production, both the product of labour and its value belong to the capitalist. As use-value, it is entirely the product of the labour process; the same is not true of its value, for one part is the value of the means of production used up, value which has not been newly produced but which is passed on from the means of production to the product; another part is the value of the labour-power the worker sells to the capitalist, also determined in magnitude independently of the production process; a third part, that value created in production beyond the value of the labour-power sold; surplus-value.

In an addendum to the chapter (taken from a different – earlier – manuscript), Marx notes that Smith’s dogma is incorporated in fundamental respects in the conceptions of, amongst others, Ricardo, Say, Proudhon, Sismondi and John Stuart Mill. ‘The result is that Smith’s confusion persists to this day, and his dogma forms an article of orthodox belief in political economy.’

---

30 C2, p. 462.
31 C2, p. 467.