Chapter 20: Simple Reproduction

This chapter, along with the one which follows, follows logically from the preceding analyses of this volume and of volume 1.

The object of analysis of volume 1 was the immediate process of production, the $P$ in $M\rightarrow C ... P \rightarrow C' \rightarrow M'$: ‘[t]he immediate production process of capital is its process of labour and valorisation, the result of this process being the commodity product’,¹ i.e., volume 1 considered capitalist production abstracted from its total process or reproduction, specifically from its process of circulation. This has been the subject of volume 2: precisely the process of circulation of capital, or, more exactly, the place of this circulation in its reproduction. We began, in part 1, by tracing the cyclical movement of capital at the scale of the individual capital and its individual cyclical movement. Then, in part 2, we considered this cycle as a periodic one, and the implications of this periodicity. Now, since ‘the circuits [cycles] of individual capitals [...] presuppose one another’,² we are going to consider the movement of the total social capital: ‘[t]he movement of the social capital is made up of the totality of movements of these autonomous fractions, the turnovers of the individual capitals.’³

Given the length of the chapter, and the fact that it was compiled from different manuscripts written over a period of some years,⁴ I have broken it down into three more easily digestible parts. This first part deals with the question of simple reproduction as such, and introduces the notion of the two departments of production and that of the mechanisms and conditions of exchange between them; in the second part, Marx explicitly directs his critical attention to the concepts of classical political economy in general and Adam Smith in particular; and in the third, Marx addresses the specific question of the reproduction of fixed capital (and consequently both changes the abstracting assumptions adopted during the rest of the chapter and more directly anticipates the subject matter of the following one, i.e. expanded reproduction). This first part incorporates the first six sections of the chapter;⁵ the second deals with sections seven, eight, nine, ten, twelve and thirteen; the third, dealing with the question of fixed capital, summarises section eleven.

Part 1: Simple Reproduction and the Exchange between the Two Departments of Production⁶

1 Formulation of the Problem

The question to be investigated is ‘how the reproduction of the social capital proceeds’,⁷ in other words, ‘[h]ow [...] the capital consumed in production [is] replaced in its value out of the annual product, and how [...] the movement of this replacement [is] intertwined with the consumption of surplus-value by the capitalists and of wages by the workers.’⁸

Given that ‘the overall process of reproduction [...] includes the consumption process mediated by circulation’,⁹ we therefore need to consider the process of reproduction by analysing the circuit of commodity capital,¹⁰ viz:  

---

¹ Karl Marx, *Capital*, vol. 2 (Harmondsworth, 1978) [hereafter C2], p. 427
² C2, p. 429.
³ C2, p. 427. In volume 3 we shall consider the movement of the total social capital taking into account competition between capitals.
⁴ C2, pp. 103-4.
⁵ C2, pp. 468-524.
⁶ Where I insert my own subheads they appear, as here, in sans serif type.
⁷ C2, p. 468.
⁸ C2, p. 469.
⁹ C2, p. 469.
¹⁰ C2, pp. 167-79.
We shall be making the following assumptions in the following. First, we shall for the moment only be considering simple reproduction. Second, we shall be assuming exchange at value, and an absence of revolution in values with regards to the components of the productive capital. Third, we also assume a (constant) rate of surplus-value of 100% in both departments.

2 The Two Departments of Social Production

Society’s total product may be broken down into two ‘departments’: means of production (I) and means of subsistence (consumption) (II). There are two points we should take note of here.

First, that while the distinction between means of production (i.e. articles of productive consumption) and means of subsistence (i.e. articles of unproductive consumption) is a distinction in terms of use-value, Marx’s treatment in this chapter and the next of the exchanges that occur both within the departments and between them is couched entirely in value terms.

11 C2, p. 470.

12 According to Anthony Brewer, ‘an analytical fiction that Marx uses repeatedly’ (A Guide to Marx’s Capital (Cambridge, 1984), p. 107). Marx, however, a little later explains: ‘Simple reproduction [...] seems to be an abstraction, both in the sense that the absence of any accumulation or reproduction on an expanded scale is an assumption foreign to the capitalist basis. [...] But since, when accumulation takes place, simple reproduction still remains a part of this, and is a real factor in accumulation, this can also be considered in itself.’ C2, pp. 470-1.

13 Nevertheless, divergence of prices from values ‘cannot exert any influence on the movement of the social capital’ (C2, p. 469, italicisation added): the same mass of products are exchanged, even if the value relationships in which individual capitalists are involved may change.

14 Here too, nothing is changed with regard to the relations between the value components of the total annual product if the changes are evenly distributed; and even if they are not, all that is altered is the relative magnitudes of value between constant and variable capitals.

15 In fact, Marx adopts a further set of assumptions, which will become clear over the course of his exposition, which it would be well to summarise here; thus, in addition to the three just mentioned, we have that that either there is no fixed capital, or that all fixed capital is used up during the production period (C2, p.473; note, however, that this particular assumption is dropped for section eleven); that the value composition of capital, \( \frac{\epsilon}{(\ell + v)} \), is taken as constant and the same for each department (C2, p. 483); and that there is no foreign trade (C2, 546). Cf. Geert Reuten, ‘The Status of Marx’s Reproduction Schemes’, in Christopher J Arthur and Geert Reuten (eds.), The Circulation of Capital: Essays on Volume Two of Marx’s Capital (London and New York, 1988), pp. 192ff.
The second is this. The distinction between means of production and means of subsistence is not an arbitrary abstraction. Repeatedly in volume 1, and at the beginning of this volume, Marx pointed out that one of the fundamental specificities of capitalist production is the separation of the worker from the means of production, a separation of which the separation between means of production and means of subsistence is a consequence and reflection. In chapter 1 he wrote:

[...] the conditions for the realization of labour-power, i.e. means of subsistence and means of production, are separated, as the property of another, from the possessor of labour-power. [...] The capital relation arises only in the production process because it exists implicitly in the act of circulation, in the basically different economic conditions in which buyer and seller confront one another, in their class relation. [...] If the sale of one's own labour-power (in the form of the sale of one's own labour, or the wage form) is not an isolated phenomenon, but the socially decisive precondition for the production of commodities [...], this [...] implies the occurrence of historic processes through which the original connection between means of production and labour-power was dissolved; processes as a result of which the mass of the people, the workers, come face to face with the non-workers, the former as non-owners, the latter as the owners, of these means of production. [...] Thus the situation that underlies the act \( M - C \leftarrow L \) is one of distribution; not distribution in the customary sense of distribution of the means of consumption, but rather the distribution of the elements of production themselves, with the objective factors concentrated on one side, and labour-power isolated from them on the other. [...] We have already seen how capitalist production, once it is established, not only reproduces this separation in the course of its development, but also expands on an ever greater scale until it has become the generally prevailing social condition.17

To return to the present chapter. In each department, capital is composed of two components: variable capital \( (v) \) and constant capital \( (c) \). The value of the total product of each department breaks down into a part composed of constant value \( c \) consumed18 in production, and that part added by labour, which in turn is composed of the replacement of variable capital \( v \) and the excess surplus-value \( s \). The total annual product thus breaks down as \( c + v + s \).19

Let, then:

**department I** (means of production):
- capital: \( 4,000c + 1,000v = 5,000 \)
- commodity product (in the form of means of production): \( 4,000c + 1,000v + 1,000s = 6,000 \)

**department II** (means of consumption):
- capital: \( 2,000c + 500v = 2,500 \)
- commodity product (in the form of means of consumption): \( 2,000c + 500v + 500s = 3,000 \)

Considering this in the form of the cycle of commodity capital, \( \text{viz.} \quad C - \{ M - C \ldots P \ldots C' \}, \) we can represent the two departments thus:

\[
\begin{align*}
\text{department I} & : & C' & : & M \leftarrow C & \ldots & P & \ldots & C' \\
\text{department II} & : & m - c & : & \text{m}
\end{align*}
\]

---

16 Especially chapters 26 and 32: see Karl Marx, *Capital*, vol. 1 (Harmondsworth, 1990) [hereafter C1], pp. 873-6 and 927-30.
17 C2, pp. 114-7.
18 ‘Consumed’ and not ‘applied’, since only a part of the value of the fixed capital is passed on to the product. As just noted, we here disregard that quotient of value transferred to the product through the wear and tear of that fixed capital that continues to function.
19 A matter, Marx later (C2, p. 478) refers to as ‘the most important question facing us here’; this is of course the crux of his critique of Adam Smith.
20 Marx emphasises that the figures are money, but that the currency is irrelevant; that they are money is a point Marx repeatedly makes in this chapter, an important observation given subsequent neo-Ricardian interpretations, which see the quantities which appear in Marx’s reproduction schemes as quantities of use-value.
The total annual commodity product (excluding that fixed capital that continues to function) has a value equivalent to 9,000.

For production to continue on the same basis (i.e. assuming simple reproduction) in the next (we are assuming annual) production period this commodity product needs to be sold. It should be evident that department I’s product (means of production) will only be bought by capitalists (of both departments). It should also be evident that department II’s product (means of consumption or subsistence) will be bought by both capitalists and workers. Equally, it should be clear that the product of value equivalent to the surplus product of both departments, if it is to be consumed unproductively (assuming simple reproduction), will be so in the form of department II commodity product.21

We can now make three initial – ‘temporary’22 – observations:

1 The 500, of workers’ wages and 500, of capitalists’ surplus value (1,000 in total) in department II must be spent on means of consumption: thus the wages and surplus-value of department II are converted within the department into its product and therefore drop out of the account.

2 Likewise, the 1,000, of workers’ wages and 1,000, of capitalists’ surplus-value of department I must also be spent on means of consumption, on the products of department II – equal to 2,000IIc (which in turn also drops out).23

---

21 ‘The main question analysed by Marx [here] [...] is how the different components of money capital invested are eventually recovered as a result of the various transactions between and within [the] [...] two departments, so that capitalist production can continue in the next year on the same scale.’ Fred Moseley, ‘Marx’s Reproduction Schemes and Smith’s Dogma’, in Christopher J Arthur and Geert Reuten (eds.), The Circulation of Capital: Essays on Volume Two of Marx’s Capital (London and New York, 1988), p. 174.

22 C2, p. 474.

23 Combining observations (1) and (2), this means that the total output of department II must equal the variable capital advanced as wages and surplus-value produced in both departments (if, that is, these two last are completely spent as ‘revenue’ under the conditions we are operating under); in other words, the annual value product – ‘the product of the current year’s labour’ (C2, p. 453) – is, under the conditions of the parenthetical caveat just noted, equal to the value of the annual product – new value produced plus that value passed on through means of production (C2, p. 453). We can represent this as \(I(c + s) + II(c + s)\) = \(\Pi(c + r + s)\), which simplifies to \(I(c + s) = \Pi_c\), an equality which Marx will elucidate shortly.
3 The remaining 4,000I – means of production which can be only used in I which serve to replace the constant capital consumed there – is disposed of by ‘mutual exchange’ among the individual capitalists of I.

3 Exchange Between the Two Departments: I(\(v + s\)) against IIc

1 The mediation of the exchange

First we consider step 2 above: the value \((1,000 + 1,000)I(v + s)\) is exchanged for a value of 2,000IIc. How is this exchange brought about? Through ‘a money circulation’, which both ‘mediates the exchange’ and makes it harder to comprehend.’ Let us start by representing this ‘mutual exchange’ like this:

\[
\begin{array}{c}
\text{means of production} \\
(1,000 + 1,000)I(v + s) \\
\end{array} \leftrightarrow \begin{array}{c}
\text{means of consumption} \\
2,000IIc \\
\end{array}
\]

In other words, a value equivalent to the variable capital (wages) advanced in and surplus-value produced by department I, existing initially in the natural commodity product form of means of production, is exchanged for a value equivalent to the constant capital (means of production) advanced in department II, existing initially in the natural commodity product form of means of consumption.

But here we need to recall that the circulation of capital forms a part of general commodity exchange, and commodity exchange takes the form not of \(C–C\) but of \(C–M–C\).

Marx’s reproduction schemas summarise the turnover of capital and commodities as a dual movement, [...] meaning that they are based upon a combined dual flow – a flow of value produced in the process of production, and a flow of money (money revenue and money capital) unleashed in the process of circulation in order to realise the value of the commodities produced. The schemas are evidently not based upon barter: department I does not ‘exchange’ goods with department II simply according to ‘mutual need’. Before the capitalists or employed workers of department I can obtain the goods they need, they must prove themselves to have sufficient purchasing power to buy them from department II [...].

The overall ‘exchange’ we are considering is thus (prefix M indicating money of an unspecified currency):

\[
\begin{array}{c}
\text{means of production} \\
(1,000 + 1,000)I(v + s) \\
\end{array} \leftrightarrow \begin{array}{c}
\text{means of consumption} \\
2,000IIc \\
\end{array}
\]

24 C2, p. 474.

25 A word on the notation. Even though the distinction between departments of production is one based on use-value, it is important to grasp that, for example, the expression 2,000IIc represents value, i.e., says ‘a sum (2,000) of value equivalent to the constant capital advanced in the means of consumption sector’. This sum of value can clearly take different natural (i.e. use-value) forms: money, commodity form (either means of production or means of consumption), productive capital.

26 C2, p. 474.

27 Remembering that the same quantity of money can mediate more than one exchange, according to the formula: quantity of money functioning as the circulating medium = \[
\frac{\text{the sum of prices of commodities}}{\text{number of times coins of the same denomination are turned over}}

II  The movement of I

The ‘collective capitalist’ in department I pays the workers M1,000 for the \( v \)-component of the value of means of production produced by them; this M1,000 is used to buy means of subsistence from the capitalists of department II, transforming half of the \( c \)-component of II’s commodity product into money. The capitalists of department II use this M1,000 to buy means of production from those of department I. The \( v \)-component of department I’s commodity product is transformed into money to be converted into labour-power; in production, this variable capital is converted into commodity product, which can then be sold so that variable capital flows back in money form.

The metamorphoses of the 1,000I, capital value describe this path:

\[
M \rightarrow C(L) \rightarrow [... P ...] \rightarrow C \rightarrow M
\]

The displacement of the M1,000I advanced as wages takes this course:

<table>
<thead>
<tr>
<th>Capitalist I</th>
<th>Purchase</th>
<th>Capitalist II</th>
<th>Purchase</th>
<th>Capitalist I</th>
</tr>
</thead>
<tbody>
<tr>
<td>( v )-capital</td>
<td>labour</td>
<td>constant</td>
<td>means of production</td>
<td>labour-power</td>
</tr>
<tr>
<td>Workers I</td>
<td>wages</td>
<td>Capitalists II</td>
<td>constant</td>
<td>Capitalists I</td>
</tr>
<tr>
<td></td>
<td></td>
<td>means of subsistence</td>
<td>means of production</td>
<td>variable capital</td>
</tr>
</tbody>
</table>

III  The realisation of II

If the money to realise one half of the \( c \)-component of department II’s commodity product comes from the wages paid to the workers of department I, where does the money for the other half, which is exchanged for the \( s \)-component of department I’s commodity capital, come from? Marx remarks that, given the reserves of money that exist alongside productive capital, it can come from a range of sources – from ‘countless individual sales and purchases by individual capitalists in the two departments’ and makes the assumption that half is advanced by capitalists of department II, for the purchase of means of production to replace constant capital and the other half spent by capitalists in department I on consumption. If this is the case (and the case is an example), M500 advanced by department II purchases means of production from department I, and is used by department I to buy means of consumption from department II, after which it returns to department II as money. Meanwhile, department I anticipates the sale of that half of its commodity capital as yet unsold by advancing M500 to purchase means of consumption from department II; with this M500 department II buys means of production from department I. In sum, M4,000 worth of commodities has been exchanged through a monetary circulation of M2,000.

Marx’s general point here is that a relatively small amount of money can realise a relatively large exchange; and that, inherent to the system, as we have seen, there are already reserves of money in place.

The money that [...] cast into circulation over and above the total value of their commodities, as a means for exchanging these commodities, returns to each of them from the circulation

---

29 C2, p. 475.
30 C1, pp. 198-209.
32 The metamorphoses and displacements together comprising the ‘dual flow’ referred to above by Mandel.
33 C2, p. 475.
34 Although he notes that the exact proportions are immaterial.
35 The sum of money ‘only being as high as it is because the entire annual product is depicted as having been exchanged all at once in a few large amounts.’ C2, p. 476.
sphere to the exact amount that each of the two cast into it. Neither has become a farthing richer from all this.  

Thus, for simple reproduction to occur, the value components $v + s$ of department I’s commodity capital (and therefore an equivalent part of department I’s commodity product) must be equal to the department II’s constant capital ($II_c$) similarly precipitated out as a proportionate part of its commodity product. The condition is: $I(v+s) = II_c$.  

Simple reproduction, thus conceived, can be represented diagrammatically thus:

---

36 C2, p. 477.

37 ‘This [...] basic condition of Simple Reproduction [...] says simply that the value of the constant capital used up in the consumption goods branch must be equal to the value of the commodities consumed by the workers and capitalists engaged in producing means of production. If this condition is satisfied, the scale of production remains unchanged from one year to the next.’ Paul Sweezy, The Theory of Capitalist Development (London and New York, 1968), p. 77.
4 Exchange within Department II. Necessary Means of Subsistence and Luxury Items

I The overall movement between departments I and II

So far we have seen, (1), that commodity product in the form of means of production – which can be only used in department I and which serves to replace the constant capital consumed there – to the value of 4,000 I\(_c\) is disposed of by ‘mutual exchange’ between the capitalists of this department; (2), that values I\((v + s)\) II\(_c\) exchange, and how this is carried out; and, (3), that the 500\(_v\) of workers’ wages and 500\(_s\) of capitalists’ surplus value (1,000 in total) in department II are be spent on means of consumption (i.e. within this department), workers effectively buying back their own product and capitalists buying back the surplus; \(\text{nix}::\)

\[\text{I} \quad \begin{array}{c} 4,000_c \\ 1,000_v \\ 1,000_s \end{array} \quad \cdots \quad \text{II} \quad \begin{array}{c} 2,000_c \\ 500_v \\ 500_s \end{array} \]

We now need to investigate the mechanics of this third set of exchanges, i.e. those involving II\((v + s)\).

II Necessary and luxury means of consumption

II\((v + s)\) exists in the natural form of means of consumption: the workers in this department buy back their own product, allowing the capitalists to retransform the money paid out as wages into money form and thence into variable capital.

If we divide department II into two sectors, II\(_a\), which produces necessary means of subsistence, which form the consumption of the workers and a part of that of the capitalists, and II\(_b\), which produces luxury products, which only enter the consumption of the capitalist class, we see that:

1 In the case of sector II\(_a\), the variable capital laid out flows back directly to the capitalists (i.e. those of II\(_a\)): the reflux is a direct one.

2 In that of II\(_b\), the component of value produced, II\(_b\)(\(v + s\)) exists in the natural form of luxury items, products workers (here by definition) cannot buy. The reflux of the variable capital here is mediated indirectly (analogously to the case of I\(_v\)).

Let us recall that:

\[\text{II}_v = 500\]
\[\text{II}_s = 500\]

And assume:

\[\text{II}_{a_v} = 400 \text{ and } \text{II}_{a_s} = 400, \text{i.e. } \text{II}_{a}(400_v + 400_s)\]
\[ II_b = 100 \text{ and } II_b = 100, \text{ i.e. } II_b(100 + 100) \]

Therefore: the workers in II_b receive M100 for their labour-power. They use this money to buy 100 of means of consumption from sector II_a. The capitalists in II_a use this money to buy 100 luxury product from sector II_b.

If the capitalists in sectors II_a and II_b both divide their expenditure of revenue (whenever it comes) to spend \( \frac{3}{5} \) on necessary means of consumption and \( \frac{2}{5} \) on luxury items, \(^{38}\) then capitalists II_a spend \( \frac{3}{5} \times 400II_a \) (240II_a) on their products, necessary means of subsistence, and \( \frac{2}{5} \times 400II_a \) (160II_a) on luxury items from sector II_b, while capitalists II_b spend \( \frac{3}{5} \times 100II_b \) (60II_b) on necessary means of subsistence from sector II_a and \( \frac{2}{5} \times 100II_b \) (40II_b) on their own luxury product.

We shall now see how luxury product equivalent to II_a flows to capitalists II_a.

1. **II_a** is consumed directly by the workers of II_a; wages flow back directly to the capitalists.

2. As we have seen, a part of II_a equivalent to 100II_b has been realised through the workers in II_b spending M100 wages on means of consumption from II_a (a quarter of II_a), and the capitalists in II_a using this money to buy 100 luxury product from II_b (100II_b). II_b thus flows back in money form, to be reapplied as variable capital.

3. The workers have spent their wages, accounting for the consumption of 400II_a, 100II_b, and 100II_a. There remains 300II_a and 100II_b – 400 in total – to be consumed by the capitalists. Given the proportion between spending on necessary means of subsistence and on luxury items on the part of the capitalists of 3:2 that we assumed earlier, we can divide II_a into 240, necessary consumption and 160, luxury consumption and II_b into 60, necessary consumption and 40, luxury consumption. Given the luxury consumption of II_a 100, supposed by step 2 above, 60II_a, luxury consumption (along with 40II_b) remains. The latter is consumed by the capitalists of this sector out of the own product – \( \frac{2}{5} \) of their surplus product – while the remaining 60II_b is consumed by the capitalists of II_b exchanging their product with sector II_a. [The remaining 240II_a (100 was accounted for in step 2 above) is consumed by the capitalists of II_a out of their product – \( \frac{3}{5} \) of their surplus product.]\(^{39}\)

### III The overall movement between sectors II_a and II_b

These three steps can be represented like this:

---

\(^{38}\) These are not arbitrary proportions. As a footnote (by Engels?) points out (C2, p. 481), II_b(\( r + b \)) in its entirety is consumed by capitalists, and the equivalent of II_a and II_b by the workers. The capitalist consumption fund is then given by

- **necessities**: \[ II_a(r + b) - II_a + II_b = II_a - II_b = 400 - 100 = 300. \]
- **luxuries**: \( II_b(r + b) = 100 + 100 = 200. \)

\(^{39}\) The step in square brackets is implied but not explicit at this point in Marx’s account, although he does so refer to it later (C2, p. 488).
In these exchanges $500(a + b)_j$ has been realised in $400a_y$ and $100b_y$ [steps 1 and 2 above]; and $500(a + b)_j$ in $300a_y$ [3], $100b_y$ [2] and $100b_y$ [3]. We can describe these exchanges like this:

$$\begin{align*}
\Pi_a: & \quad \frac{v}{400a_y} + \frac{s}{240a_y + 100b_y + 60b_y} = 800 \\
\Pi_b: & \quad \frac{v}{100a_y} + \frac{s}{60a_y + 40b_y} = 200
\end{align*}$$

Following our assumptions for the ratio between constant capital and variable capital above (i.e. 4:1), and assuming this is the same in the two sectors $\Pi_a$ and $\Pi_b$,\(^{40}\) then we arrive at the following subdivisions for department II:

- $\Pi_a$: $1,600c + 400v + 400s = 2,400$
- $\Pi_b$: $400c + 100v + 100s = 600$
- total: $2,000c + 500v + 500s = 3,000$

When we saw above that $I(v + s) = \Pi_c$, we can now see that

1. $1,600I(v + s) = \Pi_a c$
2. $400I(v + s) = \Pi_b c$

Since the $2,000I(v + s) = (1,000v + 1,000s)$, then

1. $1,600I(v + s) = \Pi_a c = (800v + 800s)I$
2. $400I(v + s) = \Pi_b c = (200v + 200s)I$

### IV The conditions for simple reproduction

Three conclusions flow from all this:

1. The new value annual product of department I (i.e. $v + s$) is equal to the constant capital value component of the product of department II. If the former were smaller than the latter, department II would not be able to completely replace its constant capital; if larger, then a surplus would arise. ‘In both cases, the assumption of simple reproduction would be destroyed.’\(^{41}\)

2. The variable capital component of the luxury means of consumption sector’s annual product can only be

---

\(^{40}\) ‘[A]lthough this is in no way necessary’, says Marx (C2, p. 482).

\(^{41}\) C2, p. 484.
reconverted into capital through exchange with a part of the surplus-value component of the necessary means of consumption sector’s product. This implies two things: not only this exchange itself, but also that $II_b < II_a$.

3 These two ratios $(v + s) = \Pi_c$ and $II_b < II_a$ – ‘remain qualitatively decisive in every distribution of the annual social product, in as much as this actually goes into the process of annual reproduction mediated by circulation’;¹ are, in other words, the necessary conditions for simple reproduction.³

V Reproduction and crises

Marx now emphasises that the proportions in spending on the part of the capitalist class on necessary and luxury means of consumption are arbitrary, and to be interpreted as social averages (on an individual level, being determined by individual tastes, the proportions will vary accordingly). What matters here is the qualitative relation: changes in the quantitative relation, the conditions of reproduction change accordingly. If consumption of luxury means of consumption declines (as it does in a crisis), the retransformation of $II_b$ into money is slowed down; this lack of variable capital in this sector leads to a decline in the production of luxury goods, which in turn, because of $II_b \leftrightarrow II_a$, leads to restrictions in the production and sale of necessary means of consumption. In this respect, Marx now makes a rather important remark about the nature of crises, an argument against those ‘underconsumptionist’ theories that have subsequently become rather popular:

> It is a pure tautology to say that crises are provoked by a lack of effective demand or effective consumption. [...] The fact that commodities are unsalable means no more than that no effective buyers have been found for them, i.e. no consumers (no matter whether the commodities are ultimately sold to meet the needs of productive or individual consumption). If the attempt is made to give this tautology the semblance of greater profundity, by the statement that the working class receives too small a portion of its own product, and that the evil would be remedied if it received a bigger share, i.e. if its wages rose, we need only note that crises are always prepared by a period in which wages generally rise, and the working class actually does receive a greater share in the part of the annual product destined for consumption. From the standpoint of these advocates of sound and simple common sense, such periods should rather avert the crisis. It thus appears that capitalist production involves certain conditions independent of people’s good or bad intentions, which permit the relative prosperity of the working class only temporarily, and moreover always as a harbinger of crisis.⁴

VI The motive of simple reproduction

Marx concludes this section with an important, albeit tangential, comment on considering reproduction as simple reproduction.

---

¹ C2, p. 484. ‘With these ratios fixed, an increase (or decrease) [for example] in the scale of department I will increase (or decrease) $v + s$ in that department, and similarly any change in department II will alter $c$ in department II. If $v + s$ in I exceeded $c$ in II, then capital would have to be transferred from I to II in order to reach the necessary balance, and so on. Such a transfer would not, of course, normally take place smoothly but would involve a crisis, a temporary breakdown in reproduction. What Marx demonstrates is that it is logically possible for a capitalist society to reproduce itself, not that it will always do so smoothly.’ Anthony Brewer, *A Guide to Marx’s Capital*, p. 116, italicisation added.

² At which point Marx adds a rather important caveat: ‘It goes without saying [...] that this applies only to the extent that all this is really a result of the reproduction process itself, i.e. in as much as [for example] the capitalists in $II_b$ do not [...] obtain their $v$ on credit from another source.’ C2, p. 484, italicisation added. Marx here also reminds us that we assuming that ‘the scale of production and the value ratios involved in it remain constant’, i.e. that we are excluding foreign trade from our picture, a remark that not only tells us something important about simple reproduction but also about foreign trade.

Simple reproduction is oriented by nature to consumption as its aim. Even though the squeezing out of surplus-value appears as the driving motive of the individual capitalist, this surplus-value – no matter what its proportionate size – can be used here [...] only for his individual consumption.

Insofar as simple reproduction is also part of any annual reproduction on an expanded scale, and the major part at that, this motive remains alongside the motive of enrichment as such and in opposition to it.\(^{45}\)

5 The Mediation of the Exchanges by Monetary Circulation

I The reflux of capital as money

After summarising what we have seen so far, Marx then quotes himself from volume 1:

The process of circulation, therefore, unlike the direct exchange of products, does not disappear from view once the use-values have changed places and changed hands. The money does not vanish when it finally drops out of the series of metamorphoses undergone by a commodity. It always leaves behind a precipitate at a point in the arena of circulation vacated by the commodities.\(^{46}\)

Earlier, considering the exchanges between \(\text{II}_c\) and \(\text{I}_{(v + s)}\), we assumed that M500 was advanced by department II to buy means of production from department I, who in turn used the same sum to buy means of consumption from II. *The money flows back to whence it started.* No one is any the richer at the end of the process.

II The reflux of variable capital

In department I, the money advanced as wages returns, but indirectly; that advanced in department II as wages directly. But in both cases it returns. In both cases the worker confronts the capitalist first as the seller of labour-power, and then as buyer of commodities, and *in this way* the capitalist’s money flows back to her. If equivalents are exchanged no one is swindled.

Marx here emphasises the important role of variable capital/wages in overall monetary circulation. Not only must variable capital always reappear in money form, it must always be advanced in money form in all branches continuously and simultaneously – the working class, which lives hand to mouth, cannot afford long-term credit to the capitalist class.\(^{47}\)

III The movement of money and the realisation of commodity circulation

We now consider \(\text{I}_{(v + s)} \leftrightarrow \text{II}_c\) from a different point of view. We shall consider two sets of exchanges, A and B (for future reference we indicate each act of exchange – there are seven – with a lower case roman numeral).

**A** We saw that, in department I, M1,000 advanced as wages (\(i\)) was used by the workers to buy 1,000 means of subsistence from department II (\(ii\)); the capitalists of department II use this money to buy means of production from department I (\(iii\)), such that the variable capital they advanced has returned to them in money form.

**B** The capitalists of department II advance a further M500 for means of production from department I (\(iv\)). The capitalists of department I spend this money on means of consumption from department II (\(v\)). Department II uses the same money to further means of production from department I (\(vi\)). Department I buys a further 500 means of consumption from department II (\(vii\)). Thus, at the close of the process, the money again flows back to department II, such that its capitalists are again in possession of M500 and 2,000, although the latter

\(^{45}\) C2, p. 487.

\(^{46}\) C1, p. 280.

\(^{47}\) Even if labour-power is bought before it enters production it is only paid for after it has been expended.
has been converted from the commodity form back into productive capital.\textsuperscript{48}

The movements (of money) we are considering are these:

\begin{itemize}
  \item[I] Capitalists I → workers I → capitalists II → capitalists I
  \begin{itemize}
    \item variable capital
    \item wages
    \item constant capital
    \item variable capital
  \end{itemize}

  \item[B] Capitalists II → capitalists I → capitalists II → capitalists I → capitalists II
  \begin{itemize}
    \item constant capital
    \item ‘revenue’\textsuperscript{49}
    \item constant capital
    \item constant capital
  \end{itemize}
\end{itemize}

The displacement of the money in exchanges \textbf{A} (i-iii) takes this form:

\begin{itemize}
  \item \textbf{A}: M1,000
  \item \textbf{B}: M500
\end{itemize}

With M1,500 5,000 commodity mass has circulated. There are two results of these processes:

1. In addition to spending 1,000 from its own commodity product on means of consumption; i.e. spending the money received from the sale of means of production, department I also possesses 1,000 variable capital in money form, the same value it originally advanced to circulation. In addition, ‘the relationship between wage-labourers and capitalists is also reproduced’:\textsuperscript{50} labour-power has been reproduced in consumption, to be resold, on pain of starvation.

2. Department II’s constant capital has been replaced in the same original form; and the M500 it advanced into circulation has been returned.

\textsuperscript{48} We should note, as a footnote (by Engels) points out, that this account differs from that given in C2, p. 476, in that, in the latter, department I also cast M500 into circulation. That example, however, as we noted, was just that, an example, one possibility amongst many.

\textsuperscript{49} ‘[Department] I’s commodity undergoes the act \textit{C→M} and is transformed into money, although it does not represent any component of capital value but rather realized surplus-value which is simply spent on means of consumption.’ C2, p. 493.

\textsuperscript{50} C2, p. 492.
For the workers of department I, circulation A above takes this form:

\[ C \rightarrow M \rightarrow C \]

labour-power 1,000 \( v \) means of subsistence

For the capitalists of department II, the same process is \( C \rightarrow M \), the transformation of a part of their commodity product (means of subsistence) into money form, money which is in turn transformed – in exchange with department I – into constant capital.

In the act \( M \rightarrow C \) (iv and vi), through which the capitalists of department II advance money to purchase means of production (circulation B), they anticipate the money form of that part of II which is still in commodity (means of consumption) form; in the exchange, department II’s money is transformed into productive capital, while passing to the capitalists of department I, for whom it represents not capital but realised surplus-value to be spent on means of consumption.

What is for one capitalist the first act \( M \rightarrow C \) of the circulation \( M \rightarrow C \ldots P \ldots C' \rightarrow M' \) is for another the final act \( C' \rightarrow M' \); it is immaterial whether \( C \) (or \( C' \)) represents constant or variable capital, or surplus-value.

IV The amount of money necessary to realise commodity circulation

With respect to the \( v + s \) component of their commodity product, the capitalists of department I withdraw more money from circulation than they cast into it: their M1,000 variable capital returns (iii); they sell means of production for M500, converting half of their \( s \) into money form (iv), they then sell another 500 means of production (vi), after which their entire \( s \) has been withdrawn from circulation in money form – in short, after casting M1,000 into circulation, 1,000\( v \) + 1,000\( s \) = M2,000 has been withdrawn. Of course, the capitalists of department I have only withdrawn as much money as commodities they have cast in: that the value of these is surplus-value, and has cost the capitalists nothing, is irrelevant to the value itself.

The realisation of value is temporary in that it lasts no longer than the time between the transformation of commodities into money and the transformation of money into commodities. The sum of money necessary to circulate commodities to be exchanged is given by the number of exchanges on the one hand and the sum of the prices of the commodities to be exchanged on the other: if we assume shorter turnover times (equally: greater velocity of monetary circulation), then less money is necessary to circulate the commodities to be exchanged.

For example: if wages are paid four times a year in department I, 4 \( \times \) 250 = M1,000, and hence M250 would be necessary for the circulation I\( v \) ↔ \( \frac{1}{2} \) II\( v \) and for the circulation between I\( v \) and labour-power I. Equally: if the circulation between I\( v \) and II\( c \) consisted of four turnovers M250 would be sufficient to realise it, and M500 (M250 + M250) would be sufficient to exchange 5,000 commodities (I\( v \) ↔ \( \frac{1}{2} \) II\( c \) + I\( s \) ↔ \( \frac{1}{2} \) II\( c \)). A quarter of the surplus-value would be realised four times a year instead of half of it twice.

V The necessity of the reflux of money for reproduction

If we reverse the direction of exchanges (iv) to (vii) above so that:

(iv) I spends M500 on means of consumption: I\( v \) → II\( s \)

(v) II buys means of production: II\( v \) → I\( c \)

(vi) I buys means of consumption: I\( s \) → II\( v \)
Now, the M500 returns to department I (who cast it in), not department II (as before). Now, the surplus-value is realised by the money spent by capitalist producers themselves, anticipating income from surplus-value contained in products as yet unsold, on their own private consumption. Realisation of surplus-value does not take place through the reflux of the M500: the M500 is an additional sum (cast into circulation alongside commodities 1,000I_v) – the reflux of the M500 means that department I recoups its original (extra) money. The commodities that department I receives through these exchanges cost it nothing: they are part of its surplus-value (exchange: I_s ↔ II_c); what realises the surplus-value is the M500 originally cast in.

Imagine now that that exchange (vii) – in our second, reversed, sequence – does not, for whatever reason, take place: department II now does not buy means of production with the M500. Now, department I has paid M1,000 (not M500) for means of consumption, and consumed as revenue all its surplus-value; in addition, it has 500 of commodities unsold. Meanwhile, department II has transformed only three quarters of its constant capital from commodity capital into productive capital, leaving one quarter (M500) in – idle – money form. What happens now? Department II will eventually have to reduce its scale of production (for lack of productive capital); the 500 commodity capital held by department I – representing not unrealised surplus-value but more or less temporarily unrealisable commodity. Reproduction is disrupted, because the money cast into circulation has not returned to who cast it in.

Once a capitalist spends money on means of consumption it is gone; if it returns to her then this is because she has cast commodities into circulation, i.e. is realising a portion of surplus-value. In the cases of individual capitalists, this casting money into circulation to realise surplus-value may occur when a firm is new, and has not sold enough commodity product to fund capitalist consumption out of this source, or when a capitalist anticipates receipts of revenue. At the level of the capitalist class, however, this phenomenon – casting the money necessary to realise its surplus-value (and circulate its constant and variable capital) into circulation – rather than being a paradox, ‘is a necessary condition of the overall mechanism.’

[...] Here there are just two classes: the working class, which only disposes of its labour-power, and the capitalist class, which has the monopoly of the means of social production, and of money. It would rather be a paradox if, instead, it was the working class that initially advanced the money required to realize the surplus-value contained in commodities, out of its own resources.

Two factors obscure this movement:

1 The role of commercial and money capitalists (who produce no ‘product’) in the process of circulation of industrial capital.

2 The division of surplus-value into different categories, _viz_ those of the landlord, the money-lender, the government and its officials, rentiers, etc.

What these two factors obscure is the source of surplus-value: the industrial capitalist and industrial production.

### 6 The Constant Capital in Department I

We turn now to the last part of how the components of the capital of the two departments are recovered.

The constant capital in department I (4,000C) is equal in value to the commodities consumed as means of production in the production department I’s commodity product. Considering the capitalist class as a whole, insofar
as this product enters into circulation, it circulates within department I. The components of department I’s product equivalent to variable capital and surplus-value \((1,000_v + 1,000_s = 2,000)\), one third of the entire product, do not exist in a form in which they can enter into the department’s consumption fund, but first must be exchanged with department II. One third of this product thus replaces department II’s constant capital, the remainder replace the constant capital of department I.

Evidently, department I considered as a whole (as does department II too) consists in a wide range of branches of production: the overall social capital, in part constant capital and in part labour-power, invested in production breaks down, in its natural, i.e. use-value, form according to the division of labour, ‘according to the specific kind of labour that it has to perform in the sphere of production in question.’\(^{53}\)

Equally evidently, part of the product of department I simply goes back into production within the particular branch, or even firm, from which it emerged. The rest is distributed through mutual exchange amongst the capitalists of the department: each capitalist withdraws the appropriate means of production from the mass of commodity product in function of the value of her own product (sold to other capitalists of the department): means of production are thus replaced both in value and in kind.

\(^{53}\) C2, p. 500.