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Marx’s *Capital* Volume Two
The Process of Circulation of Capital

In Volume One, Marx laid the foundations for a conceptual reconstruction of capital, but the results were still at odds with empirical reality in some respects and some questions left unanswered.

Specifically, Marx had derived the *total value* produced by an individual unit of capital in each cycle of production and its distribution between the working class, the capitalist class, and that portion necessarily reinvested in means of production. But he had not shown how capital reproduced itself cycle after cycle, not just in terms of value, but also in terms of the material products required for the continuation of social life and the reproduction of capital.

Secondly, although he had demonstrated how the use of wage labour allowed the industrial capitalist to extract surplus value from the workers, he had not addressed how this surplus value was distributed among the capitalist class as a whole. This task, as it happens, means solving the riddle of the contradiction between the rate of profit and the rate of surplus value.

Marx had died in 1883, two years before the publication of Volume Two, and it was left to Engels to assemble the notes and drafts left by Marx. Engels explained in the Preface the enormously complex task Marx had bequeathed him. However, I respect the opinion of scholars who have studied these manuscripts in deail and their opinion that Engels provided us a text which will “represent exclusively the work of its author, not of its editor.”

Part I: The Metamorphoses of Capital and their Circuits

Chapter 1. The Circuit of Money Capital

The circuit of industrial capital is the object of Part I of Volume Two, and Marx begins with the *universal form of the circuit of industrial capital*, in which industrial capital transforms money-capital into productive capital and in turn into commodity-capital, and back into money-capial, but now at an expanded level.

Marx expands the circuit introduced in Volume One, M—C—M', to include production. Thus: M—C ... P ... C'—M', in which P represents the process of production of the product, the transformation of commodities, C, into a new Commodity, C'. “The various forms which capital takes on in its different stages ... were not considered. These forms are now the direct object of our study.” Consistent with Hegel’s requirement that the new unit be considered in its own right:

> In order to conceive these forms in their pure state, one must first of all discard all factors which have nothing to do with the changing or building of forms as such. It is therefore taken for granted here not only that the commodities are sold at their values but also that this takes place under the same conditions throughout. Likewise

> disregarded therefore are any changes of value which might occur during the movement in circuits.
>
> Marx, 1885, Chapter 1

In the course of this chapter, Marx examines each phase of this circuit, and reflects on the multiple obstacles the circuit has to navigate for the process of industrial capital to reproduce itself. Workers must be paid at short regular intervals if they are to live and there must be an adequate supply of their needs on the market when they are paid; labour and means of production circulate to two entirely different markets and both markets must be able to supply the needs of production continuously; if an excess of product is produced it cannot be converted into money, but if not enough product is produced, then the cycle will be interrupted at some other point. Marx notes that these conditions presuppose a high degree of development of the circulation of commodities.

Thus Marx introduces the unit of reproduction of industrial capital, the metamorphosis and circuit of capital, in its universal form.

> Industrial capital is the only mode of existence of capital in which not only the appropriation of surplus-value, or surplus-product, but simultaneously its creation is a function of capital. Therefore with it the capitalist character of production is a necessity. Its existence implies the class antagonism between capitalists and wage-labourers. To the extent that it seizes control of social production, the technique and social organisation of the labour-process are revolutionised and with them the economico-historical type of society.
>
> op. cit.

Marx contrasts this to other forms of capital, such as in the transport industry, where it is the productive process itself which is the useful product. Although, like all capital in begins and ends with money. The same observation would apply to service industries.

After reprising much of what had already been established in Volume One, Marx says:

> What lies behind $M—C<^{L}_{MP}$ is distribution; not distribution in the ordinary meaning of a distribution of articles of consumption, but the distribution of the elements of production itself, the material factors of which are concentrated on one side, and labour-power, isolated, on the other. … capitalist production, once it is established, not only reproduces this separation but extends its scope further and further until it becomes the prevailing condition.
>
> op. cit.

Capitalist production reproduces to an ever-increasing extent the class of wage-labourers, and therefore pre-supposes a sufficient mass of productive capital. In the second stage, productive capital, "the capital-value has acquired a bodily form in which it cannot continue to circulate but must enter into consumption, viz., into productive consumption."

In order to live, the workers must be employed repeatedly at short intervals and always find sufficient means of subsistence available on the market, having long since been separated from petty agriculture which formerly supported the labourer in troubled times. These conditions presuppose a high degree of development of the circulation of commodities. Likewise, productive capital requires for its functioning the uninterrupted availability of means of production, the products of other units of productive capital.

After presenting the *universal* form of circulation in industrial capitalism, beginning as in every stage of capitalism, with a sum of money, Marx presents the *particular* forms of circulation: the circuit of productive capital and the circuit of commodity capital. He examines the credit economy which arises on the basis of circulation and supply-and-demand. He will then examine the time and cost of circulation in general, and move to look at particular costs of circulation (selling and buying, storage and transportation).

Thus the *unit* in Part I is the circulation of capital through its different value-forms, an developed from universal to particular. These observations are sufficient to confirm that in Volume Two, whose subject matter is the *reproduction of a capitalist social formation*, Marx is continuing with the Hegelian method adopted in Volume One.

The circuit which begins and ends with money is the universal form; interlaced with the universal form are the particular forms: the circuit (reproduction) of productive capital and the circuit of commodity capital.

Chapter 2. The Circuit of Productive Capital

> The circuit of productive capital has the general formula P...C'—M'—C...P. It signifies the periodical renewal of the functioning of productive capital, hence its reproduction.
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> Marx, 1885, Chapter 2.

Marx here examines the metamorphosis of capital in industrial capital, this time beginning not with a sum of money-capital, but with productive capital. From this point of view circulation proper appears but as an instrument promoting the periodically renewed reproduction, rendered continuous by the renewal.

This circuit is firstly I. Simple Reproduction and then Two. Accumulation and Reproduction on an Extended Scale.

In the simple reproduction of productive capital, assuming that, as in the first chapter, conditions remain constant and that commodities are bought and sold at their values, the entire surplus-value enters into the individual consumption of the capitalist, the surplus value being spent either for commodities proper or for personal services to his self or family. The general form is reproduction on an extended scale, with the investment of surplus value into further production of surplus value.

Chapter 3. The Circuit of Commodity-Capital

The Circuit of Commodity-Capital is represented as C'—M'—C ... P ... C'.

However,

> it is no longer sufficient to confine oneself to indicating that the metamorphoses C'—M' and M—C are on the one hand functionally defined sections in the metamorphoses of capital, on the other are

links in the general circulation of commodities. It becomes necessary to elucidate the intertwining of the metamorphoses of one individual capital with those of other individual capitals and with that part of the total product which is intended for individual consumption. On analysing the circuit of an individual industrial capital, we therefore base our studies mainly on the first two forms.

Marx, 1885, Chapter 3

Marx has said that the object being examined in Part I is the circulation of capital, and he has analysed the *universal* form which begins and ends with money, into three phases and brought out the problems which arise in each phase. The real subject matter here is only named in Part III, the *reproduction* of the aggregate social capital in all its constituent forms.

In the same sense that capital rests on the commodity, reproduction of capital at the broadest level rests on the circuit of capital by a series of metamorphoses through the various value-forms beginning with money.

In the remaining chapters of Part I, Marx studies a number of issues arising from circulation of capital through the commodity market and production.

Chapter 4, "The Three Formulas of the Circuit" shows that in all forms of the circulation of capital "The self-expansion of value as the determining purpose, as the compelling motive." However, every point in the circuit depends on the completion of the whole circuit for its own reproduction. Every social function then is dependent on the continuity of capital accumulation. Each of these functions then cannot be understood in itself, but only in its arising from and returning to the circulation of capital. In the process the social fabric is continuously transformed into an image of capital in its successive forms.

Chapter 5, "The Time of Circulation" shows that in addition to the production time already dealt with in the calculation of the rates of profit and surplus value, capital also spends time in circulation in the commodity form before returning to production in the form of labour and means of production. The time required for reproduction of capital is in excess of the labour-time. But circulation time outside of production "create neither value nor surplus-value." The circulation time required for the reproduction of the factors of production is "a condition of the process of production."

The time spent in realising surplus value is necessarily *paid for out of the surplus value* appropriated during production, but it neither increases nor decrease the mass of surplus value.

Likewise Chapter 6, "The costs of circulation" and Chapter 7 "The costs of storage and transportation" show that these expenses are *deductions* from the surplus value created during the production process.

> The general law is that all costs of circulation, which arise only from changes in the forms of commodities do not add to their value.

Marx, 1885, Chapter 6

Summary of Part I

Approaching the problem of the reproduction of capital as an entire social formation, Marx takes the simplest social form of the reproduction of capitalist social relations to be the *circulation of capital* through a series metamorphoses beginning with money. Each phase of this circuit is essential to the reproduction of capital and the myriad of social functions which are necessary to its reproduction.

His analysis showed that this process is carried as a cost to surplus value and paid for out of the proceeds of capital gained through the appropriation of unpaid labour-time.

Part II: The Turnover of Capital

Chapter 7. The Turnover Time and Number of Turnovers

In Part II the object is the *turnover* of capital advanced ready for a new cycle of expansion. The issue here is specifically the multiplying effect that reduction of the circulation time of capital has on the annual rate of profit. This problem is a particular instance of the general problem analysed in Part I.

> We have seen that the entire time of turnover of a given capital is equal to the sum of its time of circulation and its time of production. It is the period of time from the moment of the advance of capital-value in a definite form to the return of the functioning capital-value in the same form. The compelling motive of capitalist production is always the creation of surplus-value by means of the advanced value, no matter whether this value is advanced in its independent form, i.e., in the money-form, or in commodities.
>
> Marx 1885, Chapter 7

The turnover time of capital is the time take for capital to complete the circuit and return, in expanded quantity to the form in which it started, be that commodities or money.

> From the point of view of the capitalist, the time of turnover of his capital is the time for which he must advance his capital in order to create surplus-value with it and receive it back in its original shape.
>
> op. cit.

Chapter 8. Fixed Capital and Circulating Capital

Beginning from this general form, Marx differentiates the process of the turnover into two forms: fixed and circulating capital.

This method, which we see time and again, in which Marx identifying a unit in its general form and then *analysing* into parts, moving from universal to particular, is in line with the method proposed by Hegel in The Idea of the True.

Fixed capital (the instruments of labour) and “fluid” capital (fuel, oil and such like as well as maintenance and repairs, together with the raw material incorporated in the product) must be renewed, over variable periods of time. The overall time required for this component of capital advanced must be determined as an average of these very diverse periods of reproduction.

The labour-power incorporated into the product must be renewed by the worker through purchase and consumption of their means of subsistence, and is thus part of circulating capital. Capital must be advanced for "fluid" capital and labour-power only for the period during the period during which production is underway. Fixed capital is renewed over a longer time period according to the durability of the various components of the means of production.

The costs of maintaining capital sunk into fixed capital appears like an unproductive hoard. A credit system would allow this capital to function as productive capital through the interest paid on such capital borrowed for the purpose of maintaining fixed capital.

The following chapters criticise the theories of the Political Economists on the question of turnover and investigate various problems which arise here.

The principle outcome is the impact of the turnover time of capital on the "Annual Rate of Surplus Value" in Chapter 16, where Marx says that:

> The capital employed in the production of the annual quantity of surplus-value is equal to the advanced capital multiplied by the number of its turnovers, which we shall call *n*.

and

> The annual rate of surplus-value is equal to the (real rate of surplus-value × variable capital advanced × *n*) / (variable capital advanced)
>
> Marx, 1885, Chapter 16

This makes clear that alongside the requirement of capital to reproduce the social conditions for its own reproduction, the motive force of capital, the annual rate of surplus value, drives it to turn over its capital invested in fixed capital as quickly as possible.

Part III: The Reproduction and Circulation of the Aggregate Social Capital

In the form of an Introduction to Part III, Marx presents his own summary of "the story so far" which is very interesting in itself. Marx now links the circulation of capital examined already in Volume Two with the segmentation of capital into constant, variable and surplus capital in Volume One.

Reflecting on the circulation of capital as both money and commodities, he notes that this capital consists of only two components:

> 1) The circuit of capital proper and 2) the circuit of the commodities which enter into individual consumption, consequently of the commodities for which the labourer expends his wages and the capitalist his surplus-value (or a part of it). At any rate, the circuit of capital comprises also the circulation of the surplus-value, since the latter is a part of the commodity capital, and likewise the conversion of the variable capital into labour-power, the payment of wages.
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> Marx, 1885, Chapter 18

The expenditure of this surplus-value and wages for commodities (Marx has in mind commodities for personal consumption rather than commodities for use in production – raw materials, machinery, etc.) that do not form a link in the circulation of capital. Marx is referring to the expenditure of the surplus value for the personal enjoyment of the capitalist.

All the individual capitals which are reproducing themselves as described in earlier volumes are locked together in interlacing circuits, and Marx observes:

> But in both the first and the second Volumes it was always only a question of some individual capital, of the movement of some individualised part of social capital. … We have now to study the process of circulation (which in its entirety is a form of the process of reproduction) of the individual capitals as components of the aggregate social capital, that is to say, the process of circulation of this aggregate social capital.
>
> op. cit.

Money-capital and its reproduction and expansion is the prime mover of the entire aggregate social capital. The magnitude of the money which must be advanced is continuously increased due to the withdrawal of money from circulation in the production process which is demanding ever-larger investment in constant capital. As a result, the demand for credit, which Marx has not yet considered, sharpens.

The object which Marx is now addressing is the reproduction of the parts of capital identified in the first volume: constant capital, variable capital and surplus value. From analysing the reproduction of capital as a whole, universally, he now moves to the particular in this sense: the reproduction of the constant, variable and surplus capital. Each particular segment of value of production is reproduced by its own circuit, beginning with money, its transformation into a certain kind of product in the form of commodities, and its return to the form of money-capital.

In the course of these circuits, the commodities in each segment of the social body are consumed, respectively in the production of means of production (Department One), the production of labour-power in working class households and the production of luxury goods and services for the benefit of the capitalist class (Department Two).

Marx discusses these two Departments in an extensive Chapter 20, after Chapter 19 which is devoted to polemics with the Political Economists.

Each of the two departments which must produce commodities to more or less match the demand for the reproduction of constant, variable and surplus value, each demand a proportion of constant, variable and surplus capital. Marx endeavours to trace the complex demands for the reproduction of the entire social capital through the interlacing of these distinct circuits of reproduction.

The production of constant, variable and surplus capital in a single cycle of reproduction and expansion of capital by individual units of capital, and every such unit can only go on so long as money is put into circulation and withdrawn, while at the same time each of the components of the production process, are realised not only their value, but their material substance. In this way capitalist appropriation reproduces itself at the same time as reproducing the social and material conditions for the existence of the entire social formation of capitalism.

Hegel's approach, again illustrated with Marx's approach to analysis of the reproduction of capital, has now led Marx to a consideration of particulars which no longer hold any interest from the point of view of tracing the influence of Hegel on *Capital*, the subject of this book.

Summary of Volume Two

The subject matter of Volume Two is the reproduction of the entire social formation in which the capitalist mode of accumulation and production exists.

Volume Two complements Volume One which demonstrated how labour takes the form of value as "abstract labour-time," and the total value was divided into three component parts: constant capital which exists in the form of material products used in production of commodities, variable capital which accrues to the working class for their subsistence, and surplus value accruing to the capitalist class.

To do this, Marx treated capital as if it were one single social capital operating in the form of individual units of capital. Volume One had not shown where these components of capital came from and where they went; how, in other words, these individual units could work together to sustain the entire social organism.

Marx needed to demonstrate how this cycle of exploitation was reproduced in an entire social formation. This was to be the business of Volume Three.

The subject matter is the production and reproduction of the entire social formation of industrial capitalism. The unit of analysis is the circuit of money-capital through productive-capital and commodity-capital and back in expanded form to production. This unit is simply the further analysis of the same unit identified in Part II of Volume One, "The Transformation of Money into Capital," the commodity relation mediated by money: M—C—M' to include production which transforms the inputs to production, C, into the product, C', i.e., C—P... C'—M'.

Volume Two has shown that

> the capitalist process of production taken as a whole represents *a synthesis of the processes of production and circulation.*
>
> Marx, 1894

When we are led to contemplate how interlaced are all the processes abstracted from the social production process we can appreciate the power of Marx's original abstraction. His object was the division of the social product between the working class and the capitalist class. To discover this he had to analyse the single unit, commodity exchange, moving then to the use of money as a means of payment C—M—C' and from there to the single unit of capital, M—C—M'. Systematically, Marx has synthesised the reproductive process of the entire social formation. A wage of a factory worker contains a component arising from the cost of bread which in turn depends on the cost of maintaining a baker's oven which in turn depends on the supply of bricks, etc., etc., etc.

Everything so far as been based on the assumption of commodities being sold at their value and has assumed that the value of products remains stable throughout each circuit.

Marx has already identified a problem which manifests itself in the first two volumes based on the circulation of commodities exchanged at their values. This assumption, which is real and verifiable so long as independent producers exchange their own products, has been extended to circumstances where the products being circulated are the products of industrial capital and no worker can identify any commodity as being the product of his or her own labour. Workers are employed in complex processes of production in which each product passes through the hands of many workers and absorbs the value of machinery and raw material, likewise the products of industrial capital. The ethos of the equality of all human labour is irrelevant except in relation to the purchase and sale of labour-power, where it holds sway.

Industrial capitalism is a society in which units of capital exchange products and a new ethos is in place. The outstanding problem which Marx must now face is the resolution of this contradiction, manifested in the co-existence of a single rate of surplus value characteristic of a single national economy, and a general rate of profit enjoyed by all units of capital alike.

Nor has Marx yet addressed how the surplus value is distributed by the industrial capitalist (who has come into possession of it by the exploitation of labour-power and the use of means of production) with the banker who advanced the money-capital with which the cycle of reproduction began, and the landlord whose charges for rent appear in the industrial capitalists' account books as *costs* alongside interest. In fact, the circulation of capital in the financial market has so far lain outside the scope of Marx's analysis.

These are the subject matters of Volume Three which completes the conceptual reconstruction of the capitalist mode of production.