

CAPITAL

Volume 2

by Karl Marx

Summary

Ernest Mandel: ‘the second volume is purely scientific...¹ to [the *Vulgärökonomien*], the vulgar economists, the second volume will always remain a sealed book...² official economic literature observes a cautious silence towards it.’³⁴

¹ It analyses what is going on in the marketplace among the bourgeois Capitalists themselves...

² ...leaving their economist disciples out of the loop...

³ ...because they are probably too vulgar aka stupid to pick up on it.

⁴ This statement is a point of view, that’s all.

Contents

Chapter 1: The Circuit of Money Capital	6
1. The First Stage: M-C.....	6
2. The Second Stage: Productive Capital	7
3. The Third State: C'-M'	7
4. The Circuit as a Whole.....	7
Chapter 2: The Circuit of Productive Capital	10
1. Simple Reproduction.....	10
2. Accumulation and Reproduction on an Expanded Scale.....	10
3. Accumulation of Money	11
4. The Reserve Fund	11
Chapter 3: The Circuit of Commodity Capital	12
From Headache to Migraine: C'-C'	12
Risky business	12
The household budget theory - a closer look	13
Chapter 4: The Three Figures of the Circuit	13
Interdependency	13
Abstraction.....	14
No Interruptions, Please	14
An evolving economy.....	14
Chapter 5: Circulation Time	15
Time wasted.....	15
Minimizing turnaround time	15
Chapter 6: The Cost of Circulation	15
Competition in the Extreme.....	16
Globalization.....	17
The end-game of circulation	17
Chapter 7: Turnover Time and Number of Turnovers	18
Economic Cycle def.....	18
Distinctions, Distinctions.....	18
Chapter 8: Fixed Capital and Circulating Capital	19
1. The Formal Distinctions.....	19
Some examples and exceptions	19
“Fixed” does not mean <i>immobile</i>	19

2. Components, Replacements and Repairs.....	20
Planning Problems.....	20
Chapter 9: The Overall Turnover of Capital.....	21
Standards of measurement.....	21
Necessity for turnover.....	21
Chapter 10: Theories...the Physiocrats and Adam Smith.....	23
The Physiocrat’s Theory.....	23
Adam Smith - One of the Culprits.....	23
...Unmentionable.....	24
Chapter 11: Theories... Ricardo.....	25
Logical Instinct.....	25
No-where, fast.....	25
Chapter 12: The Working Period.....	25
As short as possible.....	25
As efficient as possible.....	26
Chapter 13: The Time of Production.....	27
Chapter 14: The Time of Circulation.....	27
Chapter 15: Effect of Circulation Time on the Magnitude of Capital Advanced.....	29
“Cash is king”.....	29
Circulation Time.....	29
When in doubt, leave it out.....	30
Chapter 16: The Turnover of Variable Capital.....	31
A formula for annual rate of surplus-value.....	31
Unproductive working people.....	31
So, Lets take money out of the equation.....	31
New Values.....	31
The dead-end of over production.....	32
Chapter 17: The Circulation of Surplus Value.....	33
Credit for everyone!.....	33
Capitalist Consumption.....	33
Stop making sense.....	33
Chapter 18: Introduction to Social Capital.....	34
1. The Object of the Enquiry.....	34
2. The Role of Money Capital.....	34

Chapter 19: Former Presentations on the Subject	36
The Physiocrats	36
Adam Smith	36
Chapter 20: Simple Reproduction	37
Social reproduction.....	37
Money.....	37
Wages are not Capital	37
Where are we going?.....	38
Chapter 21: Accumulation and Reproduction on an Expanded Scale	39
Is Expanded Reproduction Logically Possible?.....	39
Economy-wide expansion.....	39

Chapter 1: The Circuit of Money Capital

$$M - C(L+Mp) \dots P \dots C' - M'$$

Capitalists enter their marketplace with money, M , with which they use to buy two kinds of Commodities, C - labor-power, L , and the means of production, Mp . Then they set L to work on Mp in order to yield products, P . Then they return to their marketplace with their accumulated P , which they sell as their own commodities C' in return for M' .

If we wittle it down, we get $M-M'$ ⁵.

1. The First Stage: M-C

From the point of view of Capital

The first stage is the transformation of their money into the commodities - labor and the means of production. They aim to purchase the exact quantity of labor, L , necessary to absorb an exact quantity of the means of production Mp . Otherwise, there would be waste in the form of idle labor or obsolescence of raw materials.

From the point of view of Working People

For working people the circuit works like this: $L-M-C$. That is, working people enter the marketplace with their labor-power, L , which they exchange for money, M , so that they can buy stuff, C .⁶ As mentioned, Labor-power has no value until it is exchanged for money and as soon as that happens its value vanishes and does not reappear again between C and M' .

Something vulgar peculiar going on...

The appearance of labor-power on the commodities market as a standard norm is something entirely peculiar because it has so many attributes that we do *not* associate with commodities. Rather, it is a social contract between those who can buy, capitalists, and those who must sell, working people. It is, therefore, a class relation between order-givers and order-takers. But how did this state of affairs come about in the first place?⁷ On the face of it, all we have are 99.99% of the population separated from their own means of production, appearing in the marketplace to sell a commodity, their labor-power, which does not exist until it is

⁵ "Money makes Money."

⁶ The debate in the short term is concerned with how much "stuff" people need. The question being "for what?". Working people answer: *to have a life!* Capital answers: *to keep yourselves alive.*

⁷ In the beginning there was original sin or some such...

bought. At the same time, Capital asserts that by reconnecting labor-power with the means of production, which it now controls, it is saving society from immoral consequences that would arise from 99.99% of the population lying idle around the place.

Simple, beautiful!

2. The Second Stage: Productive Capital

Productive capital are the things working people make during the day and would like to take home with them at the end of the day but can't. So, Capital buys both labor power and the means of production, and brings the two together with the view to making a Product, P. But this seemingly straight-forward logic presupposes another thing - that the means of production - raw materials and so on are available for purchase in the marketplace. How did they get there?⁸ The aim of Capital is to make P as cheaply as possible and then sell it as dear as possible. In other words, the price of the final product, P, must not only cover the cost of Labor, L, and the cost of the means of production, mp, it must also yield a profit - M'. As mentioned in volume 1, the value of labor-power vanishes BUT Capital pays for the labor-power only after it has used it.⁹

3. The Third State: C' - M'

The end-game of the circuit - M'. Money makes money! The sole motive and driving factor in the capitalist system of production.¹⁰

4. The Circuit as a Whole

Money is both the starting point and the end-point. But what does Capital give back? Well, if we remove money from the equation we can consider that question more thoroughly.

Mass production

When we think about it, we have a system of mass production that provides the basic necessities - food, clothing and shelter for the entire population of the

⁸ Again, in the beginning...

⁹ Karl is re-iterating the fact that of all the commodities that are bought and sold in the world marketplace each day, labor-power, while being the most important one to Capital is the most taken for granted.

¹⁰ What's wrong with that? We might ask. Karl would argue that it is up to the society to decide the rights or wrongs, given the details.

world, and it does so with relative ease. In that sense Capital has done what all good leaders do - suggest that we keep our heads down and suffer a little bit so that we may all get to somewhere even better in the long-run.

The end of human toil

Capital promises a better future - that while we do not have our own means of production, we can now produce on a mass scale without the need for individual human toil on our small patch of land and the various complications involved in exchanging what we have with others in the community.

It's the economy motivation, *stupid!*

Capital could argue that it has done the world a whopping favor in that regard, but while the aim of Capital is M' it ultimately means redundancy for 99.99% of the population without the opportunity to exchange their labor-power as a means to their own subsistence.

Alternatives

There are two simple ones: we can distribute the means of subsistence, P, among the entire population so that they may put their labor time into developing themselves and their communities, or we could break up the monopoly Capital has on the means of production and redistribute those to a level similar to what it was before Capital took them. Or we could have a bit of both.

Nothing for free

We get nothing for free in this life, unless that is, we have a powerful army of the state that can take what people once owned, give it to us, and then turn those people into our wage-slaves.

Where are we going?

So, when mass production is working at capacity to produce the basic necessities of life and more and more people can afford them as they are getting cheaper, what's next? Well, because cheaper and cheaper products always mean cheaper and cheaper wage labor, not necessarily everyone can afford those products at the same time. But in a part of the world where everyone can more or less afford them, there comes a point when there is nothing more to sell to the population apart from stuff or junk they do not need. The solution?

A “service economy”. Sell services in addition to the basic necessities.¹¹ But who can afford the services? Well, the same people who can afford “luxury goods” - other capitalists. But what does the rest of the increasing portion of the population do without work or money to avail of these services?¹²

An argument...

Having booted us off the land and appropriated our means of production, leaving us with no alternative but to pawn our labor-power in return for survival, which is becoming harder, not easier; maybe we can come to ~~fisticuffs~~ an understanding and possibly even an arrangement, now that we know, more or less, the state of play - past, present and future.

¹¹ The main benefit of producing services is that they are “consumed” on the spot and need to be re-bought, and that keeps the economy going for Capital.

¹² The Citigroup Plutonomy memos have all the answers, namely, have the state “contain the situation” by picking targets in the society and create moral panic among the public while militarizing the police and bringing back dark-age collective punishments to absorb the moral outrage. That is what we get when Capital runs out of reasons for present-day “social norms”; it gives up reasoning, the mask drops and we remember the barbarity with which it came to be established in the first place.

Chapter 2: The Circuit of Productive Capital¹³

P...C'-M'-C...P.

As mentioned, connecting Labour-power, L, with the means of production, mp, on the terms of Capital produces Capital, C', which has a higher exchange value in the marketplace than L+mp. The Capitalists bring their Capital, C', to the marketplace and exchange it for M', which they use to buy more commodities, C (L+mp) and the circuit continues...¹⁴

1. Simple Reproduction

Capital views M' as the holy grail of the process because, as mentioned in Volume 1, M' has universal value, which means (financial) independence for whoever accumulates it. On the other hand, Capitalists as Capital-ists view the expansion of the production process as their main concern because the source of M', as a rule, is surplus-labor power. And while Capital knows and understands that full-well, their economist disciples, as we have seen, prefer to preach something different - *anything* different so that working people do not make the same logical connections as Capital.¹⁵

2. Accumulation and Reproduction on an Expanded Scale

The transformation of M-C is less likely to be interrupted than the transformation of C-M. In other words, given¹⁶ a regular supply of wage labor and means of production, Capital meets few obstacles to manufacturing P. On the other hand, selling P is a far less reliable process, especially given the inherent contradiction of encouraging people to spend more while at the same time driving their wages downwards.

While Capital relies on its economist disciples to explain away any disruption in $L+Mp = P$, the economists can only do it if they believe, really and truly, in what they are saying. The contradiction then arises, as mentioned, that economists

¹³ We're transcribing headings in volume ii directly for the purpose of clarity because we have no audio.

¹⁴ Notice the full-stop aka period at the end of P. It signifies that Capital views the equation as a closed circuit between themselves, as a class, and among themselves as a class. It also implies high expectations of Capital in relation to how things *should* be, which we will see in a minute.

¹⁵ Does that mean economists are liars? Believers is more like it but faith and belief in a production system has an unintended side-effect of undermining credibility in economics as a scientific discipline. In that sense, economists do a reputational tightrope act in relation to making consistent assertions over time.

¹⁶ Yes, "given..." It is an obvious bone of contention since the origins of Capitalism but the notion that working people would, say, organize to challenge the basis of the capitalist ideology is out of the question from the point of view of their economist disciples, but not from the point of view of Capital.

while being good at P.R., are not much help to Capital directly because advising Capital directly would involve addressing matters of fact, not belief.

3. Accumulation of Money

As mentioned, sometimes Capital keeps a portion of M' for itself to spend on itself, family and hangers-on, and that at least keeps money circulating around the economy. But at other times, Capital, despite having an abundance of M' , may have difficulty acquiring either L or M_p with the result that the productivity circuit slows down or stops. When that happens we have a crisis in the economy. At other times, Capital may hold M' deliberately and go on a form of “strike”¹⁷ because it views the potential for making M' as less than ideal. At that point, their economist disciples rush to tell working people that wages have risen too high and advise the government to lecture working people about the need for “credible expectations” re: wages. On the whole though, Capital ultimately aims to increase M' regardless, which indicates that they usually “fold” to some extent in the face of demands for higher wages. Working people hoard money too for many reasons such as having a view to paying their debts by their due date. When working people attempt to accumulate money on a wide scale they create what economist disciples call a crisis of “consumer confidence” as if the crisis were caused by working people in their *buying* role as opposed to working people in their *selling* role i.e. selling their labor at a sufficient price.¹⁸

4. The Reserve Fund

Capital sometimes hoards money with the view to investing in production projects that are somewhat more expensive than the amount of M it currently has at its disposal. This too can create a crisis in the production circuit, especially if Capital holds out for too long. In that sense, credit comes to play a major role in keeping the production circuit going. But while credit for Capital means future bliss in the form of M' , credit for working people means future misery in the form of labor for lower wages.¹⁹

¹⁷ No way!

¹⁸ When the ultimate aim of Capital is to reduce wages towards zero and productivity towards 24 hours it is understandable to find working people penny-pinching from time to time.

¹⁹ That is to say, it is not a good idea for working people to tell Capital that it needs “a job” to repay borrowed money, the only signal Capital receives from such a revelation is to offer less wages, not more. Capital view appeals to the goodness of their heart as an opportunity on their own terms, which is not hard to understand

Chapter 3: The Circuit of Commodity Capital

$C' - M' - C \dots P \dots C'$

Commodities that Capital has accumulated, C' , are transformed into Money capital, M' , which is then used to buy more Commodities, C in the form of L and mp so that they can be put to work to yield products, P , which means an accumulation of even more Capital, C' .

From Headache to Migraine: $C' - C'$

Here we are looking at the most risky points in the circuit of Capital - the investment of M into commodities which Capital *hopes* will result in more money, M' . So, while finding buyers for their products, P , can give Capital a headache at times, the notion of parting with the holy grail, M' with the view to hopefully making more of M' is fraught with migraine-inducing what-ifs... For three reasons in particular:

1. Commodities depreciate in value as soon as we buy them, so while Capital hopes to make M' from the investment, if it does not make M' then it will have to sell the commodities at a loss.
2. The potential M' is hidden in the commodities themselves. So, just as Capital vanishes surplus-value from the things it sells, the surplus-value has also vanished from the things it buys.²⁰
3. The commodities are of use-value to Capital - a peculiar feeling for someone used to viewing commodities for their exchange value only.

Risky business

In the circuit of commodity capital, the capitalists must be highly aware of the current state of play in the marketplace, not from the point of view of “consumers” but from the point of view of other capitalists. For Capital, investing the holy grail, M' into commodities which may or may not yield more or M' is like entering a tunnel where the light at the end of it, M' , is not visible yet and might not be there at all! But if money, M , is going to make money M' , then Capital has

when we are considering people whose need to be “liked” on someone else’s terms is way down the list of their priorities.

²⁰ What goes around comes around, huh?

no option but to take a risk in investing in C: labor-power, L, and the means of production, mp.²¹

The household budget theory - a closer look

Capital's economist disciples are fond of lecturing the population about the notion of capitalist economics being just like the economics of ordinary households. For capitalists themselves as people the analogy is fits - Capital in general does not like overspending on itself. On the other hand, Capital does like "consumers" spending on themselves - madly! So, while the economist disciples are enthralled at how Capital can be so personally sensible with such huge amounts of M' they end up giving us mixed messages which really are not necessary. Why? Because the institutional role and function of economist disciples in a capitalist society is to convince people to spend more, and when they have nothing to spend, be happy with what they have compared to other less-developed countries. Economists betray that logic as soon as they become so enamoured with Capital that they start to preach *its* golden rules to consumers, which defeats the whole purpose.²²

Chapter 4: The Three Figures of the Circuit

1) M-C...P...C'-M'

2) P...T_c...P

3) T_c...P(C')

...Where T_c stands for the total circulation process...

Interdependency

The three circuits of Capital are intertwined as a whole in what can be collectively called "Industrial Capital". The end result of one circuit is the starting point for the next.

²¹ Interesting word "option" here. When we look at modern high finance we see that word appearing more and more among the complex financial instruments such as credit default swaps, derivatives and so on... being sold around the marketplace. The idea with most of them is to buy the "option" to buy one of them before or after some specified date in the future. The result? Collapse, probably because many of the Capitalists and their economic disciples did not or could not get their heads around the idea of risk – actual, real risk involved if money is going to make money.

²² Remembering that Capital does not need to be "liked", even by its own disciples.

Abstraction

Little known fact among economist disciples - the whole aim of industrial capital is to yield M' from surplus-labor. But economist disciples prefer not to think about that at all. Rather, they “consider” the entire circuit of Capital in terms of what can go wrong in relation to P or C or movement M and so on... without ever mentioning the idea of surplus-value - the whole purpose of the circuit. One of the reasons they make things seem abstract is to first be able to forget about surplus-value | surplus-labor themselves, another reason is to make the entire process seem “automatic” as if it did not require input from humans at all. A final reason is that they regard their role as helping the general public to recognise the production system as the only production system which must be treated delicately by the responsible people.²³

No Interruptions, Please

Circuits always have vulnerable points, especially circuits that are intertwined with other circuits, like we have here. While economist disciples prefer to talk about commodity prices and problems with currencies and so on... there is another potential source of disruption - working people. Sometimes working people highlight the fact that it is their surplus-labor which is the key to M' and they disrupt the circuit at these vulnerable points. The economist disciples and all the institutions of a capitalist society regard surplus-labor as a given.²⁴ But without surplus labor there would be no M' i.e. no capitalism.

An evolving economy

- ☞ Natural economy - barter
- ☞ Money economy
- ☞ Credit economy - this is where we are at now and if a crisis happens in the credit economy, which it already has, then there is no where to go except austerity, which is not an economic model because it has nothing to do with actual economics.

²³ Bearing in mind what we mentioned before – that all production systems are more or less the same, regardless of the presence or absence of the profit motive.

²⁴ As mentioned, the amount of surplus-labor, 2 hours, 6 hours, 16 hours, as given depends on the level of civilization the society has reached in relation to how it treats its own citizens.

Chapter 5: Circulation Time

Aka Turnover time. Production time is always greater than labor time e.g. wine requires a certain amount of time to prepare and then an extended time to ferment. The aim of Capital is to reduce the difference between labor time and production time to zero e.g. finding a way that speeds up the fermentation of wine so that it is ready for sale as soon as it is made - improbable but not impossible and therefore reachable from the point of view of Capital.

Time wasted

Wasted time is the amount of time between initial investment of M to realisation of surplus-value M' . Anytime in between is time wasted from the point of view of Capital. Economist disciples believe that there is something magically in the exchange itself of commodity for money that yields M' , which is like saying that Capital makes M' by finding in the marketplace lots of other capitalists who happen to be fools who are willing to part with more money than the socially accepted norm for the production of a commodity. Unlikely! Besides, if the source of M' was something mysterious involved in the exchange itself between capitalists then it would not matter to capital how long it took to shift commodities around the marketplace. Rather, we know that the source of M' is surplus-labor from one end of the cycle to the other and, for that reason, Capital views getting maximum surplus value from working people through intensification of the working day or lengthening it as its primary aim.

Minimizing turnaround time

Consider an airplane landing in an airport and getting refuelled and checked by engineers. The plane, while it is grounded, is not helping yield surplus-value for Capital and therefore the time it takes for maintenance checks must, from the point of view of Capital, be reduced to a minimum.²⁵ Products that are not sold quickly enough go-off, which puts a constraint on Capital in relation to how far and wide it can view its market. In that sense, the quicker a product is likely to spoil, the less attractive it is for investment by Capital.

Chapter 6: The Cost of Circulation

Circulating products around the globe requires labor time but it does not contribute to M' , rather it reduces it. On the other hand, importing say raw

²⁵ Or perhaps eliminated to some extent such as a maintenance check every two or three journeys.

materials from India can become a source of surplus-value for Capital but only as long as the other capitalists and the society at large regard the higher price as socially acceptable. So, the quicker commodities can be circulated, the higher that extra margin for profit.

Competition in the Extreme

So, given a socially acceptable cost of importing raw materials from say India to Ireland or exporting finished products from say Ireland to India, the only source of surplus value for merchants is to cut the costs of circulation and distribution directly from working people.²⁶

Of course, when we are talking about costs of circulation we are also talking about costs of stock taking, book-keeping, stock-piling and so on... There is an inherent necessary evil here, from the point of view of Capital, in that in order to keep commodities circulating, commodities have to be stored somewhere awaiting immediate circulation.²⁷

²⁶ Anyone working in the distribution industry can tell us the pressures they are under in that regard. And unless we are believing what economist disciples believe – that surplus-value appears out of nowhere, then we are always looking at extreme forms of competition in the distribution industry in the form of over-work and under-pay.

²⁷ Spare a thought for the unproductive labor of warehouse security and so on.

Globalization

One of the facets of globalization is the capacity to source materials from various parts of the world with the view to keeping the circuit going without major interruption. For example, cotton can be sourced from India for one half of the year and be sourced from America during the other half. And of course, that would beg the question as to why cotton products are not cheaper in America during one half of the year and more expensive during the other half. Well, the cost of circulation is woven into the socially acceptable market price of cotton products in general.

The end-game of circulation

To reduce the cost of time over space, or to put it another way, to reduce the ratio of distance covered over time taken as close to zero as possible. But, of course, as new technology comes about to achieve that aim the socially accepted labor time involved in circulation gets reduced also, which means that prices must fall. Well, the end-game of merchants/distributors in the meantime is to reduce costs faster than the current socially accepted labor time.

Chapter 7: Turnover Time and Number of Turnovers

The aim of Capital is value for money - for Capital. That is, money, M, begets money, M'. How quickly that happens is the next question...

Economic Cycle def..

The entire course of production from the time M is invested to the time M' is returned. In other words, the sum of production time + circulation time.

Distinctions, Distinctions

In volume 1 we looked at the difference between variable capital and constant capital; variable capital being the raw materials and labor time, and constant capital being the means of production. The only source of M' of any significance is surplus-labor and Capital and its economist disciples do all they can to disguise, hide or vanish surplus-labor from the equation. If they want to get serious about book-keeping that does *not* attempt to do that²⁸, then they need to categorise capital in more detail.²⁹

Category	Description	Examples
Fixed Capital aka <i>Constant</i> ³⁰ Capital	Capital that imparts some value into commodities for exchange but is ultimately left behind in the production process for another round of production.	Machines, Buildings.
<i>Circulating</i> Capital aka <i>Fluid</i> Capital	<i>Variable</i> and <i>fixed</i> capital used up in the production process that becomes value added to commodities and which can be priced therein.	Commodities for exchange.

Adam Smith confused “Fixed and Circulating Capital” with “Constant and Variable Capital” in the way he lumped labor wages in with raw materials as Constant Capital, which they are not.

²⁸ Which they don't...

²⁹ From here Karl goes into detailed distinctions between various forms of Capital while accusing economist disciples such as Adam Smith of confusing them in an effort to play-down the direct connection between surplus-labor and surplus-value aka PROFIT.

³⁰ Means something different in volume 2 than it did in volume 1... need to check.

Chapter 8: Fixed Capital and Circulating Capital

1. The Formal Distinctions

The production process of commodities for exchange always uses up a portion; a tiny amount, bit-by-bit, of Constant Capital. As mentioned in Chapter 8 of Volume 1, the part of the capital that is used up in the production process is “absorbed” into the commodities and is included in their price on the market. This portion is called *Fluid Capital* or *Circulating Capital*. The part that stays behind, the machines and so on... are *Fixed Capital*, which are worth a tiny bit less in and of themselves with each production cycle. Bookkeepers need to estimate the value of each portion of that *Fluid Capital* so that they can include it in the price AND set aside a portion of M' from the sale in order to replace the machines.³¹ Constant Capital is the value that still remains “fixed” in a machine and is typically measured in the number of production cycles it can assist with before ending up in the lumber room.

Some examples and exceptions

The means of transport - we pay the bus conductor a fee that covers the cost of that “portion” of the bus that is “used up” in getting us from A to B.

Agricultural fertilizer - a peculiar example of *Fixed Capital* in that the benefits to the soil from the initial outlay remain over multiple production cycles.

Oxen - are *Fixed Capital* as a means of labor, but once slaughtered for food become *Circulating Capital*.

Machines - built by one capitalist as *Circulating Capital* to be sold to another capitalist as *Fixed Capital*.

“Fixed” does not mean *immobile*

A common misconception of *Fixed Capital* is the definition of it as anything that is pretty much nailed down and cannot be moved somewhere else aka something Capital is “stuck with”. That’s wrong. A ship moves and is, at the same time, *Fixed Capital*. A railway can be sold abroad to another capitalist and yet still remain where it is.

³¹ Clearly, we are dealing with the nitty-gritty of book-keeping here but Karl reckons it’s important if working people want the books to show the ultimate value of surplus-labor and its significance.

2. Components, Replacements and Repairs...

The necessity for these things differs in relation to various components of machines. For example, railway lines undergo repairs at one time, individual train engines at another, individual train carriages at another and so on... While maintenance of machines by working people, for example by using them correctly, is *Fixed Capital*, repairs are *Fluid Capital*. As mentioned re: book-keeping, Capital must hoard M in order to set something *specific* by for maintenance and repairs, and in the absence of credit, that affects monetary circulation to some degree.

Planning Problems

One of the problems with Capitalist modes of production is that there is little or no social planning involved. For example, buildings are built, refurbished, demolished and so on... at the whim of Capital with a short term view to yielding M' .³²

³² While Capital is more than capable of long term views of situations, the situation re: M' is a different matter, and anything that interrupts the flow of M' by government or society is "interference".

Chapter 9: The Overall Turnover of Capital

Aka the “turnover cycle”.

Obviously, *Fixed Capital*, machines and buildings etc. gets turned over relatively slowly while *Circulating Capital* - stuff we put out there in the market, has a much shorter turnover cycle.

Standards of measurement

To examine the turnovers of Capital in an overall way it was necessary, first, to categorize the various components of Capital correctly. Once that is done, we then apply use a universal standard of measurement, money, to complete the analysis and reach a coherent conclusion. We use money in this instance to apply “weights” to the various forms of Capital. That is how it is done in the political economy anyway.

Simple Example:

Component	Advanced Capital	Number of Turnovers (yearly)	Annual Expenditure
1	25,000	1/10	2,500
2	12,500	½	6,250
3	12,500	2	25,000
Total	50,000		33,750

So, in this example, Component 1, such as a machine, requires 10% reinvestment in the form of repairs. Component 2, which could be... requires 50% reinvestment each year, and component 3 needs to be replaced, say, twice yearly.³³

Necessity for turnover

Some machines undergo *physical depreciation* in the form of wear and tear and require repairs, others undergo “moral depreciation” - they become out-moded and need to be replaced completely, possibly more than once a year.³⁴ And while the credit system tends to speed up the turnover cycles of everything, it does so,

³³ We could ask why Karl bothers outlining such simplistic book-keeping; one reason is that we are in between a larger argument regarding book-keepers as vanishers of surplus-value. And while Karl does not blame book-keepers at all, he is making the point that they get their book-keeping acumen from leading figures such as Adam Smith and David Ricardo who perform the initial vanishing act in the form of theory so that book-keepers can just follow on from there.

³⁴ Karl does not mention machines, we are just using machines to make sense of these example figures, which we have transcribed directly from his book.

not because Capital is profligate with borrowed money, but because it the credit system in a political economy speeds up consumption and production.

Chapter 10: Theories...the Physiocrats and Adam Smith

As mentioned in Chapter 7, Adam Smith confused various categories of Capital in his particular effort to conceal the source of M' .

The Physiocrat's Theory

The Physiocrats were French economist disciples³⁵ of the 18th Century who developed economic theories solely on the basis of what was going on in agricultural production. And while the Physiocrats managed to distinguish clearly between Fixed Capital, *advances primitives*, and Circulating Capital, *advances annuelles*³⁶ they reckoned surplus-labor simply did not exist and therefore gave it no consideration whatsoever. And while this was a glaring omission, Adam Smith, on the other hand, does something much worse;³⁷ namely, he hides surplus-value in variable capital as if it is simply part of the means of production, such as raw materials.

Adam Smith - One of the Culprits

Smith also failed to distinguish between circulating capital, which was already in the commodities and money capitalists' own pockets. In that way, Smith appears to have described the political economy from the point of view of individual capitalists all spinning in their own orbit as opposed to many Capitalists exchanging Capital with one another.³⁸ Smith even omitted the idea of commodity Capital being ultimately consumed in the process. So, while both the Physiocrats and Adam Smith made no accounting for the source of M' - surplus-value, they just vanished it in different ways. But the Physiocrats furthered the study of economics by at least drawing out detailed distinctions, while Adam Smith lumped surplus-labor in with variable capital in a more deliberate attempt to hide the surplus-labor as the source of M' .³⁹

³⁵ We use the term "economist disciples" in this summary to define the "responsible men", who, despite their privileged background and education, or perhaps because of it, attempt to hide the precise source of M' from everyone else, such as the book-keepers and society as a whole.

³⁶ They were looking solely at the yearly production cycle of agriculture.

³⁷ In the view of K.M.

³⁸ To do that, Smith would have to have described the social nature of Capitalism, which might have led him on to the idea of Capitalism as a purely social construct involving making M' from ...somewhere...

³⁹ While Karl does not accuse anyone of doing anything deliberately, he wonders how they could possibly fail to notice surplus-value as the source of M' .

...Unmentionable...

We're seeing a pattern here among the top economists of their day - "failing" or whatever, to mention the principle source of profit in a capitalist society. The idea that real flesh and blood people through their creativity and labor are the basis on which the entire capitalist system is built appears to be unmentionable in polite society, or anywhere else for that matter. For sure, it is hard to recognise surplus-labor or wage-slavery as the source of profit while trying to contextualize the entire system as a post-feudalist development. So, as economist disciples vanish the source of M' , they then expect the society to believe that M' appears magically in the marketplace where one Capitalist happens to find another who knows nothing of standard norms in relation to pricing - and that is how the trillions of M is made in M' around the world everyday. Namely, one smart person with little money finds a fool with loads of money⁴⁰ and they participate in an exchange where the fools overpay for a commodities that they could easily find cheaper if they paid the slightest bit of attention to what's going on.

⁴⁰ Like how did that happen?

Chapter 11: Theories... Ricardo

David Ricardo follows the logic of Adam Smith by reasoning that Fixed Capital includes instruments of labor.

Logical Instinct

Ricardo's "logical instinct" is also to confuse labor wages with circulating capital. In other words, commodities that are about to leave for the market are in the same category as the people who made those commodities.

No-where, fast

While it is relatively easy, from one assertion to the next, to hide surplus labor as the source of M' , it is difficult in the long-run especially for economist disciples who regard economics as a science. That is to say, scientists go into as much detail as they can in separating out and categorizing as many factors as possible so that they can put them all back together into a coherent argument, which might be a new argument that no-one ever heard before. Economist disciples, it seems, do the opposite - they hide details within larger theories and then examine the question as to how M' is made while at the same time giving us the answer - the magic of the marketplace.

In the sense of economics as a scientific discipline, we would, more or less, be better off going back to the Physiocrats and starting again afresh this time as serious economist scientists.⁴¹

Chapter 12: The Working Period⁴²

"The number of connected days required in a certain branch of industry for the manufacture of a finished product."

The working period is different for different products. For example, cotton yarn spinning has a relatively short working period while building railway locomotives has a relatively long working period.

As short as possible...

While a tiny portion of Fixed Capital is used up to some extent, the main concern for Capital here is the costs of Circulating Capital - wages and raw materials. It is

⁴¹ That is, if economists believe that their role as scientists is to clarify rather than obscure.

⁴² Similar to "The Working Day" in Volume 1 but this time from the point of view of Capital.

therefore in the interest of Capital to shorten the working period as close to zero as possible.⁴³

As efficient as possible...

On the other hand, Capital often makes relatively big investments in Fixed Capital with the view to shortening the working period, for example, investments in more advanced machinery for automation. Another way that Capital can shorten the working period is to hire twice as many working people to do the job in half the time.

⁴³ ...sounds like a contradiction given the desire of Capital to lengthen the working day towards 24 hours. But having working people available for 24 hours at a basic wage is a separate matter from the time it takes for those working people to complete a particular job.

Chapter 13: The Time of Production

There are two components to the time of Production from the point of view of Capital:

- The Working Period - the time labor is hands-on doing a job, as described in the previous chapter.
- Stoppages and interruptions - such as shortages of raw materials and the times working people cannot be set to work such as during inclement weather in the case of agriculture, and bricklaying when it is raining.⁴⁴

As mentioned in Chapter 5, the production time is always longer than the labor time, as we saw in the case of wine production with time for fermentation. One of the features of production time is that only those manufacturers with enough M' can afford to participate in the entire production process. Small cottage industries such as cheesemakers and small breweries tend to go to the wall because they cannot afford to complete the entire production process from beginning to end, and then wait for the product to ferment or whatever. What happens to these industries? Well they end up being absorbed by bigger industry and become mere appendages to the production process.

Chapter 14: The Time of Circulation⁴⁵

In Chapter 5 the focus was on theoretical value, in this chapter 14 the focus is on empirical turnover time.

Turnover time = Production time + Circulation time

Circulation time = sale time + purchase time

The amount of time it takes to sell a finished product on the market, get M', and then use it to buy new raw materials, labor and so on...

The main factors influencing circulation time in that regard are what are known as market forces, including:

- Distribution
- Geography
- Availability of Credit

⁴⁴ The big question – does Capital have to pay working people during those times? That is a matter for the society.

⁴⁵ Same title as chapter 5! Tst-tst-tst. Shape up, Karl!

Also, large orders coming in all of a sudden can have a relatively big influence on the working period and the production time because labor-power and means of production may not be readily available. ⁴⁶⁴⁷

⁴⁶ Generating crises of employment is one way of ensuring a steady supply of labor-power whenever it is necessary. For real!

⁴⁷ The reason why these Chapters 12, 13, 14 are relatively short is because they are packed with examples in the book, and we have included just one or two because we get the idea...

Chapter 15: Effect of Circulation Time on the Magnitude of Capital Advanced

In order to keep a capitalist system of production going, capitalists need to hang on to some of their M even though in an ideal capitalist utopia they would like to advance all of it. In other words, we saw that the production time is always greater to some extent or other than the labor time e.g. wine making. So, while the wine is fermenting, Capital needs to set in motion another production process before it manages to sell the wine in the market. Also, even for less sophisticated products it still takes time to find buyers and sell the finished product while in the meantime another production process needs investment.

“Cash is king”⁴⁸

As mentioned, Capital needs to hold onto some M during the production process in order to start another production process before the commodities have even been sold from the first production process. Capital has two options - either advance less M' i.e. hoard it, or look to the credit system for help. Basically, the amount of money required for a production process is always more than the amount of money that is used up in the production process. And from the point of view of Capital that is a waste of time and money.

Circulation Time

The circulation time can be shorter, equal to or longer than the working period. That is the main focus of Capital due to the fact that the source of M' in the first place is directly related to surplus-labor.

Relatively short

If the circulation time is shorter than the working period that helps Capital because money flowing into the economy speeds up and becomes cheaper in the form of lower interest rates re: credit.

Equal to

That is rare. It would be ideal for Capital if circulation time and the working period were exactly equal because

⁴⁸ Cash is the “life blood of every business” and so on...

Relatively long

If it takes a relatively long time to sell commodities then it means that the amount of money circulating in the economy is relatively low, this means higher interest rates re: credit.

When in doubt, leave it out...

Economist disciples have little to say about the amount of Capital that must be held in reserve during a production cycle.⁴⁹ Probably because they are more focused on matters of belief re: the general population. In that sense, they are of little help to Capital re: how best to use money held in reserve.

⁴⁹ At the time the book was being written anyway.

Chapter 16: The Turnover of Variable Capital

As mentioned, variable capital - the means of production and labor-power can be transformed into M' , which can then be reinvested but only after the commodities have been sold.⁵⁰ So, turnover time is very important for yielding M' .⁵¹

A formula for annual rate of surplus-value

$$S' = \frac{s' \cdot v \cdot n}{V}$$

Therefore, $S' = s' \cdot n$

Where S' is annual surplus value.

v is variable capital

n is the number of turnovers of capital per year.

Unproductive working people

The problem with working people is that they do not work 24 hours a day for Capital. They do other things such as eat, sleep and even buy stuff. From the point of view of Capital, only when working people are working and therefore contributing to M' can they be considered “productive”. Such goes the theory from the point of view of Capital - always complaining about the unproductivity of this, that or the other without giving a moment’s thought to what they are actually saying.

So, Lets take money out of the equation

If we are serious about getting to the point of the source of M' ,⁵² then we could simply take money out of the equation and see how the society regards the production process that is necessary for human subsistence. What do we have? We have means of production and raw materials and then labor-power that goes into making the commodities. As a society of working people our main focus from a subjective point of view would be our labor-power, while as a society of limited natural resources we would be focused on the availability of raw materials, then of course, we would be focused on how best to apply the means of production - machines and the like.

New Values

So, if M' is not the be all and end all of a production process then we need some universal yardstick with which to measure our progress as a society. Ultimately,

⁵⁰ During this chapter, Karl equates variable capital with circulating capital because of the direct relationship between the time of circulation with the capacity to reinvest in more variable capital.

⁵¹ That’s stating the obvious and Karl frequently states the obvious because economist disciples not only say little of the obvious, they disguise it and abstract it.

⁵² ...which we’re not...

when all is said and done, use-value would be the measure of that progress. In other words, from a subjective point of view - quality of finished product as opposed to profit yielded would be our yardstick. Of course, efficient use of raw materials and means of production would also matter but we are considering the question from the point of view of people as people re: what's in it for me?

The dead-end of over production

A production system that aims to sell as much as possible while keeping wages as low as possible is always going to result in a situation where supply exceeds demand i.e. over production. It is an obvious contradiction in a production system with M' as the prime motive but while Capital prefers to keep them separate with a view to the short-term, economist disciples do little or nothing to broaden our understanding of the situation other than to obscure it for us.

Chapter 17: The Circulation of Surplus Value

Where does the continuously increasing demand for commodities come from in a society where wages are constantly being driven downwards so that Capital can produce more commodities with the view to M' ?

Credit for everyone!

Capital needs credit to get things going and, depending on the scale of its ambition, it needs even more credit to make things bigger. Working people likewise need credit to buy the commodities that they produce, so they too are looking for credit. But what happens when we reach a point where working people are so busy repaying their loans that they cannot even acquire more credit to buy more stuff.

Capitalist Consumption

The answer is that Capital must then consume the commodities to keep itself going. A more detailed answer is the production of luxury goods facilitated by capitalists for capitalists.⁵³

Stop making sense...

The economist disciples have always preferred to talk in terms of Capitalist utopia. Their theories re: the capitalist production process have always gone something like this: Capital affords humanity the golden opportunity to meet its most basic needs by inventing the idea of production processes while at the same time paying wages that working people in their consumer role can use to keep the system going. Simple, beautiful, and *childish nonsense*⁵⁴.

⁵³ That is K.M.'s view and the citigroup plutonomy reports reiterate it as where we are today.

⁵⁴ In K.M.'s view.

Chapter 18: Introduction to Social Capital⁵⁵

We are looking in the next three chapters at the way in which the money economy, the labor economy, the commodities economy and so on are all intertwined.⁵⁶

1. The Object of the Enquiry

Labor supplies Capital with labor-power because Capital cannot, yet, produce labor-power automatically. Working people then purchase commodities from Capital with wages Capital pays them, and Capital purchases commodities using a portion of M' . Capitalists purchase the means of production from one another.

Why it's called "socialism"

All of the above-mentioned processes intertwine into a socially constructed sphere of continuous exchange involving almost all the citizens of a society.

Why it's called "capitalism"

But Capital and its economist disciples prefer to help the society pretend that without the profit motive there would be no production process whatever, and that by investing M , Capital is doing society a huge favor. Not only that, but the entire source of M' - the surplus-labor of working people is best forgotten or attributed to the magical mystery of the marketplace. It has nothing to do with so-called "society".

2. The Role of Money Capital

Money helps Capital circulate while at the same time helping to define clear boundaries around Capital as an ethos. Without the invention of money, working people would be doing things like taking the stuff they make at work out the door with them at 5:00pm each day. With money, then, working people understand that they are paid to leave it behind.⁵⁷

But there are many things that Capital does not pay for such as: Natural resources, accumulated skill, and Mom's work!, worker co-operation and many of the things mentioned in vol. 1. But these are the factors that are of most value to Capital. So why do they get so little notice, attention or even acknowledgement? The simple

⁵⁵ Here starts a new section called "The Reproduction and Circulation of the Total Social Capital" of which chapter 18 is "Introduction".

⁵⁶ In academia it's called "macroeconomics". Macro-meaning the big picture as opposed to micro - meaning the small picture.

⁵⁷ Whether or not working people are paid "enough" is always a bone of contention between working people and capital.

reason is because it is “capitalism” not “socialism”, despite the fact that we are all talking about the same system of production⁵⁸.

⁵⁸ Get that!

Chapter 19: Former Presentations on the Subject

- The Physiocrats
- Adam Smith

The Physiocrats

As mentioned in chapter 10, the Physiocrats were correct⁵⁹ in relation to drawing distinctions between *Fixed Capital* and *Circulating Capital*, and in describing how surplus-value comes directly from nature. But they were focused solely on agriculture. And, of course, not all surplus-value comes directly from nature, working people on farms contribute to surplus-value too, but the Physiocrats ignored that.

Adam Smith

Adam Smith made the error of extrapolating the theories of the Physiocrats to industrial production where the connection between surplus-value and surplus-labor is much more pronounced.⁶⁰ According to Adam Smith, there are three categories of people yielding three sources of value in society:

1. Capital in the form of profit
2. Working people in the form of wages
3. Landlords in the form of rent

But it is interesting to note how Capital watches every penny it advances in to the production process while skimming over or minimizing the value it gets for free such as accumulated skills, natural resources, Mom's work and so on... It is even more interesting to watch economist disciples such as Adam Smith help them do it.

⁵⁹ In Karl's view...

⁶⁰ Karl's contention is that it suited Adam Smith in a post-feudal society to over-simplify the situation because it helped him hide surplus-labor as the principal source of M'.

Chapter 20: Simple Reproduction⁶¹

Annual social product can be organized into two categories:

- The part used as means of production e.g. from cotton to yarn to clothes.
- The part that is consumed by the society

Adam Smith failed to grasp the idea of the first category. He thought, or taught, instead that the simple reproduction process of making commodities for direct consumption was the only purpose of production. Again, probably because any discussion, investigation or analysis of the first category would lead into a much broader discussion of capitalism, on one hand, and a neutral production process on the other.

Social reproduction

Social reproduction involves the exchanges that go on in the marketplace among Capitalists in relation to one another and in relating to working people. One of the features of a Capitalist society in which wages are being driven down and more and more M' is going to capitalists themselves is that eventually, the only people who can afford to buy commodities are the Capitalists. And that is when the emphasis shifts from producing the necessities of life to producing luxury goods.⁶²

Money

Money, as we mentioned, simply keeps the circulation going but eventually, the only circulation going on is circulation of money and luxury goods in the richest sector of the society.⁶³ So, although money always circulated “upwards” towards the capitalist class, which they could use to buy more influence in the society, the production process will eventually serve the capitalist class alone.

Wages are not Capital

For working people, wages are the means of subsistence, nothing more. And hoard as they may, they will never save a significant enough amount to treat their wages as Capital.

⁶¹ This chapter is full of formulae that describe in detail the entire capitalist production system. We are going to draw down the conclusions from them.

⁶² As was mentioned in the Citigroup Plutonomy memos.

⁶³ The 1% in the imagery of the Occupy movement.

Where are we going?

To a place we have already been, except worse for working people. Once the capitalist class decide to focus the production process on their own needs for luxury goods, and the majority of the population are stuck in a spiral of debt, then the majority of the population become what Capital views as “surplus to requirements”. So, what does the state do in these matters? They might start organizing production of the necessities of life for the surplus population OR they might do whatever Capital tells them ought to be done.⁶⁴

⁶⁴ Expressions such as “running the state is just like running a corporation” ought to spell danger for the majority of the population left out of the loop.

Chapter 21: Accumulation and Reproduction on an Expanded Scale

Expanded reproduction means producing for the sole purpose of making M' , regardless of the needs of the society. In other words, converting M' into C' into M'' into C'' and so on...

Is Expanded Reproduction Logically Possible?⁶⁵

The answer is that it is logically possible but probably not helpful to the society. The aim of a neutral production system in a society would be to set supply equal to demand and perfect it to no more and no less. Capitalism on the other hand aims to use the production system to make as much M' as possible, which means that the problem of overproduction is always on the horizon.

Economy-wide expansion

One way for Capital to expand M' despite finite human needs is to acquire all the institutions of the society and have them under its charge. Doing that means it can create wants and new needs in various sectors of society and then organize supply to meet those new “demands”. But we have seen that the general movement of society’s wealth is out of the pockets of the majority in the hands of the few. So how can Capital find a market in which the majority of the population ends up with no function in the system and, therefore, no purchasing power?

---End of Vol. 2---

⁶⁵ In this final chapter, Karl uses numerical analysis, which is more difficult to decipher than algebra – formulae and algorithms.