

Aufheben

**Open reply to Loren
Goldner**

Introduction

Three years ago, Loren Goldner circulated a draft of his [‘Remaking of the American Working Class’](#) for comments among a number of groups and individuals. At first sight it seemed to present an interesting new approach to the development of both capitalism and the class struggle since World War II. However, on closer inspection we found that it was riddled with elementary errors and misconceptions that left many of his principal insights unsubstantiated. Indeed, it seemed to us that Loren Goldner had not even taken the trouble of re-reading this draft, which had been written twenty years ago, before circulating it around the world.

Nevertheless, unlike anyone else that we know of, we took the time and trouble of pointing out some of the more glaring problems that we found in the first chapter of his draft in the hope that Goldner would make the effort to seriously redraft the text.

Given the effort we put into our [commentary](#) on ‘Remaking...’ and the length of time that had passed since we sent it to him, and given also that ‘Remaking...’ itself was already in the public domain (and still

unanswered), we would have liked to have published our text on our website with a link to Goldner's. However, at his request, we held fire until he developed his response.

When Loren Goldner came for a short visit to the UK last Summer, we discussed our criticisms of 'Remaking...' with him. He accepted that his presentation of his theory of fictitious capital was faulty and seemed to concede many of our criticisms, although he insisted his basic approach was sound. Having clarified our criticisms in this discussion, we expected Goldner to make a serious effort to revise 'Remaking...' and present his arguments in a more coherent and logically rigorous manner.

However, as a response, Goldner wrote up his take on the meeting and published it on his website. In this at times patronising [response](#), Goldner denounces us for having a 'reductionist' and 'text-bound' reading of Marx! But, as we shall show, in developing such an accusation in defence of his 'Remaking...', Goldner has only served to demonstrate why he has been unable to revise his original text in a coherent and rigorous way.

Our response to Goldner is given below.

Dear Loren

Method, structure and object of Marx's *Capital*

From both our discussions last August and from your reply to our criticisms of 'The Remaking...' it is clear that what you see as the fundamental difference between us is an understanding of what you see as the crucial importance of Chapter XXI of Volume II of *Capital*. For you, this chapter marks the key turning point in the three volumes of *Capital*. Up until this chapter Marx was still encumbered by the abstract categories and restrictive assumptions of Ricardo and classical political economy. Marx remained within the blinkered perspective of the individual capital and was confined within the limits of simple reproduction. As a consequence, Marx was only able to consider the capitalist mode of production as a closed system, abstracted from the co-existence of other non-capitalist modes of production.

From Clark Kent to Superman?

Then, for some reason you omit to explain, in Chapter XXI Marx makes his great 'leap'. Casting off the last vestiges of Ricardian political economy, Marx, in one bound, soars far above the perspective of the individual capital to reach the vantage point of the social totality of capital. In doing so, Marx breaks free of the confines of simple reproduction to embrace expanded reproduction. From then on Marx is able to grasp capital in its concrete reality: he jumps to 'actually existing capital'. With this jump, Marx becomes, for the first time, 'fully Marxist'. What wonders then would seem have lain hidden, and so long neglected, beneath the numerical analyses of Chapter XXI! So after all, it was in this seemingly mundane chapter that the key to understanding *Capital* in its entirety was to be found. If only we had known.

But at the risk of spoiling your moment of eureka, boring 'text-bound' readers of Marx, like ourselves, might have some objections.

Firstly, if what you say is true then this would mean a serious reversal of what is usually seen as the relative importance of the three volumes of *Capital*. For many

readers of Marx, including it would seem Marx himself, Volume I is seen as the most important of the three volumes. After all it was only Volume I that Marx actually ensured was published in his own life-time and it would seem to contain the essentials of his critique of political economy. It is in Volume I we find Marx's theory of commodity fetishism, surely the key to understanding his critique of classical political economy. It is in Volume I that we find Marx's analysis of the value-form and the necessity of money in generalised commodity exchange. And it is in Volume I that we also find Marx's theory of the production of surplus-value, through which he shows how capital is dependent on the subsumption and exploitation of labour. What is more, what Marx himself identifies as his two most important advances over classical political economy - his distinction between abstract and concrete labour and his distinction between labour and labour power - are both to be found in Volume I.

But, according to you, in Volume I, where it would seem that Marx lays out the essential relations between capital and labour, Marx was merely 'quasi-Ricardian'. It is only in Volume III (and the last chapter of Volume II of course), where Marx deals with the often technical

relations that arise within capital, and the squabbles amongst the propertied classes over the division of surplus-value, that Marx becomes fully Marxist! This would seem a little preposterous.

Secondly, it would seem to us, that any attempt to understand the structure of *Capital* in terms of a single great 'leap' is liable to end up being simplistic. Even if you offer an explanation of why the 'leap' is made - which you don't, you just say what the jump is - you are obliged to flatten out the methodological development both before and after this 'great leap'. If you only have a single 'leap' you can only have two levels of abstraction, 'before' and 'after'; abstract and concrete.

Of course, you could say that there is no significant overall methodological development either before or after the 'great leap'. That there are simply two-levels; the abstract level before Chapter XXI and the concrete level after Chapter XXI. Indeed you seem to tentatively take up this position when you say, following Rosa Luxemburg, that "vols. I and II are a 'heuristic device' designed to demarcate a pure capital 'in itself'". Drawn to its logical conclusion this would seem to suggest that, at least before Chapter XXI, Marx proceeded in an *ad hoc* manner, making arbitrary assumptions when and where

needed on the basis of trial and error and taking the various issues in no particular order.[\[1\]](#)

Of course, you will no doubt deny this and insist, as you do in your reply, that your understanding is far more complex and sophisticated than it might first appear. However, before considering this claim, we shall set out very briefly what we see as the methodological development that serves to structure all three volumes of *Capital*.

Our conception of Marx's method and the structure of Capital

Firstly, we would deny any suggestion that the presentation of Marx's critique of political economy in *Capital* - particularly in the first volume[\[2\]](#) - is in any sense 'heuristic'. In the Postface of the second edition of Volume I of *Capital* Marx was obliged to defend himself against the quite opposite accusation that his realistic inquiry was trapped within an idealist and a priori method of presentation drawn from Hegel. In response to this Marx argued:

Of course the method of presentation must differ in form from that of inquiry. The latter has to appropriate the

material in detail, to analyse its different forms of development and to track down their inner connection. Only after this work has been done can the real movement be appropriately presented. If this is done successfully, if the life of the subject-matter is now reflected back in the ideas, then it may appear as if we have before us an a priori construction.[\[3\]](#)

Marx then goes on to make his famous remark concerning how he had turned Hegel's dialectic on its head. We draw two points from this. Firstly Marx makes a clear distinction between his method of inquiry and his method of presentation. Secondly, Marx does not deny that his method of presentation may appear *a priori*. Instead he argues that his dialectical presentation of the results of his inquiry necessarily reflects the 'real movement'.

In the Grundrisse, with its false starts, lengthy digressions and numerous dead ends, we can see Marx at work in his process of inquiry. Here it could be argued that Marx used a method that could be described as heuristic. But in *Capital* we see the presentation of the results of Marx's inquiry set out in a careful and logical order. Of course this does not mean that Marx does not make simplifying assumptions in order to bring out certain analytical points but such simplifying assumptions are

not arbitrary or ad hoc. They are determined by their situation in the overall development of Marx's exposition.

Indeed, from our 'text-bound' reading of *Capital* we discern a distinct line of theoretical development that runs throughout the three volumes of capital, if not beyond. This line of theoretical development is a movement from the abstract to the ever more concrete. However, it also involves a continuous back and forth movement between such mutually determining logical categories such as essence and appearance, form and content, and the whole and parts. As a consequence, this line of theoretical development can be envisaged as a spiral that often returns to the same issues but at ever more concrete levels of analysis.

From this very brief statement of how we see the method of presentation that structures the three volumes of *Capital* we can draw out three important contrasts to your notion of a two-fold structure of *Capital*.

- Firstly, we see the theoretical development in the three volumes of capital as a more or less continuous progression from the abstract to the ever more

concrete. There is no 'great leap' from the abstract to the concrete, but rather a series of steps.[\[4\]](#)

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- Secondly, we would argue that Marx does not drive a wedge between such mutually determining categories as essence and appearance, form and content, whole and parts, the universal, particular and the singular. On the contrary Marx continuously moves back and forth between them.

In contrast, your notion of the 'great leap' is based on a series of dichotomies. According to you the semi-Marx of Volume I and most of Volume II is rooted in the perspective of the individual, the full Marx the perspective of the social totality of capital; the semi-Marx is concerned with formal analysis, the full Marx is concerned with material content; the semi-Marx assumes simple reproduction, the full Marx expanded reproduction, the semi-Marx only considers capital as a closed system, the full Marx considers capital as an open system in relation to co-existent non-capitalist economic systems.

- Thirdly, we certainly do not see Marx in the three volumes of *Capital* 'reproducing the concrete in thought'. We would argue even in Volume III Marx is still at a high level of abstraction. Marx had only begun

to introduce the question of capitalist competition and had yet to consider foreign trade, the state, the world market and so forth.

There are therefore striking differences between your simple division of *Capital* into a quasi-Ricardian Marx of Volume I and most of Volume II and the full Marx of Volume III and our conception of the method and structure of *Capital*. But of course the proof of the pudding is in the eating. Let us see how your notion of the great leap stands up to an examination of Volume I. According to you "The 'immediate process of production'... is the *sole* focus of Vol. I". Now we can understand why you say this. Firstly, as we have pointed out, the consequence of your simple division of *Capital* is that you have no basis on which to explain changes and shifts in analysis elsewhere in *Capital*. Marx's exposition both before and after the great leap has to be flattened out. Therefore it is useful for you to consider the whole of Volume I as being about one thing i.e. the immediate process of production. Secondly, and perhaps more importantly for you, considering the 'immediate process of production' as the sole focus of Volume I would seem to support your notion that Volume I is developed from within the perspective of the individual capital. After all it

would seem obvious that the immediate process of production is the province of the individual capital.[\[5\]](#) But is it true that the 'sole focus of Volume I is the immediate process of production'? If we open Volume I then on the title page we see the subtitle 'The Process of Production of *Capital*': so far so good. If we then take the effort to read on through the prefaces etc. we come to Chapter I - 'The Commodity'. Even the most inattentive reader will soon realise that Marx is not here concerned with the immediate process of production but with exchange and circulation. Indeed it is not until Chapter VII - one hundred or more pages later - that Marx leaves the "sphere of simple circulation or exchange, which furnishes the 'Free-trader Vulgaris' with his views and ideas..." and we enter the sphere of production. Of course it is true the immediate process of production is central to Volume I. First of all Marx considers the preconditions of capitalist production that arise in circulation, he then considers the immediate process of production itself, and then, in Part VII, Marx shows how the immediate process of production serves to reproduce its own material and social preconditions by producing in the sphere of circulation workers with nothing to sell but their labour-power and capitalists in possession of the means of production. Thus we can say in Parts I-III of Volume I Marx is concerned with

circulation, in Parts IV-VI Marx is concerned with the immediate process of production, while in Part VII Marx is concerned with the unity of production and circulation. What is clear is that the focus of Marx in Volume I is certainly not solely the 'immediate process of production'; his focus is not only production but also with its opposite - circulation.

If nothing else we have so far demonstrated that by itself your simple division of *Capital* gives you an inadequate grasp of the complexities of Volume I. However, let us press on and consider some of the dichotomies that you set up in the construction of this simple division of the three volumes of *Capital*. Again for the sake of brevity we shall focus on Volume I.

The perspective of individual capital versus the perspective of total social capital:

The general, the particular and the singular.

As we have already mentioned, to the extent that Volume I is concerned with the immediate process of production it would seem to back up your claim that before the 'great leap' at the end of Volume II Marx is

confined within the perspective of the individual capital, and that it is only after the 'great leap' that Marx adopts the perspective of the total social capital. After all capitalist production is carried out by individual capitals and Marx seems to discuss the production of surplus-value in terms of the individual capital.

In our response to *'Remaking...'* we pointed out that Marx also considers the perspective of the individual capital in Volume III. Indeed we argued that in Volume I Marx only considered the individual capital insofar as it illustrated the movement of capital-in-general. In contrast, in Volume III the perspective of the individual capital emerges as something distinct from that of social capital as a whole.

In responding to this you have conveniently assumed that we were merely making the rather banal point that any individual capital necessarily presupposes social capital. Individual capitals cannot exist by themselves but can only exist as part of the broader social relations of capital as a whole. Accepting this you argue that in Volume I this presupposition is taken as read - it is merely an implicit assumption. In contrast in Volume III, after the 'great leap', it becomes explicit and as such the perspective of the total social capital emerges as

something distinct from that of the individual capital. Hence you are able to claim that our criticism actually vindicates your position since in Volume III the perspective of social capital has become explicit.[\[6\]](#) Unfortunately you have misinterpreted our objection. For us Marx does not drive a wedge between the perspective of the individual capital and that of the total social capital. On the contrary we see a continued movement back and forth throughout the three volumes of *Capital*. What changes as the three volumes of *Capital* unfold is the relation between the individual capital and social capital as this *relation* becomes more concrete, and this must be understood in terms of the dialectical categories of the general, the particular and the individual.[\[7\]](#)

Let us begin again with Volume I. Marx begins with the commodity and examines the single commodity. But in examining the single commodity Marx only does so insofar as it expresses the essential relations of all commodities. It makes no difference to Marx whether he uses the example of linen, coats or three-cornered hats, what is important is that his example illustrates the essential features that all commodities must necessarily have in common (i.e. they are a unity-in-opposition of use-value and value). The single commodity therefore is

considered only insofar as it expresses commodities-in-general.

This is also true for the end of Part III of Volume I where Marx introduces the general formula of capital M-C-M'. With this general formula Marx describes the general form of capital as self-expanding value in the abstract form of money. This formula describes not only the movement of each and every capital but also of capital as a whole.

However, as we all know, if capital is to expand it must subsume labour in the immediate process of production. Capital-in-general must be particularised in the production process of individual capitals. But in Volume I, Marx considers these individual capitals only insofar as they give an *immediate* expression to capital-in-general to the extent that capital-in-general enters into the immediate process of production. As such, in Marx's consideration of individual capitals that we find in Volume I all are essentially both identical and indifferent to one another. One individual capital is the same as all the other individual capitals. This is, of course, vital for Marx since it allows Marx to bring out the essential relations of exploitation and alienation between capital-in-general and labour-in-general.

In contrast, in Volume III individual capitals distinguish themselves, both from each other and from capital as a whole, firstly in terms of their value composition of capital and then in terms of their function in the industrial circuits of capital. In Volume III capitals are no longer identical and indifferent to each other but differentiate themselves into a multiplicity of capitals who can only validate themselves as part of total social capital through the *mediation* of competition with other capitals.

Whereas as in Volume I the individual capital is considered as an *immediate* expression of capital-in-general in Volume III the relation of the individual to the whole becomes *mediated*.

Of course, you may say that this is all very well, but Marx's consideration of the immediate process of production in Volume I is quite evidently carried out in terms of the perspective of individual capital. Indeed, it would seem that the perspective of total social capital remains by and large implicit in Parts IV-VI of Volume I. Not only this, you will no doubt also point out that your quote, which for you proves Marx was only concerned with the perspective of the individual capital, occurs in Part VII - the very place, which according to us, Marx

goes beyond the immediate process of production. From this you would no doubt claim that, even if Volume I is not solely concerned with the immediate process of production, the perspective of total social capital remains, for all intents and purposes, implicit.[\[8\]](#)

However, if you had bothered to re-read Part VII from which you take this quote then you would soon discover that such a conclusion does not stand up. As we have pointed out, in Part VII of Volume I Marx shows how the result of the immediate process of production is to reproduce its own material and social preconditions (i.e. a working class with nothing to sell but its labour power and a capitalist class in possession of the means of production). Each individual capitalist involved in the immediate process of production contributes to the reproduction of the preconditions of social capital as a whole. As such there is no surprise that if we actually take the trouble to read Part VII that the perspective of total social capital is made quite explicit.

It is true that that the quotes you cite from the Introduction to Part VII (p.710 Penguin edition) and in Chapter XXIII (P.714) Marx is adopting the perspective of the individual capital. But if you had only taken the trouble to read three pages further on you would have

seen that Marx, in Chapter XXIII, clearly switches to the perspective of the total social capital:

The matter takes quite another aspect if we contemplate not the single capitalist and the single worker, but the capitalist class and the working class, not the isolated process of production, but capitalist production in full swing, and on its actual social scale.[\[9\]](#)

And Marx sums up the Chapter XXIII as follows:

The capitalist process, therefore, seen as a total, connected process i.e. a process of reproduction, produces not only commodities, not only surplus-value, but also produces and reproduces the capital relation itself; on the one hand the capitalist, on the other the wage-worker.[\[10\]](#)

Thus in Chapter XXIII Marx explicitly adopts the perspective of the total social capital. This would have been clearly evident to you if you had bothered to read this chapter, rather than merely plundering it for 'good quotes'.

Here in Volume I, long before the end of Volume II, Marx explicitly takes the standpoint of the total social capital! We could make similar arguments in the case of your dichotomy between form and content. But for brevity we shall omit this.

Essential dichotomies

So far we have shown that your conception of the 'great leap' is, by itself, inadequate to explain the theoretical development that we find in Volume I let alone the rest of *Capital*. We have also shown that some of the dichotomies through which you seek to establish this division of the three volumes of *Capital* are far from being so clear cut as you believe. Nevertheless, we recognise that, at the risk of diminishing the significance of the 'great leap', you may be able to explain away these problems with a few ad hoc or supplementary adjustments to your position. While we may have scored a few direct hits we may not have yet sunk your flagship. Now, however, is the time for us to close in for the kill! From our discussions, and from your written reply, it becomes evident that of all your dichotomies two are crucial to your argument. The first is your insistence that up until Chapter XXI of Volume II Marx "assumed simple reproduction". Indeed, it is quite evident that the crucial transition that is made between Chapter XX and Chapter XXI of Volume II is that between simple and expanded reproduction. This you take as being central to the 'great leap' that Marx makes at this point in *Capital*.

Secondly, you argue that this transition from simple to expanded reproduction also involves the vital transition in *Capital* from a consideration of pure capital, abstracted from the existence of non-capitalist modes of production, to actually existing capital. Let us take these two dichotomies in turn.

Simple versus expanded reproduction

Since, according to you, Marx only makes the transition to expanded reproduction at the end of Volume II, all of Volume I must be confined within the assumption of simple reproduction.

Of course, we could say that this assumption is 'foreign' to the very nature of capital even at its most abstract level. Does not the derivation of the general form of capital as $M-C-M'$ in Part III of Volume I entail the expanded reproduction of capital in its money-form? And is not the production of surplus-value, which is dealt with in Parts IV-VI, to do with the expanded reproduction of capital?

In response to such immediate objections you would no doubt say that the general formula of capital is - like the more developed formulas for the circuit of industrial

capital set out at the beginning of Volume II - merely 'formal'. As for the theory of the production of surplus-value this is only a part of the process of reproduction and is perfectly compatible with simple reproduction.[\[11\]](#) However, it is with Part VII of Volume I that you once again fall flat on your face. If we take the trouble to look at Part VII we will see that true enough Marx begins with the simplifying assumption of simple reproduction - as the title of Chapter XXIII makes clear. But in the very first section the next chapter - entitled: 'Capitalist Production on a Progressively Increasing Scale' - this assumption is relaxed. Marx makes the transition to expanded reproduction! Indeed Marx's subsequent analysis of the accumulation of capital and the formation of the industrial reserve army is completely incomprehensible unless expanded reproduction is introduced. We do not need to offer quotes to prove this - whole chapters speak against your nonsense! The transition to expanded reproduction is already made in Volume I not Volume II! So much for your 'great leap'!

But if this was not serious enough you betray a complete failure to grasp the notions of simple and expanded reproduction. In your reply you state that you were a 'bit off' when you said that in Volume I Marx assumes that the productivity of labour is constant. What you should

have said is that it assumed simple reproduction, which for you 'amounts to the same thing'. But simple reproduction does not 'amount to the same thing' as a constant productivity of labour; anymore than expanded reproduction 'amounts to the same thing' as an increasing productivity of labour. It is quite possible to have expanded production on an increasing scale without increasing the productivity of labour. Equally, it is possible for the scale of production to remain the same, or even to contract, while the productivity of labour increases.[\[12\]](#)

In order to make any sense of your argument then it is necessary to recognise this distinction between simple and expanded reproduction on the one hand and constant and increasing productivity of labour on the other. After all if Volume I is supposed to assume simple reproduction how is it that Marx is able to set out at great length his theory of the production of relative surplus-value in Volume I which necessarily entails the increasing productivity of labour? But furthermore, as we pointed out to you, one of the places where Marx assumes a constant productivity of labour is in your beloved Chapter XXI on the expanded reproduction of capital! In terms of expanded reproduction in Chapter XXI of Volume II it is not Marx that relaxes the

assumption of a constant productivity of labour but Luxemburg who introduces this, as she herself admits![\[13\]](#)

The Opening of Capital

This bring us to the second essential dichotomy - the analysis of capital as a closed system in Volumes I & II and the analysis on capital as it actually exists amongst non-capitalist modes of production. This dichotomy rests on a mere assertion that is extrapolated from remarks made by Rosa Luxemburg. You provide not one shred of textual evidence that Marx considers the relation of capital to co-existing non-capitalist modes production in Volume III (or at the end of Volume II for that matter)! Where are these non-capitalist classes you make so much fuss about? Nowhere to be seen!

In fact the only class introduced in Volume III that is not present in Volume I (although it does makes an appearance in Marx's consideration of primitive accumulation - Part VIII of Volume I) is the landowner. But landowners are explicitly treated as capitalist landowners. Indeed, the only place in the three volumes of *Capital* where Marx considers the capitalist mode of production in relation to non-capitalist conditions is

Chapter 33 of Volume I. But even here Marx is mainly concerned with Wakefield's description of the difficulties encountered by capitalists in attempting to export capitalist relations to Australia.

In all three Volumes of *Capital* - not just Volumes I and II - Marx is concerned with capital in-itself. Nowhere in *Capital* does Marx consider at any length the co-existence of the capitalist mode of production with non-capitalist modes of production!

We have shown that your notion of the 'great leap' is not only crude and simplistic but untenable.

But before proceeding to look at your continued confusion with regard to fictitious capital and the notion of capitalisation we must first consider the source of your errors.

Fictitious Capital

Introduction

In our original response to *'Remaking...'* we took great pains to show you how your analysis was based on a fundamental misconception concerning the nature of fictitious capital. Yet, despite all our efforts, in both our discussions last August and in your written reply, you display what only can be described as an obstinate refusal even to attempt to understand our arguments concerning the nature of fictitious capital. This is evident in your total incomprehension at why we say that fictitious capital only arises with the credit system and the development of financial markets, and why we insist that fictitious capital can exist prior to, and independently of, crises.

Unable, or perhaps unwilling, to understand our arguments concerning fictitious capital you simply set up a straw man. You seemed to have thought that we either denied the existence of fictitious capital or else failed to recognise its importance. When we denied that we held such positions you seemed to have assumed that your basic approach to the analyses of fictitious capital was

essentially vindicated. The problem being merely that of its correct presentation.

However, we contended that your basic conception of fictitious capital is fundamentally flawed and, as a consequence, your entire approach is misconceived and must inevitably end up as confused nonsense. Simply put you are barking up the wrong tree!

However, it now seems that, if we are to stop you wasting your time barking up the wrong tree, it is not enough to chop this tree down, it must be uprooted. Fortunately, from your written reply it has become clear where the roots of your errors lie. They lie in your misguided attempt to resurrect Rosa Luxemburg's theory of imperialism. Therefore before we address once more the question of fictitious capital we must briefly look at Rosa Luxemburg.

The errors of Rosa Luxemburg

Rosa Luxemburg was anxious to show how militarism and imperialism were rooted in the very process of capital accumulation. To do this she took as her point of departure Marx's schemas of reproduction at the end of Volume II and sought to show the expanded reproduction of capital was in itself impossible. By

establishing the impossibility of the reproduction of capital by itself, she sought to argue that capitalism could not exist without the continued absorption of non-capitalist modes of production, both at home and abroad.

However, as many of her critics pointed out, the intention of Marx in setting out the schemas of simple and expanded reproduction was the very opposite of hers. Marx wanted to reveal the necessary conditions that must exist between the various departments of capitalist production that would allow the smooth reproduction of capital. For Marx the smooth reproduction of capital was possible. Indeed Marx wanted to demonstrate that such smooth reproduction was possible despite the existence of constant capital that was not simply resolved into the revenues of wages and profits, and despite the fact that the workers did not consume all that they produced. These were two problems that had perplexed the classical political economists.

Nevertheless, Rosa Luxemburg was correct to point out, against her revisionist critics, that in demonstrating the possibility of the smooth reproduction of capital Marx at the same time demonstrated the precariousness of the

conditions that would allow such smooth reproduction. Rosa Luxemburg asked a very pertinent question: in the absence of any overall social plan, how was it possible for the multiplicity of competing and disassociated capitalist producers to be led to produce both means of production and means of consumption in such amounts as to ensure the smooth reproduction of capital as a whole?

The fundamental methodological error of Rosa Luxemburg was to try to answer this question at the level of abstraction that we find at the end of Volume II.

To answer such a question we would have to examine the mechanisms that would lead the capitalists of the two departments to adjust the production plans towards those consistent with the smooth reproduction of capital as a whole. If the conditions for the smooth reproduction of capital do not obtain then we will find in each market a mismatch between supply and demand. In one department supply would be greater than demand and in the other supply would be less than demand. There would seem to be two ways in which such mismatches in supply and demand could be resolved:

a) through the deviation of market prices from production prices

or

b) through crisis and bankruptcy.

Neither of these can be examined at the level of abstraction that we find in Volume II. Indeed, in Volume II Marx assumes that price equals value. Marx does not consider the deviation of values from production prices until Volume III, and even there he does not consider at any length the question of the deviations of market prices from production prices. And it is only in Volume III that the question of crisis begins to emerge but that is also not fully investigated.

Rosa Luxemburg was unable to recognise these difficulties because her underlying notion of the structure of *Capital* meant that she tended to flatten out the levels of abstraction that we find in Volume II and III. Of course, in taking up Rosa Luxemburg's underlying notion of the structure of *Capital* and developing it to its logical absurdity you not only repeat Luxemburg's fundamental error but compound it! Like Rosa Luxemburg you want to locate the impossibility of capitalism as such in Marx's schemas of reproduction.

But you also recognise that this impossibility of capitalism as it actually exists becomes clearly expressed in financial crises and the phenomenon of fictitious capital. Indeed you seem quite proud of yourself in making the connection between Marx's schemas of reproduction of Volume II and Marx's theory of fictitious capital that had been missed by us more 'text-bound' readers of Marx.

Not only this, because of your Luxemburgoid conception of the structure of capital you have no qualms about skipping over much of Volume III to make this connection. Indeed you see no problems in seeking to derive fictitious capital directly from Marx's schemas of the reproduction of capital.

But in attempting to derive fictitious capital from the schemas of reproduction you have a problem. The credit system and the development of financial markets have yet to be introduced in Volume II. Indeed Marx abstracts even from paper money and assumes gold as the only form of money.[\[14\]](#) Marx abstracts from both credit and finance in order to examine the movement and reproduction of real capital. Therefore, at all costs, you have to derive fictitious capital from the schemas of reproduction (i.e. from the reproduction of real capital).

But unfortunately this cannot be done!

To understand why it cannot be done we must set out once more our understanding of fictitious capital.

Fictitious capital

What is fictitious capital? And where does it come from? If we consider Volume III, Parts IV & V, it is clear that for Marx fictitious capital is nothing more than the paper claims, or 'titles of ownership', on the *future* production of value. As such, fictitious capital is made up of stocks and shares, government securities, corporate bonds, and all such IOUs that circulate in the financial markets. [\[15\]](#) So in what sense are such paper certificates fictitious? And in what sense are they capital? And how do they arise? Let us begin with how these paper claims on future production arise.

With the development of both the credit system and financial markets it becomes possible for capitalists engaged in the real process of the production and realisation of surplus-value to gain credit to maintain and quicken the reproduction of their capital and to borrow money to expand the scale of the reproduction of their capital. In order to gain the ready cash that they need for such purposes they are able to issue paper claims to their

future profits in the form of corporate bonds, stocks and shares. These paper claims to future profits are then 'sold' to moneyed capitalists (e.g. bankers).[\[16\]](#)

The deal is simple; the capitalists engaged in the process of production and circulation of commodities are able to obtain ready cash, which can then be used by them as money-capital; in return the moneyed capitalist gains a claim on a share of the future profits of the industrial or commercial capitalist.

From the perspective of the moneyed-capitalists, such as bankers, capital is merely the self-expansion of money i.e. M...M'. The 'dirty process' of producing and realising surplus-value is simply elided. For the moneyed-capitalist *anything* that allows him to gain a return on his money is capital. Thus for the moneyed-capitalist paper claims on future profits are capital. By 'buying' stocks and shares or corporate bonds the moneyed-capitalist puts his 'money to work'.

But of course we all know that it is not share certificates that get up in the morning and go to work to produce profits. Nor are they used as raw materials or instruments of labour in the process of production. In fact these paper claims go nowhere near the real process of production and circulation of commodities. They

remain locked up in the drawers and safes of the moneyed-capitalists! These paper claims have no *function* in the actual process of production and circulation of commodities or in the production and realisation of surplus-value.

Thus although for the moneyed-capitalist the paper claims to future profits appear as capital, they are, from a social point of view, *fictitious* capital.

Of course, insofar as these paper claims provide the capitalist with the ready cash that allows for the expanded reproduction of real capital, and insofar as the price of these paper claims depends on the profitability of particular real capitals, there is a direct connection between the accumulation of real capital engaged in the production and the circulation of commodities and the fictitious capital locked up in the drawers of the moneyed-capitalists.

However, for the moneyed-capitalist it makes no difference who he advances money to so long as he can expect a return on the money that he lends. It makes no difference to him if he buys paper claims to future profits directly from the industrial or commercial capitalist, and thereby provides the ready cash for the maintenance of

the expanded reproduction of real capital, or whether he buys these claims from another moneyed-capitalist.

Indeed, it makes no difference to the moneyed-capitalist how the money he lends through the purchase of paper claims is subsequently used. If an industrial capitalist uses his credit worthiness as an industrial capitalist to borrow money to be spent on his own personal consumption, rather than as money to be used to buy labour-power and means of production, it makes no difference to the moneyed-capitalist so long as he is confident of getting his money back with interest. For the moneyed capitalist the paper claims he obtains by such lending count as capital just as much as those paper claims that provide money-capital to the industrial capitalist.

Equally, money lent to the state through the purchase of government bonds and securities count as capital for the moneyed-capitalist just as much as stocks and shares of industrial or commercial capitals. But these claims are made not on profits but on future tax revenues.

Marx calls these paper claims, which arise from lending against future revenues rather than capital, as 'totally' or 'completely' fictitious capital because they have no direct relation to any particular real capital.

There are two important points that need to be grasped:

1. Fictitious capital emerges with the credit system and the development of financial markets. It has no existence outside them.

2. Fictitious capital stands in direct opposition to real capital and as such stands outside the process of the expanded reproduction of *real* capital.

As a consequence, any attempt to derive fictitious capital from Marx's schemas of expanded reproduction is doomed to failure.

In Volume III, Parts IV & V, Marx goes to great lengths to distinguish fictitious capital from real capital since it was necessary to cut through the confusion between these two distinct categories that emerged out of the writings of bankers and money-men who had come to dominate the literature on the subject of credit and the financial systems. But of course you blunder into this topic and make the very same confusion between fictitious capital and real capital that these bankers in the nineteenth century made. Their confusion between fictitious capital and real capital was a result of their own practical experience as bankers. You have no such excuse!

Having seen why it is not possible to derive fictitious capital prior to an examination of the credit system and the development of financial markets let us return to see the consequences of you attempting to do so.

You make two attempts to derive fictitious capital from the reproduction of real capital. Firstly you try to derive fictitious capital from military production. Secondly, you attempt to derive fictitious capital from the increasing productivity of labour and the consequent devalorisation of real capital. Let us examine both of these in turn.

Military production as a source of fictitious capital

Here we see a certain departure from Rosa Luxemburg. Whereas Rosa Luxemburg had seen military expenditure as a way of resolving the problems of expanded reproduction, and as such was an effect of the 'impossibility of capital as such', you see it as a source of fictitious capital and hence as part of the cause of the 'impossibility of capital as such'. But this departure does not help you.

You claim that the commodities produced for the military represent fictitious capital because they do not enter into the means of consumption of the worker or into the means of production that are necessary for the

accumulation of capital. Indeed you ask: how does military production fit into Marx's schemas of reproduction?

So: in what Department are tanks and guided missiles? Certainly not Dept. II. Are they then Dept. I: means of production? Production of what? How does a tank return to means of production, like a transport vehicle might, and continue to function as capital?

In the chapters concerning simple and expanded reproduction Marx does identify a group of commodities that do not enter either into the means of production or into the means of consumption of the workers in the next production cycle. Indeed Marx gives this group of commodities its own sub-Department - namely Department IIa - the sub-department that produces the commodities that are to be consumed by the capitalist class! However, nasty guided missiles and tanks may be, with regard to process of the reproduction of capital is concerned, they have the same relation to the expanded reproduction of capital as commodities produced for the consumption of the capitalist class.

It makes no difference to the process of the expanded reproduction of capital whether each individual capital buys luxury goods or the capitalist class collectively buys military equipment. In both cases the commodities are

bought and their value is *socially realised* but the purchase of these commodities come out of that part of the total surplus-value that is spent as *revenue* rather than reinvested as new capital.

Fictitious capital, or fictitious value, has nothing whatsoever to do with it. It is question of the division of surplus-value between that part which is spent as *revenue* and that part which is reinvested in *additional capital!* If the capitalist class spends its surplus-value on luxury goods, or if the capitalist class spends surplus-value on military equipment, then all this means is that there is less surplus-value to invest in additional capital. The rate of accumulation will be lower - but that is all![\[17\]](#)

Of course, you will no doubt answer that the commodities that the capitalist consumes out of his revenue do not enter into the means of consumption of the worker or into the means of production that are necessary for the accumulation of capital and therefore they also represent fictitious capital. However, the material reproduction of the capitalist class - and its state for that matter - are just as necessary for the process of the social reproduction of capital as is the reproduction of the working class. The circuits of revenue, whether of

the worker or the capitalist, are an integral part of the process of the *social* reproduction of capital.

Increasing productivity of labour and the devalorisation of real capital

As is well known, Rosa Luxemburg sought to demonstrate how the smooth reproduction of capital depicted in Marx's schemas of expanded reproduction of capital breaks down once the assumption on constant productivity of labour is dropped and it is assumed that the productivity of labour increases. You seek to follow and develop this by showing how increasing productivity serves to create fictitious capital.

Unfortunately, as you yourself admit, your original attempts to demonstrate this in your '10 firm model' was 'poorly elaborated'. However, in your reply you offer what seems to be a more concise summary of your position when you list a number of examples of how the increasing productivity of labour leads to the devalorisation of fixed capital in various industries. You then state:

“We have extreme cases of the creation and wiping out of overvalued (and hence fictitious) capital within sectors right in front of us.”

Of course, we agree that the increase in the productivity of labour leads to a devaluation of capital to the extent that it means that less socially necessary labour is required to (re)-produce a given output of commodities in any particular industry and thus inputs of commodities to other industries. The crucial point at issue is not that the increasing productivity of labour devalues capital but how this devaluation of real capital creates fictitious capital. Let us try to piece together your confused argument to see how it stands up.

According to you the increasing productivity of labour devalues fixed capital and this leads to the ‘overvaluation’ of fixed capital. This overvaluation of fixed capital then serves to create fictitious capital - that is to the extent that it is overvalued the fixed capital becomes fictitious. But in what sense does the overvaluation of fixed capital create fictitious capital? You remain unclear on this point since for you it seems self-evident, but let us try to see how an overvaluation of fixed capital can lead to the creation, and the wiping out, of fictitious capital.

If the increasing productivity of labour means a fall in the socially necessary labour required to reproduce fixed capital then its value will fall. As a consequence, other things being equal, the value of the total individual capital, of which that fixed capital is a part, will also fall. However, it may be that, at least for a while, the price at which the commodities produced by this capital sells is still determined by the old values that held before the increase in the productivity of labour in the production of the particular material forms of the fixed capital. As a consequence, the total capital will be realised at a price above its new value. The total individual capital will be in this sense 'overvalued' and this will be the result of the 'overvaluation' of its fixed capital. It is this overvaluation of real fixed capital that for you is the source of fictitious capital.

Eventually, the price of the commodities produced by the individual capital will become determined by the new value that was the result of the increased productivity of labour in the production of its fixed capital. As a consequence, this price will fall to the point where the fixed capital is no longer overvalued and, according to you, is therefore no longer fictitious. As a consequence, this fictitious capital is wiped out.

So, for you, to the extent that fixed capital is overvalued it is fictitious capital.[\[18\]](#) But to see how fixed capital can become 'overvalued', and thus create fictitious capital, we have to see how prices deviate from values.

Unfortunately, you are not helped at this point by your crude and simplistic understanding of the structure of *Capital*. Because you flatten out the levels of abstraction in Volumes II and III you think you can simply skip the beginning of Volume III. But this is the very place where Marx considers the deviation of prices from values. Indeed, you remain trapped at the level of abstraction of your oh-so-important Chapter XXI where price is still assumed to be equal to value. No wonder you get into such a muddle in your '10 firm model'.

Let us consider Marx's analysis of the deviation of price from value and see if we can detect in such deviations the source of fictitious capital that you seek to identify. In Part II of Volume III Marx shows how the formation of a general rate of profit due to the competition between different branches of industry will tend to produce a systematic deviation of prices from values. Assuming a uniform rate of exploitation, Marx shows that those industries with a higher than average value composition of capital will tend to sell the commodities at prices above their value.

By your logic, the commodities produced by these branches of industry with a high value composition of capital will be 'overvalued', and hence the capital that produces them will be 'overvalued'. Therefore, according to you, to the extent that the capital employed in these branches of industry are 'overvalued' then they are fictitious capital.

But if, as you insist, we take the vantage point of the total social capital we will notice that there are other branches of industry that have a *lower* than average value composition of capital. In these industries price will be below value. So, according to you, the capital employed in these industries will be *undervalued*. Now, if a capital that is overvalued is fictitious capital, what is a capital that is undervalued? Is it more-than-real capital? Hyper-real capital perhaps? Or is it anti-fictitious capital? And if it is anti-fictitious capital what happens when it meets fictitious capital? Does it explode!? It certainly explodes your argument!

As Marx shows in Volume III, the deviation of individual values from market values leads to a redistribution of value within a particular branch of industry; while a deviation of production prices from (market) values leads to a redistribution between particular branches of industry.

The deviation of price from value - and hence the over or under valuation of particular capitals - does not create fictitious capital by somehow creating fictitious value. On the contrary, it leads to the redistribution of real value (and with this real surplus-value) between different capitals.

The increase in the productivity of labour, and the subsequent devalorisation of capital, does not turn real capital into fictitious capital. What it may do is change the quantitative relation between the *accumulation of fictitious capital*, and hence the paper claims to future surplus-value, and the *accumulation of real capital*, which actually produces surplus-value. But if we are to analyse this relation between the accumulation of fictitious capital and the accumulation of real capital it is necessary, first of all, to distinguish between them. It is only by distinguishing them that we can then see how and when a devalorisation of real capital may lead to the subsequent destruction of fictitious capital.

But from the very outset you confuse real and fictitious capital, and as a consequence you end up in a complete muddle.

Capitalization?

In your reply you tell us how on reading our response to *'Remaking...'* you were astonished to see that we had failed to grasp the vital significance of the concept of capitalization. For you, it would seem that, alongside the crucial importance of Chapter XXI, the concept of capitalization is the secret key to understanding *Capital*.[\[19\]](#)

Of course, it is true that in Part V of Volume III Marx adopts the accounting term 'capitalization' to explain the formation of fictitious capital. Capitalization, in this sense, is the process through which accountants convert a given income stream into an equivalent capital stock in their accounts. Thus, if there is an income stream of £5 a year and the interest rate is 5% then that income stream is, for the accountant, the equivalent of a capital stock worth £100. If the interest rate rises to 10% then the income stream is equivalent to a capital stock of only £50, and so on.

But, of course, insofar as such income streams arise from mere paper claims on future income or profits then this book conversion is not a conversion into real capital, but

into fictitious capital. As such, capitalization, in this sense, is central to the formation of fictitious capital.

Now if you can show that this concept of capitalization is introduced by Marx before Part V of Volume III then this would seem to imply that fictitious capital is logically prior to both the credit and financial system. It would undermine our contention that fictitious capital has no existence independent of the development of credit and finance.

Lo and behold, in searching through *Capital*, you find Marx using the word capitalization both in Volume I and Volume II.

It would seem you have scored a stunning route-one goal with so little effort. But alas, the crowd is silent - the goal has been disallowed. As you turn from your victory celebrations you see the referee pointing to your own penalty spot. You have committed a foul before getting out of your own eighteen yard box! How can this be?

Once again, if you had taken the trouble of reading the chapters concerned in Volume I and Volume II before plundering them for quotes, then you would have realised that Marx uses the word capitalization in a very different sense to that in Volume III. In Volumes I & II

capitalization describes the conversion of surplus-value that has been produced in one production cycle into the new additional new capital for the next production cycle. That is it denotes the reinvestment of the profit made by the industrial capitalist into hiring extra labour-power and additional means of production that is necessary for the expanded reproduction of real capital.

This meaning of the word capitalization is completely different from its meaning in Volume III. It is concerned with the process of the accumulation of *real* capital, and has no necessary connection with fictitious capital. [\[20\]](#) Here we have caught you red handed: tearing quotes out of context without even bothering to read before and after the quote!

Text-bound

As we have seen, for you the essential difference between us concerns our different understandings of the method and structure of *Capital*. For us the essential difference is between our approach and yours.

For us, Marx provides an essential starting point for developing an understanding of contemporary capitalist society. As such we see it is necessary to examine closely what Marx said, how he said it, and why he said it. It is only on the basis of such a close reading of Marx,

particularly of *Capital*, that we can determine the limits of Marx - what he did not say or what he did not get round to saying etc. Thus for us a 'text bound' reading - as you would call it - is necessary if we are to go beyond Marx.

In contrast your approach seems to be based on a couple of hunches, which you then elevate into what you see as 'startlingly new insights'. First of all you have the hunch that because Rosa Luxemburg was a better revolutionary than either her revisionist or Leninist critics then she must be right concerning the 'crucial importance' of the schemas of reproduction. You then have the hunch that Luxemburg's analysis must be somehow connected to the prime phenomena of financial crises - fictitious capital.

However, as we showed in response to the '*Remaking...*' you are unable to substantiate this connection. Indeed you end up in a complete muddle. So instead you seek to wrap up your half-baked notions in the authority of Marx. To do so you read back your Luxemburgoid notions into Marx, and then ransack *Capital* for quotes, which, when ripped out of context, can be construed to buttress your arguments.

All this is intellectually dishonest and quite honestly not good enough. There has been enough rubbish written about Marx without you adding more!

A few final remarks on inverted objectivism

Self-reflexive abstractions

We have shown how your understanding of the method and structure of Marx's *Capital* is not only crude and simplistic but also untenable. We have also shown how this misunderstanding of the method and structure of *Capital* leads to fundamental misconceptions and errors in your attempt to explain fictitious capital. There are a number of other errors and blunders that we could have taken up but we believe we have done enough to show that '*The Remaking...*' is fundamentally flawed. However, there is one issue that we should perhaps address and that is your attempt to invert the objectified categories that we find in traditional interpretations of *Capital*.

When we first attempted to decipher your discussion of communism as the re-inversion of the reified and

objectified categories of capital we felt a certain sympathy with what you seemed to be saying. However, on closer inspection we found amongst the quotes and paraphrases of Marx, which you string together to form an 'argument', certain remarks that jarred. For example is communism to be conceived as "production for production's sake... as creativity"?

We began to suspect that your attempt at overcoming the reified and objectified categories of capital ended as a mere re-labelling of them in 'subjectivist' terms. Such re-labelling would imply that communism would be achieved once we recognised that capital was really the self-expansion of our creativity!

In your reply you say we caricatured your argument but in attempting to put us straight you have merely confirmed our suspicions. For example in your reply you state:

It is exactly the case that for Marx, capital is the reified inversion of human creative powers, and self-valorisation of value, value relating itself to itself, is the inversion of labour power as a 'self-reflexive relationship that relates itself to itself'.

On this basis you argue that communism, as the 'inversion' of capital, is nothing other than the 'self-

expansion of creativity' or 'labour-power relating itself to itself' etc. But the crucial point that you fail to understand is that capital comes to confront us as self-reflexive, as a process that relates itself to itself, because it no longer appears as related to us. It appears as self-reflexive because it is its own means and end - its subject and object. As a consequence, our labour-power, our creativity are self-reflexive precisely because they have assumed the inverted form of capital.

Of course, as you say, creativity is inconceivable without subjectivity but the question is - what is the subject? Creativity becomes self-expanding - self-reflexive - because capital has become the subject, not us. What this shows is that you have failed to understand that what Marx means by 'inversion' is the ontological inversion of subject and object.

In the process of production capital appropriates our labour - our creativity if you like - to its own ends. Capital becomes the subject and we become merely an object of capital. But once production is complete, once our labour and creativity etc. have been subsumed into capital, then capital stands opposed to us as something independent of us. Capital then appears as self-reflexive. In relating itself to itself capital appears as both subject and its own object - it has become the object-subject.

Of course, we can point out that capital is nothing but the 'self-expansion of our own creative powers' that have become alienated from us. This may reveal the origins of capital's apparent self-sufficiency but it is not the abolition of capital. The abolition of capital requires that *we re-appropriate* our own creative powers as our own means and end. Creativity must relate to us, as an integral expression of our own social being, not to itself as some abstract and alien process of self-expansion as you would have it.

Production for production's sake

Your failure to grasp the fact that labour, creativity etc. appear as self-reflexive abstractions precisely because they assume inverted forms of under capital becomes blatantly obvious with your insistence that communism will be based on "production for production's sake as... creativity".

Production for production's sake can only emerge once production is freed from the immediate concrete needs of either the direct producers or their particular exploiters. It is only when production is for abstract wealth - money and hence profit - that production can free itself and become its own means and end. As such,

production for production's sake, as a generalised phenomena, is *specific* to the capitalist mode of production. A point that the classical economists were well aware of:

Accumulate, accumulate! That is Moses and the prophets! 'Industry furnishes the material which savings accumulates'. Therefore save, save, i.e. reconvert the greatest portion of surplus-value or surplus product into capital! Accumulation for the sake of accumulation, production for the sake of production: this was the formula in which the classical economics expressed the historical mission of the bourgeoisie in the period of its domination. Not for one instant did it deceive itself over the nature of wealth's birth pangs. But what use is it to lament a historical necessity? If, in the eyes of classical economics, the proletarian is merely a machine for the production of surplus-value, the capitalist too is merely a machine for the transformation of this surplus-value into surplus capital. Classical economics takes the historical function of the capitalist in grim earnest. [\[21\]](#)

Of course it is true that Marx saw that in developing the forces of production over and against human need the capitalist mode of production created the social and material preconditions of communism - this was its historical mission. It was for this reason that Marx

praised Ricardo for recognising that, in developing the productive forces, production for the sake of production led to the development of the "richness of human nature as an end in itself" [\[22\]](#) and for consistently defending the principle of production for production's sake even when it ran rough-shod over the needs of the propertied classes.

However, Marx was also aware that production for production's sake developed the 'richness of human nature' in a grotesquely one-sided and inhuman manner and in doing so tended to reduce both the capitalist and the worker to mere machines. To project production for production's sake into communism, even if we bolt on the 'nice' abstraction 'creativity', means that such communism is merely capitalism under another name! Indeed, we need only to look at Stalinist USSR to see the consequences of production for production's sake under the name of socialism!

Of course, we do not suggest that you are some kind of crypto-Stalinist. What we do suggest is that you have not thought your ideas through.

Aufheben

February 2003

[1] The structure of *Capital* would then appear to be like a derelict house. In Volume I Marx enters the basement. Because the basement is closed in with no windows Marx has to borrow Ricardo's torch. Marx then proceeds to explore the basement examining each room but in no particular order. Once the all the rooms in the basement have been examined Marx has to leap up on to the ground floor. The ground floor has windows. This means that not only can Marx see that there are other houses in the street but that he also has enough light to dispense with Ricardo's torch!

[2] Of course it is only in [Volume I](#) that we find in an actually finished form. The other two volumes raise the question of how far they have reach the stage of presentation and how far they remain at the stage of investigation.

[3] [Vol. I](#), p. 102 (Penguin).

[4] Hence our conception of the structure of *Capital* is not that of a derelict house but more of an elegant spiral staircase.

[5] Of course this still leaves you the problem of explaining away the transition from [Volume I](#) to the first twenty chapters of Volume II, which are certainly not solely concerned with the immediate process of production.

[6] Of course, in claiming that this vindicates your position you have to admit that Marx considers the perspective of the individual in Volume III. You therefore have to admit that your simple division of *Capital* is not so clear cut as you originally claim.

[7] It is important to grasp Marx's method of moving between the general, particular and the individual in order to overcome the methodological individualism that has come to dominate much of the bourgeois social sciences.

[8] Originally your whole claim that Marx was only concerned with the perspective of the individual capital was based on the quote drawn from the introduction to Part III of Volume II. However, as we pointed out to you in our discussions last August, at best, this quote only refers to Part I and II of Volume II. You then had to search for another quote which you found in the Introduction to

Part VII and in the subsequent Chapter XXIII of Volume I to show that your claim held true for Volume I as well.

[\[9\]](#) [Vol. I](#), p. 717 (Penguin).

[\[10\]](#) [Vol. I](#), p. 724 (Penguin).

[\[11\]](#) Of course, it is true that production of absolute surplus-value is perfectly compatible with simple reproduction. All we have to assume is that the capitalist consumes the surplus value rather than invest it to expand value production. But it is also true that it is perfectly compatible with expanded reproduction. Indeed there is no reason, heuristic or otherwise, why Marx should have assumed a model of simple reproduction in his analysis of the production of absolute surplus-value in Volume I. However, to the extent that the production of relative surplus-value depends on the capitalist investing in new plant and machinery etc., Marx's analysis of the production of relative surplus-value in Part V of Volume I would seem to imply an assumption of expanded reproduction.

[\[12\]](#) For example, if a capitalist employs 100 workers to lay 100 furlongs of pipes a day and equips them with 100 spades and 100 furlongs of piping to do this then the

productivity of labour will be one furlong of piping laid per worker per day. If this capitalist makes 20% profit and reinvests half of this profit to expand production then he can increase the scale of production by 10%. He will buy 110 furlongs of piping, buy another 10 spades and hire an extra 10 workers. As a consequence, 110 furlongs of piping will be laid by 110 workers per day. The productivity of labour will remain the same at one furlong per worker per day even though production has expanded by 10%. Now suppose that there is a fall in demand for pipes. Instead of investing his profits to expanded production the capitalist may invest his profits in new machinery that will cut his costs. He introduces a mechanical digger that means that 10 workers can now lay 50 furlongs of piping in a day. He sacks 90 workers and saves the costs of their wages and produces lays only 50 furlongs that meets the newly diminished demand. As a result in terms of both value and use-values the capital employed has contracted, but at the same time, the productivity of labour has increased from one furlong per worker per day to 5 furlongs per worker per day. This phenomenon can also be true of social capital as whole. It is often the case in economic recessions that the economy may stagnate or even shrink in terms of both value and use-value produced while the productivity of labour increases.

[\[13\]](#) In attempting to show the importance Chapter XXI you follow Luxemburg in pointing out that, according to Engels, Marx found this the most difficult part of Volume II and III to write, and as a result it was left unfinished. Indeed this could be taken to imply that if only Marx had got round to finishing this chapter he would have followed Luxemburg and relaxed some of his assumptions to show the impossibility of the expanded reproduction of capital. But if Chapter XXI was so important why did Marx not bother to ensure that it was finished? It seems far more plausible to us that Marx found the numerical examples of his schemas of expanded reproduction rather tedious and preferred to get on with conceptually more important matters.

[\[14\]](#) Marx is quite explicit concerning the necessity for such abstractions. "It is important above all, however, to start by assuming metal circulation in its most simple and original form, since in this way the flux and reflux, settlement of balances, in short all those aspects that appear in the credit system as consciously regulated processes, present themselves as existing independently of the credit system, and the thing appears in its spontaneous form, instead of the form of subsequent reflection." Volume II, pp. 566-7 (Penguin edition). Of course, you argue that Marx would have introduced the

credit system if he had completed Chapter XXI but you are unable to provide a scrap of textual evidence for such an assertion.

[\[15\]](#) See Chapters XXIX and XXX of Volume III and in particular pp. 597-601 and p. 607 (Penguin edition).

[\[16\]](#) It is important at this point not to confuse moneyed-capital - or interest-bearing capital - with money-capital. Money-capital, of course, is a form of real capital alongside commodity-capital and productive-capital (See the opening chapters of Volume II).

[\[17\]](#) In a parentheses during your attempt to defend your notion that military production is a source of fictitious capital you say that military expenditure occurs not only out of revenue but also out of state debt 'which Marx identifies as totally fictitious'. Precisely! Fictitious capital emerges with the development of financial markets that allow the state to finance state expenditure - of whatever kind - by borrowing rather than out of current tax revenues. Fictitious capital, in this case, is a direct product of state debt NOT military production as such!

[\[18\]](#) This would seem to imply that we have a weird hybrid of real and fictitious capital. To the extent that the

value of a given (fixed) capital is reflected in the price it is real, but to the extent that the price rises above value then this capital becomes fictitious. It is therefore both fictitious and real at the same time!

[\[19\]](#) You say "What is capitalization? It means, as we know, that a stock paying 5% annual dividends or a bond with a 5% annual interest rate, in an environment in which the general rate of profit is 5%, is 'worth' \$100. Nothing controversial there". Well there is nothing controversial here since this is complete nonsense! A percentage, by itself cannot give you an absolute magnitude. It has to be a per cent of some absolute magnitude. No doubt you will claim this as another of your typing errors but it seems that whenever elementary algebra is concerned your keyboard has a will of its own.

[\[20\]](#) Of course, with the development of the credit and financial system the reconversion of surplus-value will be mediated through the 'money and capital markets'. But this reconversion of surplus-value into capital is logically prior to the credit system and as such is logically prior to fictitious capital.

[\[21\]](#) [*Capital, vol. I*](#), p. 742 (Penguin).

[\[22\]](#) *Theories of Surplus-Value*, Part II, pp.117-8.