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ON THE ISSUE OF CAPITALIST CIRCULATION AND THE CONCEPTS APPROPRIATE TO ITS ANALYSIS

From Marx to Mao

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Originally published in

Science & Society

Vol. XLVII, No. 2 (Summer, 1982), pp. 214–225.

ON THE ISSUE OF CAPITALIST CIRCULATION AND THE CONCEPTS APPROPRIATE TO ITS ANALYSIS

I. Reply to Howard Sherman*

In an article published in the Spring 1982 issue of this journal, I argued that the underconsumptionist hypothesis is inconsistent with the labor theory of value if the latter is *based upon the distinction between concrete and abstract labor*.[1] At the same time I argued that the underconsumptionist view is perfectly consistent *with the labor-embodied view* of the labor theory of value (which I identified as "Neo-Ricardian").[2] Thus, I do not argue that the underconsumptionist arguments are inconsistent with "value theory" in general, but inconsistent with the particular value theory based on the distinction between abstract and concrete labor (the two-fold nature of commodities). Now Sherman takes me to task, arguing that underconsumptionism is consistent with value theory. However, he at no point uses the terms *abstract* and *concrete* labor. Therefore, my argument, right or wrong, has not been challenged.

II. Question of Concepts

I do not mean to suggest that the issues Sherman raises are not important ones. They are, though they are not the issues I dealt with. Our two contributions are like ships that pass in the night. I would like now to try to make contact with the other vessel, send out a launch, and try a non-belligerent boarding of the other vessel for the purpose of analyzing the cargo stowed therein. Specifically, I am interested in con-

* Howard Sherman objects to my identifying him as an underconsumptionist, and for alleging that he does not use value theory and that he considers profit and surplus value to be the same thing. He is quite right in these objections, and I apologize for having made these statements.

1 If I may quote myself: "If we follow Marx *and make the distinction between concrete and abstract labor* . . . the consequence of systematic and endemic incomplete realization is quite serious . . . . *In this line of argument*, the determining role of value disappears if, in general, there is incomplete realization of commodity capital." John Weeks, "A Note on Underconsumptionist Theory and the Labor Theory of Value," *Science & Society*, XLVI, No. 1 (Spring, 1982), p. 70 (emphasis added). I was remiss here in invoking the authority of Marx, since the argument is about a theoretical method, not about who used that method.

2 I make myself clear on this point also: "If one has the Neo-Ricardian, labor-embodied view [of the labor theory of value], incomplete realization does not affect the value calculations . . . . If one thinks that use values can be aggregated directly on the basis of *concrete labor*, then 'value' is determined independently of the interaction of capitals, one aspect of which is realization." *Ibid.*, pp. 69–70 (emphasis added).

sidering the concepts relevant to the analysis of the process of capitalist circulation.

The central issue to which Sherman addresses himself is that of the process by which commodity-capital is transformed into money-capital, or, less precisely (but still correct), the realization of commodities as money. On the basis of Sherman's note on my article and another of his works,[3] I shall attempt rendering of the concepts he uses to consider this process.

In Sherman's formulation of the circulation of commodities, the key concepts are "aggregate demand" and "aggregate supply," and these concepts are measured in monetary units.[4] He notes that while it is the case that the price (and value, though not necessarily being the same) of a product includes the cost of intermediate commodities (constant capital), for purposes of analysis of social production as a whole intermediate costs should be subtracted out, leaving one with what bourgeois economists call "value-added," or the value created by living labor during the period in question. This net value (or new value) can be viewed on the one hand as wages plus profits, in which case it is "the total revenue flow (per period) of net product,"[5] or *aggregate supply*. Obviously these money incomes must derive from the sale of commodities. Thus, on the other hand, the national product corresponds to the sum of individual consumption expenditures and investment expenditure by capitalists, with this sum being *aggregate demand*.[6] This two-sided nature of the net product corresponds to what bourgeois textbooks call the "income approach" and "expenditure approach" to national income accounting.

Using these two concepts, one can proceed to analyze social pro-

3 Just as I could not in a brief article present fully my framework for analyzing circulation, so Sherman's comments are specific to his immediate purpose. The summary which follows is based upon his comment on my article in this issue, "Realization Crisis Theory and the Labor Theory of Value," and on Howard Sherman, "A Marxist Theory of the Business Cycle," *Review of Radical Political Economics*, 11, 1 (Spring, 1979), pp. 1–23.

4 ". . . cycles must be understood in price terms, not value terms." "A Marxist Theory of the Business Cycle," pp. 1–2.

5 "If constant capital is subtracted from both sides of [the gross value of output], the remainder is . . . the value-added in each enterprise. In Marx's terms, it is the living labor. . . . In terms of measurable prices and quantities, Marx's value of net national product becomes the total revenue flow (per period) of net product. . . ." *Ibid.*, p. 3.

6 Sherman makes a slight slip by suggesting that "consumption" plus "investment" ($C + I = Y$) corresponds to Marx's division of material production into two departments — that which produces the means of consumption and that which produces the means of production. However one may define investment and consumption, it should be clear that the aggregate demand equation represents the division of *expenditure* on the two types of commodities, not, in general, the division of *production*. I point this out in anticipation of the next section.

duction: if aggregate supply exceeds aggregate demand, then commodities go unsold and the level of the net product falls; if aggregate demand exceeds aggregate supply, the level of net product rises. Taking the former case, net product falls because by definition aggregate supply is both the value of net production and the income flow generated by that production. If aggregate demand (consumption plus investment) is less than the net product, then commodities go unsold and capitalists reduce their level of production. This, in turn, reduces income generated, and since aggregate demand derives in part from income, aggregate demand falls more, inducing capitalists to further cut back production, *etc.* This feedback is what is called the "multiplier process," well-known to anyone who has taken introductory college economics.

The contraction process (or expansion process) does not go on forever, even in theory, because of the particular theoretical formulation of the determinants of personal consumption expenditure and expenditure on fixed means of production. Personal consumption expenditure is explained in the simplest case as determined by personal income flow. Analytically, personal consumption expenditure is determined simultaneously with the level of the net product, *via* the "consumption function," whose most important parameter is called the "marginal propensity to consume."[7] Since personal consumption expenditure is derivative from the net product (and *vice versa*), the process of contraction or expansion would go on to zero or infinity without the inclusion of an element of aggregate demand which is independent of the level of the net product. This "autonomous" element (autonomous with regard to the current level of the net product) is investment in fixed means of production.[8] "Investment functions" come in many varieties, and Sherman argues for one in which the level of investment in fixed means of production is determined by profit expectations, with those expectations approximated by past profit levels and profit rates ("distributed lag" function).

With these conceptual elements in mind, one can summarize the process by which the net product is determined. The "initial conditions" are the past history of profit performance. These determine the

7 There are many specifications of the consumption function. Sherman argues in favor of one which explicitly divides wage and profit incomes, with the "marginal propensity to consume" out of wages being not significantly different from unity, while the marginal propensity to consume out of profits is significantly less than unity. Neo-Keynesians also tend to favor this treatment.

8 Investment in fixed means of production can be rendered "endogenous" (determined by the level or changes in the level of the net product). In this case, "explosive cycles" can result from the model. Such a possibility was first elaborated in detail by John Hicks. Samuelson, of course, first formulated the accelerator algebraically.

level of investment. The level of investment, *via* the multiplier (whose value is implied by the consumption function), determines the level of the net product, and the latter determines the level of personal consumption expenditure. Expansion or contraction proceed until personal non-spending ("savings") equals the autonomously determined investment.[9] Cycles in this model are the result of the volatility of investment. The causes of this volatility within the framework so far described are discussed in some detail by Sherman, and there is no need to go into them since they play no part in what follows.

All of this is, of course, quite familiar. The reason for the elaboration here will soon become clear. In order to facilitate discussion, I need a term to describe the analytical approach so far presented. Since it is not my purpose to identify anyone as a Marxist or not a Marxist, I shall describe the foregoing as the "net product framework"; *i.e.*, it considers the circulation of commodities in terms of the product of living labor only ("value added").

I can now clarify my theoretical difference with Howard Sherman. I reject the "net product framework" in its entirety, from start to finish, and all of the concepts it encompasses, without exception.[10] To be specific and in order to avoid misunderstanding:

1) I reject as invalid the analysis of the circulation of commodities[11] in terms of the net product, whether this net product is called (or defined as) aggregate demand, aggregate supply, value added, the product of living labor, the net national product, the total revenue flow of net product, or simply income; in other words, I reject analyzing circulation of commodities ("realization") in net terms, be the net product defined in Keynesian, Neo-Ricardian, or Marxian language;

2) I reject the concept of the consumption function and, therefore, the concept of multiplier process, and the analytical category "consumption" itself; and

3) I reject the concept of an investment function, be it endogenous or exogenous, and the analytical category "investment."[12]

9 In this simple model I have assumed that all profits are distributed as personal income to capitalists, so all "saving" is by individuals. This is a common simplification and is, I think, consistent with Sherman's model in the article cited above.

10 I do not mean that the concepts are "wrong" or necessarily invalid. Precisely what I mean by "reject" is expounded in the following section. At the moment, "reject" can be taken in the dictionary definition of refusing to credit or adopt a thesis.

11 I use the term "circulation of commodities" to include what is frequently called "realization," but I view it to be broader. See the next section.

12 This implies also a rejection of the terms "capital stock," "physical capital," "capital-output ratio," and, of course, "capital-intensity" and "labor-intensity." These concepts have also been called into question by Neo-Keynesians and Neo-Ricardians. See Geoffery Harcourt, *Some Cambridge Controversies in the Theory of Capital* (Cambridge, 1973).

The three points above can be summarized by saying that I reject *in toto* and all its parts Keynes' formulation of "macroeconomics." I argue that one understands the aggregate functioning of the capitalist economy, the movement of capital-as-a-whole, by making a complete and total methodological break with the "net product framework." Marx made precisely such a break and made it explicitly.

III. Net versus Gross Product

A reader at this point (particularly an economist) might justifiably ask, what depth of ignorance or mind-affecting drug would lead anyone to reject the basic concepts of macroeconomics, which are obviously real and measurable? To justify rejecting these cornerstones of contemporary economic analysis, I first outline the argument, then elaborate it. The production of wealth in capitalist society takes the form of the production of commodities. These commodities are *capital*; they are produced as capital and circulate as capital. Therefore, the circulation of commodities is part of the process of the reproduction of capital and must be analyzed as such. When we analyze circulation as the circulation of capital, the relevant *aggregate* is the *gross* product and the *gross* value of commodities. Further, the reproduction of capital has two aspects, as do commodities: the reproduction of capital in the abstract (reproduction of value), and the reproduction of capital in the concrete (material replacement). When one considers these two aspects and their interrelationship, the relevant *time period* of analysis is the turnover period of capital, not a year, quarter, or some other arbitrary segment of time.

It goes without saying that the central concept of the analysis of capitalist society is "capital." Capital is not means of production, nor is it commodities or money, though it assumes the form of all three in its reproductive life-cycle.[13] Capital is the social relation in which money serves as a general claim on society's wealth and elements of production. Capital is the historically specific relationship based upon the monopoly of the means of production by the bourgeoisie, which itself is predicated upon the dispossession of labor from those means of production. This separation of labor from the means of production (proletarianization) necessitates that labor and the means of production be reunited by the medium of money. The circuit of capital begins with the exchange of value in abstract form, money, for the use-values by which the material process of production is made possible. Marx called this step the advance of *money-capital*, and when the exchange is realized, capital has transformed itself into *productive-capital*, from capital in

13 Marx's definition of capital is found in Karl Marx, *Capital*, Vol. I (London and Moscow, 1976), Chapter IV ("The General Formula for Capital").

the abstract to capital in the concrete. At this moment, capital exists in the form of labor-power and the means of production, or as the potential to produce use values.

Within the sphere of capitalist production, all of the ingredients of the labor process are capital — the buildings, land, machines, raw materials, and, of course, the labor to be set in motion. In this context Marx repeatedly uses the phrase, "investment in wages,"[14] a phrase which strikes the eye as quaint and old-fashioned if one has been trained to the neoclassical framework in which "labor" and "capital" are defined ahistorically and divorced from the social relations of production. Labor-power in use or marshaled in anticipation of use is as much capital as the machines that labor-power is combined with. It is for this reason that money exchanged against labor-power is called "variable *capital*" (and money exchanged against raw materials, intermediate commodities and machinery, "constant *capital*").[15] Once production has occurred, a new set of use values results, and these, too, are a form of capital, commodity-capital. This commodity-capital is the material carrier of the surplus value created in production. It then remains for the commodity-capital to be exchanged against money, which returns the capital to its initial form of money-capital, and the process begins again.[16]

The process of reproduction in capitalist society is the circuit of capital. Fundamental to understanding this circuit is the two-fold nature of commodities, for the reproduction involves both the reproduction of value relations and the reproduction of material wealth. That is, capital must be reproduced both in money form and in material form. On the material side, labor-power and means of production must be reunited in each successive circuit. On the value side, capital

14 The phrase is repeatedly used through all three volumes of *Capital*. See, for example, Volume II, p. 62.

15 Because all of the elements of production are capital, including labor-power, the term capital-intensity of production," however measured, has no meaning within Marx's framework. The "capital-intensity" of capitalist production is always unity for all production processes. That is, both the "inputs" and the "outputs" are 100% capital. To quote Marx, "The following general proposition applies to capital production: All products reach the market as commodities and therefore circulate for the capitalist as the commodity-form of his capital, regardless of whether these products must or can function in their bodily form, in accordance with their use values, as elements of production and therefore fixed or circulating elements of productive capital; or whether they can serve only as means of individual, not of productive, consumption." *Capital*, Vol. II, p. 213.

16 The expansion of capital (which is the expansion of value) appears as the expansion of money-capital, a never-ending repetition. This repetitive character of the circuit of capital promoted Marx to characterize capital as self-expanding value," or "value in motion." See *Capital*, Vol. I, Chapter IV.

must achieve its metamorphosis into money in order that it be exchanged against use values and assume its productive role. Marx's analysis of circulation was precisely the study of this opposition and interaction of the abstract (value) and the concrete (use value).[17] This approach is not an obscure theoretical one, but a quite practical one: since value must have a material form (be objectified in a commodity), the real nature of circulation requires that we consider both the circulation of value and the circulation of use values. If one considers only the circulation of value, as Neoclassicists and Neo-Keynesians do, the concrete process of production is ignored or subsumed. If only material circulation is treated, as the Sraffians do, the capitalist nature of circulation is lost.

A moment's reflection should make it clear that one cannot understand the two-fold nature of circulation by using the net product to represent society's currently produced commodity wealth.[18] This is for two reasons. First, the net product, or the product of living labor, excludes on the value side the consumption of means of production in the production process. If one uses the net product, then the material *and value* reproduction of part of the capital value in commodities is presupposed. The second problem with the net product derives from its being defined over a time period other than the turnover period of capital. Net national product, for example, is defined for a year or a quarter. In consequence, the two components of net capital value (variable capital and surplus value) are aggregated over several turnovers, and conceptually one loses sight of the fundamental aspect of circulation, which is the recapture of capital advanced through sale of commodities and the replacement of the material components of production.

With regard to the limited consideration of the conversion of commodity capital into money capital, the use of the net product is quite misleading. Because it treats the product of living labor as income or revenue to workers and capitalists on the "supply side," the character of

17 "For our present purpose this process of reproduction must be studied from the point of view of the replacement of the value as well as the substance of the individual component parts of C′ (commodity-capital). We cannot rest content any longer . . . with the assumption that the individual capitalist can first convert the component parts of his capital into money by the sale of his commodities, and then reconvert them into productive capital. . . . In as much as these elements of production are by their nature material, they represent as much a constituent of the social capital as the individual finished product." *Capital*, Vol. II, p. 397.

18 Marx wrote: "Even on the basis of simple reproduction there takes place not merely a production of wages (variable capital) and surplus value [*i.e.*, W + π, JW], but direct production of new constant capital-value. . . ." *Capital*, Vol. II, p. 373. Since Marx says "simple reproduction," he is clearly referring to raw materials and intermediate commodities as "new constant capital."

the product of living labor as capital is lost.[19] But the net product also proves unsatisfactory on the "demand side," for it misrepresents the relationship between the production of use values and the production of value. In the simple Keynesian model, wages plus profits equal expenditure on the articles of personal consumption plus expenditure on fixed means of production. That is, the value created by living labor must be equal to the value of the articles of consumption plus the value of fixed means of production.[20] In fact, this equality can hold only under simple reproduction; that is, when the level of gross production (and, thus, net production) does not change. In this case of no expansion, the sum of all variable capital and surplus value equals the total value of the articles of consumption (the sum of constant capital, variable capital and surplus value in Department II).[21] If there is expansion, then part of the surplus value must be transformed into additional capital. This additional capital has three parts: the increment in fixed constant capital (if existing fixed means of production cannot accommodate the expansion), the increment in circulating constant capital (since all commodities require raw materials or intermediate commodities), and the increment in variable capital. The material form of the increment in fixed constant capital is fixed means of production, or what the net product approach calls "investment" (contrary to Marx's broader use of the term). The increment in variable capital becomes additional wage income and has as its material form articles of consumption. This appears in the net product model as "induced" consumption. The increment in circulating constant capital exchanges against raw materials and intermediate commodities, which by definition are excluded in the net product model, because constant capital has been "subtracted from both sides."[22] There is an inconsistency here, which is an incon-

19 Sherman refers to the 19th century writer J. B. Say, and it is noteworthy that Marx takes Say to task for considering only the net product, and, further, for treating this net product as revenue (income), not capital. Marx comments: ". . . [A] part of the annual consumption of values consists of values that are used not as the stock for consumption, but as means of production, and which are returned to production . . . just as they originated in production." Karl Marx, *Theories of Surplus Value*, Part I (Moscow, 1969), p. 103.

20 This is the "equilibrium" condition in the net product framework. See previous section.

21 The point which follows is made by Marx in Chapter XXI of Volume II of *Capital*. Paul Sweezy also demonstrates it, and Tarbuck shows it in a numerical example. See Paul Sweezy, *Theory of Capitalist Development* (New York, 1966), p. 164; and Rosa Luxemburg and Nikolai I. Bukharin, *The Accumulation of Capital: An Anti-Critique*, and *Imperialism and the Accumulation of Capital* (edited by Kenneth J. Tarbuck) (New York, 1972), pp. 271–274.

22 See footnote 5. I do not single out Sherman for this, since it is the practice of a generation of "macro-economists," a practice found in every introductory economics textbook.

sistency not only in theoretical modeling, but in the concrete: to produce commodities, material inputs as well as labor-power are required. Surely no one would contest this obvious fact. To produce *more* commodities than before, more inputs are required and the value equivalent of these is part of the net product. Therefore, except in the case of simple reproduction (no expansion or contraction of material and value production), the net value product cannot be equal to the value of the articles of consumption and net increase in fixed means of production. In other words, wages plus profits cannot equal "consumption" plus "investment" in equilibrium as Keynes maintained.[23]

IV. The Circuit of Capital

A capitalist society reproduces itself through the circuit of capital, and it is the circuit of capital that provides the appropriate model of analysis for capitalist society. As we consider this circuit, the categories of the net product framework present themselves, but as distorted forms of the metamorphosis of capital. The circuit of capital takes the form of two moments of circulation around the moment of production; that is,[24]

$$M\ (CC + VC) — C \ldots P \ldots C' — M'$$

The moment of production (P) is the pivot around which the moments of circulation turn and interact; it is the hub, from which the moments of circulation radiate like spokes. In the net product models, production is presupposed, viewed as a step in a linear sequential process, in which commodities are produced, then must be sold, with sale being a separate and discrete process predicated upon production, but analytically separate. In reality, production both creates the commodities to be circulated and determines their realization, so that the categories of production must be the basis of the categories of circulation. This is what Marx meant when he said, "production determines circulation and distribution,"[25] not merely that commodities must be pro-

23 Thus when one writes the Keynesian equilibrium condition, $C + I = C + S$, or the neo-Keynesian equivalent, $C + I + W + \pi$ (W = wages, π = profits), there is a logical (and real) inconsistency. Either 1) the increment in circulating constant capital has been left out of "aggregate demand" ($C + I$), in which case $W + \pi$ understates the net product; or 2) $W + \pi$ is correct, but $C + I$ includes in part expenditure on circulating constant capital, which the model should exclude by its definition of the net product for "final goods" only.

24 See Weeks, "A Note on Underconsumptionist Theory and the Labor Theory of Value," p. 62, for a complete explanation of the symbols.

25 ". . . the intensity of exchange, its extent and nature, are determined by the development and structure of production." Karl Marx, *Grundrisse* (New York, 1973), p. 139. Marx gave emphasis to this entire phrase in the original. See also Karl Marx, *A Contribution to the Critique of Political Economy* (Moscow, 1970), p. 204.

duced before they circulate, but also that the actual relations of circulation derive from the actual relations of production. It is not valid to construct circulation relationships such as the "consumption function" (a relationship between revenue and individual or group motivation) which are divorced from production.

We can demonstrate this by following the circuit of capital. Capital marshals the ingredients of production by the exchange of money capital for productive capital, M(CC + VC) — C. This is followed by the productive consumption of labor-power and the means of production, from which a new set of commodities results (C . . . P . . . C′). These commodities, commodity capital, are then transformed into money capital (C′— M′). The net product framework considers circulation in the context of the post-production moment, C′— M′, but in reality this conversion of commodities into money is purely derivative from the earlier circulation moment, M — C, and the relationship between this moment and production.

One must be quite clear here in order to transcend the confusion created by the circulation process. It *appears* that the following three discrete and sequential steps occur: first, the elements of production are purchased; second, production occurs; and third, the final commodities are sold. And it is the third step which the net product models treat as an independent process, analyzed in terms of their own particular concepts which are based in this step ("consumption" and "investment" and their functional forms, based on the revenue or income received by individuals or classes). In reality, there are only two steps or phases, circulation and production, *for the first and the third* (*M — C and C′ — M′*) *are the same*. Put another way, the sale of commodities, step three (C′— M′), is merely the way the first step (M — C) appears to the seller of commodities, while phase one is the same set of transactions to the seller in his necessary role as a buyer.

When capital first purchases the means of production (fixed and circulating) with the exchange M — C, this is simultaneously the final step, C′— M′, for the producers of the means of production (Department I). Thus, what serves as the first step of one circuit of capital is the last step for the previous circuit, so the end-phases cannot be viewed separately. Similarly, the exchange of money for labor-power uniquely determines the personal consumption expenditure of workers, so the part of C′— M′ which refers to the articles of consumption is merely the direct extension of the advance of variable capital.

In a comment often quoted, Marx observed that all relationships appear *as their opposite* in the circulation process,[26] and this is no better demonstrated than in the aggregate movement of social capital: the

26 *Grundrisse*, p. 657.

advance of capital determines the personal consumption of workers, but it appears that the consumption expenditures of the masses set in motion the advance of capital; it appears that profit calls forth the advance of capital, but in reality, it is the advance of capital that allows surplus value to be produced and realized in money form. In the analysis of aggregate circulation, as in all other areas of capital's reproduction, Marx's fundamental insights, based on the distinction between value and use value, the abstract and the concrete, reveal the appearance of things to be an inversion of the actual operation of capitalist society.

V. Summing Up

Among contemporary Marxists in the United States there are two major schools of interpretation of Marx's work and contribution. One of these views the work of Keynes as a complementary addition to Marx, incomplete since it incorporates neither value theory based on labor time nor a concept of exploitation, but essentially correct in its conceptualization of the circulation process. This view, presented coherently by contemporary writers such as Sherman and Thomas Weisskopf, sees Keynes as "following" Marx,[27] with less insight and profundity, certainly, but providing a more modern set of concepts, at least for the analysis of circulation.

Other writers, Anwar Shaikh and myself in the United States, Ben Fine, Simon Mohun and Susan Himmelweit in the United Kingdom, take a different view.[28] This view takes literally and incorporates Marx's critique of Adam Smith in Chapter XIX of Volume II of *Capital*.[29] In this chapter Marx unequivocally rejects the procedure of analyzing circulation in terms of the product of living labor ("value added" or the net product). Whether he is right or wrong, there can be no doubt that he argues that one must analyze the circulation process in terms of the gross product, or what he calls the "total annual product." He refers to the procedure of resolving the total product to the net product (subtracting out circulating constant capital) as "Adam Smith's first mistake," at another point as an "absurd formula."[30] Marx

27 Sherman, "A Marxist Theory of the Business Cycle," p. 2.

28 I am not here trying to share responsibility, but to identify a general approach to the analysis of the aggregate behavior of the capitalist economy, which the mentioned people seem, in my view, to share, while perhaps disagreeing on other theoretical points.

29 The chapter immediately precedes Marx's treatment of simple reproduction and expanded reproduction, and is entitled, "Former Presentations of the Subject."

30 *Capital*, Vol. II, pp. 383, 389. To complete the first reference, Marx writes, "Now Adam Smith's first mistake consists in equating the *value* of the annual *product* to *the newly produced annual value*" (emphasis in original).

argues that the reduction of the gross product to a net product not only should not be made, but cannot be made. Indeed, Marx specifically takes Smith to task for trying to resolve production into wages plus surplus value.[31] This critique is astoundingly modern, applying equally to the definition of the "value added" measure of national income found in basic economics textbooks. After ridiculing Adam Smith rather unkindly, Marx relents a bit and concedes that Smith's "first mistake" has a real basis; namely, in the obfuscation of the concrete (use value) by the abstract (value).[32] After criticizing Adam Smith, Marx adds, as a final comment (somewhat disgustedly, no doubt):

> John Stuart Mill likewise reproduces . . . the doctrine handed down by Smith to his followers. As a result, the Smithian confusion of thought persists to this hour and his dogma [of the net product] is one of the orthodox articles of faith of Political Economy.[33]

And in 1983, a century after Marx's death, the faith is stronger than ever.

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31 Commenting on Adam Smith's reduction of the total product to the net product, Marx writes: "His proof consists simply in the repetition of the same assertion. He admits, for instance, that the price of corn does not only consist of V + S, but also of the price of the means of production consumed in the production of corn, hence of a capital-value not invested in labor-power by the farmer. But, he says, the prices of all these means of production resolve themselves into V + S, the same as the price of corn. . . . He refers us from one branch of production to another, and from that to a third. The contention that the entire price of commodities resolves itself 'immediately' or 'ultimately' into V + S would not be a hollow subterfuge only if he were able to demonstrate that the commodities whose price resolves itself immediately into C (price of consumed means of production) + V + S, are ultimately compensated by commodities which completely replace those 'consumed means of production,' and which are themselves produced by the mere outlay of variable-capital. . . ." *Capital*, Vol. II, p. 378. A Keynesian would ask, where was Marx on the day his economics lecturer explained national income accounts and "double-counting"?

32 Marx comments: "Although the social capital is only equal to the sum of the individual capitals and for this reason the annual commodity-product (or commodity-capital) of society is equal to the sum of commodity-products of these individual capitals; and although therefore the analysis of value *for every individual commodity-capital must also be valid for the commodity-capital for all society — and actually proves valid in the end* [emphasis added] — the form of appearance which these component parts assume in the aggregate social process of reproduction is different [emphasis in original]." *Capital*, Vol. II, p. 373. It is beyond the scope of this note to pursue this specific example of the changes in the appearance of relationships at different levels of analysis.

33 *Ibid.*, p. 395.