Capital

CRITIQUE OF POLITICAL ECONOMY
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Karl Marx

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CHAPTER FOUR

The Transformation of Money into Capital

1. The General Formula for Capital[i]

Capital begins with the circulation of commodities. Commodity production, commodity circulation, and advanced commodity circulation—in other words, trade—are the historical conditions under which capital arises. Its modern biography starts in the sixteenth century, when modern global trade and the world market were created.

When we set aside the material content of commodity circulation, namely, the exchange of different use-values, and consider only the economic forms brought forth by this process, we find that the process ultimately produces money. The ultimate product of commodity circulation is capital's first form of appearance.

Historically, when capital emerges opposite landed property, it always takes the form of money—money fortunes, merchant capital, and usury capital.[1] But we don't have to go back to capital's genesis story to see that money is its initial form of appearance. The same story plays out daily before our eyes. Even today, every new mass of capital goes on stage, that is, comes to the market—whether the commodity market, the labor market, or the money market—as money that certain processes are to transform into capital.

At first, the only difference between money as money and money as capital is that they have different forms of circulation.

The direct form of commodity circulation is C-M-C, where a commodity is transformed into money and reverse-transformed from money into

1. "No land without its lord," "Money has no master" ("Nulle terre sans seigneur," "L'argent n'a pas de maître"). These French sayings clearly express the opposition between the power of landed property, which rests on personal relations of subjugation and domination, and the impersonal power of money.

a commodity: selling in order to buy. But alongside this form, we find a second one that is quite different from the first: M-C-M, where money is transformed into a commodity and reverse-transformed from a commodity into money. This is buying in order to sell. Money that moves through the second circuit is transformed into capital, becomes capital, and, in terms of its purpose, already is capital.

Let's take a closer look at the M-C-M circuit. Like simple commodity circulation, it has two opposing phases of movement. In the first phase, M-C or a purchase, money is transformed into a commodity. In the second, C-M or a sale, the commodity is reverse-transformed into money. The unity of the two phases is their total movement; through it, money is exchanged for a commodity, and then the same commodity is exchanged for money: buying a commodity in order to sell it. Or, if one forgets about the formal differences between a purchase and sale, buying a commodity with money and buying money with a commodity.[2] The outcome, in which the entire process vanishes, is that money is exchanged for money, M-M. If I buy 2,000 pounds of cotton for £100, and sell that 2,000 pounds of cotton for £110, I have exchanged £100 for £110, money for money.

Anyone can see that the M-C-M circulation process would be absurd and pointless as a roundabout way to exchange an amount of money value for the same amount: for example, £100 for £100. Much simpler and more secure would be what the person who amasses money does. He doesn't expose his £100 to the dangers of circulation; he just holds onto his money. On the other hand, whether the merchant sells the cotton he bought with £100 for £110, or has to part with it for £100 or even £50, his money still moves in a characteristic and original way. It is thoroughly different from the movement in simple commodity circulation, where the farmer sells grain and buys clothes with the money his sale has freed up. So our next step will be to examine the formal differences between the M-C-M and C-M-C circuits. This will also reveal the difference in content lurking behind these differences in form.

First, let's look at what the two forms have in common.

Both circuits can be broken down into the same two opposing phases: C-M, a sale, and M-C, a purchase. In both phases, the same two thingly elements are positioned opposite each other, a commodity and money, and so are two people wearing the same economic actor's masks: those

2. "With money one buys goods, and with goods one buys money" (Mercier de la Rivière: "L'ordre naturel et essential des sociétés politiques," p. 543).

of a buyer and a seller. Each circuit is the unity of the same opposing phases, and in both cases, three partners in exchange mediate this unity. One person merely sells; another merely buys; the third alternately buys and sells.

The C-M-C and M-C-M circuits differ, above all, in that the same two opposing phases of circulation proceed in inverted order. Simple commodity circulation begins with a sale and ends with a purchase; money's circulation as capital begins with a purchase and ends with a sale. In the former, a commodity serves as the starting and end points of the movement, in the latter, money does. In the first form, money mediates the total process; in the second, conversely, a commodity mediates it.

The C-M-C circuit ends when money is transformed into a commodity that functions as a use-value. The money has thus been spent once and for all. In contrast, the buyer spends money in M-C-M, the reverse form, in order to attract money as a seller. When he buys, he puts money into circulation, only to take it back out when he sells the same commodity he purchased. He lets go of the money but he does so with a calculating attitude, or only in order to have it in his hands again. Here, then, the buyer merely advances the money.[3]

In the C-M-C form, the same piece of money changes places twice. The seller gets the money from the buyer and then uses it to pay another seller. The whole process, which begins when money flows to a seller in exchange for his commodity, ends when money flows away from a buyer in exchange for a different commodity. In the M-C-M form, the process works the other way around. The same commodity changes places twice, not the same piece of money. The buyer purchases a commodity from the seller and puts it into the hands of another buyer. When a piece of money changes places twice in simple commodity circulation, that money is removed, once and for all, from one set of hands and put into a different set. In M-C-M, in contrast, when the same commodity changes places twice, the effect is that money flows back to its starting point.

Money flows back to its starting point whether or not a commodity is sold for more than it originally cost. How much money a commodity attracts determines only the magnitude of the sum that flows back to the starting point. The phenomenon itself—money flowing back to its starting point—occurs the moment a commodity that had been bought is

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 etc. edited by General Sir James Steuart, his son. Lond. 1805, v. I, p. 274).

sold, thereby completing the M-C-M circuit. We have here a physical and observable difference between how money circulates as capital and how it circulates as mere money.

The C-M-C circuit is completed when a second commodity is purchased, and the money that the first commodity attracted when it was sold is drawn away. Money will return to the starting point again only when the whole circuit is restarted or repeated. If I sell eight bushels of grain for £3, and use this £3 to buy clothes, the £3 is out of my hands for good. I no longer have anything to do with it. The £3 now belongs to the clothes retailer. If I sell another eight bushels of grain, then money will flow back to me, but only because I have repeated the first transaction, not as a result of the first transaction. But this money, too, flows away from me when I complete the circuit—when once again I buy something. So in the C-M-C circuit, the way money is spent doesn't cause it to flow back to the starting point. But in the M-C-M circuit, how money is spent conditions its return there. If money doesn't flow back to the starting point, the operation fails: the circuit has been interrupted and is unfinished, since its second phase is missing: the sale that complements and completes the purchase.

A commodity is the starting point in the C-M-C circuit, whose endpoint is a second commodity. The second commodity falls out of circulation and is consumed. C-M-C's ultimate purpose is consumption or the satisfaction of wants and needs—in a word, use-value. In contrast, money is both the starting point and endpoint in the M-C-M circuit. The motive that drives this circuit and the goal that defines it is exchange-value.

In simple commodity circulation, both the starting point and endpoint have the same economic form. They are both commodities. They also have the same magnitude of value. On the other hand, they are qualitatively different use-values—say, grain and clothes. The content of the movement here is that products are exchanged—i.e., different things in which social labor is represented. Not so in the M-C-M circuit. At first, this circuit seems to be a tautology and therefore to lack content. The starting point and the endpoint have the same economic form: both are money. They aren't qualitatively different use-values, because money is simply the transformed shape of the commodities whose particular use-values have disappeared in it. To exchange £100 for cotton, and then the same cotton for £100—or to exchange money for money, a thing for that same thing in a roundabout way—seems to be an exercise that is as unproductive as it is absurd.[4] Sums of money differ from one another only with respect to their magnitude. A change that would give content to the M-C-M process cannot arise from a qualitative difference between its starting point and endpoint, since they are both money. Rather, such a change has to come from quantitative differences alone, which means that more money is taken out of circulation than was originally put in. Cotton that cost £100 is sold for £100 + £10, for example. The complete form of this process is therefore M-C-M′, where $M' = M + \Delta M$, or M′ equals the sum of the money originally advanced plus a supplement. I call this supplement—the amount that exceeds the original value—surplus-value. Here the value advanced in the beginning not only remains intact as it circulates, but it also alters its own magnitude. It takes on surplus-value, valorizing itself. This movement transforms the original value into capital.

Of course, the starting point and endpoint in C-M-C—C and C, the grain and clothes—can have quantitatively different magnitudes of value. The farmer can sell his grain for more than its value or buy clothes for less than theirs. Or the retailer selling the clothes can fleece the farmer. For this circuit, however, such differences in value remain purely accidental. The circuit doesn't lose all rhyme and reason, as the M-C-M process does, when the starting point and endpoint—the grain and the clothes—are equivalents. Instead the C-M-C circuit needs an equivalence of value in order to run its normal course.

4. "One does not exchange money for money," exclaims Mercier de la Rivière, in speaking to the Mercantilists (op. cit. p. 486). In a work that is *ex professo* about "trade" and "speculation," a work that deals with dealing, so to speak, we read: "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). While Corbet doesn't recognize that M-M, exchanging money for money, is not only the characteristic circulation-form of merchant-capital, but also that of all capital, he at least acknowledges that this form is common to games of chance and one kind of trade—speculation. But then MacCulloch arrives on the scene and claims that to buy in order to sell is to speculate; as a result, the difference between trade and speculation drops out of the picture: "Every transaction in which an individual buys produce in order to sell it again is, in fact, a speculation" (MacCulloch: A Dictionary practical etc. of Commerce. London 1847, p. 1058). With much more naïveté, Pinto, the Pindar of the Amsterdam stock-exchange, observes, "Commerce is a game [he borrows this sentence from Locke]; and it is not with beggars that one can win. If one were to win constantly, in everything and with everyone, one would have to give back voluntarily the greater part of the profit to start the game anew" (Pinto: Traité de la Circulation et du Crédit, Amsterdam, 1771, p. 231).

The act of selling in order to buy, i.e., the C-M-C circuit, is restarted and repeated for an ultimate purpose that lies outside the circulation sphere, and this act finds its measure and its meaning in that purpose: consumption—in other words, the satisfaction of particular wants or needs. But when a buyer purchases a commodity in order to sell it, he begins and completes the circuit with the same thing—money or exchange-value—which makes the movement of this circuit endless. M does in fact turn into M + ΔM; £100 turns into £100 + 10. But from a purely qualitative standpoint, £110 is the same as £100, namely, money. And from a quantitative standpoint, £110 is a limited amount of value, as is £100. If the £110 were spent as money, it would abandon its role: it would no longer be capital. If the £110 were taken out of circulation, it would harden into a store of money, and it wouldn't grow by a single farthing even if it sat around till Judgment Day. When it comes to the valorization of value, £110 has the same need to be valorized as £100, because both sums are limited expressions of exchange-value, and both have the same calling: to go as far as they can in the direction of absolute wealth by increasing their magnitude. The original value of £100 may differ, for a moment, from the surplus-value of £10 that it takes on as it circulates, but this difference quickly falls away. When the process ends, the value that comes out is neither the original £100 nor the £10 of surplus-value. What comes out, rather, is a value of £110, which has exactly the same form as the original £100—the right form to be in to valorize itself again.[5] Money comes out at the end of the movement ready to begin another circuit. Thus when commodities are bought in order to be sold, the end of every single circuit represents the beginning of a new one. Simple commodity circulation—selling in order to buy—serves as the means for an ultimate end that lies outside circulation: the appropriation of use-values or the satisfaction of wants and needs. But money's circulation as capital is an end in itself because the valorization of value exists only within this constantly restarted movement. The movement of capital thus has no limit.[6]

5. "Capital is divided once more into the original capital and profit—the increment of capital . . . although in practice profit is immediately lumped together with capital and set into motion with it (F. Engels: "Umrisse zu einer Kritik der Nationalökonomie" in Deutsch-Französische Jahrbücher, edited by Arnold Ruge and Karl Marx. Paris 1844, p. 99). [Editor's note: English translation, *Outline of a Critique of Political Economy* in *Marx-Engels Collected Works*, vol. 3 (Moscow: Progress Publishers, 1975), p. 430.]

6. Aristotle counterposes household management and "chrematistics," using the former as his starting point. Insofar as it is the art of acquisition, it is limited to the procuring of goods that are needed to sustain life and are useful for the household or the state. "True wealth [ὁ ἀληθινὸς πλοῦτος] seems to consist in such goods. For the amount of this sort

The money owner becomes a capitalist when he acts as the conscious bearer of this movement. His person, or rather, his pocket, is money's starting point as well as the point it returns to. The change that gives this form of circulation its objective content—value is valorized—is his subjective goal; and he functions as a capitalist, or as personified capital endowed with consciousness and a will, only insofar as the sole motivation driving his operations is to appropriate more and more abstract wealth.[ii] Thus we should never regard use-value as the capitalist's immediate aim.[7] This also holds for turning a profit in an individual transaction. What the capitalist wants—all he wants—is the movement of ceaseless profitmaking.[8] The person who amasses stores of money and the capitalist share this absolute

of property that one needs for the self-sufficiency that promotes the good life is not unlimited. . . . But there is another type of property acquisition which is especially called chrematistics, and justifiably so. It is the reason wealth and property are thought to have no limit. . . . This also makes it clear that commerce [ἡ καπηλικὴ means literally 'retail trade,' and Aristotle chooses this form because use-values predominate in it] is not a part of chrematistics by nature: for people needed to engage in exchange only up to the point at which they had enough." And so, as he goes on to demonstrate, the original form of trade was bartering; however, with the growth of that original form, the need for money emerged. When money was invented, bartering necessarily developed into καπηλική, trading commodities, and, again, now running counter to its original direction, this developed into chrematistics. What distinguishes chrematistics from household management is that "commerce has to do with the production of goods, not in the full sense, but through their exchange [ποιητικὴ χρημάτων . . . διὰ χρημάτων μεταβολῆς]. It is held to be concerned with money, on the grounds that money is the unit and limit of exchange [τὸ γὰρ νόμισμα στοιχεῖον καὶ πέρας τῆς ἀλλαγῆς ἐστίν]. The wealth that derives from this kind of wealth acquisition is without limit . . . each of the crafts aims to achieve its end in an unlimited way, since each tries to achieve it as fully as possible. [But none of the things that promote the end is unlimited, since the end itself constitutes a limit for all crafts.] Similarly, there is no limit to the end of this kind of wealth acquisition, for its end is wealth in that form, that is to say, the possession of money. The kind of wealth acquisition that is a part of household management, on the other hand, does have a limit, since this is not the task of household management. . . . For one aims to increase it, whereas the other aims at a different end. . . . Each of the two kinds of wealth acquisition makes use of the same thing, so their uses overlap. . . . So some people believe that this is the task of household management, and go on thinking that they should maintain their store of money or increase it without limit" (Aristotle: De Rep., ed. Bekker, lib. I, c. 8, 9 *passim*). [Editor's note: Marx's version of these quotations synthesizes a number of sections of Aristotle's text, interpolating some of his own terminology. The text comes from Aristotle's *Politics*, 1256b26–1257b40. The English translation has been modified to reflect Marx's changes. Aristotle, *Politics*, trans. C. D. Reeve (Indiana: Hackett, 1998), pp. 14–17.]

7. "Commodities [here in the sense of use-values] are not the terminating object of the trading capitalist . . . money is his terminating object" (Th. Chalmers: On Politic Econ. etc. 2nd edit. Glasgow 1832, pp. 165, 166).

8. "The merchant counts the profit he has just made almost as nothing; instead he always looks to the future" (A. Genovesi: Lezioni di Economia Civile (1765). In Custodi's edition of the Italian economists, Parte Moderna, Vol. VIII, p. 139).

drive to increase their wealth, this passionate pursuit of exchange-value.[9] But whereas the money amasser is an insane capitalist, the capitalist is a rational money amasser. When the person who amasses money saves his money by keeping it outside circulation,[10] he is striving after the ceaseless expansion of exchange-value; the cleverer capitalist actually achieves that goal by always giving his money over to circulation anew.[11]

In simple circulation, the value of commodities takes on independent forms—money forms, which do nothing more than mediate commodity exchange. These forms disappear in the end result of the C-M-C circuit. In the M-C-M circuit, in contrast, both the commodity and money function only as value's different modes of existence: money as the general mode and the commodity as the particular or disguised mode, so to speak.[12] Value continuously passes from the one form into the other without losing itself as it moves back and forth, and in this way, value transforms itself into an automatic subject. If we stop this movement, freezing in place the particular forms of appearance that self-valorizing value alternately takes on during its life cycle, we will see that capital is money, and capital is also a commodity.[13] But, in fact, what happens here is that value becomes the subject of a process in which it changes its own magnitude as it continuously goes back and forth between the forms "money" and "the commodity." As surplus-value, value moves beyond itself, the original value, valorizing itself, for the movement within which its value grows is its own movement. And so when value is valorized, it is valorizing itself. It has acquired the occult ability to add value by virtue of being value. It spits out live children, or at least lays golden eggs.

9. "The inextinguishable passion for gain, the *auri sacra fames*, will always induce capitalists" (MacCulloch: The Principles of Polit. Econ. London 1830, p. 179). Naturally, this insight doesn't stop this same MacCulloch and his circle from getting into theoretical trouble—for example, in dealing with overproduction, they turn the very same capitalist into a solid citizen who only cares about use-value and even develops an all-consuming, werewolf hunger for boots, hats, eggs, calico, and other very common types of use-values. [Editor's note: "Auri sacra fames" is a line from Virgil's *Aeneid* meaning "the accursed hunger for gold."]

10. "Σώζειν" is one of the Greeks' characteristic expressions for amassing wealth. Similarly, "to save" in English means both to rescue and put money aside.

11. "The infinitude things do not have in the progression itself occurs in repetition" (Galiani). [Editor's note: The source here is Galiani op. cit. See Ferdinando Galiani, *On Money: A Translation of Della Moneta*, trans. Peter Toscano (Chicago: University of Chicago, 1977), p. 75.]

12. "It is not materials that make up capital, but the value of these materials" (J. B. Say: Traité L'Econ. Polit. 3ème éd. Paris, 1817, Vol. 2, p. 429).

13. "Currency [!] employed to productive purposes is capital" (MacLeod: "The Theory and Practice of Banking. London 1855," v. I, c. I). "Capital is commodities" (James Mill: "Elements of Pol. Econ. Lond. 1821," p. 74).

Value alternately takes on and sheds the money-form and the commodity-form, maintaining itself as it goes back and forth between them, and expanding all the while. As the dominant subject of this process, value needs, above all, an independent form that can affirm its self-identity. Money alone gives value such a form. Every circuit in which value is valorized therefore begins and ends with money. A value was £100, now it is £110, and so on. But here money is only one form of value, which has two. In order to become capital, money has to take on the commodity-form. So, here, money doesn't relate to commodities antagonistically, as it does when it is stored. The capitalist knows that however shabby commodities look, however foul they smell, they are, in their faith and in truth, money; on the inside, commodities are circumcised Jews—and also a wondrous means for turning money into more money.[iii]

In simple circulation, the value of a commodity gains at most a form that is independent of the commodity's use-value—namely, the form of money. But in the M-C-M circuit, value suddenly presents itself as a substance that is in process and moves on its own, a substance for which the commodity and money are nothing more than forms. And now value doesn't simply represent the relations among commodities: instead it enters into a private relation with itself, so to speak. As an original value, value is different from itself as surplus-value, just as God the Father is different from Himself as the Son of God, even though they are the same age and are in fact one person. For it is solely the surplus-value of £10 that causes the £100 originally advanced to become capital, and the moment that the £100 becomes capital—the moment that the Son, and through the Son, the Father, are created—the difference between Father and Son vanishes, and they again become One, £110.

Thus value becomes value in process, money in process, and, as such, capital. Value emerges from circulation and flows back into it; value maintains itself and multiplies as it circulates, returns from circulation enlarged, and constantly begins the same circuit anew.[14] M-M′, "money which begets money"—that is how capital was described by the Mercantilists, its first interpreters.[iv]

Now, buying in order to sell, or better, buying in order to sell at a higher price, M-C-M′, appears to be just one kind of capital, the form peculiar to merchant capital. But industrial capital, too, is money that turns into a commodity and then, when it is sold, is reverse-transformed into more

14. "Capital . . . a value that is permanent and multiplying" (Sismondi, Nouveaux Principes d'Econ. Polit. Vol. 1, pp. 88, 89).

money. Transactions that take place between purchase and sale—outside the circulation sphere, that is—don't affect the form of this movement. Lastly, in interest-bearing capital, the M-C-M′ circuit presents itself, in terms of its result, in an abbreviated, unmediated, or, one might say, lapidary form: M-M′, money that instantly becomes more money, value that is greater than itself.

M-C-M′ is thus the general formula for capital as it directly appears in the circulation sphere.

2. Contradictions in the General Formula

The form of circulation where money emerges from its chrysalis as capital contradicts all the laws we have explicated up to now: those having to do with the nature of commodities, value, money, and also the nature of circulation itself. This other form of circulation differs from simple commodity circulation in that it reverses the order of the same two opposing processes, a sale and a purchase. By what magic does a purely formal difference transform the nature of these processes?

And another thing: the sequence of exchange is reversed for just one of the three friends of commerce doing business together. As a capitalist, I buy a commodity from A and resell it to B, whereas as a simple commodity owner, I sell my commodity to B and then buy a commodity from A. For the participants A and B, there is no difference between these two circuits. A and B enter into the transactions that make up the two circuits only as the buyer or the seller of a commodity. I interact with them in each case as either a simple money owner or a simple commodity owner, as a buyer or a seller. And in both sequences, in fact, it is merely as a seller that I interact with the one person and merely as a buyer that I interact with the other: it is merely as money that I interact with the one person and merely as a commodity that I interact with the other. I interact with neither person as capital or as a capitalist, or as the representative of something more than money or a commodity. In neither case am I the representative of something that can exert effects other than those of money and commodities. For me, buying from A and selling to B form a sequence. But the two transactions are connected only for me—A doesn't care about my transaction with B, and B doesn't care about my transaction with A. If I tried to explain to A and B how I profit when the sequence is reversed, they would probably tell me that I'm confused, and that the whole transaction didn't begin when something was bought and end when something was sold, but rather proceeded the other way around. It began when something was sold and ended when something was bought. My first act, buying, was in fact selling from A's standpoint, and my second act, selling, was buying from B's. Not satisfied with that, A and B would declare the whole sequence to be unnecessary, nothing more than hocus-pocus. They would say that from now on, A will be selling his commodity directly to B, and B will be buying it directly from A. The whole transaction would shrink down to a one-sided act of regular commodity circulation. It would be merely a sale from A's standpoint and merely a purchase from B's. When we reverse the sequence, we don't wind up beyond the sphere of simple commodity circulation. Hence we have to ask whether the nature of simple commodity circulation allows the values that go into circulation to be valorized and, thus, surplus-value to be created.

Let's examine the circulation process in a form in which it presents itself simply as an exchange of commodities. We will find this form of circulation wherever two commodity owners buy from each other and, when it is time to pay, owe each other offsetting amounts that come out to a balance of zero. Here, money serves as money of account. It expresses commodities' values as their prices, but it isn't as a physical thing that this money positions itself opposite commodities. Insofar as use-value is concerned, both participants can profit, clearly. Each disposes of a commodity that he doesn't need or want as a use-value, and each acquires a commodity he needs or wants to use. And this might not be the only advantage for the exchangers. A, who sells wine and buys grain, will perhaps produce more wine than the grain farmer B could produce in the same amount of labor-time, and B, for his part, will perhaps produce more grain than A could in the same amount of labor-time. Thus A might wind up with more grain for the same exchange-value, and B with more wine, than each would have if the two weren't able to exchange goods and had to produce, respectively, their own wine and grain. With regard to use-value, one can say, "Exchange is a transaction in which both sides profit."[15] Not so with exchange-value. "A man who has a large amount of wine and no grain trades with a man who has a lot of grain and no wine, and they exchange grain worth 50 for a value of 50 in wine. The exchange results in an increase in exchange-value for neither person, because before the exchange, each already possessed a value equal to the one he acquired

15. "An exchange is an admirable transaction in which both contracting parties profit—always [!]" (Destutt de Tracy, Traité de la Volonté et de ses effets. Paris 1826, p. 68). This work appeared in 1823 as "Traité de l'Ec. Pol."

through the transaction."[16] Nothing about this situation changes when money, functioning as the means of circulation, steps between the commodities, and the acts of buying and selling commodities lose their direct physical connection.[17] Prices represent commodities' values before commodities begin to circulate. So prices don't result from circulation; rather, circulation requires prices as a precondition.[18]

Let us now consider simple commodity circulation in the abstract. If we leave aside those conditions that don't arise from its immanent laws, what do we see? One use-value is substituted for another, but beyond that, nothing happens except that a commodity is transformed or, in other words, it merely changes its form. The same exchange-value—the same quantity of objectified social labor—remains in the same commodity owner's hands, alternately in the shape of his commodity, the shape of the money his commodity turns into, and the shape of the commodity into which the money is reverse-transformed. This form change doesn't imply that the magnitude of value changes. The change that the commodity's value undergoes has to do only with its money-form. Its money-form exists at first as the price of a commodity for sale, then as a sum of actual money, which has already been expressed as the commodity's price, and, finally, as the price of an equivalent commodity. In and for itself, this form change implies a change in a commodity's magnitude of value just as little as the value of a £5 note is altered when one exchanges it for sovereigns, half sovereigns, or shillings. Thus insofar as commodity circulation requires only that value change its form, this circulation, when it proceeds in its pure form, requires that equivalents be exchanged. Vulgar economists, having no idea what value is, presume that supply and demand match each other, or that the effects of supply and demand have come to a complete stop, whenever they feel like training their own peculiar sights on the phenomenon of commodity circulation in its pure form. If both parties in an exchange can profit with regard to use-value, they can't with regard to exchange-value. The rule, rather, is, "Where equality exists, there is no gain."[19] Of course, it is possible to sell commodities at prices that deviate from their values, but such deviation presents itself as

16. Mercier de la Rivière op. cit. p. 544.

17. "Whether one of these two values is money, or whether they are both common commodities: nothing could be more indifferent" (Mercier de la Riveiere op. cit. p. 543).

18. "It is not the contracting parties who decide on the value; it is decided prior to the agreement" (Le Trosne p. 906). [Editor's note: The source is Le Trosne op. cit.]

19. "Where there is equality there is not profit" (Galiani: Della Moneta in Custodi, Parte Moderna, Vol. IV, p. 244).

a violation of the law of commodity exchange.[20] In the pure form of commodity exchange, equivalents are exchanged. This isn't a way for someone to enlarge their value.[21]

Almost always lurking behind attempts to depict commodity circulation as that which generates surplus-value is a *quid pro quo*: use-value is confused with exchange-value.[v] For example, Condillac writes, "It is wrong to say that in commodity exchange, we exchange value for the same value. It is the other way around. Both parties involved always give up a smaller value for a larger one. . . . In fact, if we always exchanged equal values, neither party could make a profit. But both do profit, or in any case should profit. Why? The value of things exists only as a function of our needs. Something that has more value for one person will have less for another and vice versa. . . . We shouldn't assume that we sell things that we absolutely need to consume. . . . We want to part with a thing that is useless to us as a way of acquiring a thing we need; we want to give up less in exchange for more. . . . It was natural to think that in exchange, we give up value for equal value, as long as the values of the things being exchanged are equal in terms of gold. . . . But another consideration must be taken into account as well: does each party exchange something superfluous for something he needs?"[22,vi] We can see not only that Condillac makes a jumbled mess of use-value and exchange-value, but also that with all the sophistication of a toddler, he attributes the following situation to a society with advanced commodity production: the producer makes his own means of subsistence and puts only what he doesn't need, superfluous products, into circulation.[23] Yet today's political economists often repeat Condillac's argument, especially when they want to represent the advanced form of commodity exchange, commerce, as the factor that creates surplus-value. "Commerce," we read,

20. "The exchange becomes disadvantageous for one of the parties when some external circumstance diminishes or inflates the price: equality is then injured, but the injury comes from this cause and not from the exchange itself" (Le Trosne op. cit. p. 904).

21. "An exchange is, by its very nature, a contract of equality, made on the basis of equal value for equal value. It is therefore not a means of enriching oneself, since one gives as much as one receives " (Le Trosne op. cit. pp. 903, 904).

22. Condillac: "Le Commerce et le Gouvernement" (1776). Edit. Daire and Molinari in the "Mélanges d'Économique. Paris, 1847," pp. 267, 291.

23. Le Trosne is thus quite correct when he replies to his friend Condillac: "In a developed society, there is absolutely nothing that is superfluous." At the same time, he teases Condillac with the statement: "If both parties in the exchange receive more in return for an equal amount, and part with less in return for an equal amount, they both get the same amount." Because Condillac doesn't yet have the slightest idea about the nature of exchange-value, he is the right person to vouch for Herr Prof. Wilhelm Roscher's childish ideas. See Roscher's "Die Grundlagen der Nationalökonomie. Dritte Auflage. 1858."

"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."[24,vii] But you don't pay for commodities twice, first for their use-value and then for their value. And if the buyer needs a commodity's use-value more than the seller, the seller needs the commodity's money-form more than the buyer. Why else would he sell his commodity? We might just as well say that the buyer performs what is "strictly" an act of production when he turns a retailer's stockings into money.

When people exchange commodities—or commodities and money—that have the same exchange-value, which is to say, when they exchange equivalents, it is obvious that no one takes more value out of circulation than he puts into it. No surplus-value is created. But it is the pure form of commodity circulation that requires the exchange of equivalents, and in reality, things don't happen in a pure way. Let's therefore assume that nonequivalents are exchanged.

When a commodity owner comes to the commodity market, he encounters only another commodity owner, and the power these two people exercise over each other is merely the power of their commodities. The material differences among commodities constitute the material motivation for exchange. These differences make the commodity owners dependent on each other. Neither has in his hands an object that satisfies one of his own wants or needs, while both have in their hands an object that satisfies one of the other person's wants or needs. Beyond this material difference between commodities' use-values, there is just one other difference between commodities—the difference between their natural form and their transformed form, between commodities and money. Commodity owners differ only in regard to whether they sell commodities they own or buy commodities with money they own.

Let's now imagine that a seller enjoys an inexplicable privilege: he gets to sell his commodity for more than its value—for £110 when it is worth £100, and thus with a nominal price increase of 10%. The seller thus collects £10 in surplus-value. But after being a seller, he becomes a buyer. He now faces a third commodity owner who is acting as a seller, and this seller, too, gets to sell his commodity at a price that is too high by 10%. As a seller, our man made a profit of £10, only to take a loss of £10 as a buyer.[25]

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

25. "By the augmentation of the nominal value of the produce . . . sellers are not enriched . . . since what they gain as sellers, they precisely expend in the quality of buyers" ("The Essential Principles of the Wealth of Nations etc. London 1797," p. 66).

What the whole thing amounts to is that all commodity owners will sell their commodities for 10% more than they are worth, which is no different from all commodity owners selling their commodities at their value. When we give all commodities a nominal price increase of 10%, this creates the same effect as assessing all commodity values in silver instead of gold. The money names would grow larger—in other words, commodities' prices would rise, but their ratios of value would remain the same.

Let us now assume the reverse. The buyer has the privilege of buying commodities below their value. Here we don't need to be reminded that the buyer will become a seller again. He was a seller before he became a buyer, so he loses 10% as a seller before he gains 10% as a buyer.[26] All remains as before.

So one can't explain how surplus-value is created, or how money is turned into capital, by assuming that sellers can sell commodities above their value or that buyers get to buy them below their value.[27]

If we smuggle irrelevant factors into our analysis, this will do nothing to simplify matters. Colonel Torrens, for example, says, "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 all the ingredients of capital than their production costs."[28,viii] In circulation, producers and consumers interact only as sellers and buyers. To assert that the surplus-value going to the producer is created when consumers pay more for commodities than they're worth is merely to disguise the simple sentence: the commodity owner gets to sell commodities at prices that are too high. The seller has produced the commodities himself or serves as a proxy for the producers, but the buyer, too, has either produced the commodities represented in his money or is serving as a proxy for the people who produced them. A producer faces a producer. What distinguishes the two is that the one buys whereas the other sells. If a commodity owner sells his commodity for more than its value under the name "producer," and pays too much for commodities

26. "If a person were made to sell a given amount of some product for 18 livres when it is worth 24 livres, then if that person were to spend 18 livres as a buyer, he would purchase an amount of product that would otherwise cost 24 livres" (Le Trosne op. cit. p. 897).

27. "Each seller thus succeeds in generally increasing the prices of his commodities only by also submitting to paying generally more for the commodities of other sellers; and for the same reason, each consumer can generally pay less for what he purchases only by also submitting to a similar reduction in the prices of the things he sells" (Mercier de la Rivière op. cit. p. 555).

28. R. Torrens: "An Essay on the Production of Wealth." London 1821, p. 349.

under the name "consumer," we still won't get any farther in our analysis, not even an inch.[29]

Those who consistently advance the misguided theory that surplus-value results from a nominal price increase, or from a seller's privilege to sell his commodities for more than they're worth, thus assume that there is a class of people who buy but don't sell, who, in other words, consume but don't produce. From the standpoint our analysis has reached, that of simple circulation, we can't yet explain how such a class could exist. But let's jump ahead. The money that this class of people buy with must constantly flow to them from the commodity owners themselves without exchange—the money must be free, by might or by right. To sell such people commodities for more than their value would merely be to swindle back some of the money that was given away.[30] The cities of Asia Minor paid an annual tribute of money to ancient Rome; with that money, the Romans bought their commodities at inflated prices. The people of Asia Minor fleeced the Romans, taking the route of trade to con back from their conquerors part of a yearly tribute. Yet the people of Asia Minor were still the ones being taken advantage of. The money they were paid for their commodities was their own money, after all. That isn't the way to become rich or generate surplus-value.

We will therefore stay within the limits of commodity exchange, where sellers are also buyers, and buyers are also sellers. Perhaps our difficulty stems from how we have been conceiving of the persons involved, namely, as mere personified categories rather than as individual people.

Commodity owner A is crafty enough to fool two of his colleagues, B and C; despite their best efforts, they are unable to return the favor. Owner A sells wine worth £40 to B and in exchange acquires grain worth £50. He has transformed his £40 into £50; he has made less money into more, turning his commodity into capital. But what exactly has happened here? Before the exchange, there was £40 worth of wine in A's hands and £50 worth of grain in B's, a total value of £90. After the exchange, the total is the same. The value circulating hasn't grown by even an atom. All

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

30. "When a man is in want of demand, does Mr. Malthus recommend him to pay some other person to take off his goods?" an indignant Ricardian asked Malthus, who, like his student the pastor Chalmers, celebrated the economic activity of the class of mere buyers and consumers. See: "An Inquiry into those principles respecting the Nature of Demand and the Necessity of Consumption, lately advocated by Mr. Malthus" etc. London 1821, p. 55.

that has changed is how the £90 is distributed between A and B. What registers as surplus-value on the one side registers as negative value on the other; what registers as a plus on one side registers as a minus on the other. The same change would occur if A stole £10 from B outright, although the form of exchange conceals this fact. Clearly, the sum of circulating value can't be increased by changing how it is distributed—just as a Jew can't increase the amount of precious metal in a country by selling a farthing from the time of Queen Anne for a guinea. Taken as a whole, the capitalist class in a country can't cheat itself.[31]

The outcome will remain the same however much one twists or tugs. When equivalents are exchanged, no surplus-value is generated, and when nonequivalents are exchanged, it still isn't generated.[32] Circulation or commodity exchange does not create value.[33]

This, of course, is why our analysis of capital's elementary form hasn't yet said anything about merchant capital and usury capital, those famous and, so to speak, antediluvian forms of capital, and has instead focused on the form that capital has when it determines the economic organization of modern society.

The M-C-M′ form, buying in order to sell at a higher price, finds its purest expression in true merchant capital. But the movement of M-C-M′ occurs entirely within the circulation sphere, and because it is impossible from the standpoint of circulation to explain how money is transformed into capital—i.e., how surplus-value is created—merchant capital looks impossible as long as equivalents are exchanged.[34] Thus merchant capital

31. Destutt de Tracy, despite, or perhaps because, he was a *Membre de l'Institut*, held the opposite view. He asserted that industrial capitalists make their profits in that they "sell all the products that they make—and that they sell, first of all, to one another—for more than it costs to make them" (op. cit. p. 239). [Editor's note: In 1793, the French government founded the Institut de France to "promote the arts and sciences." It still serves as the umbrella organization for France's most prestigious cultural academies.]

32. "The exchange of two equal values neither increases nor decreases the amount of the values subsisting in society. Nor does the exchange of two unequal values . . . change the sum of social values, although it adds to the fortune of one what it takes away from the fortune of the other" (J. B. Say op. cit. part 2, pp. 443–44). Say, naturally untroubled by the implications of this claim, borrowed it word for word from the Physiocrats. The following example illustrates how he sacked their writings, which were unknown during his day, and used them to increase his own "value." Monsieur Say's most "celebrated" line, "Products are bought only with products," reads in the Physiocratic original, "Products are paid for only with products" (Le Trosne op. cit. 899).

33. "Exchange confers no value at all upon products" (F. Wayland, The Elements of Pol. Econ. Boston 1843, p. 169).

34. "Under the rule of invariable equivalents commerce would be impossible" (G. Opdyke, A Treatise on Political Economy. New-York 1851, p. 67). "The difference between

appears to be something that takes place only when a merchant parasitically inserts himself between commodity owners who are buying and selling in order to bilk both of them. This is what Benjamin Franklin had in mind when he said, "War is robbery, commerce is cheating."[35] If we don't want to think that merchant capital is valorized only when commodity owners are defrauded, we would need to take into account a long series of mediating factors; and here, at a point where we are presupposing only commodity circulation and its simple components, these factors are entirely absent.

What holds for merchant capital applies even more to usury capital. In merchant capital, the starting point and the endpoint—namely, the money put into the market and the greater amount taken out—are at least mediated by a purchase and a sale, or the movement of circulation. In usury capital, the form M-C-M′ is shortened to the unmediated starting point and endpoint M-M′: money that is exchanged for more money, a form that contradicts the nature of money and thus can't be explained from the standpoint of commodity circulation. Hence Aristotle says, "There are two kinds of chrematistics. One has to do with commerce, the other with household management. The latter is necessary and commendable, but the kind that has to do with exchange is justly disparaged, since it is not natural but is from one another. Hence usury is very justifiably detested, since it gets wealth from money itself, rather than from the very thing money was devised to facilitate. For money was introduced to facilitate exchange, but interest makes money itself grow bigger. (That is how it gets its name [τόκος, 'interest' and 'offspring']; for offspring resemble their parents, and interest is money that comes from money.) Hence of all the kinds of chrematistics this one is the most unnatural."[36]

Later, we will see that like merchant capital, interest-bearing capital is a derivative form, and we will also see why they emerged earlier than the modern elementary form of capital.

Our analysis has shown that surplus-value can't arise from circulation, that when surplus-value is created, something has to go on behind circulation's back—something that can't be seen in circulation itself.[37] But can

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real value and exchange-value is based on one fact—namely, that the value of a thing differs from the so-called equivalent given for it in trade, that is, that this equivalent is not an equivalent" (F. Engels op. cit. pp. 95, 96). [Editor's note: English translation, p. 427.]

35. Benjamin Franklin, Works, Vol. II, edit. Sparks in: "Positions to be examined concerning National Wealth."

36. Arist. op. cit. c. 10. [Editor's note: 158a39-b8. English translation, pp. 18–19, modified slightly.]

37. "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 op. cit. p. 184).

surplus-value arise anywhere besides the circulation sphere? Circulation is the sum of all the mutual relations among commodity owners. Outside the circulation sphere, an individual commodity owner has just one relation left: his relation with his own commodity. With regard to the value of his commodity, this relation is limited to the fact that his commodity contains a quantity of his own labor measured according to definite social laws. This quantity is expressed as the commodity's magnitude of value, and because its magnitude of value is represented as money of account, it is expressed as a price: say, £10. But the owner's labor isn't represented in the commodity's value and a surplus beyond that value, as a price of £10 that is at the same time a price of £11—or, in other words, in a value that is greater than itself. The commodity owner's labor can create values but not self-valorizing values. His labor can enlarge a commodity's value: adding new labor, he can supplement existing value with new value for example, making boots from leather. The same material now has more value because it contains a greater quantity of labor. The boots have more value than the leather, but the leather's value remains what it was. It didn't valorize itself; it didn't take on surplus-value as the boots were being produced. Outside the circulation sphere, the commodity owner can't valorize his value without coming into contact with other commodity owners, and so he can't transform either money or a commodity into capital.

Capital, then, can't arise within circulation just as it can't arise outside circulation. It has to both arise and not arise there.

Our analysis has thus yielded a double result.

How money is transformed into capital has to be explicated on the basis of the immanent laws of commodity exchange. That equivalents are exchanged therefore has to be our starting point.[38] Our money owner, still

38. From the foregoing discussion, the reader will see that this simply means it must be possible for capital to form even when the prices of commodities are equal to their value, and the formation of capital cannot be explained as resulting from the nonalignment of those two things. If prices do in fact deviate from values, we must first reduce them to the latter—that is, we must disregard the deviation as something accidental, in order to examine the phenomenon of capital formation in its pure form and avoid being thrown off in our observations by muddying circumstances that aren't relevant to the workings of the actual process at issue. Moreover, we know that this reduction isn't simply a scholarly or scientific operation. The constant oscillations in market prices, their rising and falling, cancel or balance out one another, and in effect reduce those prices to an average that is their internal regulator. This regulator constitutes the lodestar of all the merchants or industrialists in every undertaking of significant duration. They know that when a long period of time is taken as a whole, commodities will be sold neither under nor over their average price but rather for their average price. So if disinterested thinking were in the capitalist's interest, he

a capitalist in larval form, has to buy commodities at their value and sell them at their value, yet in the end extract more value from the process than he put into it. He must, and can't, metamorphose into a butterfly in the circulation sphere. This is what we are up against. *Hic Rhodus, hic salta*![ix]

3. Buying and Selling Labor-Power

When money turns into capital, where does its change of value occur? Not in money itself: as a means of purchase or payment, money merely realizes the prices of the commodities it buys or pays for, and when money clings to its own form, it hardens into a magnitude of value that remains the same.[39] The money's value also can't change in the second act of circulation, a commodity's resale, because this act merely transforms a commodity from its natural form back into the money-form. The change has to take place in the commodity that is purchased in the first act of circulation, M-C; yet the value of this commodity can't change during the act of exchange, because equivalents are being exchanged: the commodity is bought at its value. So the change in the money's value has to proceed from the commodity's use-value as such; that is, the change has to take place when the commodity is consumed. In order to extract value from the consumption of a commodity, our money owner must be lucky enough to find circulating in the market a commodity whose use-value has the special characteristic of being a source of value. When this commodity is actually consumed, labor would be objectified, and thus value would be created. The money owner does in fact find just such a commodity in the market: labor-capacity or labor-power.

By "labor-power" and "labor-capacity," we mean all the capacities that exist in a person's bodily form and living personality, and that he activates whenever he produces use-values of any kind.

Various conditions have to be met before the money owner can actually find labor-power on the market as a commodity. Commodity exchange, in and for itself, doesn't imply any relations of dependence except the ones arising from its own nature. Given this, labor-power can appear in the market

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would have to pose the question of capital formation as follows: Where does capital come from, given that prices are regulated by average prices—or, ultimately, by the value of commodities? I say "ultimately" because average prices don't coincide directly with commodities' magnitudes of value, in contrast to what Smith, Ricardo, and so on believed.

39. "In the form of money . . . capital is productive of no profit" (Ricardo: Princ. of Pol. Econ. p. 267).