

# ***THEORISING MILITARY PRODUCTION***

## CHAPTER THREE, Section C

### **COMPLEXITIES OF ENLARGED REPRODUCTION - ROSA LUXEMBURG'S ANALYSIS TAKEN FORWARD**

#### **1. Introduction**

Karl Marx's analysis of enlarged reproduction has been taken for granted by most of his own followers. In the exposition which he gave of social accumulation, in *Capital II*, Marx clearly delineated numerous difficulties (1). Rather than assuming that accumulation of capital can take place smoothly, through an automatic and proportionate growth in the two Departments of Production, Marx carefully discussed the various difficulties which inevitably crop up when entrepreneurs for the first time take the step of re-investing a part of their surplus (i.e. at the time of transition from simple to enlarged reproduction). Moreover, when enlarged reproduction becomes the rule, the difficulties that are thrown up by life are not less huge. In the last part of *Capital II*, Marx in fact shows these difficulties to be nearly insurmountable. Yet (many of) Marx's followers have ignored his exposition of these difficulties, and have presumed that Marx of course had solved all problems of analysis!

The Polish revolutionary Rosa Luxemburg forms a crucial exception to this. In her chief theoretical work *The Accumulation of Capital*, she devoted much attention to Marx's discussion of the difficulties which are thrown up by the diagram which he himself had designed, the diagram that bases accumulation exclusively on the mutual exchanges between the two Departments of Production (2). Luxemburg, further, shows that *Marx's own analysis of the process of reproduction provided in Capital II, is not consistent with views which he propounded elsewhere*. Thus, in the mathematical presentation of his diagram on enlarged reproduction, he ignored his own view stated elsewhere, that the 'organic composition' of capital is bound to change as accumulation proceeds. The difficulty he does note, is that there need to exist buyers for the surplus-product, for the entrepreneurs to be able to expand their production and accumulate.

This Chapter will focus on these two problems highlighted so well by Rosa Luxemburg when she discussed Marx's *Capital II*, i.e. the problem of the changing 'organic composition' of capital, and the problem of 'effective demand'. I will try to show that Rosa Luxemburg's exposition of the difficulties of accumulation is of exceptional importance. Not only did she justly point out that Marx failed to solve the difficulties thrown up by his own diagram. On top of this, her formulation of the difficulties - of those pointed out by Marx himself and those additionally formulated by her - can well be used to show that the existence of a military sector, and the intervention of the capitalist state, facilitate changes in capital's composition and provide an additional demand. In this third instalment dealing with Rosa Luxemburg's work, I will try to take her brilliant analysis forward, and will try to demonstrate how the state and the arms' producers *in combination* can play a crucial role in solving (some of) capital's accumulation problems. A critical review of the key difficulties of enlarged reproduction

itself brings out the structural importance of military production for the system of capitalism.

## **2. The Need for Additional Money under Conditions of Accumulation**

Let's first focus on one difficulty of the accumulation process which Marx himself notes in *Capital II*. Marx brings up as a specific problem the question of the 'hoard'. The term is used in *Capital II* not to refer to hoards in general, but to a specific feature of simple and enlarged reproduction (3). In the previous instalment we have already seen that both Marx and Luxemburg pose the question of the circulation of money as a distinct question of the reproduction process. Even under simple reproduction, the quantity of money that needs to be in circulation for the system to be workable, does not coincide with the total quantity of commodity capital that is bought at the beginning, or that is respectively sold at the end of the manufacturing process. An extra quantity is required in view of the depreciation (and delayed re-investment) of fixed capital.

The question of the hoard poses itself in a heightened manner under conditions of enlarged reproduction. While all entrepreneurs, Marx explains, invariably aim at the production of surplus value, we cannot presume that each and every entrepreneur is in a position to immediately re-invest the (new) capital which he reserves from his surplus to expand production. Consequently, there will be many capitalists who sell all their commodities, but who do not immediately take the step of buying additional means of production and additional labour power. Summing up this same issue of the hoard in the concisest possible manner, Luxemburg states: "Money is withdrawn from circulation and accumulated as a hoard by the sale of commodities without a subsequent purchase" (4). In view of this reality, there must be a major actor or several major actors within the process of social reproduction, who have an interest in *functioning as buyers of commodities only*, i.e. without expecting to sell commodities in return.

The solution to the question of the 'hoard' advanced by Marx, is to let the producers of gold (referred to as form of money) play the role of the disinterested purchasers. Marx's explanation: the producers of money, just like other entrepreneurs, need to purchase means of production and labour power in order to get their own production process going. They thus help to facilitate the realisation of profits for both the entrepreneurs of Department I and Department II. However, the commodity which the gold producers (or *mutatis mutandis*, those minting coins and those printing paper money) bring onto the market does not need to be transformed (from **C'** into **M'**), since it itself is the universal equivalent into which other commodities are transformed. This commodity is immediately **M'**. Consequently, other capitalists presumably can derive 'the material for the conversion of their annual surplus product' from the surplus of the gold (money) producers.

As stated previously, Rosa Luxemburg is not fully satisfied with Marx's explanation about the role of gold production. What is relevant for our present discussion, however, is to emphasize the nature of the question thrown up by Marx's analysis, and the hesitations in Marx's own argumentation. Luxemburg lists the various attempts Marx makes in *Capital II* to solve the difficulties in the realisation of the surplus. She notes that Marx first rejects the assumption that money can help solve the difficulty of realising the surplus as 'absurd', and yet after having failed to find an alternative explanation, ultimately returns to embrace the same (unacceptable)

explanation (5). Meanwhile, however, the central issue has been posed by Marx: there need to be 'disinterested' buyers of commodities who are willing to purchase the commodities representing the social surplus, without having to sell commodities in return. In its phase of enlarged reproduction, capitalism faces a problem of '*effective demand*'.

### 3. The Circulation of Money - The Role of the Capitalist State

In a previous instalment I have briefly indicated that both Karl Marx and Rosa Luxemburg, when discussing the place of money in the process of social reproduction, ignored the specific role of the capitalist state. In the analysis provided by both theoreticians, it seemed as if decisions regarding the total supply of money, and regarding an expansion of the money supply, are taken purely by private actors, namely by the entrepreneurs who manufacture the money (gold). To recall: Rosa Luxemburg in her discussion on money and the reproduction process, to an extent diverged from Marx. According to her, it cannot be assumed that the production of money is part of Department I, since money cannot itself function as a means of production. When she insisted that the production of money belongs to a separate 'Department', i.e. is *sui generis*, Luxemburg clearly transcended Marx's conceptualisation of the process of reproduction of the social capital (6). Yet she only transcended him up to a certain point. For as little as Marx did she highlight the state's central position in guiding the production and the circulation of money. This, I have argued, forms a crucial defect in her otherwise lucid discussion.

The capitalist state is well positioned to solve problems relating to the supply of money and its necessary increase, which problems are bound to crop up in particular in consequence of enlarged reproduction of capital. Within capitalist society, the state - contrary to all the individual entrepreneurs who 'crowd' the different basic Departments - is not itself dependent on making a profit, as (the only) source of its revenue. Its own *raison d'être* is not to accumulate via production of surplus value. Keynes, the towering twentieth century representative of bourgeois economics has emphasized the point in his theory: the state is ideally positioned to solve the problem of '*effective demand*' (7). The state is well placed to play a *mediating* role in the accumulation process, and serve the interests of all individual entrepreneurs combined, i.e. of the social capital as a whole. It can keep control over the money supply and 'consciously' regulate the overall quantity of money; it can ensure that enough money is brought into circulation to cover the amount of additional commodities emanating from the manufacturing process (the surplus product), - and can at the same time facilitate the formation of hoards by entrepreneurs.

To elaborate: the state, through its control over the money supply, can exert a *twofold* influence over the reproduction process. One is by raising the quantity of money in circulation to ensure that the total money supply is equivalent not just to the value of the commodities that have been bought by entrepreneurs for the purpose of production ( $c + v$ ), but moreover covers the value of the additional commodities ( $s$ ) being produced. Aside from this rather passive function, the state can also perform a more active, and perhaps more decisive, role in the circulation process. For the state is in a position to promote the realisation of capital for all major Departments of the system: as the representative of aggregate capital it is not concerned about the sale of its own commodities, but can concentrate on facilitating the sale of commodities manufactured by all three Departments. In particular, when the state decides to procure large quantities of arms, it *directly* supports realisation for the entrepreneurs of Department III, and

*indirectly* the realisation of profit for Departments I and II. The state then can at least try to solve the problem of ‘*effective demand*’, which problem according to Rosa Luxemburg is a key difficulty, as brought out by Marx’s diagram of the accumulation process.

#### 4. Reproduction and the Organic Composition of Capital

There is another crucial point that is thrown up by Marx’s and Luxemburg’s analyses. This issue, as stated in the introduction to this instalment, was not brought up by Marx when he discussed enlarged reproduction, but forms a part of Luxemburg’s critical review. The issue is that regarding the (changing) *organic composition* of capital. The term ‘organic composition’ refers to the fact that the capital of an individual entrepreneur, as also the social capital, basically consists in two separate sections, namely variable capital  $v$  (i.e. the wage fund) and constant capital  $c$  (all capital used for the purchase of means of production). On various occasions, Marx explains that the organic composition of capital does not remain the same over time, but changes as accumulation proceeds. Along with the increasing *productivity* of labour – defined capitalistically as labour’s capacity to produce an ever larger quantity of goods in the same period of time, as changes in technique take place – the amount of capital invested in means of production  $MP$  increases relative to the capital used to purchase labouring power  $L$ .

Rosa Luxemburg agrees with this view of Marx’s. Further, she rightly points out that changes in the organic composition of capital cannot leave the diagram on enlarged reproduction unaffected, but are bound to have an influence on the whole accumulation process. One of the consequences is that the amount of capital invested in constant as compared to variable capital increases in both Department I and in Department II. In other words, where-as the proportion between the two components of industrial capital ( $c$  and  $v$ ) may be 5 : 1 in overall terms at the start of accumulation, entrepreneurs will tend to use a relatively larger part of the surplus value allocated for re-investment, to purchase means of production, i.e. constant capital. Thus, in later cycles of production, the relation between constant and variable capital, i.e. capital’s ‘*organic composition*’, is bound to change: it will become 6 : 1, then 7 : 1, and so on. And once again: this change will not only occur in Department I, but will equally tend to occur in Department II.

Moreover, the same process will affect the division of capital between the Departments of Production. One way of visualising the accumulation process is to expect that the amount of capital invested in Department I as compared to Department II remains the same over time. In this case, there will in course of time be a growth in the quantity of capital that is used in the respective Departments, but growth in the respective Departments will be proportionate, and thus the capital of Department I will continue to stand in relation to that of Department II as 5000 : 2000, i.e. 5 : 2. Rosa Luxemburg argues with force that this presupposition stands in contradiction with Marx’s view (propounded elsewhere) regarding the changing organic composition of capital. If the capital invested in means of production grows as compared to the capital invested in labour power, this will also affect the relative size of Department I *vis-a-vis* Department II. In short, the changing organic composition affects the reproduction process *in two ways*.

Marx, however, took no account of these effects when drawing up his mathematical diagrams on enlarged reproduction. As Luxemburg states, “the diagram completely disregards

the increasing productivity of labour. For it assumes that the composition of capital is the same every year, that is to say, the technical basis of the productive process is not affected by accumulation.” This, as she argues, could be permissible in order to simplify one’s analysis, but it can in no way be a true reflection of the reality of accumulation! (8) In other words, Marx’s diagram fails to explain how the allocation of capital between means of production and variable capital can be adjusted in such a manner, as to facilitate changes in the organic composition of capital. “The diagram assumes a movement of the aggregate capital which flies in the face of the actual course of capitalist development.”! (9)

### **5. The State as Promotor of Changes in Capital’s Organic Composition**

If Marx’ diagram of enlarged reproduction cannot explain how changes in the organic composition of capital take place, - then it’s time to re-conceptualise his diagram. Suppose the capitalist state takes ‘responsibility’ for promoting an overall/ relatively larger growth of constant capital than of variable capital? Suppose the state does so by privileging accumulation in one specific Department over accumulation in other Departments? At first sight, it would appear that indeed the Department where the Means of Destruction are manufactured, could fulfill an essential requirement of the accumulation process, since the organic composition of the capital of key corporations in this sector is relatively high. The manufacturing of weapons such as submarines and fighter planes, undoubtedly, necessitates a relatively large outlay of investments to purchase means of production. *Hypothetically*, then, the problem which Rosa Luxemburg throws up in her analysis of Marx’s diagram, could be solved.

First, the state’s purchases of arms will tend to have an effect on the *average* organic composition of capital. If the organic composition of the capital owned by companies of Department III is higher than the organic composition of capital in the Departments I and II, or at least higher than the average organic composition of capital in the Departments I and II combined, the state’s intervention will affect the proportionate relationship between the total constant capital and the total variable capital in society. Thus, if the proportion between the total of  $c$  and the total of  $v$  is 5 : 1 previous to the initiation of a massive programme of arms’ purchases, - through persistent state purchases the proportion of total ( $c$ ) : total ( $v$ ) could be raised to 6 : 1, to 7 : 1, and so on. This effect may be termed an effect of the state’s intervention on the *average* organic composition of capital, and it refers to the state’s influence on the proportion between constant capital ( $c$ ) and variable capital ( $v$ ) in all the three Departments of Production combined.

However, if the organic composition of capital in Department III is relatively high, i.e. higher than average, - the existence and expansion of this Department will also have an impact on the *relative weight* of Department I as compared to Department II. Suppose the state actively stimulates the growth of the military sector, and encourages the entrepreneurs of this sector to buy all the necessary commodities, - the effect would seem to be more than average proportionate purchases of commodities from Department I (Means of Production) than of commodities hailing from Department II (articles of subsistence). Thus, in agreement with the requirement formulated by Rosa Luxemburg at the beginning of this Century, a relatively larger growth of Department I than of Department II would indirectly be stimulated by the intervention of the capitalist state. Instead of 5 : 2, the proportion between the capital of I and II could change to become 6 : 2, or 7 : 2, etc.

This plausible thesis, however, is nowhere discussed by Rosa Luxemburg in *The Accumulation of Capital*. Luxemburg points out the inherent contradictions in Marx's analysis, and she does so with an exceptional sharpness of mind, but she nowhere brings up the possibility that a force external to the market, and yet inherently a part of the capitalist system, takes upon itself the role of facilitating the necessary change in the organic composition of capital. Since she only vaguely pointed at militarism as a 'province' of accumulation, but did not analyse the composition of capital in this new province, her analysis of the problem, in my view, remained incomplete. Yet, as the above exposition brings out - potentially the state through arms' purchases could both influence the average organic composition in all three Departments combined, and could exert an influence on the relative size of Department I as compared to Department II.

(November 25, 1998)

*References:*

- (1) Karl Marx, *Capital. A Critique of Political Economy. Volume Two* (Progress Publishers, Moscow, USSR, 1967);
- (2) Rosa Luxemburg, *The Accumulation of Capital* (Monthly Review Press, New York, USA 1964), Chapter VIII;
- (3) see Roman Rosdolsky, *The Making of Marx's Capital* (1977), p.151 for Marx's general use of the term 'hoard';
- (4) Rosa Luxemburg (1964), op.cit., p.140;
- (5) *ibid*, p.154;
- (6) *ibid*, p.99;
- (7) see John Maynard Keynes, *The General Theory of Employment, Interest and Money* (Harvest/Harcourt, Orlando, Florida, USA)
- (8) Rosa Luxemburg (1964), op.cit, p.335;
- (9) *ibid*, p.342.