

Part 2: Transformation of Money into Capital

Chapter 4: The General Formula for Capital

The circulation of commodities is the starting-point of capital. The production of commodities, their circulation, and that more developed form of their circulation called commerce, these form the historical ground-work from which it rises. The modern history of capital dates from the creation in the 16th century of a world-embracing commerce and a world-embracing market.

If we abstract from the material substance of the circulation of commodities, that is, from the exchange of the various use-values, and consider only the economic forms produced by this process of circulation, we find its final result to be money: this final product of the circulation of commodities is the first form in which capital appears.

As a matter of history, capital, as opposed to landed property, invariably takes the form at first of money; it appears as moneyed wealth, as the capital of the merchant and of the usurer.¹ But we have no need to refer to the origin of capital in order to discover that the first form of appearance of capital is money. We can see it daily under our very eyes. All new capital, to commence with, comes on the stage, that is, on the market, whether of commodities, labour, or money, even in our days, in the shape of money that by a definite process has to be transformed into capital.

The first distinction we notice between money that is money only, and money that is capital, is nothing more than a difference in their form of circulation.

The simplest form of the circulation of commodities is C-M-C, the transformation of commodities into money, and the change of the money back again into commodities; or selling in order to buy. But alongside of this form we find another specifically different form: M-C-M, the transformation of money into commodities, and the change of commodities back again into money; or buying in order to sell. Money that circulates in the latter manner is thereby transformed into, becomes capital, and is already potentially capital.

Now let us examine the circuit M-C-M a little closer. It consists, like the other, of two antithetical phases. In the first phase, M-C, or the purchase, the money is changed into a commodity. In the second phase, C-M, or the sale, the commodity is changed back again into money. The combination of these two phases constitutes the single movement whereby money is exchanged for a commodity, and the same commodity is again exchanged for money; whereby a commodity is bought in order to be sold, or, neglecting the distinction in form between buying and selling, whereby a commodity is bought with money, and then money is bought with a commodity.² The result, in which the phases of the process vanish, is the exchange of money for money, M-M. If I purchase 2,000 lbs. of cotton for £100, and resell the 2,000 lbs. of cotton for £110, I have, in fact, exchanged £100 for £110, money for money.

Now it is evident that the circuit M-C-M would be absurd and without meaning if the intention were to exchange by this means two equal sums of money, £100 for £100. The miser's plan would be far simpler and surer; he sticks to his £100 instead of exposing it to the dangers of circulation. And yet, whether the merchant who has paid £100 for his cotton sells it for £110, or lets it go for £100, or even £50, his money has, at all events, gone through a characteristic and original movement, quite different in kind from that which it goes through in the hands of the peasant who sells corn, and with the money thus set free buys clothes. We have therefore to examine first the distinguishing characteristics of the forms of the circuits M-C-M and C-M-C, and in doing this the real difference that underlies the mere difference of form will reveal itself.

Let us see, in the first place, what the two forms have in common.

Both circuits are resolvable into the same two antithetical phases, C-M, a sale, and M-C, a purchase. In each of these phases the same material elements - a commodity, and money, and the same economic dramatis personae, a buyer and a seller - confront one another. Each circuit is the unity of the same two antithetical phases, and in each case this unity is brought about by the intervention of three contracting parties, of whom one only sells, another only buys, while the third both buys and sells.

What, however, first and foremost distinguishes the circuit C-M-C from the circuit M-C-M, is the inverted order of succession of the two phases. The simple circulation of commodities begins with a sale and ends with a purchase, while the circulation of money as capital begins with a purchase and ends with a sale. In the one case both the starting-point and the goal are commodities, in the other they are money. In the first form the movement is brought about by the intervention of money, in the second by that of a commodity.

In the circulation C-M-C, the money is in the end converted into a commodity, that serves as a use-value; it is spent once for all. In the inverted form, M-C-M, on the contrary, the buyer lays out money in order that, as a seller, he may recover money. By the purchase of his commodity he throws money into circulation, in order to withdraw it again by the sale of the same commodity. He lets the money go, but only with the sly intention of getting it back again. The money, therefore, is not spent, it is merely advanced.³

In the circuit C-M-C, the same piece of money changes its place twice. The seller gets it from the buyer and pays it away to another seller. The complete circulation, which begins with the receipt, concludes with the payment, of money for commodities. It is the very contrary in the circuit M-C-M. Here it is not the piece of money that changes its place twice, but the commodity. The buyer takes it from the hands of the seller and passes it into the hands of another buyer. Just as in the simple circulation of commodities the double change of place of the same piece of money effects its passage from one hand into another, so here the double change of place of the same commodity brings about the reflux of the money to its point of departure.

Such reflux is not dependent on the commodity being sold for more than was paid for it. This circumstance influences only the amount of the money that comes back. The reflux itself takes place, so soon as the purchased commodity is resold, in other words, so soon as the circuit M-C-M is completed. We have here, therefore, a palpable difference between the circulation of money as capital, and its circulation as mere money.

The circuit C-M-C comes completely to an end, so soon as the money brought in by the sale of one commodity is abstracted again by the purchase of another.

If, nevertheless, there follows a reflux of money to its starting-point, this can only happen through a renewal or repetition of the operation. If I sell a quarter of corn for £3, and with this £3 buy clothes, the money, so far as I am concerned, is spent and done with. It belongs to the clothes merchant. If I now sell a second quarter of corn, money indeed flows back to me, not however as a sequel to the first transaction, but in consequence of its repetition. The money again leaves me, so soon as I complete this second transaction by a fresh purchase. Therefore, in the circuit C-M-C, the expenditure of money has nothing to do with its reflux. On the other hand, in M-C-M, the reflux of the money is conditioned by the very mode of its expenditure. Without this reflux, the operation fails, or the process is interrupted and incomplete, owing to the absence of its complementary and final phase, the sale.

The circuit C-M-C starts with one commodity, and finishes with another, which falls out of circulation and into consumption. Consumption, the satisfaction of wants, in one word, use-value,

is its end and aim. The circuit M-C-M, on the contrary, commences with money and ends with money. Its leading motive, and the goal that attracts it, is therefore mere exchange-value.

In the simple circulation of commodities, the two extremes of the circuit have the same economic form. They are both commodities, and commodities of equal value. But they are also use-values differing in their qualities, as, for example, corn and clothes. The exchange of products, of the different materials in which the labour of society is embodied, forms here the basis of the movement. It is otherwise in the circulation M-C-M, which at first sight appears purposeless, because tautological. Both extremes have the same economic form. They are both money, and therefore are not qualitatively different use-values; for money is but the converted form of commodities, in which their particular use-values vanish. To exchange £100 for cotton, and then this same cotton again for £100, is merely a roundabout way of exchanging money for money, the same for the same, and appears to be an operation just as purposeless as it is absurd.⁴ One sum of money is distinguishable from another only by its amount. The character and tendency of the process M-C-M, is therefore not due to any qualitative difference between its extremes, both being money, but solely to their quantitative difference. More money is withdrawn from circulation at the finish than was thrown into it at the start. The cotton that was bought for £100 is perhaps resold for £100 + £10 or £110. The exact form of this process is therefore M-C-M', where $M' = M + D M$ = the original sum advanced, plus an increment. This increment or excess over the original value I call "surplus-value." The value originally advanced, therefore, not only remains intact while in circulation, but adds to itself a surplus-value or expands itself. It is this movement that converts it into capital.

Of course, it is also possible, that in C-M-C, the two extremes C-C, say corn and clothes, may represent different quantities of value. The farmer may sell his corn above its value, or may buy the clothes at less than their value. He may, on the other hand, "be done" by the clothes merchant. Yet, in the form of circulation now under consideration, such differences in value are purely accidental. The fact that the corn and the clothes are equivalents, does not deprive the process of all meaning, as it does in M-C-M. The equivalence of their values is rather a necessary condition to its normal course.

The repetition or renewal of the act of selling in order to buy, is kept within bounds by the very object it aims at, namely, consumption or the satisfaction of definite wants, an aim that lies altogether outside the sphere of circulation. But when we buy in order to sell, we, on the contrary, begin and end with the same thing, money, exchange-value; and thereby the movement becomes interminable. No doubt, M becomes $M + D M$, £100 become £110. But when viewed in their qualitative aspect alone, £110 are the same as £100, namely money; and considered quantitatively, £110 is, like £100, a sum of definite and limited value. If now, the £110 be spent as money, they cease to play their part. They are no longer capital. Withdrawn from circulation, they become petrified into a hoard, and though they remained in that state till doomsday, not a single farthing would accrue to them. If, then, the expansion of value is once aimed at, there is just the same inducement to augment the value of the £110 as that of the £100; for both are but limited expressions for exchange-value, and therefore both have the same vocation to approach, by quantitative increase, as near as possible to absolute wealth. Momentarily, indeed, the value originally advanced, the £100 is distinguishable from the surplus-value of £10 that is annexed to it during circulation; but the distinction vanishes immediately. At the end of the process, we do not receive with one hand the original £100, and with the other, the surplus-value of £10. We simply get a value of £110, which is in exactly the same condition and fitness for commencing the expanding process, as the original £100 was. Money ends the movement only to begin it again.⁵ Therefore, the final result of every separate circuit, in which a purchase and consequent

sale are completed, forms of itself the starting-point of a new circuit. The simple circulation of commodities - selling in order to buy - is a means of carrying out a purpose unconnected with circulation, namely, the appropriation of use-values, the satisfaction of wants. The circulation of money as capital is, on the contrary, an end in itself, for the expansion of value takes place only within this constantly renewed movement. The circulation of capital has therefore no limits.⁶

As the conscious representative of this movement, the possessor of money becomes a capitalist. His person, or rather his pocket, is the point from which the money starts and to which it returns. The expansion of value, which is the objective basis or main-spring of the circulation M-C-M, becomes his subjective aim, and it is only in so far as the appropriation of ever more and more wealth in the abstract becomes the sole motive of his operations, that he functions as a capitalist, that is, as capital personified and endowed with consciousness and a will. Use-values must therefore never be looked upon as the real aim of the capitalist; ⁷ neither must the profit on any single transaction. The restless never-ending process of profit-making alone is what he aims at.⁸ This boundless greed after riches, this passionate chase after exchange-value⁹, is common to the capitalist and the miser; but while the miser is merely a capitalist gone mad, the capitalist is a rational miser. The never-ending augmentation of exchange-value, which the miser strives after, by seeking to save¹⁰ his money from circulation, is attained by the more acute capitalist, by constantly throwing it afresh into circulation.¹¹

The independent form, *i.e.*, the money-form, which the value of commodities assumes in the case of simple circulation, serves only one purpose, namely, their exchange, and vanishes in the final result of the movement. On the other hand, in the circulation M-C-M, both the money and the commodity represent only different modes of existence of value itself, the money its general mode, and the commodity its particular, or, so to say, disguised mode.¹² It is constantly changing from one form to the other without thereby becoming lost, and thus assumes an automatically active character. If now we take in turn each of the two different forms which self-expanding value successively assumes in the course of its life, we then arrive at these two propositions: Capital is money: Capital is commodities.¹³ In truth, however, value is here the active factor in a process, in which, while constantly assuming the form in turn of money and commodities, it at the same time changes in magnitude, differentiates itself by throwing off surplus-value from itself; the original value, in other words, expands spontaneously. For the movement, in the course of which it adds surplus-value, is its own movement, its expansion, therefore, is automatic expansion. Because it is value, it has acquired the occult quality of being able to add value to itself. It brings forth living offspring, or, at the least, lays golden eggs.

Value, therefore, being the active factor in such a process, and assuming at one time the form of money, at another that of commodities, but through all these changes preserving itself and expanding, it requires some independent form, by means of which its identity may at any time be established. And this form it possesses only in the shape of money. It is under the form of money that value begins and ends, and begins again, every act of its own spontaneous generation. It began by being £100, it is now £110, and so on. But the money itself is only one of the two forms of value. Unless it takes the form of some commodity, it does not become capital. There is here no antagonism, as in the case of hoarding, between the money and commodities. The capitalist knows that all commodities, however scurvy they may look, or however badly they may smell, are in faith and in truth money, inwardly circumcised Jews, and what is more, a wonderful means whereby out of money to make more money.

In simple circulation, C-M-C, the value of commodities attained at the most a form independent of their use-values, *i.e.*, the form of money; but that same value now in the circulation M-C-M, or the circulation of capital, suddenly presents itself as an independent substance, endowed with a

motion of its own, passing through a life-process of its own, in which money and commodities are mere forms which it assumes and casts off in turn. Nay, more: instead of simply representing the relations of commodities, it enters now, so to say, into private relations with itself. It differentiates itself as original value from itself as surplus-value; as the father differentiates himself from himself qua the son, yet both are one and of one age: for only by the surplus-value of £10 does the £100 originally advanced become capital, and so soon as this takes place, so soon as the son, and by the son, the father, is begotten, so soon does their difference vanish, and they again become one, £110.

Value therefore now becomes value in process, money in process, and, as such, capital. It comes out of circulation, enters into it again, preserves and multiplies itself within its circuit, comes back out of it with expanded bulk, and begins the same round ever afresh.¹⁴ M-M', money which begets money, such is the description of Capital from the mouths of its first interpreters, the Mercantilists.

Buying in order to sell, or, more accurately, buying in order to sell dearer, M-C-M', appears certainly to be a form peculiar to one kind of capital alone, namely, merchants' capital. But industrial capital too is money, that is changed into commodities, and by the sale of these commodities, is re-converted into more money. The events that take place outside the sphere of circulation, in the interval between the buying and selling, do not affect the form of this movement. Lastly, in the case of interest-bearing capital, the circulation M-C-M' appears abridged. We have its result without the intermediate stage, in the form M-M', "en style lapidaire" so to say, money that is worth more money, value that is greater than itself.

M-C-M' is therefore in reality the general formula of capital as it appears *prima facie* within the sphere of circulation.

¹ The contrast between the power, based on the personal relations of dominion and servitude, that is conferred by landed property, and the impersonal power that is given by money, is well expressed by the two French proverbs, "Nulle terre sans seigneur," and "L'argent n'a pas de maître," – "No land without its lord," and "Money has no master."

² "Avec de l'argent on achète des marchandises et avec des marchandises on achète de l'argent." ["With money one buys commodities, and with commodities one buys money"] (Mercier de la Rivière: "L'ordre naturel et essentiel des sociétés politiques," p. 543.)

³ "When a thing is bought in order to be sold again, the sum employed is called money advanced; when it is bought not to be sold, it may be said to be expended." — (James Steuart: "Works," &c. Edited by Gen. Sir James Steuart, his son. Lond., 1805, V. I., p. 274.)

⁴ "On n'échange pas de l'argent contre de l'argent," ["One does not exchange money for money,"] says Mercier de la Rivière to the Mercantilists (l.c., p. 486.) In a work, which, ex professo treats of "trade" and "speculation," occurs the following: "All trade consists in the exchange of things of different kinds; and the advantage" (to the merchant?) "arises out of this difference. To exchange a pound of bread against a pound of bread ... would be attended with no advantage; ... Hence trade is advantageously contrasted with gambling, which consists in a mere exchange of money for money." (Th. Corbet, "An Inquiry into the Causes and Modes of the Wealth of Individuals; or the Principles of Trade and Speculation Explained." London, 1841, p. 5.) Although Corbet does not see that M-M, the exchange of money for money, is the characteristic form of circulation, not only of merchants' capital but of all capital, yet at least he acknowledges that this form is common to gambling and to one species of trade, viz., speculation: but then comes MacCulloch and makes out, that to buy in order to sell, is to speculate, and thus the difference between Speculation and Trade vanishes. "Every transaction in which an individual buys produce in order to sell it again, is, in fact, a speculation."

(MacCulloch: "A Dictionary Practical, &c., of Commerce." Lond., 1847, p. 1009.) With much more naïveté, Pinto, the Pindar of the Amsterdam Stock Exchange, remarks, "Le commerce est un jeu: (taken from Locke) et ce n'est pas avec des gueux qu'on peut gagner. Si l'on gagnait longtemps en tout avec tous, il faudrait rendre de bon accord les plus grandes parties du profit pour recommencer le jeu." ["Trade is a game, and nothing can be won from beggars. If one won everything from everybody all the time, it would be necessary to give back the greater part of the profit voluntarily, in order to begin the game again"] (Pinto: "Traité de la Circulation et du Crédit." Amsterdam, 1771. p. 231.)

⁵ "Capital is divisible ... into the original capital and the profit, the increment to the capital ... although in practice this profit is immediately turned into capital, and set in motion with the original." (F. Engels, "Umrisse zu einer Kritik der Nationalökonomie, in: Deutsch-Französische Jahrbücher, herausgegeben von Arnold Ruge und Karl Marx." Paris, 1844, p. 99.)

⁶ Aristotle opposes Oeconomic to Chrematistic. He starts from the former. So far as it is the art of gaining a livelihood, it is limited to procuring those articles that are necessary to existence, and useful either to a household or the state. "True wealth (o aleqinos ploutos) consists of such values in use; for the quantity of possessions of this kind, capable of making life pleasant, is not unlimited. There is, however, a second mode of acquiring things, to which we may by preference and with correctness give the name of Chrematistic, and in this case there appear to be no limits to riches and possessions. Trade (e kapelike is literally retail trade, and Aristotle takes this kind because in it values in use predominate) does not in its nature belong to Chrematistic, for here the exchange has reference only to what is necessary to themselves (the buyer or seller)." Therefore, as he goes on to show, the original form of trade was barter, but with the extension of the latter, there arose the necessity for money. On the discovery of money, barter of necessity developed into kapelike, into trading in commodities, and this again, in opposition to its original tendency, grew into Chrematistic, into the art of making money. Now Chrematistic is distinguishable from Oeconomic in this way, that "in the case of Chrematistic circulation is the source of riches poietike crematon ... dia crematon diaboies. And it appears to revolve about money, for money is the beginning and end of this kind of exchange (to nomisma stoiceion tes allages estin). Therefore also riches, such as Chrematistic strives for, are unlimited. Just as every art that is not a means to an end, but an end in itself, has no limit to its aims, because it seeks constantly to approach nearer and nearer to that end, while those arts that pursue means to an end, are not boundless, since the goal itself imposes a limit upon them, so with Chrematistic, there are no bounds to its aims, these aims being absolute wealth. Oeconomic not Chrematistic has a limit ... the object of the former is something different from money, of the latter the augmentation of money.... By confounding these two forms, which overlap each other, some people have been led to look upon the preservation and increase of money ad infinitum as the end and aim of Oeconomic." (Aristoteles, *De Rep.* edit. Bekker, lib. I.c. 8, 9. passim.)

⁷ "Commodities (here used in the sense of use-values) are not the terminating object of the trading capitalist, money is his terminating object." (Th. Chalmers, *On Pol. Econ. &c.*, 2nd Ed., Glasgow, 1832, pp. 165, 166.)

⁸ "Il mercante non conta quasi per niente il lucro fatto, ma mira sempre al futuro." ["The merchant counts the money he has made as almost nothing; he always looks to the future."] (A. Genovesi, *Lezioni di Economia Civile* (1765), Custodi's edit. of Italian Economists. Parte Moderna t. viii, p. 139.)

⁹ "The inextinguishable passion for gain, the auri sacra fames, will always lead capitalists." (MacCulloch: "The Principles of Polit. Econ." London, 1830, p. 179.) This view, of course, does not prevent the same MacCulloch and others of his kidney, when in theoretical difficulties, such, for

example, as the question of over-production, from transforming the same capitalist into a moral citizen, whose sole concern is for use-values, and who even develops an insatiable hunger for boots, hats, eggs, calico, and other extremely familiar sorts of use-values.

¹⁰ *Sozein* is a characteristic Greek expression for hoarding. So in English to save has the same two meanings: *sauver* and *épargner*.

¹¹ “Questo infinito che le cose non hanno in progresso, hanno in giro.” [“That infinity which things do not possess, they possess in circulation.”] (Galiani.)

¹² “Ce n’est pas la matière qui fait le capital, mais la valeur de ces matières.” [“It is not matter which makes capital, but the value of that matter.”] (J. B. Say: “Traité d’Econ. Polit.” 3ème éd. Paris, 1817, t. II., p. 429.)

¹³ “Currency (!) employed in producing articles... is capital.” (Macleod: “The Theory and Practice of Banking.” London, 1855, v. 1, ch. i, p. 55.) “Capital is commodities.” (James Mill: “Elements of Pol. Econ.” Lond., 1821, p. 74.)

¹⁴ Capital: “portion fructifiante de la richesse accumulée... valeur permanente, multipliante.” (Sismondi: “Nouveaux Principes d’Econ. Polit.,” t. i., p. 88, 89.)

Chapter 5: Contradictions in the General Formula of Capital

The form which circulation takes when money becomes capital, is opposed to all the laws we have hitherto investigated bearing on the nature of commodities, value and money, and even of circulation itself. What distinguishes this form from that of the simple circulation of commodities, is the inverted order of succession of the two antithetical processes, sale and purchase. How can this purely formal distinction between these processes change their character as it were by magic?

But that is not all. This inversion has no existence for two out of the three persons who transact business together. As capitalist, I buy commodities from A and sell them again to B, but as a simple owner of commodities, I sell them to B and then purchase fresh ones from A. A and B see no difference between the two sets of transactions. They are merely buyers or sellers. And I on each occasion meet them as a mere owner of either money or commodities, as a buyer or a seller, and, what is more, in both sets of transactions, I am opposed to A only as a buyer and to B only as a seller, to the one only as money, to the other only as commodities, and to neither of them as capital or a capitalist, or as representative of anything that is more than money or commodities, or that can produce any effect beyond what money and commodities can. For me the purchase from A and the sale to B are part of a series. But the connexion between the two acts exists for me alone. A does not trouble himself about my transaction with B, nor does B about my business with A. And if I offered to explain to them the meritorious nature of my action in inverting the order of succession, they would probably point out to me that I was mistaken as to that order of succession, and that the whole transaction, instead of beginning with a purchase and ending with a sale, began, on the contrary, with a sale and was concluded with a purchase. In truth, my first act, the purchase, was from the standpoint of A, a sale, and my second act, the sale, was from the standpoint of B, a purchase. Not content with that, A and B would declare that the whole series was superfluous and nothing but Hokus Pokus; that for the future A would buy direct from B, and B sell direct to A. Thus the whole transaction would be reduced to a single act forming an isolated, non-complemented phase in the ordinary circulation of commodities, a mere sale from A's point of view, and from B's, a mere purchase. The inversion, therefore, of the order of succession, does not take us outside the sphere of the simple circulation of commodities, and we must rather look, whether there is in this simple circulation anything permitting an expansion of the value that enters into circulation, and, consequently, a creation of surplus-value.

Let us take the process of circulation in a form under which it presents itself as a simple and direct exchange of commodities. This is always the case when two owners of commodities buy from each other, and on the settling day the amounts mutually owing are equal and cancel each other. The money in this case is money of account and serves to express the value of the commodities by their prices, but is not, itself, in the shape of hard cash, confronted with them. So far as regards use-values, it is clear that both parties may gain some advantage. Both part with goods that, as use-values, are of no service to them, and receive others that they can make use of. And there may also be a further gain. A, who sells wine and buys corn, possibly produces more wine, with given labour-time, than farmer B could, and B on the other hand, more corn than wine-grower A could. A, therefore, may get, for the same exchange-value, more corn, and B more wine, than each would respectively get without any exchange by producing his own corn and wine. With reference, therefore, to use-value, there is good ground for saying that "exchange is a transaction by which both sides gain."¹ It is otherwise with exchange-value. "A man who has

plenty of wine and no corn treats with a man who has plenty of corn and no wine; an exchange takes place between them of corn to the value of 50, for wine of the same value. This act produces no increase of exchange-value either for the one or the other; for each of them already possessed, before the exchange, a value equal to that which he acquired by means of that operation.”² The result is not altered by introducing money, as a medium of circulation, between the commodities, and making the sale and the purchase two distinct acts.³ The value of a commodity is expressed in its price before it goes into circulation, and is therefore a precedent condition of circulation, not its result.⁴

Abstractedly considered, that is, apart from circumstances not immediately flowing from the laws of the simple circulation of commodities, there is in an exchange nothing (if we except the replacing of one use-value by another) but a metamorphosis, a mere change in the form of the commodity. The same exchange-value, i.e., the same quantity of incorporated social labour, remains throughout in the hands of the owner of the commodity, first in the shape of his own commodity, then in the form of the money for which he exchanged it, and lastly, in the shape of the commodity he buys with that money. This change of form does not imply a change in the magnitude of the value. But the change, which the value of the commodity undergoes in this process, is limited to a change in its money-form. This form exists first as the price of the commodity offered for sale, then as an actual sum of money, which, however, was already expressed in the price, and lastly, as the price of an equivalent commodity. This change of form no more implies, taken alone, a change in the quantity of value, than does the change of a £5 note into sovereigns, half sovereigns and shillings. So far therefore as the circulation of commodities effects a change in the form alone of their values, and is free from disturbing influences, it must be the exchange of equivalents. Little as Vulgar-Economy knows about the nature of value, yet whenever it wishes to consider the phenomena of circulation in their purity, it assumes that supply and demand are equal, which amounts to this, that their effect is nil. If therefore, as regards the use-values exchanged, both buyer and seller may possibly gain something, this is not the case as regards the exchange-values. Here we must rather say, “Where equality exists there can be no gain.”⁵ It is true, commodities may be sold at prices deviating from their values, but these deviations are to be considered as infractions of the laws of the exchange of commodities⁶, which in its normal state is an exchange of equivalents, consequently, no method for increasing value.⁷

Hence, we see that behind all attempts to represent the circulation of commodities as a source of surplus-value, there lurks a *quid pro quo*, a mixing up of use-value and exchange-value. For instance, Condillac says: “It is not true that on an exchange of commodities we give value for value. On the contrary, each of the two contracting parties in every case, gives a less for a greater value. ... If we really exchanged equal values, neither party could make a profit. And yet, they both gain, or ought to gain. Why? The value of a thing consists solely in its relation to our wants. What is more to the one is less to the other, and *vice versa*. ... It is not to be assumed that we offer for sale articles required for our own consumption. ... We wish to part with a useless thing, in order to get one that we need; we want to give less for more. ... It was natural to think that, in an exchange, value was given for value, whenever each of the articles exchanged was of equal value with the same quantity of gold. ... But there is another point to be considered in our calculation. The question is, whether we both exchange something superfluous for something necessary.”⁸ We see in this passage, how Condillac not only confuses use-value with exchange-value, but in a really childish manner assumes, that in a society, in which the production of commodities is well developed, each producer produces his own means of subsistence, and throws into circulation only the excess over his own requirements⁹ Still, Condillac’s argument is frequently used by

modern economists, more especially when the point is to show, that the exchange of commodities in its developed form, commerce, is productive of surplus-value. For instance, "Commerce ... adds value to products, for the same products in the hands of consumers, are worth more than in the hands of producers, and it may strictly be considered an act of production."¹⁰ But commodities are not paid for twice over, once on account of their use-value, and again on account of their value. And though the use-value of a commodity is more serviceable to the buyer than to the seller, its money-form is more serviceable to the seller. Would he otherwise sell it? We might therefore just as well say that the buyer performs "strictly an act of production," by converting stockings, for example, into money.

If commodities, or commodities and money, of equal exchange-value, and consequently equivalents, are exchanged, it is plain that no one abstracts more value from, than he throws into, circulation. There is no creation of surplus-value. And, in its normal form, the circulation of commodities demands the exchange of equivalents. But in actual practice, the process does not retain its normal form. Let us, therefore, assume an exchange of non-equivalents.

In any case the market for commodities is only frequented by owners of commodities, and the power which these persons exercise over each other, is no other than the power of their commodities. The material variety of these commodities is the material incentive to the act of exchange, and makes buyers and sellers mutually dependent, because none of them possesses the object of his own wants, and each holds in his hand the object of another's wants. Besides these material differences of their use-values, there is only one other difference between commodities, namely, that between their bodily form and the form into which they are converted by sale, the difference between commodities and money. And consequently the owners of commodities are distinguishable only as sellers, those who own commodities, and buyers, those who own money.

Suppose then, that by some inexplicable privilege, the seller is enabled to sell his commodities above their value, what is worth 100 for 110, in which case the price is nominally raised 10%. The seller therefore pockets a surplus-value of 10. But after he has sold he becomes a buyer. A third owner of commodities comes to him now as seller, who in this capacity also enjoys the privilege of selling his commodities 10% too dear. Our friend gained 10 as a seller only to lose it again as a buyer.¹¹ The net result is, that all owners of commodities sell their goods to one another at 10% above their value, which comes precisely to the same as if they sold them at their true value. Such a general and nominal rise of prices has the same effect as if the values had been expressed in weight of silver instead of in weight of gold. The nominal prices of commodities would rise, but the real relation between their values would remain unchanged.

Let us make the opposite assumption, that the buyer has the privilege of purchasing commodities under their value. In this case it is no longer necessary to bear in mind that he in his turn will become a seller. He was so before he became buyer; he had already lost 10% in selling before he gained 10% as buyer.¹² Everything is just as it was.

The creation of surplus-value, and therefore the conversion of money into capital, can consequently be explained neither on the assumption that commodities are sold above their value, nor that they are bought below their value.¹³

The problem is in no way simplified by introducing irrelevant matters after the manner of Col. Torrens: "Effectual demand consists in the power and inclination (!), on the part of consumers, to give for commodities, either by immediate or circuitous barter, some greater portion of ... capital than their production costs."¹⁴ In relation to circulation, producers and consumers meet only as buyers and sellers. To assert that the surplus-value acquired by the producer has its origin in the fact that consumers pay for commodities more than their value, is only to say in other words: The owner of commodities possesses, as a seller, the privilege of selling too dear. The seller has

himself produced the commodities or represents their producer, but the buyer has to no less extent produced the commodities represented by his money, or represents their producer. The distinction between them is, that one buys and the other sells. The fact that the owner of the commodities, under the designation of producer, sells them over their value, and under the designation of consumer, pays too much for them, does not carry us a single step further.¹⁵

To be consistent therefore, the upholders of the delusion that surplus-value has its origin in a nominal rise of prices or in the privilege which the seller has of selling too dear, must assume the existence of a class that only buys and does not sell, i.e., only consumes and does not produce. The existence of such a class is inexplicable from the standpoint we have so far reached, viz., that of simple circulation. But let us anticipate. The money with which such a class is constantly making purchases, must constantly flow into their pockets, without any exchange, gratis, by might or right, from the pockets of the commodity-owners themselves. To sell commodities above their value to such a class, is only to crib back again a part of the money previously given to it.¹⁶ The towns of Asia Minor thus paid a yearly money tribute to ancient Rome. With this money Rome purchased from them commodities, and purchased them too dear. The provincials cheated the Romans, and thus got back from their conquerors, in the course of trade, a portion of the tribute. Yet, for all that, the conquered were the really cheated. Their goods were still paid for with their own money. That is not the way to get rich or to create surplus-value.

Let us therefore keep within the bounds of exchange where sellers are also buyers, and buyers, sellers. Our difficulty may perhaps have arisen from treating the actors as personifications instead of as individuals.

A may be clever enough to get the advantage of B or C without their being able to retaliate. A sells wine worth £40 to B, and obtains from him in exchange corn to the value of £50. A has converted his £40 into £50, has made more money out of less, and has converted his commodities into capital. Let us examine this a little more closely. Before the exchange we had £40 worth of wine in the hands of A, and £50 worth of corn in those of B, a total value of £90. After the exchange we have still the same total value of £90. The value in circulation has not increased by one iota, it is only distributed differently between A and B. What is a loss of value to B is surplus-value to A; what is “minus” to one is “plus” to the other. The same change would have taken place, if A, without the formality of an exchange, had directly stolen the £10 from B. The sum of the values in circulation can clearly not be augmented by any change in their distribution, any more than the quantity of the precious metals in a country by a Jew selling a Queen Anne’s farthing for a guinea. The capitalist class, as a whole, in any country, cannot over-reach themselves.¹⁷

Turn and twist then as we may, the fact remains unaltered. If equivalents are exchanged, no surplus-value results, and if non-equivalents are exchanged, still no surplus-value.¹⁸ Circulation, or the exchange of commodities, begets no value.¹⁹

The reason is now therefore plain why, in analysing the standard form of capital, the form under which it determines the economic organisation of modern society, we entirely left out of consideration its most popular, and, so to say, antediluvian forms, merchants’ capital and money-lenders’ capital.

The circuit M-C-M, buying in order to sell dearer, is seen most clearly in genuine merchants’ capital. But the movement takes place entirely within the sphere of circulation. Since, however, it is impossible, by circulation alone, to account for the conversion of money into capital, for the formation of surplus-value, it would appear, that merchants’ capital is an impossibility, so long as equivalents are exchanged;²⁰ that, therefore, it can only have its origin in the two-fold advantage gained, over both the selling and the buying producers, by the merchant who parasitically shoves

himself in between them. It is in this sense that Franklin says, “war is robbery, commerce is generally cheating.”²¹ If the transformation of merchants’ money into capital is to be explained otherwise than by the producers being simply cheated, a long series of intermediate steps would be necessary, which, at present, when the simple circulation of commodities forms our only assumption, are entirely wanting.

What we have said with reference to merchants’ capital, applies still more to money-lenders’ capital. In merchants’ capital, the two extremes, the money that is thrown upon the market, and the augmented money that is withdrawn from the market, are at least connected by a purchase and a sale, in other words by the movement of the circulation. In money-lenders’ capital the form M-C-M is reduced to the two extremes without a mean, M-M, money exchanged for more money, a form that is incompatible with the nature of money, and therefore remains inexplicable from the standpoint of the circulation of commodities. Hence Aristotle: “since chrematistic is a double science, one part belonging to commerce, the other to economic, the latter being necessary and praiseworthy, the former based on circulation and with justice disapproved (for it is not based on Nature, but on mutual cheating), therefore the usurer is most rightly hated, because money itself is the source of his gain, and is not used for the purposes for which it was invented. For it originated for the exchange of commodities, but interest makes out of money, more money. Hence its name (τοκος interest and offspring). For the begotten are like those who beget them. But interest is money of money, so that of all modes of making a living, this is the most contrary to Nature.”²²

In the course of our investigation, we shall find that both merchants’ capital and interest-bearing capital are derivative forms, and at the same time it will become clear, why these two forms appear in the course of history before the modern standard form of capital.

We have shown that surplus-value cannot be created by circulation, and, therefore, that in its formation, something must take place in the background, which is not apparent in the circulation itself.²³ But can surplus-value possibly originate anywhere else than in circulation, which is the sum total of all the mutual relations of commodity-owners, as far as they are determined by their commodities? Apart from circulation, the commodity-owner is in relation only with his own commodity. So far as regards value, that relation is limited to this, that the commodity contains a quantity of his own labour, that quantity being measured by a definite social standard. This quantity is expressed by the value of the commodity, and since the value is reckoned in money of account, this quantity is also expressed by the price, which we will suppose to be £10. But his labour is not represented both by the value of the commodity, and by a surplus over that value, not by a price of 10 that is also a price of 11, not by a value that is greater than itself. The commodity owner can, by his labour, create value, but not self-expanding value. He can increase the value of his commodity, by adding fresh labour, and therefore more value to the value in hand, by making, for instance, leather into boots. The same material has now more value, because it contains a greater quantity of labour. The boots have therefore more value than the leather, but the value of the leather remains what it was; it has not expanded itself, has not, during the making of the boots, annexed surplus-value. It is therefore impossible that outside the sphere of circulation, a producer of commodities can, without coming into contact with other commodity-owners, expand value, and consequently convert money or commodities into capital.

It is therefore impossible for capital to be produced by circulation, and it is equally impossible for it to originate apart from circulation. It must have its origin both in circulation and yet not in circulation.

We have, therefore, got a double result.

The conversion of money into capital has to be explained on the basis of the laws that regulate the exchange of commodities, in such a way that the starting-point is the exchange of equivalents.²⁴ Our friend, Moneybags, who as yet is only an embryo capitalist, must buy his commodities at their value, must sell them at their value, and yet at the end of the process must withdraw more value from circulation than he threw into it at starting. His development into a full-grown capitalist must take place, both within the sphere of circulation and without it. These are the conditions of the problem. *Hic Rhodus, hic salta!*²⁵

¹ “L’échange est une transaction admirable dans laquelle les deux contractants gagnent - toujours (!)” [“Exchange is a transaction in which the two contracting parties always gain, both of them (!)”] (Destutt de Tracy: “Traité de la Volonté et de ses effets.” Paris, 1826, p. 68.) This work appeared afterwards as “Traité d’Econ. Polit.”

² “Mercier de la Rivière,” l. c., p. 544.

³ “Que l’une de ces deux valeurs soit argent, ou qu’elles soient toutes deux marchandises usuelles, rien de plus indifférent en soi.” [“Whether one of those two values is money, or they are both ordinary commodities, is in itself a matter of complete indifference.”] (“Mercier de la Rivière,” l.c., p. 543.)

⁴ “Ce ne sont pas les contractants qui prononcent sur la valeur; elle est décidée avant la convention.” [“It is not the parties to a contract who decide on the value; that has been decided before the contract.”] (Le Trosne, p. 906.)

⁵ “Dove è egualità non è lucro.” (Galiani, “Della Moneta in Custodi, Parte Moderna,” t. iv., p. 244.)

⁶ “L’échange devient désavantageux pour l’une des parties, lorsque quelque chose étrangère vient diminuer ou exagérer le prix; alors l’égalité est blessée, mais la lésion procède de cette cause et non de l’échange.” [“The exchange becomes unfavourable for one of the parties when some external circumstance comes to lessen or increase the price; then equality is infringed, but this infringement arises from that cause and not from the exchange itself.”] (Le Trosne, l.c., p. 904.)

⁷ “L’échange est de sa nature un contrat d’égalité qui se fait de valeur pour valeur égale. Il n’est donc pas un moyen de s’enrichir, puisque l’on donne autant que l’on reçoit.” [“Exchange is by its nature a contract which rests on equality, i.e., it takes place between two equal values, and it is not a means of self-enrichment, since as much is given as is received.”] (Le Trosne, l.c., p. 903.)

⁸ Condillac: “Le Commerce et le Gouvernement” (1776). Edit. Daire et Molinari in the “Mélanges d’Econ. Polit.” Paris, 1847, pp. 267, 291.

⁹ Le Trosne, therefore, answers his friend Condillac with justice as follows: “Dans une ... société formée il n’y a pas de surabondant en aucun genre.” [“In a developed society absolutely nothing is superfluous.”] At the same time, in a bantering way, he remarks: “If both the persons who exchange receive more to an equal amount, and part with less to an equal amount, they both get the same.” It is because Condillac has not the remotest idea of the nature of exchange-value that he has been chosen by Herr Professor Wilhelm Roscher as a proper person to answer for the soundness of his own childish notions. See Roscher’s “Die Grundlagen der Nationalökonomie, Dritte Auflage,” 1858.

¹⁰ S. P. Newman: “Elements of Polit. Econ.” Andover and New York, 1835, p. 175.

¹¹ “By the augmentation of the nominal value of the produce... sellers not enriched... since what they gain as sellers, they precisely expend in the quality of buyers.” (“The Essential Principles of the Wealth of Nations.” &c., London, 1797, p. 66.)

¹² “Si l’on est forcé de donner pour 18 livres une quantité de telle production qui en valait 24, lorsqu’on emploiera ce même argent à acheter, on aura également pour 18 l. ce que l’on payait 24.” [“If one is compelled to sell a quantity of a certain product for 18 livres when it has a value of 24 livres, when one employs the same amount of money in buying, one will receive for 18 livres the same quantity of the product as 24 livres would have bought otherwise.”] (Le Trosne, I. c., p. 897.)

¹³ “Chaque vendeur ne peut donc parvenir à renchérir habituellement ses marchandises, qu’en se soumettant aussi à payer habituellement plus cher les marchandises des autres vendeurs; et par la même raison, chaque consommateur ne peut payer habituellement moins cher ce qu’il achète, qu’en se soumettant aussi à une diminution semblable sur le prix des choses qu’il vend.” [“A seller can normally only succeed in raising the prices of his commodities if he agrees to pay, by and large, more for the commodities of the other sellers; and for the same reason a consumer can normally only pay less for his purchases if he submits to a similar reduction in the prices of the things he sells.”] (Mercier de la Rivière, I. c., p. 555.)

¹⁴ Torrens. “An Essay on the Production of Wealth.” London, 1821, p. 349.

¹⁵ “The idea of profits being paid by the consumers, is, assuredly, very absurd. Who are the consumers?” (G. Ramsay: “An Essay on the Distribution of Wealth.” Edinburgh, 1836, p. 183.)

¹⁶ “When a man is in want of a demand, does Mr. Malthus recommend him to pay some other person to take off his goods?” is a question put by an angry disciple of Ricardo to Malthus, who, like his disciple, Parson Chalmers, economically glorifies this class of simple buyers or consumers. (See “An Inquiry into those Principles Respecting the Nature of Demand and the Necessity of Consumption, lately advocated by Mr. Malthus,” &c. Lond., 1821, p. 55.)

¹⁷ Destutt de Tracy, although, or perhaps because, he was a member of the Institute, held the opposite view. He says, industrial capitalists make profits because “they all sell for more than it has cost to produce. And to whom do they sell? In the first instance to one another.” (I. c., p. 239.)

¹⁸ “L’échange qui se fait de deux valeurs égales n’augmente ni ne diminue la masse des valeurs subsistantes dans la société. L’échange de deux valeurs inégales ... ne change rien non plus à la somme des valeurs sociales, bien qu’il ajoute à la fortune de l’un ce qu’il ôte de la fortune de l’autre.” [“The exchange of two equal values neither increases nor diminishes the amount of the values available in society. Nor does the exchange of two unequal values ... change anything in the sum of social values, although it adds to the wealth of one person what it removes from the wealth of another.”] (J. B. Say, I. c., t. II, pp. 443, 444.) Say, not in the least troubled as to the consequences of this statement, borrows it, almost word for word, from the Physiocrats. The following example will show how Monsieur Say turned to account the writings of the Physiocrats, in his day quite forgotten, for the purpose of expanding the “value” of his own. His most celebrated saying, “On n’achète des produits qu’avec des produits” [“Products can only be bought with products.”] (I. c., t. II, p. 441.) runs as follows in the original physiocratic work: “Les productions ne se paient qu’avec des productions.” [“Products can only be paid for with products.”] (Le Trosne, I. c., p. 899.)

¹⁹ “Exchange confers no value at all upon products.” (F. Wayland: “The Elements of Political Economy.” Boston, 1843, p. 169.)

²⁰ Under the rule of invariable equivalents commerce would be impossible. (G. Opdyke: “A Treatise on Polit. Economy.” New York, 1851, pp. 66-69.) “The difference between real value and exchange-value is based upon this fact, namely, that the value of a thing is different from the so-called equivalent given for it in trade, i.e., that this equivalent is no equivalent.” (F. Engels, I. c., p. 96.)

²¹ Benjamin Franklin: Works, Vol. II, edit. Sparks in “Positions to be examined concerning National Wealth,” p. 376.

²² Aristotle, I. c., c. 10.

²³ “Profit, in the usual condition of the market, is not made by exchanging. Had it not existed before, neither could it after that transaction.” (Ramsay, l.c., p. 184.)

²⁴ From the foregoing investigation, the reader will see that this statement only means that the formation of capital must be possible even though the price and value of a commodity be the same; for its formation cannot be attributed to any deviation of the one from the other. If prices actually differ from values, we must, first of all, reduce the former to the latter, in other words, treat the difference as accidental in order that the phenomena may be observed in their purity, and our observations not interfered with by disturbing circumstances that have nothing to do with the process in question. We know, moreover, that this reduction is no mere scientific process. The continual oscillations in prices, their rising and falling, compensate each other, and reduce themselves to an average price, which is their hidden regulator. It forms the guiding star of the merchant or the manufacturer in every undertaking that requires time. He knows that when a long period of time is taken, commodities are sold neither over nor under, but at their average price. If therefore he thought about the matter at all, he would formulate the problem of the formation of capital as follows: How can we account for the origin of capital on the supposition that prices are regulated by the average price, i. e., ultimately by the value of the commodities? I say “ultimately,” because average prices do not directly coincide with the values of commodities, as Adam Smith, Ricardo, and others believe.

²⁵ “Hic Rhodus, hic saltus!” – Latin, usually translated: “Rhodes is here, here is where you jump!”

Originates from the traditional Latin translation of the punch line from Aesop’s fable The Boastful Athlete which has been the subject of some mistranslations. In Greek, the maxim reads:

“ἰδοὺ ἡ ρόδος,
ἰδοὺ καὶ τὸ πῆδημα”

The story is that an athlete boasts that when in Rhodes, he performed a stupendous jump, and that there were witnesses who could back up his story. A bystander then remarked, ‘Alright! Let’s say this is Rhodes, demonstrate the jump here and now.’ The fable shows that people must be known by their deeds, not by their own claims for themselves. In the context in which Hegel used it in the *Philosophy of Right*, this could be taken to mean that the philosophy of right must have to do with the *actuality* of modern society, not the theories and ideals that societies create for themselves, nor, as Hegel goes on to say, to “teach the world what it ought to be.”

The epigram is given by Hegel first in Greek, then in Latin (in the form “*Hic Rhodus, hic saltus*”), and he then says: “With little change, the above saying would read (in German): “*Hier ist die Rose, hier tanze*”: “Here is the rose, dance here”

This is taken to be an allusion to the ‘rose in the cross’ of the Rosicrucians (who claimed to possess esoteric knowledge with which they could transform social life), implying that the material for understanding and changing society is given in society itself, not in some other-worldly theory, punning first on the Greek (*Rhodos* = Rhodes, *rhodon* = rose), then on the Latin (*saltus* = jump [noun], *salta* = dance [imperative]). [MIA Editors.]

Chapter 6: The Buying and Selling of Labour-Power

The change of value that occurs in the case of money intended to be converted into capital, cannot take place in the money itself, since in its function of means of purchase and of payment, it does no more than realise the price of the commodity it buys or pays for; and, as hard cash, it is value petrified, never varying.¹ Just as little can it originate in the second act of circulation, the re-sale of the commodity, which does no more than transform the article from its bodily form back again into its money-form. The change must, therefore, take place in the commodity bought by the first act, M-C, but not in its value, for equivalents are exchanged, and the commodity is paid for at its full value. We are, therefore, forced to the conclusion that the change originates in the use-value, as such, of the commodity, i.e., in its consumption. In order to be able to extract value from the consumption of a commodity, our friend, Moneybags, must be so lucky as to find, within the sphere of circulation, in the market, a commodity, whose use-value possesses the peculiar property of being a source of value, whose actual consumption, therefore, is itself an embodiment of labour, and, consequently, a creation of value. The possessor of money does find on the market such a special commodity in capacity for labour or labour-power.

By labour-power or capacity for labour is to be understood the aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use-value of any description.

But in order that our owner of money may be able to find labour-power offered for sale as a commodity, various conditions must first be fulfilled. The exchange of commodities of itself implies no other relations of dependence than those which result from its own nature. On this assumption, labour-power can appear upon the market as a commodity, only if, and so far as, its possessor, the individual whose labour-power it is, offers it for sale, or sells it, as a commodity. In order that he may be able to do this, he must have it at his disposal, must be the untrammelled owner of his capacity for labour, i.e., of his person.² He and the owner of money meet in the market, and deal with each other as on the basis of equal rights, with this difference alone, that one is buyer, the other seller; both, therefore, equal in the eyes of the law. The continuance of this relation demands that the owner of the labour-power should sell it only for a definite period, for if he were to sell it rump and stump, once for all, he would be selling himself, converting himself from a free man into a slave, from an owner of a commodity into a commodity. He must constantly look upon his labour-power as his own property, his own commodity, and this he can only do by placing it at the disposal of the buyer temporarily, for a definite period of time. By this means alone can he avoid renouncing his rights of ownership over it.³

The second essential condition to the owner of money finding labour-power in the market as a commodity is this – that the labourer instead of being in the position to sell commodities in which his labour is incorporated, must be obliged to offer for sale as a commodity that very labour-power, which exists only in his living self.

In order that a man may be able to sell commodities other than labour-power, he must of course have the means of production, as raw material, implements, &c. No boots can be made without leather. He requires also the means of subsistence. Nobody – not even “a musician of the future” – can live upon future products, or upon use-values in an unfinished state; and ever since the first moment of his appearance on the world’s stage, man always has been, and must still be a consumer, both before and while he is producing. In a society where all products assume the form

of commodities, these commodities must be sold after they have been produced, it is only after their sale that they can serve in satisfying the requirements of their producer. The time necessary for their sale is superadded to that necessary for their production.

For the conversion of his money into capital, therefore, the owner of money must meet in the market with the free labourer, free in the double sense, that as a free man he can dispose of his labour-power as his own commodity, and that on the other hand he has no other commodity for sale, is short of everything necessary for the realisation of his labour-power.

The question why this free labourer confronts him in the market, has no interest for the owner of money, who regards the labour-market as a branch of the general market for commodities. And for the present it interests us just as little. We cling to the fact theoretically, as he does practically. One thing, however, is clear – Nature does not produce on the one side owners of money or commodities, and on the other men possessing nothing but their own labour-power. This relation has no natural basis, neither is its social basis one that is common to all historical periods. It is clearly the result of a past historical development, the product of many economic revolutions, of the extinction of a whole series of older forms of social production.

So, too, the economic categories, already discussed by us, bear the stamp of history. Definite historical conditions are necessary that a product may become a commodity. It must not be produced as the immediate means of subsistence of the producer himself. Had we gone further, and inquired under what circumstances all, or even the majority of products take the form of commodities, we should have found that this can only happen with production of a very specific kind, capitalist production. Such an inquiry, however, would have been foreign to the analysis of commodities. Production and circulation of commodities can take place, although the great mass of the objects produced are intended for the immediate requirements of their producers, are not turned into commodities, and consequently social production is not yet by a long way dominated in its length and breadth by exchange-value. The appearance of products as commodities pre-supposes such a development of the social division of labour, that the separation of use-value from exchange-value, a separation which first begins with barter, must already have been completed. But such a degree of development is common to many forms of society, which in other respects present the most varying historical features. On the other hand, if we consider money, its existence implies a definite stage in the exchange of commodities. The particular functions of money which it performs, either as the mere equivalent of commodities, or as means of circulation, or means of payment, as hoard or as universal money, point, according to the extent and relative preponderance of the one function or the other, to very different stages in the process of social production. Yet we know by experience that a circulation of commodities relatively primitive, suffices for the production of all these forms. Otherwise with capital. The historical conditions of its existence are by no means given with the mere circulation of money and commodities. It can spring into life, only when the owner of the means of production and subsistence meets in the market with the free labourer selling his labour-power. And this one historical condition comprises a world's history. Capital, therefore, announces from its first appearance a new epoch in the process of social production.⁴

We must now examine more closely this peculiar commodity, labour-power. Like all others it has a value.⁵ How is that value determined?

The value of labour-power is determined, as in the case of every other commodity, by the labour-time necessary for the production, and consequently also the reproduction, of this special article. So far as it has value, it represents no more than a definite quantity of the average labour of society incorporated in it. Labour-power exists only as a capacity, or power of the living individual. Its production consequently pre-supposes his existence. Given the individual, the

production of labour-power consists in his reproduction of himself or his maintenance. For his maintenance he requires a given quantity of the means of subsistence. Therefore the labour-time requisite for the production of labour-power reduces itself to that necessary for the production of those means of subsistence; in other words, the value of labour-power is the value of the means of subsistence necessary for the maintenance of the labourer. Labour-power, however, becomes a reality only by its exercise; it sets itself in action only by working. But thereby a definite quantity of human muscle, nerve, brain, &c., is wasted, and these require to be restored. This increased expenditure demands a larger income.⁶ If the owner of labour-power works to-day, to-morrow he must again be able to repeat the same process in the same conditions as regards health and strength. His means of subsistence must therefore be sufficient to maintain him in his normal state as a labouring individual. His natural wants, such as food, clothing, fuel, and housing, vary according to the climatic and other physical conditions of his country. On the other hand, the number and extent of his so-called necessary wants, as also the modes of satisfying them, are themselves the product of historical development, and depend therefore to a great extent on the degree of civilisation of a country, more particularly on the conditions under which, and consequently on the habits and degree of comfort in which, the class of free labourers has been formed.⁷ In contradistinction therefore to the case of other commodities, there enters into the determination of the value of labour-power a historical and moral element. Nevertheless, in a given country, at a given period, the average quantity of the means of subsistence necessary for the labourer is practically known.

The owner of labour-power is mortal. If then his appearance in the market is to be continuous, and the continuous conversion of money into capital assumes this, the seller of labour-power must perpetuate himself, "in the way that every living individual perpetuates himself, by procreation."⁸ The labour-power withdrawn from the market by wear and tear and death, must be continually replaced by, at the very least, an equal amount of fresh labour-power. Hence the sum of the means of subsistence necessary for the production of labour-power must include the means necessary for the labourer's substitutes, i.e., his children, in order that this race of peculiar commodity-owners may perpetuate its appearance in the market.⁹

In order to modify the human organism, so that it may acquire skill and handiness in a given branch of industry, and become labour-power of a special kind, a special education or training is requisite, and this, on its part, costs an equivalent in commodities of a greater or less amount. This amount varies according to the more or less complicated character of the labour-power. The expenses of this education (excessively small in the case of ordinary labour-power), enter pro tanto into the total value spent in its production.

The value of labour-power resolves itself into the value of a definite quantity of the means of subsistence. It therefore varies with the value of these means or with the quantity of labour requisite for their production.

Some of the means of subsistence, such as food and fuel, are consumed daily, and a fresh supply must be provided daily. Others such as clothes and furniture last for longer periods and require to be replaced only at longer intervals. One article must be bought or paid for daily, another weekly, another quarterly, and so on. But in whatever way the sum total of these outlays may be spread over the year, they must be covered by the average income, taking one day with another. If the total of the commodities required daily for the production of labour-power = A, and those required weekly = B, and those required quarterly = C, and so on, the daily average of these commodities = $(365A + 52B + 4C + \&c) / 365$. Suppose that in this mass of commodities requisite for the average day there are embodied 6 hours of social labour, then there is incorporated daily in labour-power half a day's average social labour, in other words, half a day's

labour is requisite for the daily production of labour-power. This quantity of labour forms the value of a day's labour-power or the value of the labour-power daily reproduced. If half a day's average social labour is incorporated in three shillings, then three shillings is the price corresponding to the value of a day's labour-power. If its owner therefore offers it for sale at three shillings a day, its selling price is equal to its value, and according to our supposition, our friend Moneybags, who is intent upon converting his three shillings into capital, pays this value.

The minimum limit of the value of labour-power is determined by the value of the commodities, without the daily supply of which the labourer cannot renew his vital energy, consequently by the value of those means of subsistence that are physically indispensable. If the price of labour-power fall to this minimum, it falls below its value, since under such circumstances it can be maintained and developed only in a crippled state. But the value of every commodity is determined by the labour-time requisite to turn it out so as to be of normal quality.

It is a very cheap sort of sentimentality which declares this method of determining the value of labour-power, a method prescribed by the very nature of the case, to be a brutal method, and which wails with Rossi that, "To comprehend capacity for labour (*puissance de travail*) at the same time that we make abstraction from the means of subsistence of the labourers during the process of production, is to comprehend a phantom (*être de raison*). When we speak of labour, or capacity for labour, we speak at the same time of the labourer and his means of subsistence, of labourer and wages."¹⁰ When we speak of capacity for labour, we do not speak of labour, any more than when we speak of capacity for digestion, we speak of digestion. The latter process requires something more than a good stomach. When we speak of capacity for labour, we do not abstract from the necessary means of subsistence. On the contrary, their value is expressed in its value. If his capacity for labour remains unsold, the labourer derives no benefit from it, but rather he will feel it to be a cruel nature-imposed necessity that this capacity has cost for its production a definite amount of the means of subsistence and that it will continue to do so for its reproduction. He will then agree with Sismondi: "that capacity for labour ... is nothing unless it is sold."¹¹

One consequence of the peculiar nature of labour-power as a commodity is, that its use-value does not, on the conclusion of the contract between the buyer and seller, immediately pass into the hands of the former. Its value, like that of every other commodity, is already fixed before it goes into circulation, since a definite quantity of social labour has been spent upon it; but its use-value consists in the subsequent exercise of its force. The alienation of labour-power and its actual appropriation by the buyer, its employment as a use-value, are separated by an interval of time. But in those cases in which the formal alienation by sale of the use-value of a commodity, is not simultaneous with its actual delivery to the buyer, the money of the latter usually functions as means of payment.¹² In every country in which the capitalist mode of production reigns, it is the custom not to pay for labour-power before it has been exercised for the period fixed by the contract, as for example, the end of each week. In all cases, therefore, the use-value of the labour-power is advanced to the capitalist: the labourer allows the buyer to consume it before he receives payment of the price; he everywhere gives credit to the capitalist. That this credit is no mere fiction, is shown not only by the occasional loss of wages on the bankruptcy of the capitalist,¹³ but also by a series of more enduring consequences.¹⁴ Nevertheless, whether money serves as a means of purchase or as a means of payment, this makes no alteration in the nature of the exchange of commodities. The price of the labour-power is fixed by the contract, although it is not realised till later, like the rent of a house. The labour-power is sold, although it is only paid for at a later period. It will, therefore, be useful, for a clear comprehension of the relation of the parties, to assume provisionally, that the possessor of labour-power, on the occasion of each sale, immediately receives the price stipulated to be paid for it.

We now know how the value paid by the purchaser to the possessor of this peculiar commodity, labour-power, is determined. The use-value which the former gets in exchange, manifests itself only in the actual utilisation, in the consumption of the labour-power. The money-owner buys everything necessary for this purpose, such as raw material, in the market, and pays for it at its full value. The consumption of labour-power is at one and the same time the production of commodities and of surplus-value. The consumption of labour-power is completed, as in the case of every other commodity, outside the limits of the market or of the sphere of circulation. Accompanied by Mr. Moneybags and by the possessor of labour-power, we therefore take leave for a time of this noisy sphere, where everything takes place on the surface and in view of all men, and follow them both into the hidden abode of production, on whose threshold there stares us in the face “No admittance except on business.” Here we shall see, not only how capital produces, but how capital is produced. We shall at last force the secret of profit making.

This sphere that we are deserting, within whose boundaries the sale and purchase of labour-power goes on, is in fact a very Eden of the innate rights of man. There alone rule Freedom, Equality, Property and Bentham. Freedom, because both buyer and seller of a commodity, say of labour-power, are constrained only by their own free will. They contract as free agents, and the agreement they come to, is but the form in which they give legal expression to their common will. Equality, because each enters into relation with the other, as with a simple owner of commodities, and they exchange equivalent for equivalent. Property, because each disposes only of what is his own. And Bentham, because each looks only to himself. The only force that brings them together and puts them in relation with each other, is the selfishness, the gain and the private interests of each. Each looks to himself only, and no one troubles himself about the rest, and just because they do so, do they all, in accordance with the pre-established harmony of things, or under the auspices of an all-shrewd providence, work together to their mutual advantage, for the common weal and in the interest of all.

On leaving this sphere of simple circulation or of exchange of commodities, which furnishes the “Free-trader Vulgaris” with his views and ideas, and with the standard by which he judges a society based on capital and wages, we think we can perceive a change in the physiognomy of our *dramatis personae*. He, who before was the money-owner, now strides in front as capitalist; the possessor of labour-power follows as his labourer. The one with an air of importance, smirking, intent on business; the other, timid and holding back, like one who is bringing his own hide to market and has nothing to expect but – a hiding.

¹ “In the form of money ... capital is productive of no profit.” (Ricardo: “Princ. of Pol. Econ.,” p. 267.)

² In encyclopaedias of classical antiquities we find such nonsense as this — that in the ancient world capital was fully developed, “except that the free labourer and a system of credit was wanting.” Mommsen also, in his “History of Rome,” commits, in this respect, one blunder after another.

³ Hence legislation in various countries fixes a maximum for labour-contracts. Wherever free labour is the rule, the laws regulate the mode of terminating this contract. In some States, particularly in Mexico (before the American Civil War, also in the territories taken from Mexico, and also, as a matter of fact, in the Danubian provinces till the revolution effected by Kusa), slavery is hidden under the form of *peonage*. By means of advances, repayable in labour, which are handed down from generation to generation, not only the individual labourer, but his family, become, *de facto*, the property of other persons and their families. Juarez abolished *peonage*. The so-called Emperor Maximilian re-established it by a decree, which, in the House of Representatives at Washington, was aptly denounced as a decree for the re-introduction of slavery into Mexico. “I may make over to another the

use, for a limited time, of my particular bodily and mental aptitudes and capabilities; because in consequence of this restriction, they are impressed with a character of alienation with regard to me as a whole. But by the alienation of all my labour-time and the whole of my work, I should be converting the substance itself, in other words, my general activity and reality, my person, into the property of another.” (Hegel, “Philosophie des Rechts.” Berlin, 1840, p. 104, § 67.)

⁴ The capitalist epoch is therefore characterised by this, that labour-power takes in the eyes of the labourer himself the form of a commodity which is his property; his labour consequently becomes wage-labour. On the other hand, it is only from this moment that the produce of labour universally becomes a commodity.

⁵ “The value or worth of a man, is as of all other things his price — that is to say, so much as would be given for the use of his power.” (Th. Hobbes: “Leviathan” in Works, Ed. Molesworth. Lond. 1839-44, v. iii. p. 76.)

⁶ Hence the Roman Villicus, as overlooker of the agricultural slaves, received “more meagre fare than working slaves, because his work was lighter.” (Th. Mommsen, Röm. Geschichte, 1856, p. 810.)

⁷ Compare W. Th. Thornton: “Over-population and its Remedy,” Lond., 1846.

⁸ Petty.

⁹ “Its (labour’s) natural price ... consists in such a quantity of necessities and comforts of life, as, from the nature of the climate, and the habits of the country, are necessary to support the labourer, and to enable him to rear such a family as may preserve, in the market, an undiminished supply of labour.” (R. Torrens: “An Essay on the External Corn Trade.” Lond. 1815, p. 62.) The word labour is here wrongly used for labour-power.

¹⁰ Rossi: “Cours d’Econ. Polit.,” Bruxelles, 1842, p. 370.

¹¹ Sismondi: “Nouv. Princ. etc.,” t. I, p. 112.

¹² “All labour is paid after it has ceased.” (“An Inquiry into those Principles Respecting the Nature of Demand,” &c., p. 104.) Le crédit commercial a dû commencer au moment où l’ouvrier, premier artisan de la production, a pu, au moyen de ses économies, attendre le salaire de son travail jusqu’à la fin de la semaine, de la quinzaine, du mois, du trimestre, &c.” [“The system of commercial credit had to start at the moment when the labourer, the prime creator of products, could, thanks to his savings, wait for his wages until the end of the week.”] (Ch. Ganihl: “Des Systèmes d’Econ. Polit.” 2^{ème} édit. Paris, 1821, t. II, p. 150.)

¹³ “L’ouvrier prête son industrie,” but adds Storch slyly: he “risks nothing” except “de perdre son salaire ... l’ouvrier ne transmet rien de matériel.” [“The labourer lends his industry ... the loss of his wages ... the labourer does not hand over anything of a material nature.”] (Storch: “Cours d’Econ. Polit.” Pétersbourg, 1815, t. II, p. 37.)

¹⁴ One example. In London there are two sorts of bakers, the “full priced,” who sell bread at its full value, and the “undersellers,” who sell it under its value. The latter class comprises more than three-fourths of the total number of bakers. (p. xxxii in the Report of H. S. Tremenheere, commissioner to examine into “the grievances complained of by the journeymen bakers,” &c., Lond. 1862.) The undersellers, almost without exception, sell bread adulterated with alum, soap, pearl ashes, chalk, Derbyshire stone-dust, and such like agreeable nourishing and wholesome ingredients. (See the above cited Blue book, as also the report of “the committee of 1855 on the adulteration of bread,” and Dr. Hassall’s “Adulterations Detected,” 2nd Ed. Lond. 1861.) Sir John Gordon stated before the committee of 1855, that “in consequence of these adulterations, the poor man, who lives on two pounds of bread a day, does not now get one fourth part of nourishing matter, let alone the deleterious effects on his health.” Tremenheere states (l.c., p. xlviii), as the reason, why a very large part of the working-class, although well aware of this adulteration, nevertheless accept the alum, stone-dust, &c.,

as part of their purchase: that it is for them “a matter of necessity to take from their baker or from the chandler’s shop, such bread as they choose to supply.” As they are not paid their wages before the end of the week, they in their turn are unable “to pay for the bread consumed by their families, during the week, before the end of the week,” and Tremenhoe adds on the evidence of witnesses, “it is notorious that bread composed of those mixtures, is made expressly for sale in this manner.” In many English and still more Scotch agricultural districts, wages are paid fortnightly and even monthly; with such long intervals between the payments, the agricultural labourer is obliged to buy on credit.... He must pay higher prices, and is in fact tied to the shop which gives him credit. Thus at Horningham in Wilts, for example, where the wages are monthly, the same flour that he could buy elsewhere at 1s 10d per stone, costs him 2s 4d per stone. (“Sixth Report” on “Public Health” by “The Medical Officer of the Privy Council, &c., 1864,” p.264.) “The block printers of Paisley and Kilmarnock enforced, by a strike, fortnightly, instead of monthly payment of wages.” (“Reports of the Inspectors of Factories for 31st Oct., 1853,” p. 34.) As a further pretty result of the credit given by the workmen to the capitalist, we may refer to the method current in many English coal mines, where the labourer is not paid till the end of the month, and in the meantime, receives sums on account from the capitalist, often in goods for which the miner is obliged to pay more than the market price (Truck-system). “It is a common practice with the coal masters to pay once a month, and advance cash to their workmen at the end of each intermediate week. The cash is given in the shop” (i.e., the Tommy shop which belongs to the master); “the men take it on one side and lay it out on the other.” (“Children’s Employment Commission, III. Report,” Lond. 1864, p. 38, n. 192.)