On the whole, then, the movement of loan capital, as expressed in
the rate of interest, is in the opposite direction to that of industrial
capital. The phase wherein a low rate of interest, but above the mini-
imum, coincides with the "improvement" and growing confidence af-
after a crisis, and particularly the phase wherein the rate of interest
reaches its average level, exactly midway between its minimum and
maximum, are the only two periods during which an abundance of
loan capital is available simultaneously with a great expansion of
industrial capital. But at the beginning of the industrial cycle,
a low rate of interest coincides with a contraction, and at the end
of the industrial cycle, a high rate of interest coincides with a
superabundance of industrial capital. The low rate of interest that
accompanies the "improvement" shows that the commercial
credit requires bank credit only to a slight extent because it is still
self-supporting.

The industrial cycle is of such a nature that the same circuit must
periodically reproduce itself, once the first impulse has been given.8)
During a period of slack, production sinks below the level, which it

8) //As I have already stated elsewhere, a change has taken place here since the
last major general crisis. The acute form of the periodic process, with its former ten-
year cycle, appears to have given way to a more chronic, long drawn out, alternation
between a relatively short and slight business improvement and a relatively long, inde-
cisive depression — taking place in the various industrial countries at different times.
But perhaps it is only a matter of a prolongation of the duration of the cycle. In the ear-
ly years of world commerce, 1815-47, it can be shown that these cycles lasted about five
years; from 1847 to 1867 the cycle is clearly ten years; is it possible that we are now
in the preparatory stage of a new world crash of unparalleled vehemence? Many things
seem to point in this direction. Since the last general crisis of 1867 profound changes
have taken place. The colossal expansion of the means of transportation and communica-
tion — ocean liners, railways, electrical telegraphs, the Suez Canal— has made a
real world market a fact. The former monopoly of England in industry has been chal-
lenged by a number of competing industrial countries; infinitely greater and varied
fields have been opened in all parts of the world for the investment of surplus European
capital, so that it is far more widely distributed and local overspeculation may be more
easily overcome. By means of all this, most of the old breeding-grounds of crises and
opportunities for their development have been eliminated or strongly reduced. At the
same time, competition in the domestic market recedes before the cartels and trusts,
while in the foreign market it is restricted by protective tariffs, with which all major in-
dustrial countries, England excepted, surround themselves. But these protective tariffs
are nothing but preparations for the ultimate general industrial war, which shall de-
cide who has supremacy on the world market. Thus every factor, which works against
a repetition of the old crises, carries within itself the germ of a far more powerful future
crisis.— F. E.//
had attained in the preceding cycle and for which the technical basis has now been laid. During prosperity — the middle period — it continues to develop on this basis. In the period of overproduction and swindle, it strains the productive forces to the utmost, even beyond the capitalistic limits of the production process.

It is self-evident that there is a shortage of means of payment during a period of crisis. The convertibility of bills of exchange replaces the metamorphosis of commodities themselves, and so much more so exactly at such times the more a portion of the firms operates on pure credit. Ignorant and mistaken bank legislation, such as that of 1844-45,\(^a\) can intensify this money crisis. But no kind of bank legislation can eliminate a crisis.

In a system of production, where the entire continuity of the reproduction process rests upon credit, a crisis must obviously occur — a tremendous rush for means of payment — when credit suddenly ceases and only cash payments have validity. At first glance, therefore, the whole crisis seems to be merely a credit and money crisis. And in fact it is only a question of the convertibility of bills of exchange into money. But the majority of these bills represent actual sales and purchases, whose extension far beyond the needs of society is, after all, the basis of the whole crisis. At the same time, an enormous quantity of these bills of exchange represents plain swindle, which now reaches the light of day and collapses; furthermore, unsuccessful speculation with the capital of other people; finally, commodity capital which has depreciated or is completely unsaleable, or returns that can never more be realised again. The entire artificial system of forced expansion of the reproduction process cannot, of course, be remedied by having some bank, like the Bank of England, give to all the swindlers the deficient capital by means of its paper and having it buy up all the depreciated commodities at their old nominal values. Incidentally, everything here appears distorted, since in this paper world, the real price and its real basis appear nowhere, but only bullion, metal coin, notes, bills of exchange, securities. Particularly in centres where the entire money business of the country is concentrated, like London, does this distortion become apparent; the entire process becomes incomprehensible; it is less so in centres of production.

Incidentally in connection with the superabundance of industrial

\(^a\) See this volume, pp. 542-59.
capital which appears during crises the following should be noted: commodity capital is in itself simultaneously money capital, that is, a definite amount of value expressed in the price of the commodities. As use value it is a definite quantum of objects of utility, and there is a surplus of these available in times of crises. But as money capital in itself, as potential money capital, it is subject to continual expansion and contraction. On the eve of a crisis, and during it, commodity capital in its capacity as potential money capital is contracted. It represents less money capital for its owner and his creditors (as well as security for bills of exchange and loans) than it did at the time when it was bought and when the discounts and mortgages based on it were transacted. If this is the meaning of the contention that the money capital of a country is reduced in times of stringency, this is identical with saying that the prices of commodities have fallen. Such a collapse in prices merely balances out their earlier inflation.

The incomes of the unproductive classes and of those who live on fixed incomes remain in the main stationary during the inflation of prices which goes hand in hand with overproduction and overspeculation. Hence their consuming capacity diminishes relatively, and with it their ability to replace that portion of the total reproduction which would normally enter into their consumption. Even when their demand remains nominally the same, it decreases in reality.

It should be noted in regard to imports and exports, that, one after another, all countries become involved in a crisis and that it then becomes evident that all of them, with few exceptions, have exported and imported too much, so that they all have an unfavourable balance of payments. The trouble, therefore, does not actually lie with the balance of payments. For example, England suffers from a drain of gold. It has imported too much. But at the same time all other countries are oversupplied with English goods. They have thus also imported too much, or have been made to import too much. (There is, indeed, a difference between a country which exports on credit and those which export little or nothing on credit. But the latter then import on credit; and this is only then not the case when commodities are sent to them on consignment.) The crisis may first break out in England, the country which advances most of the credit and takes the least, because the balance of payments, the balance of payments due, which must be settled immediately, is unfavourable, even though the general balance of trade is favourable. This is explained partly as a result of the credit which it has granted, and partly as a result of the huge
quantity of capital loaned to foreign countries, so that a large quantity of returns flow back to it in commodities, in addition to the actual trade returns. (However, the crisis has at times first broken out in America, which takes most of the commercial and capital credit from England.) The crash in England, initiated and accompanied by a gold drain, settles England's balance of payments, partly by a bankruptcy of its importers (about which more below), partly by disposing of a portion of its commodity capital at low prices abroad, and partly by the sale of foreign securities, the purchase of English securities, etc. Now comes the turn of some other country. The balance of payments was momentarily in its favour; but now the time lapse normally existing between the balance of payments and balance of trade has been eliminated or at least reduced by the crisis: all payments are supposed to be made at once. The same thing is now repeated here. England now has a return flow of gold, the other country a gold drain. What appears in one country as excessive imports, appears in the other as excessive exports, and vice versa. But overimports and overexports have taken place in all countries (we are not speaking here about crop failures, etc., but about a general crisis); that is overproduction promoted by credit and the general inflation of prices that goes with it.

In 1857, the crisis broke out in the United States. A flow of gold from England to America followed. But as soon as the bubble in America burst, the crisis broke out in England and the gold flowed from America to England. The same took place between England and the continent. The balance of payments is in times of general crisis unfavourable to every nation, at least to every commercially developed nation, but always to each country in succession, as in volley firing, i.e., as soon as each one's turn comes for making payments; and once the crisis has broken out, e.g., in England, it compresses the series of these terms into a very short period. It then becomes evident that all these nations have simultaneously overexported (thus overproduced) and overimported (thus overtraded), that prices were inflated in all of them, and credit stretched too far. And the same breakdown takes place in all of them. The phenomenon of a gold drain then takes place successively in all of them and proves precisely by its general character 1) that gold drain is just a phenomenon of a crisis, not its cause; 2) that the sequence in which it hits the various countries indicates only when their judgment-day has come, i.e., when the crisis started and its latent elements come to the fore there.

It is characteristic of the English economic writers — and the eco-
nomic literature worth mentioning since 1830 resolves itself mainly into a literature on currency, credit, and crises—that they look upon the export of precious metals in times of crisis, in spite of the alteration in the rates of exchange, only from the standpoint of England, as a purely national phenomenon, and resolutely close their eyes to the fact that all other European banks raise their rate of interest when their bank raises its own in times of crisis, and that, when the cry of distress over the drain of gold is raised in their country today, it is taken up in America tomorrow and in Germany and France the day after.

In 1847 "the engagements running upon this country had to be met" //mostly for corn//. "Unfortunately, they were met to a great extent by failures" //wealthy England secured relief by bankruptcies in its obligations toward the continent and America//, "but to the extent to which they were not met by failures, they were met by the exportation of bullion" (Report of Committee on Bank Acts, 1857).

In other words, in so far as a crisis in England is intensified by bank legislation, this legislation is a means of cheating the corn-exporting countries in periods of famine, first on their corn and then on the money for the corn. A prohibition on the export of corn during such periods for countries which are themselves labouring more or less under scarcities, is, therefore, a very rational measure to thwart this plan of the Bank of England to "meet obligations" for corn imports "by bankruptcies". It is after all much better that the corn producers and speculators lose a portion of their profit for the good of their own country than their capital for the good of England.

It follows from the above that commodity capital, during crises and during periods of business depression in general, loses to a large extent its capacity to represent potential money capital. The same is true of fictitious capital, interest-bearing paper, in so far as it circulates on the stock exchange as money capital. Its price falls with rising interest. It falls, furthermore, as a result of the general shortage of credit, which compels its owners to dump it in large quantities on the market in order to secure money. It falls, finally, in the case of stocks, partly as a result of the decrease in revenues for which it constitutes drafts and partly as a result of the spurious character of the enterprises which it often enough represents. This fictitious money capital is enormously reduced in times of crisis, and with it the ability of its owners to borrow money on it on the market. However, the reduction of the money equivalents of these securities on the stock exchange list has nothing to do with the actual capital which they represent, but very much indeed with the solvency of their owners.
Chapter XXXI
MONEY CAPITAL AND REAL CAPITAL. II
(CONTINUED)

We are still not finished with this question: to what extent does the accumulation of capital in the form of loanable money capital coincide with actual accumulation, i.e., the expansion of the reproduction process.

The transformation of money into loanable money capital is a much simpler matter than the transformation of money into productive capital. But two things should be distinguished here:

1) the mere transformation of money into loan capital;
2) the transformation of capital or revenue into money, which is transformed into loan capital.

It is only the latter point which can involve a positive accumulation of loan capital connected with an actual accumulation of industrial capital.

1. TRANSFORMATION OF MONEY INTO LOAN CAPITAL

We have already seen that a large build-up or superabundance of loan capital can occur, which is connected with productive accumulation only to the extent that it is inversely proportional to it. This is the case in two phases of the industrial cycle, namely, first, when industrial capital in both its forms of productive and commodity capital is contracted, i.e., at the beginning of the cycle after the crisis; and, secondly, when the improvement begins, but when commercial credit still does not use banking credit to a great extent. In the first case, money capital, which was formerly employed in production and commerce, appears as idle loan capital; in the second case, it appears used to an increasing extent, but at a very low rate of interest, because the industrial and commercial capitalists now prescribe terms to the money capitalist. The excess of loan capital expresses, in the first case, a stagnation of industrial capital, and in the second, a relative independence of commercial credit from banking credit—based on the fluidity of the returns, short-term credit, and a preponderance of operations with one's own capital. The speculators, who count on the credit capital of other people, have not yet appeared on the field; the people who work with their own capital are still far removed from
approximately pure credit operations. In the former phase, the surplus of loan capital is directly opposite to expressing actual accumulation. In the second phase, it coincides with a renewed expansion of the reproduction process—it accompanies it, but is not its cause. The surplus of loan capital is already decreasing, i.e., it is still only relative compared to the demand. In both cases, the expansion of the actual process of accumulation is promoted by the fact that the low interest—which coincides in the first case with low prices and in the second, with slowly rising prices—increases that portion of the profit which is transformed into profit of enterprise. This takes place to an even greater extent when interest rises to its average level during the height of the period of prosperity, when it has indeed grown, but not relative to profit.

We have seen, on the other hand, that an accumulation of loan capital can take place without any actual accumulation, i.e., by mere technical means such as an expansion and concentration of the banking system; and a saving in the circulation reserve, or in the reserve fund of private means of payment, which are then always transformed into loan capital for a short time. Although this loan capital, which, for this reason, is also called floating capital, always retains the form of loan capital only for short periods of time (and should indeed also be used for discounting only for short periods of time), there is a continual ebb and flow of it. If one draws some away, another adds to it. The mass of loanable money capital thus grows quite independently of the actual accumulation (we are not speaking here at all about loans for a number of years but only of short-term ones on bills of exchange and deposits).

Bank Committee, 1857. Question 501. "What do you mean by 'floating capital'"—//Answer of Mr. Weguelin, Governor of the Bank of England: "It is capital applicable to loans of money for short periods... (502) The Bank of England notes... the country banks circulation, and the amount of coin which is in the country."—//Question: "It does not appear from the returns before the Committee, if by floating capital you mean the active circulation" //of the notes of the Bank of England, "that there is any very great variation in the active circulation?" //But there is a very great difference whether this active circulation is advanced by the money lender or by the reproductive capitalist himself. Weguelin's answer: "I include in floating capital the reserves of the bankers, in which there is a considerable fluctuation."

That is to say, there is considerable fluctuation in that portion of

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a In the 1894 German edition this English term is given in parentheses after its German equivalent.
the deposits which the bankers have not loaned out again, but which figures as their reserve and for the greater part also as the reserve of the Bank of England, where they are deposited. Finally, the same gentleman says: floating capital may be bullion, that is, bar and coin (503). It is truly wonderful how in this credit gibberish of the money market all categories of political economy receive a different meaning and a different form. floating capital is the expression there for circulating capital, which is, of course, something quite different, and money is capital, and bullion is capital, and banknotes are circulation, and capital is a commodity, and debts are commodities, and fixed capital is money invested in hard-to-sell paper!

"The joint-stock banks of London ... have increased their deposits from £8,850,774 in 1847 to £43,100,724 in 1857 .... The evidence given to your Committee leads to the inference that of this vast amount, a large part has been derived from sources not heretofore made available for this purpose; and that the practice of opening accounts and depositing money with bankers has extended to numerous classes who did not formerly employ their capital(!) in that way. It is stated by Mr. Rodwell, the Chairman of the Association of the Private Country Bankers //distinguished from joint-stock banks//, "and delegated by them to give evidence to your Committee, that in the neighbourhood of Ipswich this practice has lately increased four-fold among the farmers and shopkeepers of that district; that almost every farmer, even those paying only £50 per annum rent, now keeps deposits with bankers. The aggregate of these deposits of course finds its way to the employments of trade, and especially gravitates to London, the centre of commercial activity, where it is employed first in the discount of bills, or in other advances to the customers of the London bankers. That large portion, however, for which the bankers themselves have no immediate demand passes into the hands of the bill-brokers, who give to the banker in return commercial bills already discounted by them for persons in London and in different parts of the country, as a security for the sum advanced by the banker" (Bank Committee, 1858, p. 8a).

By making advances to the bill-broker on bills of exchange which this bill-broker has already discounted once, the banker does, in fact, rediscount them; but in reality, very many of these bills have already been rediscounted by the bill-broker, and with the same money that the banker uses to rediscount the bills of the bill-broker, the latter rediscounts new bills. What this leads to is shown by the following:

"Extensive fictitious credits have been created by means of accommodation bills, and open credits, great facilities for which have been afforded by the practice of joint-stock country banks discounting such bills, and rediscounting them with the bill-brokers in the London market, upon the credit of the bank alone, without reference to the quality of the bills otherwise"[l.c.]".

\[\text{a Should be: p. V, No. 8. - b Should be: p. XXI, No. 54.}\]
Concerning this rediscounting and the assistance which this purely technical increase of loanable money capital gives to credit swindles, the following extract from the *Economist* is of interest:

"For some years past capital" //namely, loanable money capital// "has accumulated in some districts of the country more rapidly than it could be used, while, in others, the means of employing capital have increased more rapidly than the capital itself. While the bankers in the purely agricultural districts throughout the kingdom found no sufficient means of profitably and safely employing their deposits in their own districts, those in the large mercantile towns, and in the manufacturing and mining districts, have found a larger demand for capital than their own means could supply. The effect of this relative state of different districts has led, of late years, to the establishment and rapid extension of a new class of houses in the distribution of capital, who, though usually called BILL-BROKERS, are in reality bankers upon an immense scale. The business of these houses has been to receive, for such periods, and at such rates of interest as were agreed upon, the surplus capital of bankers in those districts where it could not be employed, as well as the temporary unemployed moneys of public companies and extensive mercantile establishments, and advance them at higher rates of interest to bankers in those districts where capital was more in demand, generally by rediscounting the bills taken from their customers ... and in this way Lombard Street has become the great centre in which the transfer of spare capital has been made from one part of the country, where it could not be profitably employed, to another, where a demand existed for it, as well as between individuals similarly circumstanced. At first these transactions were confined almost exclusively to borrowing and lending of banking securities. But as the capital of the country rapidly accumulated, and became more economised by the establishment of banks, the funds at the disposal of these discount houses became so large that they were induced to make advances first on DOCK WARRANTS of merchandise (storage bills on commodities in docks), and next on bills of lading, representing produce not even arrived in this country, though sometimes, if not generally, secured by bills drawn by the merchant upon his broker. This practice rapidly changed the whole character of English commerce. The facilities thus afforded in Lombard Street gave extensive powers to the brokers in Mincing Lane, who on their part ... offered the full advantage of them to the importing merchant; who so far took advantage of them, that, whereas 25 years ago, the fact that a merchant received advances on his bills of lading, or even his DOCK WARRANTS, would have been fatal to his credit, the practice has become so common of late years that it may be said to be now the general rule, and not the rare exception, as it was 25 years ago. Nay, so much further has this system been carried, that large sums have been raised in Lombard Street on bills drawn against the forthcoming crops of distant colonies. The consequence of such facilities being thus granted to the importing merchants led them to extend their transactions abroad, and to invest their FLOATING\(^a\) capital with which their business has hitherto been conducted, in the most objectionable of all fixed securities — foreign plantations — over which they could exercise little or no control. And thus we see the direct chain of credits through which the capital of the country, collected in our rural districts, and in small amounts in the shape of deposits in country banks, and centred in Lombard Street for employ-

\(^a\) In the 1894 German edition this English term is given in parentheses after its German equivalent.
ment, has been, first, made available for the extending operations in our mining and manufacturing districts, by the rediscount of bills to banks in those localities; next, for granting greater facilities for the importation of foreign produce by advances upon DOCK WARRANTS and bills of lading, and thus liberating the 'legitimate' mercantile capital of houses engaged in foreign and colonial trade, and inducing to its most objectionable advances on foreign plantations" (Economist, 1847, p. 1334). a

This is how credits are "nicely" chained. The rural depositor fancies that he deposits only with his banker, and fancies furthermore that when his banker lends to others, it is done to private persons whom he knows. He has not the slightest suspicion that this banker places his deposit at the disposal of some London BILL-BROKER, over whose operations neither of them has the slightest control.

We have already seen how large public enterprises, such as railways, may momentarily increase loan capital, owing to the circumstance that the deposited amounts always remain at the disposal of the banks for a certain length of time until they are really used.

Incidentally, the mass of loan capital is quite different from the quantity of circulation. By the quantity of circulation we mean here the sum of all the banknotes and coin, including bars of precious metals, existing and circulating in a country. A portion of this quantity constitutes the reserve of the banks which continuously vary in magnitude.

"On November 12, 1857" (the date of the suspension of the Bank Act of 1844), "the entire reserve of the Bank of England was only £580,751 (including London and all its branches); their deposits at the same time amounting to £22,500,000; of which near six and a half million belonged to London bankers" (Bank Acts, 1858, p. LVII).

The variations in the interest rate (aside from those occurring over longer periods or the variation in the interest rate among various countries; the former are dependent upon variations in the general rate of profit, the latter on differences in the rates of profit and in the development of credit) depend upon the supply of loan capital (all other circumstances, state of confidence, etc., being equal), that is, of capital loaned in the form of money, coin and notes; in contradistinction to industrial capital, which, as such—in commodity form—is loaned by means of commercial credit among the agents of reproduction themselves.

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a "The Changed Distribution of Capital", The Economist, No. 221, November 20, 1847.
- b Should be: p. VIII.
However, the mass of this loanable money capital is different from, and independent of, the mass of circulating money.

For example, if £20 were loaned five times per day, a money capital of £100 would be loaned, and this would imply at the same time that this £20 would have served, moreover, at least four times as a means of purchase or payment; for, if no purchase and payment intervened — so that it would not have represented at least four times the converted form of capital (commodities, including labour power) — it would not constitute a capital of £100, but only five claims of £20 each.

In countries with a developed credit, we can assume that all money capital available for lending exists in the form of deposits with banks and money lenders. This is at least true for business as a whole. Moreover, in times of flourishing business, before the real speculation gets underway — when credit is easy and confidence is growing — most of the functions of circulation are settled by a simple transfer of credit, without the help of coin or paper money.

The mere possibility of large sums of deposits existing when a relatively small quantum of a medium of circulation is available, depends solely on:

1) the number of purchases and payments which the same coin performs;

2) the number of return excursions, whereby it goes back to the banks as deposits, so that its repeated function as a means of purchase and payment is promoted through its renewed transformation into deposits. For example, a small dealer deposits weekly with his banker £100 in money; the banker pays out a portion of the deposit of a manufacturer with this; the latter pays it to his workers; and the workers use it to pay the small dealer, who deposits it in the bank again. The £100 deposited by this small dealer have served, therefore, first, to pay the manufacturer a deposit of his; secondly, to pay the workers; thirdly, to pay the dealer himself; fourthly, to deposit another portion of the money capital of the same small dealer; thus at the end of 20 weeks, if he himself did not have to draw against this money, he would have deposited £2,000 in the bank by means of the same £100.

To what extent this money capital is idle, is shown only by the ebb and flow in the reserve fund of the banks. Therefore, Mr. Weguelin, Governor of the Bank of England in 1857, concludes that the gold of the Bank of England is the "only" reserve capital:
"1258. Practically, I think, the rate of discount is governed by the amount of unemployed capital which there is in the country. The amount of unemployed capital is represented by the reserve of the Bank of England, which is practically a reserve of bullion. When, therefore, the bullion is drawn upon, it diminishes the amount of unemployed capital in the country, and consequently raises the value of that which remains."—

"1364. The reserve of bullion in the Bank of England is, in truth, the central reserve or hoard of treasure upon which the whole trade of the country is carried on... And it is upon that hoard or reservoir that the action of the foreign exchanges always falls"a (Report on Bank Acts, 1857).

The statistics of exports and imports furnish a measure of the accumulation of real, i.e., productive and commodity capital. These always show that, during the ten-year cyclical periods of development of British industry (1815 to 1870), the maximum of the last prosperity before the crisis always reappears as the minimum of the following prosperity, whereupon it rises to a new and far higher peak.

The actual or declared value of the exported products from Great Britain and Ireland in the prosperity year of 1824 was £40,396,300. With the crisis of 1825, the amount of exports then falls below this sum and fluctuates between 35 and 39 million annually. With the return of prosperity in 1834, it rises above the former maximum to £41,649,191, and reaches in 1836 the new maximum of £53,368,571. Beginning with 1837, it falls again to 42 million, so that the new minimum is already higher than the old maximum, and then fluctuates between 50 and 53 million. The return of prosperity lifts the amount of exports in 1844 to £58,500,000, whereby the peak of 1836 is again already far exceeded. In 1845, it reaches £60,111,082; it then falls to something over 57 million in 1846, reaches in 1847 almost 59 million, in 1848 almost 53 million, rises in 1849 to 63,500,000, in 1853 to nearly 99 million, in 1854 to 97 million, in 1855 to 94,500,000, in 1856 almost 116 million and reaches a peak of 122 million in 1857. It falls in 1858 to 116 million, rises already in 1859 to 130 million, in 1860 to nearly 136 million, in 1861 only 125 million (the new minimum is here again higher than the former maximum), in 1863 to 146,500,000.

Of course, the same thing could be demonstrated in the case of imports, which show the expansion of the market; here it is only a mat-

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a The last testimony is by W. Newmarch.
ter of the scale of production. //Of course, this holds true of England only for the time of its actual industrial monopoly; but it applies in general to the whole complex of countries with modern large-scale industries, as long as the world market is still expanding.— F. E./

2. TRANSFORMATION OF CAPITAL OR REVENUE INTO MONEY THAT IS TRANSFORMED INTO LOAN CAPITAL

We will consider here the accumulation of money capital, in so far as it is not an expression either of a stoppage in the flow of commercial credit or of an economy—whether it be an economy in the actual circulating medium or in the reserve capital of the agents engaged in reproduction.

Aside from these two cases, an accumulation of money capital can arise through an unusual inflow of gold, as in 1852 and 1853 as a result of the new Australian and Californian gold mines. This gold was deposited in the Bank of England. The depositors received notes for it, which they did not directly redeposit with bankers. By this means the circulating medium was unusually increased. (Testimony of Weguelin, Bank Committee, 1857, No. 1329.) The Bank strove to utilise these deposits by lowering its discount to 2%. The mass of gold accumulated in the Bank rose during six months of 1853 to 22-23 million.

The accumulation of all money-lending capitalists naturally always takes place directly in money form, whereas we have seen that the actual accumulation of industrial capitalists is accomplished, as a rule, by an increase in the elements of reproductive capital itself. Hence, the development of the credit system and the enormous concentration of the money-lending business in the hands of large banks must, by themselves alone, accelerate the accumulation of loanable capital, as a form distinct from actual accumulation. This rapid development of loan capital is, therefore, a result of actual accumulation, for it is a consequence of the development of the reproduction process, and the profit which forms the source of accumulation for these money capitalists is only a deduction from the surplus value which the reproductive ones filch (and it is at the same time the appropriation of a portion of the interest from the savings of others). Loan capital accumulates at the expense of both the industrial and commercial capitalists. We have seen that in the unfavourable phases of the industrial
cycle the rate of interest may rise so high that it temporarily consumes the whole profit of some lines of business which are particularly handicapped. At the same time, prices of government and other securities fall. It is at such times that the money capitalists buy this depreciated paper in huge quantities which in the later phases soon regains its former level and rises above it. It is then sold again and a portion of the money capital of the public is thus appropriated. That portion which is not sold yields a higher interest because it was bought below par. But the money capitalists convert all profits made, and reconverted by them into capital, first into loanable money capital. The accumulation of the latter—as distinct from the actual accumulation, although its offshoot—thus takes place, even when we consider only the money capitalists, bankers, etc., by themselves, as an accumulation of this particular class of capitalists. And it must grow with every expansion of the credit system which accompanies the actual expansion of the reproduction process.

If the interest rate is low, this depreciation of the money capital falls principally upon the depositors, not upon the banks. Before the development of stock banks, $\frac{3}{4}$ of all the deposits in England lay in the banks without yielding interest. While interest is now paid on them, it amounts to at least 1% less than the current rate of interest.

As for the money accumulation of the other classes of capitalists, we disregard that portion of it which is invested in interest-bearing paper and accumulates in this form. We consider only that portion which is thrown upon the market as loanable money capital.

In the first place, we have here that portion of the profit which is not spent as revenue, but is set aside for accumulation—for which, however, the industrial capitalists have no use in their own business at the moment. This profit exists directly in commodity capital, a part of whose value it constitutes, and along with which it is realised in money. Now, if it is not reconverted into the production elements of commodity capital (we leave out of consideration for the present the merchant, whom we shall discuss separately), it must remain for a length of time in the form of money. This amount increases with the amount of capital itself, even when the rate of profit declines. That portion which is to be spent as revenue is gradually consumed, but, in the meantime, as deposits, it constitutes loan capital with the banker. Thus, even the growth of that portion of profit which is spent as revenue expresses itself as a gradual and continually repeated accumulation of loan capital. The same is true of the other portion, which is in-
tended for accumulation. Therefore, with the development of the credit system and its organisation, even an increase in revenue, i.e., the consumption of the industrial and commercial capitalists, expresses itself as an accumulation of loan capital. And this holds true for all revenues so far as they are consumed gradually, in other words, for ground rent, wages in their higher form, incomes of unproductive classes, etc. All of them assume for a certain time the form of money revenue and are, therefore, convertible into deposits and thus into loan capital. All revenue—whether it be intended for consumption or accumulation—as long as it exists in some form of money, is a part of the value of commodity capital transformed into money, and is, for this reason, an expression and result of actual accumulation, but is not productive capital itself. When a spinner has exchanged his yarn for cotton—but that portion which constitutes revenue for money—the real existence of his industrial capital is the yarn, which has passed into the hands of the weaver or, perhaps, of some private consumer, and the yarn is, in fact, the existence—whether it is for reproduction or consumption—of the capital value as well as the surplus value contained in it. The magnitude of the surplus value transformed into money depends upon the magnitude of the surplus value contained in the yarn. But as soon as it has been transformed into money, this money is only the value existence of this surplus value. And as such it becomes a moment of loan capital. For this purpose, nothing more is required than that it be transformed into a deposit, if it has not already been loaned out by its owner. But in order to be reconverted into productive capital, it must, on the other hand, already have reached a certain minimum limit.

Chapter XXXI

MONEY CAPITAL AND REAL CAPITAL. III

(CONCLUDED)

The mass of money reconverted into capital in this manner is a result of the enormous reproduction process, but considered by itself, as loanable money capital, it is not itself a mass of reproductive capital. The most important point of our presentation so far is that the expansion of the part of the revenue intended for consumption (leaving out of consideration the worker, because his revenue is = to the variable capital) shows itself at first as an accumulation of money capital.
A factor, therefore, enters into the accumulation of money capital that is essentially different from the actual accumulation of industrial capital; for the portion of the annual product which is intended for consumption does not by any means become capital. A portion of it replaces capital, i.e., the constant capital of the producers of means of consumption, but to the extent that it is actually transformed into capital, it exists in the natural form of the revenue of the producers of this constant capital. The same money, which represents the revenue and serves merely for the promotion of consumption, is regularly transformed into loanable money capital for a period of time. In so far as this money represents wages, it is at the same time the money form of the variable capital; and in so far as it replaces the constant capital of the producers of means of consumption, it is the money form temporarily assumed by their constant capital and serves to purchase the components of their constant capital to be replaced in kind. Neither in the one nor in the other form does it express in itself accumulation, although its quantity increases with the growth of the reproduction process. But it performs temporarily the function of loanable money, i.e., of money capital. In this respect, therefore, the accumulation of money capital must always reflect a greater accumulation of capital than actually exists, owing to the fact that the extension of individual consumption, because it is promoted by means of money, appears as an accumulation of money capital, since it furnishes the money form for actual accumulation, i.e., for money which permits new investments of capital.

Thus, the accumulation of loanable money capital expresses in part only the fact that all money into which industrial capital is transformed in the course of its circuit assumes the form not of money advanced by the reproductive capitalists, but of money borrowed by them; so that indeed the advance of money that must take place in the reproduction process appears as an advance of borrowed money. In fact, on the basis of commercial credit, one person lends to another the money required for the reproduction process. But this now assumes the following form: the banker, who receives the money as a loan from one group of the reproductive capitalists, lends it to another group of reproductive capitalists, so that the banker appears in the role of a supreme benefactor; and at the same time, the control over this capital falls completely into the hands of the banker in his capacity as middleman.

A few special forms of accumulation of money capital still remain
to be mentioned. For example, capital is released by a fall in the price of the elements of production, raw materials, etc. If the industrial capitalist cannot expand his reproduction process immediately, a portion of his money capital is expelled from the circuit as superfluous and is transformed into loanable money capital. Secondly, however, capital in the form of money is released especially by the merchant, whenever interruptions in his business take place. If the merchant has completed a series of transactions and cannot begin a new series because of such interruptions until later, the money realised represents for him only a hoard, surplus capital. But at the same time, it represents a direct accumulation of loanable money capital. In the first case, the accumulation of money capital expresses a repetition of the reproduction process under more favourable conditions, an actual release of a portion of formerly tied-up capital; in other words, an opportunity for expanding the reproduction process with the same amount of money. But in the other case, it expresses merely an interruption in the flow of transactions. However, in both cases it is converted into loanable money capital, represents its accumulation, influences equally the money market and the rate of interest—although it expresses a promotion of the actual accumulation process in one case and its obstruction in the other. Finally, accumulation of money capital is influenced by the number of people who have feathered their nests and have withdrawn from reproduction. Their number increases as more profits are made in the course of the industrial cycle. In this case, the accumulation of loanable money capital expresses, on the one hand, an actual accumulation (in accordance with its relative extent), and, on the other hand, only the extent of the transformation of the industrial capitalists into mere money capitalists.

As for the other portion of profit, which is not intended to be consumed as revenue, it is converted into money capital only when it is not immediately able to find a place for investment in the expansion of business in the productive sphere in which it has been made. This may be due to two causes. Either because this sphere of production is saturated with capital, or because accumulation must first reach a certain volume before it can serve as capital, depending on the investment magnitudes of new capital required in this particular sphere. Hence it is converted for a while into loanable money capital and serves in the expansion of production in other spheres. Assuming all other conditions being equal, the quantity of profits intended for
transformation back into capital will depend on the quantity of profits made and thus on the extension of the reproduction process itself. But if this new accumulation meets with difficulties in its employment, through a lack of spheres for investment, i.e., due to a surplus in the branches of production and an oversupply of loan capital, this plethora of loanable money capital merely shows the limitations of capitalist production. The subsequent credit swindle proves that no real obstacle stands in the way of the employment of this surplus capital. However, an obstacle is indeed immanent in its laws of expansion, i.e., in the limits in which capital can realise itself as capital. A plethora of money capital as such does not necessarily indicate overproduction, not even a shortage of spheres of investment for capital.

The accumulation of loan capital consists simply in the fact that money is precipitated as loanable money. This process is very different from an actual transformation into capital; it is merely the accumulation of money in a form in which it can be transformed into capital. But this accumulation can reflect, as we have shown, events which are greatly different from actual accumulation. As long as actual accumulation is continually expanding, this extended accumulation of money capital may be partly its result, partly the result of circumstances which accompany it but are quite different from it, and, finally, even partly the result of impediments to actual accumulation. If for no other reason than that accumulation of loan capital is inflated by such circumstances, which are independent of actual accumulation but nevertheless accompany it, there must be a continuous plethora of money capital in definite phases of the cycle and this plethora must develop with the expansion of credit. And simultaneously with it, the necessity of driving the production process beyond its capitalistic limits must also develop: overtrade, overproduction, and excessive credit. At the same time, this must always take place in forms that call forth a reaction.

As far as accumulation of money capital from ground rent, wages, etc., is concerned, it is not necessary to discuss that matter here. Only one aspect should be emphasised and that is that the business of actual saving and abstinence (by hoarders), to the extent that it furnishes elements of accumulation, is left by the division of labour, which comes with the progress of capitalist production, to those who receive the minimum of such elements, and who frequently enough lose even their savings, as do the labourers when banks fail. On the one hand, the capital of the industrial capitalist is not "saved" by himself, but
he has command of the savings of others in proportion to the magnitude of his capital; on the other hand, the money capitalist makes of the savings of others his own capital, and of the credit, which the reproductive capitalists give to one another and which the public gives to them, a private source for enriching himself. The last illusion of the capitalist system, that capital is the fruit of one’s own labour and savings, is thereby destroyed. Not only does profit consist in the appropriation of other people’s labour, but the capital, with which this labour of others is set in motion and exploited, consists of other people’s property, which the money capitalist places at the disposal of the industrial capitalist, and for which he in turn exploits the latter.

A few remarks remain to be made about credit capital.

How often the same piece of money can figure as loan capital wholly depends, as we have already previously shown, on:

1) how often it realises commodity values in sale or payment, thus transfers capital, and furthermore how often it realises revenue. How often it gets into other hands as realised value, either of capital or of revenue, obviously depends, therefore, on the extent and magnitude of the actual transactions;

2) this depends on the economy of payments and the development and organisation of the credit system;

3) finally, on the concatenation and velocity of action of credits, so that when a deposit is made at one point it immediately starts off as a loan at another.

Even assuming that the form in which loan capital exists is exclusively that of real money, gold or silver — the commodity whose substance serves as a measure of value — a large portion of this money capital is always necessarily purely fictitious, that is, a title to value — just as tokens of value. In so far as money functions in the circuit of capital, it constitutes indeed, for a moment, money capital; but it does not transform itself into loanable money capital; it is rather exchanged for the elements of productive capital, or paid out as a medium of circulation in the realisation of revenue, and cannot, therefore, transform itself into loan capital for its owner. But in so far as it is transformed into loan capital, and the same money repeatedly represents loan capital, it is evident that it exists only at one point in the form of metallic money; at all other points it exists only in the form of claims to capital. With the assumption made, the accumulation of these claims arises from actual accumulation, that is, from the transformation of the value of commodity capital, etc., into money;
but nevertheless the accumulation of these claims or titles as such differs from the actual accumulation from which it arises, as well as from the future accumulation (the new production process), which is promoted by the lending of this money.

Primafacie loan capital always exists in the form of money,\(^9\) later as a claim to money, since the money in which it originally exists is now in the hands of the borrower in actual money form. For the lender it has been transformed into a claim to money, into a title of ownership. The same mass of actual money can, therefore, represent very different masses of money capital. Mere money, whether it represents realised capital or realised revenue, becomes loan capital through the simple act of lending, through its transformation into a deposit, if we consider the general form in a developed credit system. The deposit is money capital for the depositor. But in the hands of the banker it may be only potential money capital, which lies idle in his safe instead of in its owner’s.\(^{10}\)

\(^9\) B. A. 1857. Testimony of Twells, banker: "4516. As a banker, do you deal in capital or in money?—We deal in money."—"4517. How are the deposits paid into your bank?—In money."—"4518. How are they paid out?—In money."—"Then can they be called anything else but money?—No."\(^a\)

Overstone (see Chapter XXVI) confuses continually "CAPITAL" and "MONEY". "VALUE OF MONEY" also means interest to him, but in so far as it is determined by the mass of money, "VALUE OF CAPITAL" is supposed to be interest, in so far as it is determined by the demand for productive capital and the profit made by it. He says: "4140. The use of the word ‘capital’ is very dangerous."—"4148. The export of bullion from this country is a diminution of the quantity in this country, and a diminution of the quantity of money in this country must of course create a pressure upon the money market generally"../but not in the capital market, according to this//.—"4112. As the money goes out of the country, the quantity in the country is diminished. That diminution of the quantity remaining in the country produces an increased value of that money"//this originally means in his theory an increase in the value of money as such through a contraction of circulation, as compared to the values of commodities; in other words, an increase in the value of money is the same as a fall in the value of commodities. But since in the meantime even he has been convinced beyond peradventure that the mass of circulating money does not determine prices, it is now the diminution in money as a medium of circulation which is supposed to raise its value as interest-bearing capital, and thus the rate of interest//. "And that increased value of what remains stops the exit of money, and is kept up until it has brought back that quantity of money which is necessary to restore the equilibrium."—More of Overstone’s contradictions later on.

\(^{10}\) At this point the confusion starts: both of these things are supposed to be "money", namely, the deposit as a claim to payment from the banker, and the deposit-

\(^a\) No. 4519.
With the growth of material wealth the class of money capitalists grows; on the one hand, the number and the wealth of retiring capitalists, rentiers, increases; and on the other hand, the development of the credit system is promoted, thereby increasing the number of bankers, money lenders, financiers, etc. With the development of the available money capital, the quantity of interest-bearing paper, government securities, stocks, etc., also grows as we have previously shown. However, at the same time the demand for available money capital also grows, the jobbers, who speculate with this paper, playing a prominent role on the money market. If all the purchases and sales of this paper were only an expression of actual investments of capital, it would be correct to say that they could have no influence on the demand for loan capital, since when A sells his paper, he draws exactly as much money as B puts into the paper. But even if the paper itself exists, though not the capital (at least not as money capital) originally represented by it, it always creates pro tanto a new demand for such money capital. But at any rate it is then money capital, which was previously at the disposal of B but is now at the disposal of A.

B. A. 1857. No. 4886. “Do you consider that it is a correct description of the causes which determined the rate of discount, to say that it is fixed by the quantity of capital in the hands of the banker. Banker Twells, before the Banking Committee of 1857, offers the following example: “If I begin business with £10,000, I buy with £5,000 commodities and put them into a warehouse. I deposit the other £5,000 with a banker, to draw upon it and use it as I require it. I consider it still £10,000 capital to me, though £5,000 is in the shape of deposits or money” (452).—This now gives rise to the following peculiar debate.—“4531. You have parted with your £5,000 of notes to somebody else?—Yes.”—“4532. Then he has £5,000 of deposits?—Yes.”—“4533. And you have £5,000 of deposits left?—Exactly.”—“4534. He has £5,000 in money, and you have £5,000 in money?—Yes.”—“4535. But it is nothing but money at last?—No.” This confusion is due partly to the circumstance that A, who has deposited £5,000, can draw on it and dispose of it as though he still had it. To that extent it serves him as potential money. However, in all cases in which he draws on it he destroys his deposit pro tanto. If he draws out real money, and his own money has already been lent to someone else, he is not paid with his own money, but with that of some other depositor. If he pays a debt to B with a cheque on his banker, and B deposits this cheque with his banker, and the banker of A also has a cheque on the banker of B, so that the two bankers merely exchange cheques, the money deposited by A has performed the function of money twice; first, in the hands of the one who has received the money deposited by A; secondly, in the hands of A himself. In the second function, it is a balancing of claims (the claim of A on his banker, and the claim of the latter on the banker of B) without using money. Here the deposit acts twice as money, namely, as real money and then as a claim on money. Mere claims on money can take the place of money only by a balancing of claims.
in the market which is applicable to the discount of mercantile bills, as distinguished from other classes of securities?"—Chapman: "No; I think that the question of interest is affected by ALL CONVERTIBLE SECURITIES OF A CURRENT CHARACTER; it would be wrong to limit it simply to the discount of bills, because it would be absurd to say that when there is a great demand for money upon consols, or even upon Exchequer bills, as has ruled very much of late, at a rate much higher than the commercial rate, our commercial world is not affected by it; it is very materially affected by it."—"4890. When sound and current securities, such as bankers acknowledge to be so, are in the market, and people want to borrow money upon them, it certainly has its effect upon commercial bills; for instance, I can hardly expect a man to let me have money at 5% upon commercial bills, if he can lend his money at the same moment at 6% upon consols, or whatever it may be; it affects us in the same manner; a man can hardly expect me to discount bills at 5 1/2%, if I can lend my money at 6%."—"4892. We do not talk of investors who buy their £2,000, or £5,000, or £10,000 as affecting the money market materially. If you ask me as to the rate of interest upon consols, I allude to people, who deal in hundreds of thousands of pounds, who are what are called jobbers, who take large portions of loans, or make purchases in the market, and have to hold that stock till the public take it off their hands at a profit; these men, therefore, want money."

With the development of the credit system, great concentrated money markets are created, such as London, which are at the same time the main seats of trade in this paper. The bankers place huge quantities of the public's money capital at the disposal of this unsavoury crowd of dealers, and thus this brood of gamblers multiplies.

"Money upon the Stock Exchange is, generally speaking, cheaper than it is elsewhere," says the incumbent of the Governor's chair of the Bank of England in 1848 before the Secret Committee of Lords (C.D. 1848, Printed 1857, No. 219).

In the discussion on interest-bearing capital, we have already shown that the average interest over a long period of years, other conditions remaining equal, is determined by the average rate of profit; not profit of enterprise, which is nothing more than profit minus interest.

It has also been mentioned, and will be further analysed in another place, that also for the variations in commercial interest, that is, interest calculated by the money lenders for discounts and loans within the commercial world, a phase is reached, in the course of the industrial cycle, in which the rate of interest exceeds its minimum and reaches its mean level (which it exceeds later) and that this movement is a result of a rise in profits.

In the meantime, two things are to be noted here.

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a In the 1894 German edition this English phrase is given in parentheses after its German equivalent. - b James Morris. - c See this volume, pp. 363-64.
First: When the rate of interest stays up for a long time (we are speaking here of the rate of interest in a given country like England, where the average rate of interest is given over a lengthy period of time, and also shows itself in the interest paid on long-term loans—what could be called private interest), it is *prima facie* proof that the rate of profit is high during this period, but it does not prove necessarily that the rate of profit of enterprise is high. This latter distinction is more or less removed for capitalists, who operate mainly with their own capital; they realise the high rate of profit, since they pay the interest to themselves. The possibility of a high rate of interest of long duration is present when the rate of profit is high; this does not refer, however, to the phase of actual squeeze. But it is possible that this high rate of profit may leave only a low rate of profit of enterprise, after the high rate of interest has been deducted. The rate of profit of enterprise may shrink, while the high rate of profit continues. This is possible because the enterprises must be continued, once they have been started. During this phase, operations are carried on to a large extent with pure credit capital (capital of other people); and the high rate of profit may be partly speculative and prospective. A high rate of interest can be paid with a high rate of profit but decreasing profit of enterprise. It can be paid (and this is done in part during times of speculation), not out of the profit, but out of the borrowed capital itself, and this can continue for a while.

Secondly: The statement that the demand for money capital, and therefore the rate of interest, grows, because the rate of profit is high, is not identical with the statement that the demand for industrial capital grows and therefore the rate of interest is high.

In times of crisis, the demand for loan capital, and therefore the rate of interest, reaches its maximum; the rate of profit, and with it the demand for industrial capital, has to all intents and purposes disappeared. During such times, everyone borrows only for the purpose of paying, in order to settle previously contracted obligations. On the other hand, in times of renewed activity after a crisis, loan capital is demanded for the purpose of buying and for the purpose of transforming money capital into productive or commercial capital. And then it is demanded either by the industrial capitalist or the merchant. The industrial capitalist invests it in means of production and in labour power.

The rising demand for labour power can never by itself be a cause for a rising rate of interest, in so far as the latter is determined by the
rate of profit. Higher wages are never a cause for higher profits, although they may be one of the consequences of higher profits during some particular phases of the industrial cycle.

The demand for labour power can increase because the exploitation of labour takes place under especially favourable circumstances, but the rising demand for labour power, and thus for variable capital, does not in itself increase the profit; it, on the contrary, lowers it pro tanto. But the demand for variable capital can nevertheless increase at the same time, thus also the demand for money capital — which can raise the rate of interest. The market price of labour power then rises above its average, more than the average number of labourers are employed, and the rate of interest rises at the same time because under such circumstances the demand for money capital rises. The rising demand for labour power raises the price of this commodity, as every other, increases its price; but not the profit, which depends mainly upon the relative cheapness of this commodity in particular. But it raises at the same time — under the assumed conditions — the rate of interest, because it increases the demand for money capital. If the money capitalist, instead of lending the money, should transform himself into an industrialist, the fact that he has to pay more for labour would not increase his profit but would rather decrease it pro tanto. The state of business may be such that his profit may nevertheless rise, but it would never be so because he pays more for labour. The latter circumstance, in so far as it increases the demand for money capital, is, however, sufficient to raise the rate of interest. If wages should rise for some reason during an otherwise unfavourable state of business, the rise in wages would lower the rate of profit, but raise the rate of interest to the extent that it increased the demand for money capital.

Leaving labour aside, the thing called "demand for capital" by Overstone consists only in a demand for commodities. The demand for commodities raises their price, either because it rises above average, or because the supply of commodities falls below average. If the industrial capitalist or merchant must now pay, e.g., £150 for the same amount of commodities for which he used to pay £100, he would now have to borrow £150 instead of the former £100, and if the rate of interest were 5%, he would now have to pay an interest of £7 1/2 as compared with £5 formerly. The amount of interest to be paid by him would rise because he now has to borrow more capital.

The whole endeavour of Mr. Overstone consists in representing the
interests of loan capital and industrial capital as being identical, whereas his Bank Act is precisely calculated to exploit this very difference of interests to the advantage of money capital.

It is possible that the demand for commodities, in case their supply has fallen below average, does not absorb any more money capital than formerly. The same sum, or perhaps a smaller one, has to be paid for their total value, but a smaller quantity of use values is received for the same sum. In this case, the demand for loanable capital will be unchanged and therefore the rate of interest will not rise, although the demand for commodities would have risen as compared to their supply and consequently the price of commodities would have become higher. The rate of interest cannot be affected, unless the total demand for loan capital increases, and this is not the case under the above assumptions.

The supply of an article can also fall below average, as it does when crop failures in corn, etc., occur; and the demand for loan capital can increase because speculation in these commodities counts on further rise in prices and the easiest way to make them rise is to temporarily withdraw a portion of the supply from the market. But in order to pay for the purchased commodities without selling them, money is secured by means of the commercial "bill of exchange operations". In this case, the demand for loan capital increases, and the rate of interest can rise as a result of this attempt to artificially prevent the supply of this commodity from reaching the market. The higher rate of interest then reflects an artificial reduction in the supply of commodity capital.

On the other hand, the demand for an article can grow because its supply has increased and the article sells below its average price.

In this case, the demand for loan capital can remain the same, or even fall, because more commodities can be had for the same sum of money. Speculative stock-piling could also occur, either for the purpose of taking advantage of the most favourable moment for production purposes, or in expectation of a future rise in prices. In this case, the demand for loan capital could grow, and the rise in the rate of interest would then be a reflection of capital investment in surplus stock-piling of elements of productive capital. We are only considering here the demand for loan capital as it is influenced by the demand for, and supply of, commodity capital. We have already discussed how the varying state of the reproduction process in the phases of the industrial cycle influences the supply of loan capital. The trivial pro-
position that the market rate of interest is determined by the supply and demand of (loan) capital is shrewdly jumbled up by Overstone
with his own postulate, namely, that loan capital is identical with
capital in general; and in this way he tries to transform the usurer
into the only capitalist and his capital into the only capital.

In times of stringency, the demand for loan capital is a demand for
means of payment and nothing else; it is by no means a demand for
money as a means of purchase. At the same time, the rate of interest
may rise very high, regardless whether real capital, i.e., productive
and commodity capital, exists in abundance or is scarce. The demand
for means of payment is a mere demand for convertibility into money,
so far as merchants and producers have good securities to offer; it is a
demand for money capital whenever there is no collateral, so that an
advance of means of payment gives them not only the form of money
but also the equivalent they lack, whatever its form, with which to
make payment. This is the point where both sides of the controversy
on the prevalent theory of crises are at the same time right and
wrong. Those who say that there is merely a lack of means of pay-
ment, either have only the owners of bona fide securities in mind, or
they are fools who believe that it is the duty and power of banks to
transform all bankrupt swindlers into solvent and respectable capitalists by means of pieces of paper. Those who say that there is merely a
lack of capital, are either just quibbling about words, since precisely
at such times there is a mass of inconvertible capital as a result of over-
imports and overproduction, or they are referring only to such cava-
liers of credit who are now, indeed, placed in the position where they
can no longer obtain other people's capital for their operations and
now demand that the bank should not only help them to pay for the
lost capital, but also enable them to continue with their swindles.

It is a basic principle of capitalist production that money, as an in-
dependent form of value, stands in opposition to commodities, or that
exchange value must assume a self-established form in money; and
this is only possible when a definite commodity becomes the material
whose value becomes a measure of all other commodities, so that it
thus becomes the general commodity, the commodity par excellence—as
distinguished from all other commodities. This must manifest
itself in two respects, particularly among capitalistically developed
nations, which to a large extent replace money, on the one hand, by
credit operations, and on the other, by credit money. In times of a
squeeze, when credit contracts or ceases entirely, money suddenly
stands as the only means of payment and true existence of value in absolute opposition to all other commodities. Hence the universal depreciation of commodities, the difficulty or even impossibility of transforming them into money, i.e., into their own purely fantastic form. Secondly, however, credit money itself is only money to the extent that it absolutely takes the place of actual money to the amount of its nominal value. With a drain of gold its convertibility, i.e., its identity with actual gold, becomes problematic. Hence coercive measures, raising the rate of interest, etc., for the purpose of safeguarding the conditions of this convertibility. This can be carried more or less to extremes by mistaken legislation, based on false theories of money and enforced upon the nation by the interests of the money dealers, the Overstones and their ilk. The basis, however, is given with the basis of the mode of production itself. A depreciation of credit money (not to mention, incidentally, a purely imaginary depreciation) would unsettle all existing relations. Therefore, the value of commodities is sacrificed for the purpose of safeguarding the fantastic and independent existence of this value in money. As money value, it is secure only as long as money is secure. For a few millions in money, many millions in commodities must therefore be sacrificed. This is inevitable under capitalist production and constitutes one of its beauties. In former modes of production, this does not occur because, on the narrow basis upon which they move, neither credit nor credit money can develop greatly. As long as the social character of labour appears as the money existence of commodities, and thus as a thing external to actual production, money crises—indeed independent of or as an intensification of actual crises—are inevitable. On the other hand, it is clear that as long as the credit of a bank is not shaken, it will alleviate the panic in such cases by increasing credit money and intensify it by contracting the latter. The entire history of modern industry shows that metal would indeed be required only for the balancing of international commerce, whenever its equilibrium is momentarily disturbed, if only domestic production were organised. That the domestic market does not need any metal money even now is shown by the suspension of the cash payments of the so-called national banks, which resort to this expedient in all extreme cases as the sole relief.

In the case of two individuals, it would be ridiculous to say that in their transactions with one another both have an unfavourable balance of payments. If they are reciprocally creditor and debtor of one another, it is evident that when their claims do not balance, one must
be the creditor and the other the debtor for the balance. With nations this is by no means the case. And that this is not the case is acknowledged by all economists when they admit that the balance of payments can be favourable or unfavourable for a nation, though its trade balance must ultimately be settled. The balance of payments differs from the balance of trade in that it is a balance of trade which must be settled at a definite time. What the crises now accomplish is to narrow the difference between the balance of payments and the balance of trade to a short interval; and the specific conditions which develop in the nation suffering from a crisis and, therefore, having its payments become due — these conditions already lead to such a contraction of the time of settlement. First, shipping away precious metals; then selling consigned commodities at low prices; exporting commodities to dispose of them or to obtain money advances on them at home; increasing the rate of interest, recalling credit, depreciating securities, disposing of foreign securities, attracting foreign capital for investment in these depreciated securities, and finally bankruptcy, which settles a mass of claims. At the same time, metal is still often sent to the country where a crisis has broken out, because the drafts drawn on it are insecure and payment in specie is most trustworthy. Furthermore, in regard to Asia, all capitalist nations are usually simultaneously — directly or indirectly — its debtors. As soon as these various circumstances exert their full effect upon the other involved nation, it likewise begins to export gold and silver, in short, its payments become due and the same phenomena are repeated.

In commercial credit, the interest — as the difference between credit price and cash price — enters into the price of commodities only in so far as the bills of exchange have a longer than ordinary running time. Otherwise it does not. And this is explained by the fact that everyone takes credit with one hand and gives it with the other. // This does not agree with my experience. — F. E. // But in so far as discount in this form enters here, it is not regulated by this commercial credit, but by the money market.

If supply and demand of money capital, which determine the rate of interest, were identical with supply and demand of actual capital, as Overstone maintains, the interest would be simultaneously low and high, depending on whether various commodities or various phases (raw material, semi-finished product, finished product) of the same commodity were being considered. In 1844, the rate of interest of the Bank of England fluctuated between 4% (from January to Sep-
tember) and 2 $\frac{1}{2}$ and 3% (from November to the end of the year). In 1845, it was 2 $\frac{1}{2}$, 2 $\frac{3}{4}$, and 3% from January to October, and between 3 and 5% during the remaining months. The average price of Fair Orleans cotton was $6 \frac{1}{4}$ d. in 1844 and $4 \frac{7}{8}$ d. in 1845. On March 3, 1844, the cotton supply in Liverpool was 627,042 bales, and on March 3, 1845, it was 773,800 bales. To judge by the low price of cotton, the rate of interest should have been low in 1845, and it was indeed for the greater part of this time. But to judge by the yarn, the rate of interest should have been high, for the prices were relatively high and the profits absolutely high. From cotton at 4d. per pound, yarn could be spun in 1845 with a spinning cost of 4d. (good Secunda mule twist No. 40), or a total cost of 8d. to the spinner, which he could sell in September and October 1845 at $10 \frac{1}{2}$ or $11 \frac{1}{2}$ d. per pound.

(See the testimony of Wylie below.)

The entire matter can be resolved as follows:

Supply and demand of loan capital would be identical with supply and demand of capital generally (although this last statement is absurd; for the industrialist or merchant a commodity is a form of his capital, yet he never asks for capital as such, but only for the particular commodity as such, he buys and pays for it as a commodity, e.g., corn or cotton, regardless of the role that it has to play in the circuit of his capital), if there were no money lenders, and if in their stead the lending capitalists were in possession of machinery, raw materials, etc., which they would lend or hire out, as houses are rented out now, to the industrial capitalists, who are themselves owners of some of these objects. Under such circumstances, the supply of loan capital would be identical with the supply of elements of production for the industrial capitalist and commodities for the merchant. But it is clear that the division of profit between the lender and borrower would then, to begin with, completely depend on the relation of the capital which is lent to that which is the property of the one who employs it.

According to Mr. Weguelin (B. A. 1857), the rate of interest is determined by "the amount of unemployed capital" (252); it is "but an indication of a large amount of capital which is seeking employment" (271); later this unemployed capital becomes "floating capital" (485) and by this he means "the Bank of England notes and other kinds of circulation in the country, for instance, the country banks circulation and the amount of coin which is in the country ... I include in floating capital the reserves of the bankers" (502, 503), and later also gold
bullion (503). Thus the same Mr. Weguelin says that the Bank of England exerts great influence upon the rate of interest in times, when "we" //the Bank of England// "are holders of the greater portion of the unemployed capital" (1198), while, according to the above testimony of Mr. Overstone, the Bank of England "is no place for capital." Mr. Weguelin further says:

"I think the rate of discount is governed by the amount of unemployed capital which there is in the country. The amount of unemployed capital is represented by the reserve of the Bank of England, which is practically a reserve of bullion. When, therefore, the bullion is drawn upon, it diminishes the amount of unemployed capital in the country and consequently raises the value of that which remains" (1258).

J. Stuart Mill says (2102):

"The Bank is obliged to depend for the solvency of its BANKING DEPARTMENT upon what it can do to replenish the reserve in that department; and therefore as soon as it finds that there is any drain in progress, it is obliged to look to the safety of its reserve, and to commence contracting its discounts or selling securities."

The reserve, in so far as only the BANKING DEPARTMENT is considered, is a reserve for the deposits only. According to the Overstones, the BANKING DEPARTMENT is supposed to act only as a banker, without regard to the "automatic" issue of notes. But in times of actual stringency the Bank, independently of the reserve of the BANKING DEPARTMENT, which consists only of notes, keeps a sharp eye on the bullion reserve, and must do so if it does not wish to fail. For, to the extent that the bullion reserve dwindles, so the reserve of banknotes also dwindles, and no one should be better informed of this than Mr. Overstone, who precisely by his Bank Act of 1844 has so sagaciously arranged this.

Chapter XXXIII

THE MEDIUM OF CIRCULATION
IN THE CREDIT SYSTEM

"The great regulator of the velocity of the currency is credit. This explains why a severe pressure upon the money market is generally coincident with a full circulation" (The Currency Theory Reviewed, p. 65).

This is to be taken in a double sense. On the one hand, all methods which save on medium of circulation are based upon credit. On the other hand, however, take, for example, a 500-pound note. A gives it to B on a certain day in payment for a bill of exchange; B deposits it on the same day with his banker; the latter discounts a bill of ex-
change with it on the very same day for C; C pays it to his bank, the bank gives it to the bill-broker as an advance, etc. The velocity with which the note circulates here, to serve for purchases and payments, is effected by the velocity with which it repeatedly returns to someone in the form of a deposit and passes over to someone else again in the form of a loan. The pure economy in medium of circulation appears most highly developed in the clearing house— in the simple exchange of bills of exchange that are due — and in the preponderant function of money as a means of payment for merely settling balances. But the very existence of these bills of exchange depends in turn on credit, which the industrialists and merchants mutually give one another. If this credit declines, so does the number of bills, particularly long-term ones, and consequently also the effectiveness of this method of balancing accounts. And this economy, which consists in eliminating money from transactions and rests entirely upon the function of money as a means of payment, which in turn is based upon credit, can only be of two kinds (aside from the more or less developed technique in the concentration of these payments): mutual claims, represented by bills of exchange or cheques, are balanced out either by the same banker, who merely transcribes the claim from the account of one to that of another, or by the various bankers among themselves.\textsuperscript{11} The concentration of 8 to 10 million bills of exchange in the hands of one bill-broker, such as the firm of Overend, Gurney & Co., was one of the principal means of expanding the scale of such balancing locally. The effectiveness of the medium of circulation is increased through this economy in so far as a smaller quantity of it is required simply to balance accounts. On the other hand the velocity of the money flowing as medium of circulation (by which it is also economised) depends entirely upon the flow of purchases and sales, and on the chain of payments, in so far as they occur successively in money. But credit pro-

\textsuperscript{11} Average number of days during which a banknote remained in circulation:

<table>
<thead>
<tr>
<th>Year</th>
<th>£5 Note</th>
<th>£10 Note</th>
<th>£20-100</th>
<th>£200-500</th>
<th>£1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>1792</td>
<td></td>
<td>236</td>
<td>209</td>
<td>31</td>
<td>22</td>
</tr>
<tr>
<td>1818</td>
<td>148</td>
<td>137</td>
<td>121</td>
<td>18</td>
<td>13</td>
</tr>
<tr>
<td>1846</td>
<td>79</td>
<td>71</td>
<td>34</td>
<td>12</td>
<td>8</td>
</tr>
<tr>
<td>1856</td>
<td>70</td>
<td>58</td>
<td>27</td>
<td>9</td>
<td>7</td>
</tr>
</tbody>
</table>

motors and thereby increases the velocity of circulation. A single piece of money, for instance, can effect only five moves, and remains longer in the hands of each individual as mere medium of circulation without credit mediating — when A, its original owner, buys from B, B from C, C from D, D from E, and E from F, that is, when its transition from one hand to another is due only to actual purchases and sales. But when B deposits the money received in payment from A with his banker and the latter uses it in discounting bills of exchange for C, C in turn buys from D, D deposits it with his banker and the latter lends it to E, who buys from F, then even its velocity as mere medium of circulation (means of purchase) is promoted by several credit operations: B’s depositing with his banker and the latter’s discounting for C, D’s depositing with his banker, and the latter’s discounting for E; in other words through four credit operations. Without these credit operations, the same piece of money would not have performed five purchases successively in the given period of time. The fact that it changed hands without mediation of actual sales and purchases, through depositing and discounting, has here accelerated its change of hands in the series of actual transactions.

We have seen previously that one and the same banknote can constitute deposits in several banks. Similarly, it can also constitute various deposits in the same bank. The banker discounts, with the note which A has deposited, B’s bill of exchange, B pays C, and C deposits the same note in the same bank that issued it.

We have already demonstrated in the discussion of simple money circulation (Buch I, Kap. III, 2 a) that the mass of actual circulating money, assuming the velocity of circulation and economy of payments as given, is determined by the prices of commodities and the quantity of transactions. The same law governs the circulation of notes.

In the following table, the annual average number of notes of the Bank of England, in so far as they were in the hands of the public, are recorded, namely, the 5- and 10-pound notes, the 20- to 100-pound notes, and the larger denominations between 200 and 1,000 pounds sterling; also the percentages of the total circulation that each one of these groupings constitutes. The amounts are in thousands, i.e., the last three figures are omitted.

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*a See present edition, Vol. 35.*
<table>
<thead>
<tr>
<th>Year</th>
<th>£5-10 Notes</th>
<th>%</th>
<th>£20-100 Notes</th>
<th>%</th>
<th>£200-1,000 Notes</th>
<th>%</th>
<th>Totals in £</th>
</tr>
</thead>
<tbody>
<tr>
<td>1844</td>
<td>9,263</td>
<td>45.7</td>
<td>5,735</td>
<td>28.3</td>
<td>5,253</td>
<td>26.0</td>
<td>20,241</td>
</tr>
<tr>
<td>1845</td>
<td>9,698</td>
<td>46.9</td>
<td>6,082</td>
<td>29.3</td>
<td>4,942</td>
<td>23.8</td>
<td>20,722</td>
</tr>
<tr>
<td>1846</td>
<td>9,918</td>
<td>48.9</td>
<td>5,778</td>
<td>28.5</td>
<td>4,590</td>
<td>22.6</td>
<td>20,286</td>
</tr>
<tr>
<td>1847</td>
<td>9,591</td>
<td>50.1</td>
<td>5,498</td>
<td>28.7</td>
<td>4,066</td>
<td>21.2</td>
<td>19,155</td>
</tr>
<tr>
<td>1848</td>
<td>8,732</td>
<td>48.3</td>
<td>5,046</td>
<td>27.9</td>
<td>4,307</td>
<td>23.8</td>
<td>18,085</td>
</tr>
<tr>
<td>1849</td>
<td>8,692</td>
<td>47.2</td>
<td>5,234</td>
<td>28.5</td>
<td>4,477</td>
<td>24.3</td>
<td>18,403</td>
</tr>
<tr>
<td>1850</td>
<td>9,164</td>
<td>47.2</td>
<td>5,587</td>
<td>28.8</td>
<td>4,646</td>
<td>24.0</td>
<td>19,398</td>
</tr>
<tr>
<td>1851</td>
<td>9,362</td>
<td>48.1</td>
<td>5,554</td>
<td>28.5</td>
<td>4,557</td>
<td>23.4</td>
<td>19,473</td>
</tr>
<tr>
<td>1852</td>
<td>9,839</td>
<td>45.0</td>
<td>6,161</td>
<td>28.2</td>
<td>5,856</td>
<td>26.8</td>
<td>21,856</td>
</tr>
<tr>
<td>1853</td>
<td>10,699</td>
<td>47.3</td>
<td>6,393</td>
<td>28.2</td>
<td>5,541</td>
<td>24.5</td>
<td>22,653</td>
</tr>
<tr>
<td>1854</td>
<td>10,565</td>
<td>51.0</td>
<td>5,910</td>
<td>28.5</td>
<td>4,234</td>
<td>20.5</td>
<td>20,709</td>
</tr>
<tr>
<td>1855</td>
<td>10,628</td>
<td>53.6</td>
<td>5,706</td>
<td>28.9</td>
<td>3,459</td>
<td>17.5</td>
<td>19,793</td>
</tr>
<tr>
<td>1856</td>
<td>10,680</td>
<td>54.4</td>
<td>5,645</td>
<td>28.7</td>
<td>3,323</td>
<td>16.9</td>
<td>19,648</td>
</tr>
<tr>
<td>1857</td>
<td>10,659</td>
<td>54.7</td>
<td>5,567</td>
<td>28.6</td>
<td>3,241</td>
<td>16.7</td>
<td>19,467</td>
</tr>
</tbody>
</table>

(B.A. 1858, p. XXVI.)

The total sum of circulating banknotes, therefore, positively decreased from 1844 to 1857, although commercial business, as indicated by exports and imports, had more than doubled. The smaller banknotes of £5 and £10 increased, as the table shows, from £9,263,000 in 1844 to £10,659,000 in 1857. And this took place simultaneously with the particularly heavy increase in gold circulation at that time. On the other hand, there was a decrease in the notes of higher denominations (£200 to £1,000) from £5,856,000 in 1852 to £3,241,000 in 1857, i.e., a decrease of more than 2½ million. This is explained as follows:

"On the 8th June 1854, the private bankers of London admitted the joint-stock banks to the arrangements of the CLEARING HOUSE, and shortly afterwards the final CLEARING was adjusted in the Bank of England. The daily clearances are now effected by transfers in the accounts which the several banks keep in that establishment. In consequence of the adoption of this system, the large notes which the bankers formerly employed for the purpose of adjusting their accounts are no longer necessary" (B. A. 1858, p. V).

To what small minimum the use of money in wholesale trade has been reduced, can be deduced from the table reprinted in Book I (Ch. III, Note 103), which was presented to the Bank Committee by Morrison, Dillon & Co., one of the largest of those London firms from which a small dealer can buy his entire assortment of commodities.

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a Ibid.
According to the testimony of W. Newmarch before the Bank Committee 1857, No. 1741, other circumstances also contributed to economy in the circulating medium: penny postage, railways, telegraphy, in short, the improved means of communication; thus England can now carry on five to six times more business with about the same circulation of banknotes. This is also essentially due to the withdrawal from circulation of notes of higher denomination than £10. Here Newmarch sees a natural explanation for the phenomenon that in Scotland and Ireland, where one-pound notes also circulate, note circulation has risen by about 31% (1747). The total circulation of banknotes in the United Kingdom, including one-pound notes, is said to be £39 million (1749). The gold circulation = £70 million (1750). In Scotland, the circulation of notes was £3,120,000 in 1834; £3,020,000 in 1844; and £4,050,000 in 1854 (1752).

From these figures alone, it is evident that banks issuing notes can by no means increase the number of circulating notes at will, as long as these notes are at all times exchangeable for money. //Inconvertible paper money is not considered here at all; inconvertible banknotes can become a universal medium of circulation only where they are actually backed by state credit, as is the case in Russia at present.49 They then fall under the laws of inconvertible paper money issued by the state, which have already been developed (Buch I, Kap. III, 2, c: "Coin and Symbols of Value"). — F. E.//

The quantity of circulating notes is regulated by the turnover requirements, and every superfluous note wends its way back immediately to the issuer. Since in England only the notes of the Bank of England circulate universally as legal means of payment, we can disregard at this point the insignificant, and merely local, note circulation of the country banks.

Before the Bank Committee 1858, Mr. Neave, Governor of the Bank of England, testifies:

No. 947. (Question:) “Whatever measures you resort to, the amount of notes with the public, you say, remains the same; that is somewhere about £20,000,000? — In ordinary times, the uses of the public seem to want about £20,000,000. There are special periodical moments when, through the year, they rise to another £1,000,000 or £1,500,000. I stated that, if the public wanted more, they could always take it from the Bank of England.” — “948. You stated that during the panic the public would not allow you to diminish the amount of notes; I want you to account for that. — In moments of panic, the public have, as I believe, the full power of helping themselves as to notes; and of course, as long as the Bank has a liability, they may use that liability to take the notes from the Bank.” — “949. Then there seems to be required, at all times,
somewhere about £20,000,000 of legal tender? — £20,000,000 of notes with the public; it varies. It is £18,500,000, £19,000,000, £20,000,000, and so on; but taking the average, you may call it from £19,000,000 to £20,000,000."

Testimony of Thomas Tooke before the Committee of Lords on Commercial Distress (C. D. 1848/57):

No. 3094. "The Bank has no power of its own volition to extend the amount of its circulation in the hands of the public; but it has the power of reducing the amount of the notes in the hands of the public, not however without a very violent operation."

J. C. Wright, a banker for 30 years in Nottingham, having explained at length the impossibility for a country bank to be able to keep more notes in circulation than the public needs and wants, says about notes of the Bank of England (C. D. 1848/57):

No. 2844. "I am not aware that there is any check" (for note issue) "upon the Bank of England, but any excess of circulation will go into the deposits and thus assume a different name."

The same holds true for Scotland, where almost nothing but paper circulates, because there as well as in Ireland one-pound notes are also in use and "THE SCOTCH HATE GOLD". Kennedy, Director of a Scottish bank, declares that banks could not even contract their circulation of notes and

"conceives that so long as there are internal transactions requiring notes or gold to perform them, bankers must, either through the demands of their depositors or in one shape or another, furnish as much currency as those transactions require.... The Scottish banks can restrict their transactions, but they cannot control their currency" (ibid., Nos. 3446, 3448).

Similarly, Anderson, Director of the Union Bank of Scotland, states (ibid., No. 3578):

"The system of exchanges between yourselves" //among the Scottish banks// "prevents any over-issue on the part of any one bank?—Yes; there is a more powerful preventive than the system of exchanges"

//which has really nothing to do with this, but does indeed guarantee the ability of the notes of each bank to circulate throughout Scotland//,

"the universal practice in Scotland of keeping a bank account; everybody who has any money at all has a bank account and puts in every day the money which he does not immediately want, so that at the close of the business of the day there is no money scarcely out of the banks except what people have in their pockets."

The same applies to Ireland, as indicated in the testimony of the Governor of the Bank of Ireland, MacDonnell, and the Director of
the Provincial Bank of Ireland, Murray, before the same Committee.

Note circulation is just as independent of the state of the gold reserve in the vaults of the bank which guarantees the convertibility of these notes, as it is of the will of the Bank of England.

"On September 18, 1846, the circulation of the Bank of England was £20,900,000 and the bullion in the Bank £16,273,000; and on April 5, 1847, the notes in circulation were £20,815,000 and the bullion £10,246,000.... It is evident that six million of gold were exported, without any contraction of the currency of the country" (J. G. Kinnear, The Crisis and the Currency, London, 1847, p. 5).

Of course, this applies only under present conditions prevailing in England, and even here only in so far as legislation does not decree a different relationship between the note issue and metal reserve.

Hence only the requirements of business itself exert an influence on the quantity of circulating money — notes and gold. To be noted here, in the first instance, are the periodic fluctuations, which repeat themselves annually regardless of the general condition of business, so that for the past 20 years

"the circulation is high in one month, and it is low in another month, and in a certain other month occurs a medium point" (Newmarch, B. A. 1857, No. 1650).

Thus, in August of every year a few millions, generally in gold, pass from the Bank of England into domestic circulation to pay the harvest expenses; since wages are the principal payments to be made here, banknotes are less serviceable in England for this purpose. By the close of the year this money has streamed back to the Bank. In Scotland, there are almost nothing but one-pound notes instead of sovereigns; here, then, the note circulation is expanded in the corresponding situation, namely, twice a year — in May and November — from 3 million to 4 million; after a fortnight the return flow begins, and is almost completed in one month (Anderson, l. c., Nos. 3595-3600).\(^a\)

The note circulation of the Bank of England also experiences a momentary fluctuation every three months because of the quarterly payment of "dividends", that is, interest on the national debt, whereby banknotes are first withdrawn from circulation and then again released to the public; but they flow back very soon again. Weguelin (B. A. 1857, No. 38) states that this fluctuation in the note circulation amounts to \(2\frac{1}{2}\) million. Mr. Chapman of the notorious firm of

\(^a\) See Report from the Secret Committee of the House of Lords, Appointed to Inquire into the Causes of the Distress...
Overend, Gurney & Co., however, estimates the amount of disturbance thus created in the money market as being much higher.

"When you abstract from the circulation £6,000,000 or £7,000,000 of revenue in anticipation of dividends, somebody must be the medium of supplying that in intermediate times" (B.A. 1857, No. 5196).

Far more significant and enduring are the fluctuations in quantity of circulating medium corresponding to the various phases of the industrial cycle. Let us listen to another associé of that firm on this question, the esteemed Quaker Samuel Gurney (C.D. 1848/57, No. 2645):

"At the end of October (1847) the amount of banknotes in the hands of the public was £20,800,000. At that period there was great difficulty in getting possession of banknotes in the money market. This arose from the alarm of not being able to get them in consequence of the restriction of the Act of 1844. At present //March 1848// the amount of banknotes in the hands of the public is ... £17,700,000, but there being now no commercial alarm whatsoever, it is much beyond what is required. There is no banking house or money dealer in London, but what has a larger amount of banknotes than they can use." — "2650. The amount of banknotes ... out of the custody of the Bank of England affords a totally insufficient exponent of the active state of the circulation, without taking into consideration likewise ... the state of the commercial world and the state of credit." — "2651. The feeling of surplus that we have under the present amount of circulation in the hands of the public arises in a large degree from our present state of great stagnation. In a state of high prices and excitement of transaction £17,700,000 would give us a feeling of restriction."

//As long as the state of business is such that returns of loans made come in regularly and credit thus remains unshaken, the expansion and contraction of circulation depend simply upon the requirements of industrialists and merchants. Since gold, at least in England, does not come into question in the wholesale trade and the circulation of gold, aside from seasonal fluctuations, may be regarded as rather constant over a long period of time, the note circulation of the Bank of England constitutes a sufficiently accurate measure of these changes. In the period of stagnation following a crisis, circulation is smallest; with the renewed demand, a greater need for circulating medium develops, which increases with rising prosperity; the quantity of circulating medium reaches its apex in the period of overtension and over speculation — the crisis precipitously breaks out and overnight banknotes which yesterday were still so plentiful disappear from the market and with them the discounters of bills, lenders of money on securities, and buyers of commodities. The Bank of England is called upon for help — but even its powers are soon exhausted, for the Bank Act of 1844 compels it to contract its note circulation at the very moment
when the whole world cries out for notes; when owners of commodities cannot sell, yet are called upon to pay and are prepared for any sacrifice, if only they can secure banknotes.

"During an alarm," says the earlier mentioned banker Wright (l.c., No. 2930), "the country requires twice as much circulation as in ordinary times, because the circulation is hoarded by bankers and others."

Once the crisis has broken out, it becomes from then on only a question of means of payment. But since every one is dependent upon someone else for the receipt of these means of payment, and no one knows whether the next one will be able to meet his payments when due, a regular stampede ensues for those means of payment available on the market, that is, for banknotes. Everyone hoards as many of them as he can lay hand on, and thus the notes disappear from circulation on the very day when they are most needed. Samuel Gurney (C.D. 1848/57, No. 1116) estimates the amount of banknotes brought under lock and key in October 1847, at a time of such alarm, to have reached £4 to £5 million.—F. E.//

In this connection, the cross-examination of Chapman, Gurney's associé who has been previously mentioned, before the Bank Committee of 1857 is especially interesting. I present here its principal contents in context, although certain points are touched upon which we shall not examine until later.

Mr. Chapman has the following to say:

"4963. I have also no hesitation in saying that I do not think it is a proper condition of things that the money market should be under the power of any individual capitalist (such as does exist in London), to create a tremendous scarcity and pressure, when we have a very low state of circulation out.... That is possible ... there is more than one capitalist, who can withdraw from the circulating medium £1,000,000 or £2,000,000 of notes, if they have an object to attain by it."

4965. A big speculator can sell £1,000,000 or £2,000,000 of consols and thus take the money out of the market. Something similar to this has happened quite recently, "it creates a most violent pressure".

4967. The notes are then indeed unproductive.

"But that is nothing, if it effects his great object; his great object is to knock down the funds, to create a scarcity, and he has it perfectly in his power to do so."

An illustration: One morning there was a great demand for money in the Stock Exchange; nobody knew its cause; somebody asked Chapman to lend him £50,000 at 7%. Chapman was astonished, for his rate of interest was much lower; he accepted. Soon after that the
man returned, borrowed another £50,000 at 7 1/2 %, then £100,000 at 8%, and wanted still more at 8 1/2 %. Then even Chapman became uneasy. Later it turned out that a considerable sum of money had been suddenly withdrawn from the market. But, says Chapman,

"I did lend a large sum at 8%; I was afraid to go beyond; I did not know what was coming."

It must never be forgotten that, although £19 to £20 million in notes are almost constantly supposed to be in the hands of the public, nevertheless, the portion of these notes which actually circulates, and, on the other hand, the portion which is held idle by the banks as a reserve, continually and significantly vary with respect to each other. If this reserve is large, and therefore the actual circulation small, it means, from the point of view of the money market, that the circulation is full, money is plentiful; if the reserve is small, and therefore the actual circulation full, in the language of the money market the circulation is low, money is scarce—in other words, the portion representing idle loan capital is small. A real expansion or contraction of the circulation, that is independent of the phases of the industrial cycle—with the amount needed by the public, however, remaining the same—occurs only for technical reasons, for instance, on the dates when taxes or the interest on the national debt are due. When taxes are paid, more notes and gold than usual flow into the Bank of England and, in effect, contract the circulation without regard to its needs. The reverse takes place when the dividends on the national debt are paid out. In the former case, loans are made from the Bank in order to obtain circulating medium. In the latter case, the rate of interest falls in private banks because of the momentary growth of their reserves. This has nothing to do with the absolute quantity of circulating medium; it does, however, concern the banking firm which sets this circulating medium in motion and for which this process consists in the alienation of loan capital and for which it pockets the profits thereby.

In the one case, there is merely a temporary displacement of circulating medium, which the Bank of England balances by short-term loans at low interest shortly before the quarterly taxes and also before the quarterly dividends on the national debt become due; the issue of these supernumerary notes first fills up the gap caused by the pay-

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a In the 1894 German edition this English phrase is given in parentheses after its German equivalent.
ment of taxes, while their return payment to the Bank soon thereafter brings back the excess of notes obtained by the public through the payment of dividends.

In the other case, low or full circulation is always simply a matter of different distribution of the same quantity of circulating medium into active circulation and deposits, i. e., an instrument of loans.

On the other hand, if, for example, the number of notes issued is increased on the basis of a flow of gold into the Bank of England, these notes assist in discounting bills outside of the Bank and return to it through the repayment of loans, so that the absolute quantity of circulating notes is only momentarily increased.

If the circulation is full because of business expansion (which may take place even though prices are relatively low), then the rate of interest can be relatively high because of the demand for loan capital as a result of rising profits and increased new investments. If it is low, because of business contraction, or perhaps because credit is very plentiful, the rate of interest can be low even though prices are high. (See Hubbard. a)

The absolute amount of circulation has a determining influence on the rate of interest only in times of stringency. The demand for full circulation can either reflect merely a demand for a hoarding medium (disregarding the reduced velocity of the money circulation and the continuous conversion of the same identical pieces of money into loan capital) owing to lack of credit, as was the case in 1847 when the suspension of the Bank Act did not cause any expansion of the circulation, but sufficed to draw forth the hoarded notes and to channel them into circulation; or it may be that more means of circulation are actually required under the circumstances, as was the case in 1857 when the circulation actually expanded for some time after the suspension of the Bank Act.

Otherwise, the absolute quantity of circulation has no influence whatever upon the rate of interest, since—assuming the economy and velocity of currency to be constant—it is determined in the first place by commodity prices and the quantity of transactions (whereby one of these generally neutralises the effect of the other), and finally by the state of credit, whereas it by no means exerts the reverse effect upon the latter; and, secondly, since commodity prices and interest do not necessarily stand in any direct correlation to each other.

a See this volume, pp. 546-47.
During the life of the Bank Restriction Act (1797-1819) a surplus of currency existed and the rate of interest was always much higher than after the resumption of cash payments. Later, it fell rapidly with the restriction of the note issue and rising bill quotations. In 1822, 1823, and 1832, the general circulation was low, and so was the rate of interest. In 1824, 1825, and 1836, the circulation was full and the rate of interest rose. In the summer of 1830 the circulation was full and the rate of interest low. Since the gold discoveries, money circulation throughout Europe has expanded, and the rate of interest risen. Therefore, the rate of interest does not depend upon the quantity of circulating money.

The difference between the issue of circulating medium and the lending of capital is best demonstrated in the actual reproduction process. We have seen (Book II, Part III) in what manner the different component parts of production are exchanged for one another. For example, variable capital consists materially of the means of subsistence of the labourers, a portion of their own product. But this is paid out to them piecemeal in money. The capitalist has to advance this, and it is very greatly dependent on the credit system organisation whether he can pay out the new variable capital the following week with the old money which he paid out in the previous week. The same holds for exchange among various component parts of the total social capital, for instance, between means of consumption and means of production of means of consumption. The money for their circulation, as we have seen, must be advanced by one or both of the exchanging parties. It remains thereupon in circulation, but returns after the exchange has been completed to the one who advanced it, since it had been advanced by him over and above his actually employed industrial capital (Book II, Chap. XX\(^a\)). Under a developed system of credit, with the money concentrated in the hands of bankers, it is they, at least nominally, who advance it. This advance refers only to money in circulation. It is an advance of circulation, not an advance of capitals which it circulates.

Chapman: "5062. There may be times when the notes in the hands of the public, though they may be large, are not to be had."

Money also exists during a panic; but everyone takes good care not to convert it into loanable capital, i.e., loanable money; everyone holds on to it for the purpose of meeting real payment needs.

“5099. The country bankers in rural districts send up their unemployed balances to yourselves and other houses? — Yes.” —“5100. On the other hand, the Lancashire and Yorkshire districts require discounts from you for the use of their trades? — Yes.” —“5101. Then by that means the surplus money of one part of the country is made available for the demands of another part of the country? — Precisely so.”

Chapman states that the custom of banks to invest their surplus money capital for short periods in consols and treasury notes has decreased considerably of late, ever since it has become customary to lend this money AT CALL, i.e., payable on demand. He personally considers the purchase of such paper for his business very impractical. He, therefore, invests his money in reliable bills of exchange, some of which become due every day, so that he always knows how much ready money he can count on from day to day //5101 to 5105//.

Even the growth of exports expresses itself more or less for every country, but particularly for the country granting credit, as an increasing demand on the domestic money market, which is not felt, however, until a period of stringency. When exports increase, British manufacturers usually draw long-term bills of exchange on the export merchants against consignments of British goods (5126).

“5127. Is it not frequently the case that an understanding exists that those bills are to be redrawn from time to time?” — //Chapman:// “That is a thing which they keep from us; we should not admit any bill of that sort. ...I dare say it is done, but I cannot speak to a thing of the kind.” //The innocent Chapman// “5129. If there is a large increase of the exports of the country, as there was last year, of £20 million, will not that naturally lead to a great demand for capital for the discount of bills representing those exports? — No doubt.” —“5130. Inasmuch as this country gives credit, as a general rule, to foreign countries for all exports, it would be an absorption of a corresponding increase of capital for the time being? — This country gives an immense credit; but then it takes credit for its raw material. We are drawn upon from America always at 60 days, and from other parts at 90 days. On the other hand we give credit; if we send goods to Germany, we give two or three months.”

Wilson inquires of Chapman (5131), whether bills of exchange on England are not drawn simultaneously with the loading of these imported raw materials and colonial goods and whether these bills of exchange do not arrive simultaneously with the bills of lading. Chapman believes so, but does not profess to know anything about such “commercial” transactions and suggests that experts in this field be questioned.— In exporting to America, remarks Chapman, “the goods are symbolised in transitum”; this gibberish is supposed to mean that the English export merchant draws against his commodities bills of exchange with a four-month term on one of the big Amer-
ican banking houses in London and this firm receives collateral from America.\textsuperscript{a}

"5136. As a general rule, are not the more remote transactions conducted by the merchant, who waits for his capital until the goods are sold?—There may be houses of great private wealth, who can afford to lay out their own capital and not take any advance upon the goods; but the most part are converted into advances by the acceptances of some well-known established houses."—"5137. Those houses are resident in ... London, or Liverpool, or elsewhere."—"5138. There, it makes no difference, whether the manufacturer lays out his money, or whether he gets a merchant in London or Liverpool to advance it; it is still an advance in this country?—Precisely. The manufacturer in few cases has anything to do with it" //but in 1847 in almost every case//. "A man dealing in manufactured goods, for instance, at Manchester, will buy his goods and ship them through a house of respectability in London; when the London house is satisfied that they are all packed according to the understanding, he draws upon this London house for six months against these goods to India or China, or wherever they are going; then the banking world comes in and discounts that bill for him; so that, by the time he has to pay for those goods, he has the money all ready by the discount of that bill."—"5139. Although he has the money, the banker is laying out of his money?—The banker has the bill, the banker has bought the bill\textsuperscript{b}; he uses his banking capital in that form, namely, in discounting commercial bills."

//Hence even Chapman does not regard the discounting of bills as an advance of money, but as a purchase of commodities.—F. E.//

"5140. Still that forms part of the demand upon the money market in London?—No doubt; it is the substantial occupation of the money market and of the Bank of England. The Bank of England are as glad to get these bills as we are, because they know them to be good property."—"5141. In that way, as the export trade increases, the demand upon the money market increases also?—As the prosperity of the country increases, we" //the Chapmans// "partake of it."—"5142. Then when these various fields for the employment of capital increase suddenly, of course, the natural consequence is that the rate of interest is higher?—No doubt about it."

In 5143 Chapman cannot "quite understand, that under our large exports we have had such occasion for bullion".

In 5144 the esteemed Wilson asks:

"May it not be that we give larger credits upon our exports than we take credits upon our imports?—I rather doubt that point myself. If a man accepts against his Manchester goods sent to India, you cannot accept for less than 10 months. We have had to pay America for her cotton (that is perfectly true) some time before India pays us; but still it is rather refined in its operation."—"5145. If we have had an increase, as we had last year, of £20 million in our exports of manufactures, we must have had a very large increase of imports of raw material previously to that" //and in this way overexports are already identified with overimports, and overproduction with overtrading//, "in order to make up that increased quantity of goods?—No

\textsuperscript{a} See Report from the Select Committee on Bank Acts..., 1857, No. 5133. - \textsuperscript{b} Italicised by Marx.
doubt."—"We should have to pay a very considerable balance, that is to say, the balance, no doubt, would run against us during that time, but in the long run, with America ... the exchanges are in our favour, and we have been receiving for some time past large supplies of bullion from America."\(^a\)

5148. Wilson asks the arch-usurer Chapman, whether he does not regard his high rate of interest as a sign of great prosperity and high profits. Chapman, evidently surprised at the naïvete of this sycophant, affirms this, of course, but has enough integrity to add the following:

"There are some, who cannot help themselves; they have engagements to meet, and they must fulfil them, whether it is profitable or not; but, for a continuance" //of the high rate of interest//, "it would indicate prosperity."

Both forget that a high rate of interest can also indicate, as it did in 1857, that the country is undermined by the roving cavaliers of credit who can afford to pay a high interest because they pay it out of other people’s pockets (whereby, however, they help to determine the rate of interest for all), and meanwhile they live in grand style on anticipated profits. Simultaneously, precisely this can incidentally provide a very profitable business for manufacturers and others. Returns become wholly deceptive as a result of the loan system. This also explains the following, which should require no explanation so far as the Bank of England is concerned, since it discounts at a lower rate than others when the interest rate is high.

"5156. I should say," says Chapman, "that our discounts, taking the present moment, when we have had for so long a high rate of interest, are at their maximum."

//Chapman made this statement on July 21, 1857, a couple of months before the crash.//

"5157. In 1852" //when the interest rate was low// "they were not nearly so large."

For business was indeed a great deal sounder then.

"5159. If there was a great flood of money in the market ... and the bank rate low, we should get a decrease of bills. ... In 1852 there was a totally different phase of things. The exports and imports of the country were as nothing then compared to the present."—"5161. Under this high rate of discount our discounts are as large as they were in 1854." //When the rate of interest was between 5 and 5\^{1}\_2\% //

A very amusing part of Chapman’s testimony reveals how these people really regard public money as their own and assume for

themselves the right to constant convertibility of the bills of exchange discounted by them. The questions and replies show great naïveté. It becomes the obligation of legislation to make those bills which are accepted by large firms convertible at all time; to ensure that the Bank of England should under all circumstances continue to rediscount them for bill-brokers. And yet three of such bill-brokers went bankrupt in 1857, owing about 8 million and their own infinitesimally small capital compared with these debts.

"5177. Do you mean by that that you think that they" //that is bills accepted by Barings or Loyds// "ought to be discountable on compulsion, in the same way that a Bank of England note is now exchangeable against gold by compulsion? — I think it would be a very lamentable thing that they should not be discountable; a most extraordinary position, that a man should stop payment who had the acceptances of Smith, Payne & Co., or Jones, Loyd & Co. in his hands, because he could not get them discounted."—"5178. Is not the engagement of Messrs. Baring an engagement to pay a certain sum of money when the bill is due? — That is perfectly true; but Messrs. Baring, when they contract that engagement, and every other merchant who contracts an engagement, never dream that they are going to pay it in sovereigns; they expect that they are going to pay it at the CLEARING HOUSE."—"5180. Do you think that there should be any machinery contrived by which the public would have a right to claim money before that bill was due by calling upon somebody to discount it? — No, not from the acceptor; but if you mean by that that we are not to have the possibility of getting commercial bills discounted, we must alter the whole constitution of things." —"5182. Then you think that it" //commercial bill// "ought to be convertible into money, exactly in the same way that a Bank of England note ought to be convertible into gold? — Most decidedly so, under certain circumstances."—"5184. Then you think that the provisions of the CURRENCY should be so shaped that a bill of exchange of undoubted character ought at all times to be as readily exchangeable against money as a banknote? — I do."—"5185. You do not mean to say that either the Bank of England or any individual should, by law, be compelled to exchange it? — I mean to say this, that in framing a bill for the CURRENCY, we should make provision to prevent the possibility of an inconvertibility of the bills of exchange of the country arising, assuming them to be undoubtedly solid and legitimate."

This is the convertibility of the commercial bill as compared with the convertibility of banknotes.

"5190. The money dealers of the country only, in point of fact, represent the public."

As did Mr. Chapman later before the court of assizes in the Davidson case. See the Great City Frauds.51

"5196. During the quarters" //when the dividends are paid// "it is ... absolutely necessary that we should go to the Bank of England. When you abstract from the circulation £6,000,000 or £7,000,000 of revenue in anticipation of the dividends, somebody must be the medium of supplying that in the intermediate time."
In this case it is then a question of a supply of money, not of capital or loan capital.//

"5169. Everybody acquainted with our commercial circle must know that when we are in such a state that we find it impossible to sell Exchequer bills, when India bonds are perfectly useless, when you cannot discount the first commercial bills, there must be great anxiety on the part of those whose business renders them liable to pay the circulating medium of the realm on demand, which is the case with all bankers. Then the effect of that is to make every man double his reserve. Just see what the result of that is throughout the country, that every country banker, of whom there are about 500, has to send up to his London correspondent to remit him £5,000 in banknotes. Taking such a limited sum as that as the average, which is quite absurd, you come to £2,500,000 taken out of the circulation. How is that to be supplied?"

On the other hand, the private capitalists, etc., who have money do not let go of it at any interest, for they say after the manner of Chapman,

"5195. We would rather have no interest at all, than have a doubt about our getting the money in case we require it."

"5173. Our system is this: That we have £300,000,000 of liabilities which may be called for at a single moment to be paid in the coin of the realm, and that coin of the realm, if the whole of it is substituted, amounts to £23,000,000, or whatever it may be; is not that a state which may throw us into convulsions at any moment?"

Hence the sudden change of the credit system into a monetary system during crises.

Aside from the domestic panic during crises, one can speak of the quantity of money only in so far as it concerns bullion, universal money. And this is precisely what Chapman excludes, he speaks only of 23 million in banknotes.

The same Chapman:

"5218. The primary cause of the derangement of the money market" //in April and later in October 1847// "no doubt was in the quantity of money which was required to regulate our exchanges, in consequence of the extraordinary importations of the year."

In the first place, this reserve of world-market money had then been reduced to its minimum. Secondly, it served at the same time as security for the convertibility of credit money, banknotes. It combined in this manner two quite different functions, both of which, however, stem from the nature of money, since real money is always world-market money, and credit money always rests upon world-market money.

In 1847, without the suspension of the Bank Act of 1844,

"the CLEARING HOUSES could not have been settled" (5221).
That Chapman had an inkling of the imminent crisis, after all:

"5236. There are certain conditions of the money market (and the present is not very far from it) where money is exceedingly difficult, and recourse must be had to the Bank."

"5239. With reference to the sums which we took from the Bank on the Friday, Saturday and Monday, the 19th, 20th, and 22nd of October, 1847, ... we should only have been too thankful to have got the bills back on the Wednesday following; the money reflowed to us directly the panic was over."

On Tuesday, October 23, the Bank Act was suspended and the crisis was thus broken.

Chapman believes (5274) that the bills of exchange running simultaneously on London amount to £100 or £120 million. This does not include local bills made on provincial firms.

"5287. Whereas in October 1856, the amount of the notes in the hands of the public ran up to £21,155,000, there was an extraordinary difficulty in obtaining money; notwithstanding that the public held so much, we could not touch it."

This was due to the fear caused by the squeeze in which the Eastern Bank found itself for a period of time (March 1856).

5290. As soon as the panic is over,

"all bankers deriving their profit from interest begin to employ the money immediately."

5302. Chapman does not explain the uneasiness that exists when the bank reserve decreases as being due to apprehension concerning deposits, but rather that all those who suddenly may be compelled to pay large sums of money are well aware they may be driven to seek their last refuge in the bank when there is a stringency in the money market; and

"if the banks have a very small reserve, they are not glad to receive us; but on the contrary."

It is pretty, incidentally, to observe how the reserve as a real magnitude dwindles away. Bankers hold a minimum for current business needs either in their own hands or the Bank of England. Bill-brokers hold the "loose bank money of the country" without any reserve. And the Bank of England has nothing to offset its liabilities for deposits but the reserves of bankers and others, together with some public deposits, etc., which it permits to drop to a very low level, for instance, to £2 million. Aside from these £2 million in paper, then, this whole swindle has absolutely no other reserve but the bullion reserve in times of stringency (and this reduces the reserve, because the notes which
come in to replace outgoing bullion must be cancelled), and thus every reduction of this reserve by drain of gold increases the crisis.

"5306. If there should not be currency to settle the transactions at the CLEARING HOUSE, the only next alternative which I can see is to meet together, and to make our payments in first-class bills, bills upon the Treasury, and Messrs. Smith, Payne, and so forth." — "5307. Then, if the government failed to supply you with a circulating medium, you would create one for yourselves? — What can we do? The public come in, and take the circulating medium out of our hands; it does not exist." — "5308. You would only then do in London what they do in Manchester every day of the week? — Yes."

Particularly clever is Chapman’s reply to a question posed by Cayley (a Birmingham man of the Attwood school) regarding Overstone’s conception of capital:

"5315. It has been stated before this Committee, that in a pressure like that of 1847, men are not looking for money, but are looking for capital; what is your opinion in that respect? — I do not understand it; we only deal in money; I do not understand what you mean by it." — "5316. If you mean thereby” (commercial capital) “the quantity of money which a man has of his own in his business, if you call that capital, it forms, in most cases, a very small proportion of the money which he wields in his affairs through the credit which is given him by the public”— through the mediation of the Chapmans.

"5339. Is it the want of property that makes us give up our specie payments? — Not at all.... It is not that we want property, but it is that we are moving under a highly artificial system; and if we have an immense SUPERINCUMBENT demand upon our currency, circumstances may arise to prevent our obtaining that currency. Is the whole commercial industry of the country to be paralysed? Shall we shut up all the avenues of employment?" — "5338. If the question should arise whether we should maintain specie payments, or whether we should maintain the industry of the country, I have no hesitation in saying which I should drop."

Concerning the hoarding of banknotes “with a view to aggravate the pressure and to take advantage of the consequences” //5358//, he says that this can very easily occur. Three large banks would be sufficient.

"5383. Must it not be within your knowledge, as a man conversant with the great transactions of this metropolis, that capitalists do avail themselves of these crises to make enormous profit out of the ruin of the people who fall victims to them? — There can be no doubt about it.”

And we may well believe Mr. Chapman on this score, although he finally broke his own neck, commercially speaking, in an attempt at

\[\text{a In the 1894 German edition this English word is given in parentheses after its German equivalent.}\]
making "enormous profit out of the ruin of victims". For while his associé Gurney says: Every change in business is advantageous for one who is well informed, Chapman says:

"The one section of the community knows nothing of the other; one is the manufacturer, for instance, who exports to the continent, or imports his raw commodity; he knows nothing of the man who deals in bullion" (5046).

And thus it happened that one fine day Gurney and Chapman themselves "were not well informed" and went into ill-famed bankruptcy.

We have previously seen that note issue does not in all cases signify an advance of capital. The following testimony by Tooke before the C. D. Committee of Lords, 1848, indicates merely that an advance of capital, even if accomplished by the bank through an issue of new notes, does not unqualifiedly signify an increase in the number of circulating notes:

"3099. Do you think that the Bank of England for instance might enlarge its advances greatly, and yet lead to no additional issue of notes?—There are facts in abundance to prove it; one of the most striking instances was in 1835, when the Bank made use of the West India deposits and of the loan from the East India Company in extended advances to the public. At that time the amount of notes in the hands of the public was actually rather diminished.... And something like the same discrepancy is observable in 1846 at the time of the payment of the railway deposits into the Bank; the securities in discount and deposits "were increased to about thirty million, while there was no perceptible effect upon the amount of notes in the hands of the public."

Aside from banknotes, wholesale trade has another medium of circulation, which is far more important to it, namely, bills of exchange. Mr. Chapman showed us how essential it is for the regular flow of business that good bills of exchange be accepted in payment everywhere and under all conditions.

"Gilt nicht mehr der Tausves Jontof, was soll gelten, Zeter, Zeter!"a

How are these two media of circulation related to one another? Gilbart writes on this score:

"The reduction of the amount of the note circulation uniformly increases the amount of the bill circulation. These bills are of two classes—commercial bills and bankers' bills... when money becomes scarce, the money lenders say, 'draw upon us and we will accept'. And when a country banker discounts a bill for his customer, instead of giving him the cash, he will give him his own draft at twenty-one days upon

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a "If the Tausves-Jontof's nothing, What is left? O vile detractor!" (Heine, *Disputation*).
his London agent. These bills serve the purpose of a currency” (J. W. Gilbart, *An Inquiry into the Causes of the Pressure, etc.*, p. 31).

This is corroborated in somewhat modified form by Newmarch, B. A. 1857, No. 1426:

“There is no connection between the variations in the amount of bill circulation and the variations in the banknote circulation ... the only pretty uniform result is ... that whenever there is any pressure upon the money market, as indicated by a rise in the rate of discount, then the volume of the bill circulation is very much increased, and vice versa.”

However, the bills of exchange drawn at such times are by no means only the short-term bank bills mentioned by Gilbart. On the contrary, they are largely bills of accommodation, which represent no real transaction at all, or simply transactions made for the sole purpose of drawing bills of exchange on them; we have presented sufficient illustrations of both. Hence the *Economist* (Wilson) says in comparing the security of such bills with that of banknotes:

“Notes payable on demand can never be kept out in excess, because the excess would always return to the bank for payment, while bills at two months may be issued in great excess, there being no means of checking the issue till they have arrived at maturity, when they may have been replaced by others. For a people to admit the safety of the circulation of bills payable only on a distant day, and to object to the safety of a circulation of paper payable on demand, is, to us, perfectly unaccountable” (*Economist*, 1847, p. 575).

The quantity of circulating bills of exchange, therefore, like that of banknotes, is determined solely by the requirements of commerce; in ordinary times, there circulated in the fifties in the United Kingdom, in addition to 39 million in banknotes, about 300 million in bills of exchange — of which 100-120 million were made out on London alone. The volume of circulating bills of exchange has no influence on note circulation and is influenced by the latter only in times of money tightness, when the quantity of bills increases and their quality deteriorates. Finally, in a period of crisis, the circulation of bills collapses completely; nobody can make use of a promise to pay since everyone will accept only cash payment; only the banknote retains, at least thus far in England, its ability to circulate, because the nation with its total wealth backs up the Bank of England.

We have seen that even Mr. Chapman, who after all was himself a magnate on the money market in 1857, complains bitterly that there were several large money capitalists in London strong enough
to disrupt the whole money market at any given moment and thereby bleed white the smaller money dealers. There were several such money sharks, he said, who could considerably intensify a stringency by selling one or two million’s worth of consols and thereby withdrawing an equal amount of banknotes (and simultaneously available loan capital) from the market. The joint action of three large banks would suffice to transform a stringency into a panic by a similar manoeuvre.

The largest capital power in London, of course, the Bank of England, which, however, is prevented by its status as a semi-government institution from showing its domination in such a brutal manner. Nevertheless it also knows enough about ways and means of feathering its nest, particularly since the Bank Act of 1844.48

The Bank of England has a capital of £14,553,000, and in addition has at its disposal about £3 million “balance”, that is, undistributed profits, as well as all money collected by the government for taxes, etc., which must be deposited with the Bank until it is needed. If we add to this the sum of other deposits (about £30 million in ordinary times), and the banknotes issued without reserve backing, we shall find that Newmarch made a rather conservative estimate in stating (B. A. 1857, No. 1889):

“I satisfied myself that the amount of funds constantly employed in the //London// money market may be described as something like £120,000,000; and of that £120,000,000 a very considerable proportion, something like 15 or 20 per cent, is wielded by the Bank of England.”

In so far as the Bank issues notes which are not covered by the bullion reserve in its vaults, it creates symbols of value that constitute for it not only circulating medium, but also additional—even if fictitious—capital to the nominal amount of these unbacked notes. And this additional capital yields additional profit.— In B. A. 1857, Wilson questions Newmarch:

“1563. The circulation of a banker, so far as it is kept out upon the average, is an addition to the effective capital of that banker, is it not? — Certainly.”—“1564. Then whatever profit he derives from that circulation is a profit derived from credit, and not from a capital which he actually possesses? — Certainly.”

The same is true, of course, for private banks issuing notes. In his replies Nos. 1866 to 1868, Newmarch considers two-thirds of all banknotes issued by them (the last third has to be covered by bullion reserve in these banks) as “the creation of so much capital”, because this amount of coin is saved. The profit of the banker as a result of
this may not be larger than that of other capitalists. The fact remains that he draws the profit out of this national saving of coin. The fact that a national saving becomes a private profit does not shock the bourgeois economist in the least, since profit is generally the appropriation of national labour. Is there anything more absurd, for instance, than the Bank of England (1797 to 1817) — whose notes have credit only thanks to the state — taking payment from the state, i.e., from the public, in the form of interest on government loans, for the power granted it by the state to transform these same notes from paper into money and then to lend it back to the state?

The banks, incidentally, have still other means of creating capital. Again according to Newmarch, the country banks, as mentioned above, are accustomed to send their superfluous funds (that is, Bank of England notes) to London bill-brokers, in return for discounted bills of exchange. With these bills of exchange, the bank serves its customers, since it follows a rule not to reissue bills of exchange received from its local customers, in order to prevent their business transactions from becoming known in their own neighbourhood. These bills, received from London, not only serve the purpose of being issued to customers who have to make direct payments in London, in the event they do not prefer to get the bank’s own draft on London; they also serve to settle payments locally, since the banker’s endorsement secures local credit for them. Thus, in Lancashire, for instance, all the local banks’ own notes and a large portion of the Bank of England notes have been pushed out of circulation by such bills (ibid., 1568 to 1574).

Thus we see here how banks create credit and capital by 1) issuing their own notes, 2) writing out drafts on London running up to 21 days, but paid in cash to them immediately on issue and 3) paying out discounted bills of exchange, which are endowed with credit primarily and essentially by endorsement through the bank — at least as far as concerns the local district.

The power of the Bank of England is revealed by its regulation of the market rate of interest. In times of normal activity, it may happen that the Bank cannot prevent a moderate drain of gold from its bullion reserve by raising the discount rate because the demand for

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12) At the general meeting of stockholders of the Union Bank of London on January 17, 1894, President Ritchie relates that the Bank of England raised the discount in 1893 from 2 $\frac{1}{2}$% in July to 3 and 4% in August, and since it lost within four weeks fully £4 ½ million in gold despite this, it raised the bank rate to 5%, whereupon gold flowed
means of payment is satisfied by private banks, stock banks and
BILL-BROKERS, who have gained considerably in capital power during
the last thirty years. In such cases, the Bank of England must have
recourse to other means. But the statement made by banker Glyn
(of Glyn, Mills, Currie & Co.) before the C.D. 1848/57 still holds
good for critical periods:

"1709. Under circumstances of great pressure upon the country the Bank of Eng-
land commands the rate of interest."—"1710. In times of extraordinary pressure ...
whenever the discounts of the private bankers or brokers become comparatively lim-
ited, they fall upon the Bank of England, and then it is that the Bank of England has
the power of commanding the market rate."

Nevertheless, the Bank of England, being a public institution
under government protection and enjoying corresponding privileges,
cannot exploit its power as ruthlessly as does private business. For this
reason Hubbard remarks before the Banking Committee B. A. 1857:

"2844. //Question:// Is not it the case that when the rate of discount is highest, the
Bank is the cheapest place to go, and that when it is the lowest, the bill-brokers are the
cheapest parties?"—//Hubbard:// "That will always be the case, because the Bank of
England never goes quite so low as its competitors, and when the rate is highest, it is
never quite as high."

But it is a serious event in business life nevertheless when, in time of
stringency, the Bank of England puts on the screw, as the saying goes,
that is, when it raises still higher the interest rate which is already
above average.

"As soon as the Bank puts on the screw, all purchases for foreign exportation imme-
diately cease ... the exporters wait until prices have reached the lowest point of depres-
sion, and then, and not till then, they make their purchases. But when this point has
arrived, the exchanges have been rectified — gold ceases to be exported before the
lowest point of depression has arrived. Purchases of goods for exportation may have the
effect of bringing back some of the gold which has been sent abroad, but they come too
late to prevent the drain" (J. M. Gilbert, An Inquiry into the Causes of the Pressure on
the Money Market, p. 35). "Another effect of regulating the currency by the foreign
exchanges is that it leads in seasons of pressure to an enormous rate of interest" (I. c.,
p. 40). "The cost of rectifying the exchanges falls upon the productive industry of the
country, while during the process the profits of the Bank of England are actually aug-
back to it and the bank rate was reduced to 4% in September and then to 3% in Octo-
ber. But this bank rate was not recognised in the market. "When the bank rate was
5%, the market rate was 3 1/2 %, and the rate for money 2 1/2 %; when the bank rate fell
to 4%, the discount rate was 2 3/8 % and the money rate 1 3/4 %, when the bank rate was
3%, the discount rate fell to 1 1/2 % and the money rate to something below that" (Daily
News, January 18, 1894).—F. E.
mented in consequence of carrying on her business with a less amount of treasure" (l.c., p. 52).

But, says friend Samuel Gurney,

"The great fluctuations in the rate of interest are advantageous to bankers and dealers in money — all fluctuations in trade are advantageous to the knowing man."

And even though the Gurneys skim off the cream by ruthlessly exploiting the precarious state of business, whereas the Bank of England cannot do so with the same liberty, nevertheless it also makes a very pretty profit — not to mention the personal profits falling into the laps of its directors, as a result of their exceptional opportunity for ascertaining the general state of business. According to data submitted to the Lords' Committee of 1817 when cash payments were resumed, these profits accruing to the Bank of England for the entire period from 1797 to 1817 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonuses and increased dividends</td>
<td>7,451,136</td>
</tr>
<tr>
<td>New stock divided among proprietors</td>
<td>7,276,500</td>
</tr>
<tr>
<td>Increased value of capital</td>
<td>14,553,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29,280,636</strong></td>
</tr>
</tbody>
</table>

This, on a capital of £11,642,400 over a period of 19 years (D. Hardcastle, *Banks and Bankers*, 2nd ed., London, 1843, p. 120).

If we estimate the total gain of the Bank of Ireland, which also suspended cash payments in 1797, by the same method, we obtain the following result:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends as by returns due 1821</td>
<td>4,736,085</td>
</tr>
<tr>
<td>Declared bonus</td>
<td>1,225,000</td>
</tr>
<tr>
<td>Increased assets</td>
<td>1,214,800</td>
</tr>
<tr>
<td>Increased value of capital</td>
<td>4,185,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>11,360,885</strong></td>
</tr>
</tbody>
</table>

This, on a capital of £3 million (ibid., pp. 363-64).

Talk about centralisation! The credit system, which has its focus in the so-called national banks and the big money lenders and usurers surrounding them, constitutes enormous centralisation, and gives to this class of parasites the fabulous power, not only to periodically despoil industrial capitalists, but also to interfere in actual production in a most dangerous manner — and this gang knows nothing about production and has nothing to do with it. The Acts of 1844 and 1845
are proof of the growing power of these bandits, who are joined by financiers and stock-jobbers.

Should anyone still doubt that these esteemed bandits exploit the national and world production solely in the interests of production and the exploited themselves, he will surely learn better from the following homily on the high moral worth of bankers:

"Banking establishments are ... moral and religious institutions.... How often has the fear of being seen by the watchful and reproving eye of his banker deterred the young tradesman from joining the company of riotous and extravagant friends?... What has been his anxiety to stand well in the estimation of his banker?... Has not the frown of his banker been of more influence with him than the jeers and discouragements of his friends? Has he not trembled to be supposed guilty of deceit or the slightest misstatement, lest it should give rise to suspicion, and his accommodation be in consequence restricted or discontinued? ... And has not that friendly advice been of more value to him than that of priest?" (G. M. Bell, a Scottish bank director, in The Philosophy of Joint Stock Banking, London, 1840, pp. 46, 47).

Chapter XXXIV

THE CURRENCY PRINCIPLE
AND THE ENGLISH BANK LEGISLATION OF 1844

//In a former work,13) Ricardo’s theory on the value of money as related to commodity prices has been analysed; we can, therefore, confine ourselves here to the indispensable. According to Ricardo, the value of metallic money is determined by the labour time objectified in it, but only as long as the quantity of money stands in correct relationship to amount and price of commodities to be exchanged. If the quantity of money rises above this ratio, its value falls and commodity prices rise; if it falls below the correct ratio, its value rises and commodity prices fall — assuming all other conditions equal. In the first case, the country in which this excess gold exists will export the gold whose value has depreciated and import commodities; in the second case, gold will flow to those countries in which it is assessed above its value, while the under-assessed commodities flow from these countries to other markets, where they command normal prices. Since under these circumstances “even gold in the form of coin or bullion

13) K. Marx, Zur Kritik der politischen Oekonomie, Berlin, 1859, s. 150 ff.

can become a value token representing a larger or smaller metallic value than its own, it is obvious that any convertible banknotes that are in circulation must share the same fate. Although banknotes are convertible, and their real value accordingly corresponds to their nominal value, the aggregate currency consisting of metal and of convertible notes may appreciate or depreciate if, for reasons described earlier, the total quantity either rises above or falls below the level which is determined by the exchange value of the commodities in circulation and the metallic value of gold.... This depreciation, not of notes in relation to gold, but of gold and notes taken together, i.e., of the aggregate means of circulation of a country, is one of Ricardo's main discoveries, which Lord Overstone and Co. pressed into their service and turned into a fundamental principle of Sir Robert Peel's bank legislation of 1844 and 1845" (l.c., p. 155).

We need not here repeat a demonstration of the incorrectness of this Ricardian theory which is given in the cited work. We are merely interested in the way Ricardo's theses were elaborated by that school of bank theorists who dictated Peel's above-mentioned Bank Acts.

"The commercial crises of the nineteenth century, and in particular the great crises of 1825 and 1836, did not lead to any further development of Ricardo's currency theory, but rather to new practical applications of it. It was no longer a matter of single economic phenomena—such as the depreciation of precious metals in the sixteenth and seventeenth centuries confronting Hume, or the depreciation of paper currency during the eighteenth century and the beginning of the nineteenth confronting Ricardo—but of big storms on the world market, in which the antagonism of all elements in the bourgeois process of production explodes; the origin of these storms and the means of defence against them were sought within the sphere of currency, the most superficial and abstract sphere of this process. The theoretical assumption which actually serves the school of economic weather experts as their point of departure is the dogma that Ricardo had discovered the laws governing purely metallic currency. It was thus left to them to subsume the circulation of credit money or banknotes under these laws.

"The most common and conspicuous phenomenon accompanying commercial crises is a sudden fall in the general level of commodity

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a In the 1894 German edition this English phrase is given in parentheses after its German equivalent. - b See present edition, Vol. 29, p. 404.
prices occurring after a prolonged general rise of prices. A general fall
of commodity prices may be expressed as a rise in the value of money
relative to all other commodities, and, on the other hand, a general
rise of prices may be defined as a fall in the relative value of money.
Either of these statements describes the phenomenon but does not ex-
plain it.... The different terminology has just as little effect on the task
itself as a translation of the terms from German into English would
have. Ricardo's monetary theory proved to be singularly apposite
since it gave to a tautology the semblance of a causal relation. What is
the cause of the general fall in commodity prices which occurs peri-
odically? It is the periodically occurring rise in the relative value of
money. What on the other hand is the cause of the recurrent general
rise in commodity prices? It is the recurrent fall in the relative value
of money. It would be just as correct to say that the recurrent rise and
fall of prices is brought about by their recurrent rise and fall. ...Once
the transformation of the tautology into a causal relationship is taken
for granted, everything else follows easily. The rise in commodity
prices is due to a fall in the value of money, the fall in the value of mon-
ey, however, as we know from Ricardo, is due to excessive currency,
that is to say, to the fact that the amount of money in circulation rises
above the level determined by its own intrinsic value and the intrinsic
value of commodities. Similarly in the opposite case, the general fall
of commodity prices is due to the value of money rising above its in-
trinsic value as a result of an insufficient amount of currency. Prices
therefore rise and fall periodically, because periodically there is too
much or too little money in circulation. If it is proved, for instance,
that the rise of prices coincided with a decreased amount of money in
circulation, and the fall of prices with an increased amount, then it is
nevertheless possible to assert that, in consequence of some reduction
or increase—which can in no way be ascertained statistically—of
commodities in circulation, the amount of money in circulation has
relatively, though not absolutely, increased or decreased. We have
seen that, according to Ricardo, even when a purely metallic curren-
cy is employed, these variations in the level of prices must take place,
but, because they occur alternately, they neutralise one another. For
example, an insufficient amount of currency brings about a fall in
commodity prices, the fall of commodity prices stimulates an export
of commodities to other countries, but this export leads to an influx of
money into the country, the influx of money causes again a rise in
commodity prices. When there is an excessive amount of currency
the reverse occurs: commodities are imported and money exported. Since notwithstanding these general price movements, which arise from the very nature of Ricardo’s metallic currency, their severe and vehement form, the form of crisis, belongs to periods with developed credit systems, it is clear that the issue of banknotes is not exactly governed by the laws of metallic currency. The remedy applicable to metallic currency is the import and export of precious metals, which are immediately thrown into circulation as coin, their inflow or outflow thus causing commodity prices to fall or to rise. The banks must now artificially exert the same influence on commodity prices by imitating the laws of metallic currency. If gold is flowing in from abroad, it is a proof that there is an insufficient amount of currency, that the value of money is too high and commodity prices too low, and banknotes must therefore be thrown into circulation in accordance with the newly imported gold. On the other hand, banknotes must be taken out of circulation in accordance with an outflow of gold from the country. In other words the issue of banknotes must be regulated according to the import and export of the precious metals or according to the rate of exchange. Ricardo’s wrong assumption that gold is simply specie and that consequently the whole of the imported gold is used to augment the money in circulation thus causing prices to rise, and that the whole of the gold exported represents a decrease in the amount of specie and thus causes prices to fall — this theoretical assumption is now turned into a practical experiment by making the amount of specie in circulation correspond always to the quantity of gold in the country. Lord Overstone (Jones Loyd, the banker), Colonel Torrens, Norman, Clay, Arbuthnot and numerous other writers known in England as the “Currency Principle”43 school have not only preached this doctrine, but have made it the basis of the present English and Scottish banking legislation by means of Sir Robert Peel’s Bank Acts of 1844 and 1845.48 The analysis of the ignominious fiasco they suffered both in theory and practice, after experiments on the largest national scale, can only be made in the section dealing with the theory of credit”44 (l.c., pp. 165-68).a

The critique of this school was furnished by Thomas Tooke, James Wilson (in the Economist of 1844 to 1847) and John Fullarton. But we have seen on several occasions, particularly in Chapter XXVIII of this book, how incompletely they, too, saw through the nature of

a Ibid., pp. 412-14.
gold, and how unclear they were about the relationship of money and capital. We quote here merely a few instances in connection with the transactions of the Committee of the Lower House of 1857 concerning Peel's Bank Acts (B. C. 1857).—F. E.//

J. G. Hubbard, former Governor of the Bank of England, testifies:

"2400. The effect of the export of bullion ... has no reference whatever to the prices of commodities. It has an effect, and a very important one, upon the price of interest-bearing securities, because, as the rate of interest varies, the value of commodities which embodied that interest is necessarily powerfully affected."

He presents two tables covering the years 1834 to 1843, and 1844 to 1853, a which show that the price variations of fifteen major commercial articles were quite independent of the export and import of gold and the interest rate. On the other hand, they show a close connection between the export and import of gold, which is, indeed, the "representative of our uninvested capital", and the interest rate.

"In 1847, a very large amount of American securities were retransferred to America, and Russian securities to Russia, and other continental securities were transferred to those places from which we drew our supplies of grain." b

The fifteen major articles on which the following tables of Hubbard are based include cotton, cotton yarn, cotton fabrics, wool, woolen cloth, flax, linen, indigo, pig-iron, tin, copper, tallow, sugar, coffee, and silk.

I. 1834-1843

<table>
<thead>
<tr>
<th>Date</th>
<th>Bullion Reserve of Bank</th>
<th>Market Rate of Discount</th>
<th>Of Fifteen Major Articles</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Price Increase</td>
</tr>
<tr>
<td>1834, March 1</td>
<td>£9,104,000</td>
<td>2½%</td>
<td>~</td>
</tr>
<tr>
<td>1835, March 1</td>
<td>6,274,000</td>
<td>3¾%</td>
<td>7</td>
</tr>
<tr>
<td>1836, March 1</td>
<td>7,918,000</td>
<td>3⅕%</td>
<td>11</td>
</tr>
<tr>
<td>1837, March 1</td>
<td>4,077,000</td>
<td>5%</td>
<td>5</td>
</tr>
<tr>
<td>1838, March 1</td>
<td>10,471,000</td>
<td>2¾%</td>
<td>4</td>
</tr>
<tr>
<td>1839, Sept. 1</td>
<td>2,684,000</td>
<td>6½%</td>
<td>8</td>
</tr>
<tr>
<td>1840, June 1</td>
<td>4,571,000</td>
<td>4½%</td>
<td>5</td>
</tr>
<tr>
<td>1840, Dec. 1</td>
<td>3,642,000</td>
<td>5½%</td>
<td>7</td>
</tr>
<tr>
<td>1841, Dec. 1</td>
<td>4,873,000</td>
<td>5%</td>
<td>3</td>
</tr>
<tr>
<td>1842, Dec. 1</td>
<td>10,603,000</td>
<td>2½%</td>
<td>2</td>
</tr>
<tr>
<td>1843, June 1</td>
<td>11,566,000</td>
<td>2⅛%</td>
<td>1</td>
</tr>
</tbody>
</table>

a In the 1894 German edition: "1845-56". b Report from the Select Committee on Bank Acts. Part I, No. 2402.
II. 1844-1853

<table>
<thead>
<tr>
<th>Date</th>
<th>Bullion Reserve of Bank</th>
<th>Rate of Discount</th>
<th>Price Increase</th>
<th>Price Decrease</th>
<th>Unchanged</th>
</tr>
</thead>
<tbody>
<tr>
<td>1844, March 1</td>
<td>£16,162,000</td>
<td>2¼%</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>1845, Dec. 1</td>
<td>13,237,000</td>
<td>4½%</td>
<td>11</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>1846, Sept. 1</td>
<td>16,366,000</td>
<td>3%</td>
<td>7</td>
<td>8</td>
<td>—</td>
</tr>
<tr>
<td>1847, Sept. 1</td>
<td>9,140,000</td>
<td>6%</td>
<td>6</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>1850, March 1</td>
<td>17,126,000</td>
<td>2½%</td>
<td>5</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>1851, June 1</td>
<td>13,705,000</td>
<td>3%</td>
<td>2</td>
<td>11</td>
<td>2</td>
</tr>
<tr>
<td>1852, Sept. 1</td>
<td>21,853,000</td>
<td>1½%</td>
<td>9</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>1853, Dec. 1</td>
<td>15,093,000</td>
<td>5%</td>
<td>14</td>
<td>—</td>
<td>1</td>
</tr>
</tbody>
</table>

Hubbard comments in this regard:

"As in the 10 years 1834-43, so in 1844-53, movements in the bullion of the Bank were invariably accompanied by a decrease or increase in the loanable value of money advanced on discount; and the variations in the prices of commodities in this country exhibit an entire independence of the amount of circulation as shown in the fluctuations in bullion at the Bank of England" (Bank Acts Report, 1857, II, pp. 290, 291).

Since the demand and supply of commodities regulate their market prices, it becomes evident here how wrong Overstone is in identifying the demand for loanable money capital (or rather the deviations of supply therefrom), as expressed by the discount rate, with the demand for actual "capital". The contention that commodity prices are regulated by fluctuations in the quantity of currency is now concealed by the phrase that discount rate fluctuations express fluctuations in the demand for actual material capital, as distinct from money capital. We have seen that before the same Committee both Norman and Overstone actually contended this, and that the latter especially was compelled to resort to very lame subterfuges, until he was finally cornered (Chap. XXVI). It is indeed an old humbug that changes in the existing quantity of gold in a particular country must raise or lower commodity prices within this country by increasing or decreasing the quantity of the medium of circulation. If gold is exported, then, according to this Currency Theory, commodity prices must rise in the country importing this gold, and thereby the value of exports from the gold-exporting country on the gold-importing country's market; on the other hand, the value of the gold-importing country's exports would fall on the gold-exporting country's market while it would rise
on the domestic market, i.e., the country receiving the gold. But, in fact, a decrease in the quantity of gold raises only the interest rate, whereas an increase in the quantity of gold lowers the interest rate; and if not for the fact that the fluctuations in the interest rate enter into the determination of cost prices, or in the determination of demand and supply, commodity prices would be wholly unaffected by them.

In the same report, N. Alexander, head of a large firm doing business with India, expresses the following views on the heavy drain of silver to India and China in the mid-fifties. This was partly due to the Chinese Civil War, which checked the sale of English fabrics in China, and partly due to the disease among silkworms in Europe, which sharply reduced silkworm breeding in Italy and France:

"4337. Is the drain for China or for India? — You send the silver to India, and you buy opium with a great deal of it, all of which goes on to China to lay down funds for the purchase of the silk; and the state of the markets in India" (in spite of the accumulation of silver there) "makes it a more profitable investment for the merchant to lay down silver than to send piece-goods or English manufactures."—"4338. In order to obtain the silver, has there not been a great drain from France? — Yes, very large."—"4344. Instead of bringing in silk from France and Italy, we are sending it there in large quantities, both from Bengal and from China."

In other words, silver, the money metal of that continent, was sent to Asia instead of commodities, not because commodity prices had risen in the country which produced them (England), but because prices had fallen as a result of overimports in the country which imported them; and this despite the fact that the silver was received by England from France and had to be paid for partly in gold. According to the Currency Theory, prices should have fallen in England and risen in India and China as a result of such imports.

Another illustration. Before the Lords' Committee (C. D. 1848/57), Wylie, one of the first Liverpool merchants, testifies as follows:

"1994. At the close of 1845 there was no trade that was more remunerating, and in which there were such large profits than cotton spinning. The stock of cotton was large and good, useful cotton could be bought at 4d. per pound, and from such cotton good SECUNDA MULE TWIST No. 40 was made at an expense not exceeding a like amount, say at a cost of 8d. per pound in all to the spinner. This yarn was largely sold and contracted for in September and October 1845 at 10 and 11 1/2 d. per pound, and in some instances the spinners realised a profit equal to the first cost of the cotton."—"1996. The trade continued to be remunerative until the beginning of 1846."—"2000. On March 3, 1844, the stock of cotton 627,042 bales was more than double what it is this day on March 7, 1848, when it was 301,070 bales and yet the price then was 1 1/4 d. per pound dearer."—6 1/4 d. as against 5d. — At the same time
yarn, good secunda mule twist No. 40, had fallen from 11½ - 12d. to 9½ d. per lb. in October, and to 7½ d. at the end of December 1847; yarn was sold at the purchase price of the cotton from which it had been spun (ibid., Nos. 2021 and 2023).

This shows the self-interest of Overstone’s sagacity according to which money should be “dear” because capital is “scarce”. On March 3, 1844, the bank interest rate stood at 3%; in October and November of 1847 it rose to 8 and 9%, and was still 4% on March 7, 1848. The prices of cotton were depressed far below the price which corresponded to the state of supply by the complete stoppage of sales and the panic with its ensuing high rate of interest. As a result, there was an enormous decrease in imports in 1848, on the one hand, and, on the other, a decrease in production in America; hence a new rise in cotton prices in 1849. According to Overstone, the commodities were too dear because there was too much money in the country.

“2002. The late decline in the condition of the cotton manufactories is not to be ascribed to the want of the raw material, as the price seems to have been lower, though the stock of the raw material is very much diminished.”

How nicely Overstone confuses prices, or the value of commodities, with the value of money, that is, the interest rate. In his reply to Question 2026, Wylie sums up his general judgement of the Currency Theory, based on which Cardwell and Sir Charles Wood, in May 1847,

“asserted the necessity of carrying out the Bank Act of 1844 in its full and entire integrity”. “These principles seemed to me to be of a nature that would give an artificial high value to money and an artificial and ruinously low value to all commodities and produce.”

He says, furthermore, concerning the effects of this Bank Act on business in general:

“As bills at four months, which is the regular course of drafts, from manufacturing towns on merchants and bankers for the purchase of goods going to the United States, could not be discounted except at great sacrifices, the execution of orders was checked to a great extent, until after the Government Letter of October 25” (suspension of the Bank Act), “when those four months’ bills became discountable” (2097).

We see, then, that the suspension of this Bank Act was received with relief in the provinces as well.

“2102. Last October //1847// there was scarcely an American buyer purchasing goods here who did not at once curtail his orders as much as he possibly could; and when our advices of the dearness of money reached America, all fresh orders ceased.”—“2134. Corn and sugar were special. The corn market was affected by the prospects of the harvest, and sugar was affected by the immense stocks and imports. ”—“2163. Of our
indebtedness to America ... much was liquidated by forced sales of consigned goods, and I fear that much was cancelled by the failures here."—"2196. If I recollect rightly, 70 per cent was paid on our Stock Exchange in October 1847."a

The crisis of 1837 with its protracted aftermath, followed in 1842 by a regular post-crisis, and the self-interested blindness of industrialists and merchants, who absolutely refused to see any overproduction—for such a thing was absurd and impossible according to vulgar economy—had ultimately achieved that confusion of thought which enabled the Currency School to put its dogma into practice on a national scale. The bank legislation of 1844 and 1845 was passed.

The Bank Act of 1844 divides the Bank of England into an issue department and a banking department. The former receives securities—principally government obligations—amounting to 14 million, and the entire metal hoard, of which not more than one-quarter is to consist of silver, and issues notes to the full amount of the total. In so far as these notes are not in the hands of the public, they are held in the banking department and, together with the small amount of coin required for daily use (about one million), constitute its ever ready reserve. The issue department gives the public gold for notes and notes for gold; the remaining transactions with the public are carried on by the banking department. Private banks in England and Wales authorised in 1844 to issue their own notes retained this privilege, but their note issue was fixed; if one of these banks ceases to issue its own notes, the Bank of England can increase its unbacked notes by two-thirds of the quota thus made available; in this way its issue was increased by 1892 from £14 to £16 1/2 million (to be exact, £16,450,000).

Thus, for every five pounds in gold which leave the bank treasury, a five-pound note returns to the issue department and is destroyed; for every five sovereigns going into the treasury a new five-pound note comes into circulation. In this manner, Overstone's ideal paper circulation, which strictly follows the laws of metallic circulation, is carried out in practice, and by this means, according to the advocates of the Currency Theory, crises are made impossible for all time.

But in reality the separation of the Bank into two independent departments deprived its management of the possibility of freely utilising its entire available means at critical times, so that situations could arise in which the banking department might be on the verge of

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a Italicised by Marx.
bankruptcy while the issue department still had intact several millions in gold and, in addition, its entire 14 million in securities. And this could take place so much more easily since there is a period in almost every crisis when heavy exports of gold take place which must be covered in the main by the metal reserve of the bank. But for every five pounds in gold which then go abroad, the domestic circulation is deprived of a five-pound note, so that the quantity of circulating medium is reduced precisely at a time when the largest quantity is most needed. The Bank Act of 1844 thus directly induces the entire commercial world forthwith to hoard a reserve fund of banknotes at the outbreak of a crisis; in other words, to accelerate and intensify the crisis. By such artificial intensification of demand for money accommodation, that is, for means of payment at the decisive moment, and the simultaneous restriction of the supply the Bank Act drives the rate of interest to a hitherto unknown height during a crisis. Hence, instead of eliminating crises, the Act, on the contrary, intensifies them to a point where either the entire industrial world must go to pieces, or else the Bank Act. Both on October 25, 1847, and on November 12,\(^a\) the crisis reached such a point; the government then lifted the restriction for the Bank in issuing notes by suspending the Act of 1844, and this sufficed in both cases to overcome the crisis. In 1847, the assurance that banknotes would again be issued for first-class securities sufficed to bring to light the £4 to £5 million of hoarded notes and put them back into circulation; in 1857, the issue of notes exceeding the legal amount reached almost one million, but this lasted only for a very short time.

It should also be mentioned that the 1844 legislation still shows traces recalling the first twenty years of the 19th century, the period when specie payments were suspended and notes devaluated. The fear that notes may lose their credit is still plainly in evidence. But this fear is quite groundless, since even in 1825 the issue of a discovered old supply of one-pound notes, which had been taken out of circulation, broke the crisis and proved thereby that the credit of the notes remained unshaken even in times of the most general and deepest mistrust. And this is quite understandable; for, after all, the entire nation backs up these symbols of value with its credit.—F. E.//

Let us now turn to a few comments on the effect of the Bank Act. John Stuart Mill believes that the Bank Act of 1844 kept down over-speculation. Happily this sage spoke on June 12, 1857. Four months

\(^a\) 1857
later the crisis broke out. He literally congratulated the "bank directors and the commercial public generally" on the fact that they

"understand much better than they did the nature of a commercial crisis, and the extreme mischief which they do both to themselves and to the public by upholding overspeculation" (B. C. 1857, No. 2031).

The sagacious Mr. Mill thinks that if one-pound notes are issued

"as advances to manufacturers and others, who pay wages ... the notes may get into the hands of others who expend them for consumption, and in that case the notes do constitute in themselves a demand for commodities and may for some time tend to promote a rise of prices". a

Does Mr. Mill assume, then, that manufacturers will pay higher wages because they pay them in paper instead of gold? Or does he believe that if a manufacturer receives his loan in £100 notes and exchanges them for gold, these wages would constitute less demand than if paid immediately in one-pound notes? And does he not know that, for instance, in certain mining districts wages were paid in the notes of local banks, so that several labourers together received one five-pound note? Does this increase their demand? Or will bankers advance money to manufacturers more easily and in larger quantities in small notes than in large ones?

//This singular fear which Mill has for one-pound notes would be inexplicable if his whole work on political economy did not reveal an eclecticism which shows no hesitation in the face of any contradiction. On the one hand, he agrees on many points with Tooke as opposed to Overstone; on the other, he believes that commodity prices are determined by the quantity of available money. He is thus by no means convinced that, all other conditions being equal, a sovereign will find its way into the coffers of the Bank for every one-pound note issued. He fears that the quantity of circulating medium could be increased and thereby devaluated, that is, commodity prices might rise. This and nothing more is concealed behind the above-mentioned apprehension.—F. E.//

Tooke expresses the following views before the C. D. 1848/57 concerning the division of the Bank into two departments and the excessive precautions taken to safeguard the cashing of notes:

The greater fluctuations of the interest rate in 1847, as compared with 1837 and 1839, are due solely to the separation of the Bank into two departments (3010).—The

a Ibid., No. 2066.
safety of banknotes was affected neither in 1825 nor in 1837 and 1839 (3015).— The demand for gold in 1825 was aimed only at filling the vacuum created by the complete discredit of the one-pound notes of country banks; this vacuum could be filled only by gold, until such time as the Bank of England also issued one-pound notes (3022).— In November and December 1825 not the slightest demand existed for gold for export purposes (3023).

"In point of discredit at home as well as abroad, a failure in paying the dividends and the deposits would be of far greater consequence than the suspending of the payment of the banknotes (3028).

"3035. Would you not say that any circumstance, which had the effect of ultimately endangering the convertibility of the note, would be one likely to add serious difficulty in a moment of commercial pressure?—Not at all."

"In the course of 1847... an increased issue from the circulating department might have contributed to replenish the coffer of the Bank, as it did in 1825" (3058).

Before the Committee on B. A. 1857, Newmarch testifies:

"1357. The first mischievous effect... of that separation of departments (of the Bank) "and... a necessary consequence from the cutting in two of the reserve of bullion has been that the banking business of the Bank of England, that is to say, the whole of that part of the operation of the Bank of England which brings it more immediately into contact with the commerce of the country, has been carried on upon a moiety only of its former amounts of reserve. Out of that division of the reserve has arisen, therefore, this state of things, that whenever the reserve of the banking department has been diminished, even to a small extent, it has rendered necessary an action by the Bank upon its rate of discount. That diminished reserve, therefore, has produced a frequent succession of changes and jerks in the rate of discount."—"1358. The alterations since 1844" (until June 1857) "have been some 60 in number, whereas the alterations prior to 1844 in the same space of time certainly did not amount to a dozen."

Of special interest is the testimony of Palmer, a Director of the Bank of England since 1811 and for a while its Governor, before the Lords’ Committee on C. D. 1848/57:

"828. In December 1825, there was about £1,100,000 of bullion remaining in the Bank. At that period it must undoubtedly have failed in toto, if this Act had been in existence" (meaning the Act of 1844). "The issue in December, I think, was 5 or 6 millions of notes in a week, which relieved the panic that existed at that period."

"825. The first period" (since July 1, 1825) "when the present Act would have failed, if the Bank had attempted to carry out the transactions then undertaken, was on the 28th of February 1837; at that period there were £3,900,000 to £4,000,000 of bullion in the possession of the Bank, and then the Bank would have been left with £650,000 only in the reserve. Another period is in the year 1839, which continued from the 9th of July to the 5th of December."—"826. What was the amount of the reserve in that case?—THE RESERVE WAS MINUS ALTOGETHER £200,000 a upon the 5th of September. On the 5th of November it rose to about a million or a million and a half."—
"830. The Act of 1844 would have prevented the Bank giving assistance to the

\[a\] In the 1894 German edition this English phrase is given in parentheses after its German equivalent.
American trade in 1837."—"831. There were three of the principal American houses that failed. ... Almost every house connected with America was in a state of discredit, and unless the Bank had come forward at that period, I do not believe that there would have been more than one or two houses that could have sustained themselves."—"836. The pressure in 1837 is not to be compared with that of 1847. The pressure in the former year was chiefly confined to the American trade."—838. (Early in June 1837 the management of the Bank discussed the question of overcoming the pressure.) "Some gentlemen advocated the opinion ... that the correct principle was to raise the rate of interest, by which the price of commodities would be lowered; in short, to make money dear and commodities cheap, by which the foreign payment would be accomplished."—"906. The establishment of an artificial limitation of the powers of the Bank under the Act of 1844, instead of the ancient and natural limitation of the Bank's powers, namely, the actual amount of its specie, tends to create artificial difficulty, and therefore an operation upon the prices of merchandise that would have been unnecessary but for the provisions of the Act."—"968. You cannot, by the working of the Act of 1844, materially reduce the bullion, under ordinary circumstances, below nine million and a half. It would then cause a pressure upon prices and credit which would occasion such an advance in the exchange with foreign countries as to increase the import of bullion, and to that extent add to the amount in the issue department."—"996. Under the limitation that you" (the Bank) "are now subject to, you have not the command of silver to an extent that you require at a time when silver would be required for an action upon the foreign exchanges."—"999. What was the object of the regulation restricting the Bank as to the amount of silver to one-fifth? —I cannot answer that question."

The purpose was to make money dear; aside from the Currency Theory, the separation of the two bank departments and the requirement for Scottish and Irish banks to hold gold in reserve for backing notes issued beyond a certain amount had the same purpose. This brought about a decentralisation of the national metal reserve, which decreased its capability of correcting unfavourable exchange rates. All the following stipulations aim to raise the interest rate: that the Bank of England shall not issue notes exceeding 14 million except against gold reserve; that the banking department shall be administered as an ordinary bank, forcing the interest rate down when money is plentiful and driving it up when money is scarce; limiting the silver reserve, the principal means of rectifying the rates of exchange with the continent and Asia; the regulations concerning the Scottish and Irish banks, which never require gold for export but must now keep it under the pretence of ensuring an actually illusory convertibility of their notes. The fact is that the Act of 1844 caused a run on the Scottish banks for gold in 1857 for the first time. Nor does

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\[a\] In the 1894 German edition this English phrase is given in parentheses after its German equivalent. - \[b\] In the original: "money"; corrected after Marx's manuscript.
the new bank legislation make any distinction between a drain of gold abroad or for domestic purposes, although it goes without saying that their effects are quite different. Hence the continual large fluctuations in the market rate of interest. With reference to silver, Palmer says on two separate occasions, 992 and 994, that the Bank can buy silver for notes only when the rate of exchange is favourable for England, i.e., silver is superfluous; for:

"1003. The only object in holding a considerable amount of bullion in silver is to facilitate making the foreign payment so long as the exchanges are against the country."—"1004. Silver is ... a commodity which, being money in every other part of the world, is therefore the most direct commodity ... for the purpose" (payments abroad). "The United States latterly have taken gold alone."

In his opinion, the Bank did not have to raise the interest rate above its old level of 5% in times of stringency, so long as unfavourable exchange rates do not drain gold to foreign countries. Were it not for the Act of 1844, the Bank would be able to discount all first-class bills* presented to it without difficulty. (1018-20). But under the Act of 1844 and in the state in which the Bank found itself in October 1847,

"there was no rate of interest which the Bank could have charged to houses of credit, which they would not have been willing to pay to carry on their payments".b

And this high interest rate was precisely the purpose of the Act.

"1029. ... Great distinction which I wish to draw between the action of the rate of interest upon a foreign demand" (for precious metal) "and an advance in the rate for the object of checking a demand upon the Bank during a period of internal discredit."—"1023. Previously to the Act of 1844 ... when the exchanges were in favour of the country, and positive panic and alarm existed through the country, there was no limit put upon the issue, by which alone that state of distress could be relieved."

So speaks a man who has occupied a post for 39 years in the administration of the Bank of England. Let us now listen to a private banker, Twells, an associate of Spooner, Attwood & Co. since 1801. He is alone among the witnesses before the B. C. 1857 who provides us with an insight into the country's actual state of affairs and who sees the crisis approaching. In other respects, however, he is a sort of little-shilling man from Birmingham, like his associates, the Attwood brothers, who are the founders of this school. (See Zur Kritik der pol. Oek., S. 59.)c He testifies:

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*a In the 1894 German edition these English words are given in parentheses after their German equivalent. - b Ibid., No. 1022. - c Sec present edition, Vol. 29, p. 319.
"4488. How do you think that the Act of 1844 has operated? — If I were to answer you as a banker, I should say that it has operated exceedingly well, for it has afforded a rich harvest to bankers and" (money) "capitalists of all kinds. But it has operated very badly to the honest industrious tradesman who requires steadiness in the rate of discount, that he may be enabled to make his arrangements with confidence.... It has made money lending a most profitable pursuit." — "4489. It" (the Bank Act) "enables the London joint-stock banks to return from 20 to 22% to their proprietors? — The other day one of them was paying 18%, and I think another 20%; they ought to support the Act of 1844 very strongly." — "4490. The little tradesmen and respectable merchants, who have not a large capital ... it pinches them very much indeed.... The only means that I have of knowing is that I observe such an amazing quantity of their acceptances unpaid. They are always small, perhaps ranging from £20 to £100, a great many of them are unpaid and go back unpaid to all parts of the country, which is always an indication of suffering amongst ... little shopkeepers."

4494. He declares that business is not profitable now. The following remarks of his are important because they show that he saw the latent existence of the crisis when none of the others had even an inkling of it.

"4494. Things keep their prices in Mincing Lane, but we sell nothing, we cannot sell upon any terms; we keep the nominal price."

4495. He relates the following case: A Frenchman sends a broker in Mincing Lane commodities for £3,000 to be sold at a certain price. The broker cannot obtain the requested price, and the Frenchman cannot sell below this price. The commodities remain unsold, but the Frenchman needs money. The broker therefore makes him an advance of £1,000 and has the Frenchman draw a bill of exchange of £1,000 for three months on the broker against his commodities as security. At the end of the three months the bill becomes due, but the commodities still remain unsold. The broker must then pay the bill, and although he possesses security for £3,000, he cannot convert it into cash and as a result faces difficulties. In this manner, one person drags another down with him.

"4496. With regard to the large exports ... where there is a depressed state of trade at home, it necessarily forces large exportation." — "4497. Do you think that the home consumption has been diminished? — Very much indeed ... immensely ... the shopkeepers are the best authorities." — "4498. Still the importations are very large; does not that indicate a large consumption? — It does, if you can sell; but many of the warehouses are full of these things; in this very instance which I have been relating, there is £3,000 worth imported, which cannot be sold."

"4514. When money is dear, would you say that capital would be cheap? — Yes."

This man, then, is by no means of Overstone's opinion that a high rate of interest is the same as dear capital.
The following shows how business is now conducted:

"4616. Others are going to a very great extent, carrying on a prodigious trade in exports and imports, to an extent far beyond what their capital justifies them in doing; there can be no doubt of all of that. These men may succeed; they may by some lucky venture get large fortunes, and put themselves right. That is very much the system in which a great deal of trade is now carried on. Persons will consent to lose 20, 30, and 40 per cent upon a shipment; the next venture may bring it back to them. If they fail in one after another, then they are broken up; and that is just the case which we have often seen recently; mercantile houses have broken up, without one shilling of property being left."

"4791. The low rate of interest" (during the last ten years) "operates against bankers, it is true, but I should have very great difficulty in explaining to you, unless I could show you the books, how much higher the profits" (his own) "are now than they used to be formerly. When interest is low, from excessive issues, we have large deposits; when interest is high, we get the advantage in that way."—"4794. When money is at a moderate rate, we have more demand for it; we lend more; it operates in that way" (for us, the bankers). "When it gets higher, we get more than a fair proportion for it; we get more than we ought to do."

We have seen that the credit of the Bank of England notes is considered beyond question by all experts. Nevertheless, the Bank Act completely ties up nine to ten million in gold for the convertibility of these notes. The sacredness and inviolability of this reserve is thereby carried much farther than among hoarders of olden times. Mr. Brown (Liverpool) testifies, C. D. 1847/57:

"2311: This money" (the metal reserve in the issue department) "might as well have been thrown into the sea from any use that it was of at that time, there being no power to employ any of it without violating the Act of Parliament."

The building contractor E. Capps, already cited earlier, whose testimony is also used to illustrate the modern building system in London (Book II, Chap. XII *), sums up his opinion of the Bank Act of 1844 as follows (B. A. 1857):

"5508. Then upon the whole ... you think that the present system" (of bank legislation) "is a somewhat adroit scheme for bringing the profits of industry periodically into the usurer's bag? — I think so. I know that it has operated so in the building trade."

As mentioned before, the Scottish banks were forced by the Bank Act of 1845 into a system resembling that of the English. They were obliged to hold gold in reserve for their note issue beyond the limit fixed for each bank. The effect of this may be seen from the following testimony before the C. D. 1848/57.

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Kennedy, Director of a Scottish bank:

"3375. Was there anything that you can call a circulation of gold in Scotland previously to the passing of the Act of 1845? — None whatever." — "3376. Has there been any additional circulation of gold since? — None whatever; THE PEOPLE DISLIKE GOLD." a

3450. The sum of about £900,000 in gold, which the Scottish banks are compelled to keep since 1845, can only be injurious in his opinion and

"absorbs unprofitably so much of the capital of Scotland".

Furthermore, Anderson, Director of the UNION BANK OF SCOTLAND:

"3588. The only pressure upon the Bank of England by the banks in Scotland for gold was for foreign exchanges? — It was; and that is not to be relieved by holding gold in Edinburgh." — "3590. Having the same amount of securities in the Bank of England" (or in the private banks of England) "we have the same power that we had before of making a drain upon the Bank of England."

Finally, we quote an article from the Economist (Wilson):

"The Scotch banks keep unemployed amounts of cash with their London agents; these keep them in the Bank of England. This gives to the Scotch banks, within the limits of these amounts, command over the metal reserve of the Bank, and here it is always in the place where it is needed, when foreign payments are to be made."

This system was disturbed by the Act of 1845:

"In consequence of the Act of 1845 for Scotland of late a large drain of the coin of the Bank has taken place, to supply a mere contingent demand in Scotland, which may never occur... Since that period there has been a large sum uniformly locked up in Scotland, and another considerable sum constantly travelling back and forward between London and Scotland. If a period arrives when a Scotch bank expects an increased demand for its notes, a box of gold is brought down from London; when this period is past, the same box, generally unopened, is sent back to London" (Economist, October 23, 1847). b

//And what does the father of the Bank Act, banker Samuel Jones Loyd, alias Lord Overstone, say to all this?

Already in 1848 he repeated before the Lords' Committee (C. D. 1848/57) that

"pressure, and a high rate of interest caused by the want of sufficient capital, cannot be relieved by an extra issue of banknotes" (1514),

a In the 1894 German edition this English phrase is given in parentheses after its German equivalent. - b "The Scotch Bank Bill — 1845", The Economist, No. 217, October 23, 1847.
in spite of the fact that the mere *authority* to increase the note issue, given by the Government's Letter of October 25, 1847, had sufficed to take the edge off the crisis.

He holds to the view that

"the high rate of interest and the depression of the manufacturing interests was the necessary result of the diminution of the *material* capital applicable to manufacturing and trading purposes" (1604).

And yet the depressed condition of the manufacturing industry had for months consisted in material commodity capital filling the warehouses to overflowing and being actually unsaleable; so that for precisely this reason, material productive capital lay wholly or partly idle, in order not to produce still more unsaleable commodity capital.

And before the Bank Committee of 1857 he says:

"By strict and prompt adherence to the principles of the Act of 1844, everything has passed off with regularity and ease, the monetary system is safe and unshaken, the prosperity of the country is undisputed, the public confidence in the wisdom of the Act of 1844 is daily gaining strength, and if the Committee wish for further practical illustration of the soundness of the principles on which it rests, or of the beneficial results which it has ensured, the true and sufficient answer to the Committee is, look around you, look at the present state of the trade of this country, ... look at the contentment of the people, look at the wealth and prosperity which pervades every class of the community, and then having done so, the Committee may be fairly called upon to decide whether they will interfere with the continuance of an Act under which those results have been developed." (B.C. 1857, No. 4189.)

To this song of praise by Overstone before the Committee on July 14, the antistrophe was given on November 12 of the same year in the shape of a letter to the Bank's management, in which the government suspended the miracle-working law of 1844 to save what could still be saved.—*F. E.*/

**Chapter XXXV**

**PRECIOUS METAL AND RATE OF EXCHANGE**

**I. MOVEMENT OF THE GOLD RESERVE**

It should be noted in regard to the accumulation of notes in times of stringency, that it is a repetition of the hoarding of precious metal as used to take place in troubled times in the most primitive conditions of society. The Act of 1844 is interesting in its operation because it seeks to transform all precious metal existing in the country into
a circulating medium; it seeks to equate a drain of gold with a contraction of the circulating medium and a return flow of gold with an expansion of the circulating medium. As a result, the experiment proved the contrary to be the case. With a single exception, which we shall mention shortly, the quantity of circulating notes of the Bank of England has never, since 1844, reached the maximum which it was authorised to issue. The crisis of 1857 proved on the other hand that this maximum does not suffice under certain circumstances. From November 13 to 30, 1857, a daily average of £488,830 above this maximum was circulating (B. A. 1858, p. XI). The legal maximum was at that time £14,475,000, plus the amount of metal reserve in the vaults of the Bank.

Concerning the outflow and inflow of precious metal, the following is to be noted:

First, a distinction should be made between the back and forth movement of metal within a region which does not produce any gold and silver, on the one hand, and, on the other, the flow of gold and silver from their sources of production to various other countries and the distribution of this additional metal among them.

Before the gold mines of Russia, 56 California and Australia made their influence felt, the supply since the beginning of the 19th century sufficed only for the replacement of worn-out coins, for general use in articles of luxury, and for the export of silver to Asia.

However, in the first place, silver exports to Asia have since increased extraordinarily, owing to the Asiatic trade of America and Europe. The silver exported from Europe was largely replaced by the additional supply of gold. Secondly, a portion of the newly imported gold was absorbed by internal money circulation. It is estimated that up to 1857 about 30 million in gold were added to England's internal circulation. 14

Furthermore, the average level of metal reserves in all

14: The effect this had on the money market is indicated by the following testimony of Newmarch a: "1509. At the close of 1853, there was a considerable apprehension in the public mind, and in September of that year the Bank of England raised its discount on three occasions... In the early part of October there was a considerable degree of apprehension and alarm in the public mind. That apprehension and alarm was relieved to a very great extent before the end of November, and was almost wholly removed, in consequence of the arrival of nearly £5,000,000 of treasure from Australia... The same thing happened in the autumn of 1854, by the arrival in the months of October and November of nearly £6,000,000 of treasure. The same thing happened again in the

a Report from the Select Committee on Bank Acts... 1857.
the central banks of Europe and North America increased since 1844. The expansion of domestic money circulation resulted at the same time in bank reserves growing more rapidly in the period of stagnation following upon the panic, because of the larger quantity of gold coins thrust out of domestic circulation and immobilised. Finally, the consumption of precious metal for luxury articles increased since the discovery of new gold deposits as a consequence of the increased wealth.

Secondly, precious metal flows back and forth between countries which do not produce any gold or silver, the same country continually importing, and also exporting. It is only the preponderance of this movement in one or another direction which, in the final analysis, determines whether a drain or an augmentation has taken place, since the mere oscillations and frequently parallel movements largely neutralise one another. But for this reason, in so far as the result is concerned, the continuity and, in the main, the parallel course of both movements is overlooked. A greater import or a greater export of precious metal is always interpreted to be solely the effect and expression of the relation between the imports and exports of commodities, whereas it is simultaneously indicative of the relation between exports and imports of precious metal itself, quite independent of commodity trade.

Thirdly, the preponderance of imports over exports, and vice versa, is measured on the whole by the increase or decrease in metal reserves of the central banks. The greater or lesser precision of this criterion naturally depends primarily on the degree of centralisation of the banking business in general. For on this depends the extent that precious metal in general accumulated in the so-called national banks represents the national metal reserve. But assuming this to be the case, the criterion is not accurate because an additional import may be absorbed under certain circumstances by domestic circulation and the growing consumption of gold and silver in producing luxury articles; furthermore, because without additional import, a withdrawal of gold coin for domestic circulation could take place,

autumn of 1855, which we know was a period of excitement and alarm, by the arrivals, in the three months of September, October and November, of nearly £8,000,000 of treasure; and then at the close of last year, 1856, we find exactly the same occurrence. In truth, I might appeal to the observation almost of any member of the Committee, whether the natural and complete solvent to which we have got into the habit of looking for any financial pressure, is not the arrival of a gold ship". 
and thus the metal reserve could decrease even without a simultaneous increase in exports.

Fourthly, an export of metal assumes the aspect of a drain when the movement of decrease continues for a long time, so that the decrease represents a tendency of movement and depresses the metal reserve of the bank considerably below its average level, down to approximately its average minimum. This minimum is more or less arbitrarily fixed, in so far as it is differently determined in every individual case by legislation concerning backing for the cashing of notes, etc. Concerning the quantitative limits which such a drain can reach in England, Newmarch testified before the Committee on B.A. 1857, Evidence No. 1494:

"Judging from experience, it is very unlikely that the efflux of treasure arising from any oscillation in the foreign trade will proceed beyond £3,000,000 or £4,000,000."

In 1847, the lowest gold reserve level of the Bank of England, occurring on October 23, showed a decrease of £5,198,156 as compared with that of December 26, 1846, and a decrease of £6,453,748 as compared with the highest level of 1846 (August 29).

Fifthly, the determination of the metal reserve of the so-called national bank, a determination, however, which does not by itself regulate the magnitude of this metal hoard, for it can grow solely by the paralysis of domestic and foreign trade, is threefold: 1) reserve fund for international payments, in other words, reserve fund of world money; 2) reserve fund for alternately expanding and contracting domestic metal circulation; 3) reserve fund for the payment of deposits and for the convertibility of notes (this is connected with the function of the bank and has nothing to do with the functions of money as such). The reserve fund can, therefore, also be influenced by conditions which affect every one of these three functions. Thus, as an international fund it can be influenced by the balance of payments, no matter by what factors the latter may be determined and whatever its relation to the balance of trade may be. As a reserve fund for domestic metal circulation it can be influenced by the latter's expansion or contraction. The third function — that of a security fund — does not, admittedly, determine the independent movement of the metal reserve, but has a two-fold effect. If notes are issued which

\[a\] In the 1894 German edition this English term is given in parentheses after its German equivalent.
replace metallic money (also including silver coins in countries where silver is a measure of value) in domestic circulation, the function of the reserve fund under 2) drops away. And a portion of the precious metal, which served to perform this function, will for a long time find its way abroad. In this case metallic coins are not withdrawn for domestic circulation, and thus the temporary augmentation of the metal reserve by immobilising a part of the circulating coined metal simultaneously falls away. Furthermore, if a minimum metal reserve must be maintained under all circumstances for the payment of deposits and for the convertibility of notes, this affects in its own way the results of a drain or return flow of gold; it affects that part of the reserve which the bank is obliged to maintain under all circumstances, or that part which it seeks to get rid of as useless at certain times. If the circulation were purely metallic and the banking system concentrated, the bank would likewise have to consider its metal reserve as security for the payment of its deposits, and a drain of metal could cause a panic such as was witnessed in Hamburg in 1857.

Sixthly, with the exception of perhaps 1837, the real crisis always broke out only after a change in the rates of exchange, that is, as soon as the import of precious metal had again gained preponderance over its export.

In 1825, the real crash came after the drain of gold had ceased. In 1839, there was a drain of gold, but it did not bring about a crash. In 1847, the drain of gold ceased in April and the crash came in October. In 1857, the drain of gold to foreign countries had ceased in early November, and the crash did not come until later that same month.

This is particularly evident in the crisis of 1847, when the drain of gold ceased in April after causing a slight preliminary crisis, and the real business crisis did not come until October.

The following testimony was presented at the Secret Committee of the House of Lords on Commercial Distress, 1848, This evidence was not printed until 1857 (also cited as C. D. 1848/57).

Evidence of Tooke:

In April 1847, a stringency arose, which, strictly speaking, equalled a panic, but was of relatively short duration and not accompanied by any commercial failures of importance. In October the stringency was far more intensive than at any time during

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a In the 1894 German edition this English word is given in parentheses after its German equivalent.
April, an almost unheard-of number of commercial failures taking place (2996).— In April the rates of exchange, particularly with America, compelled us to export a considerable amount of gold in payment for unusually large imports; only by an extreme effort did the Bank stop the drain and drive the rates higher (2997).— In October the rates of exchange favoured England (2998).— The change in the rates of exchange had begun in the third week of April (3000).— They fluctuated in July and August; since the beginning of August they always favoured England (3001).— The drain on gold in August arose from a demand for internal circulation. *

J. Morris, Governor of the Bank of England:

Although the rate of exchange favoured England since August 1847, and an import of gold had taken place in consequence, the bullion reserve of the Bank decreased.

"£2,200,000 went out into the country in consequence of the internal demand" (137).— This is explained on the one hand by an increased employment of labourers in railway construction, and on the other by the "circumstance of the bankers wishing to provide themselves with gold in times of distress" (147).

Palmer, ex-Governor and a Director of the Bank of England since 1811:

"684. During the whole period from the middle of April 1847 to the day of withdrawing the restrictive clause in the Act of 1844 the foreign exchanges were in favour of this country."

The drain of bullion, which created an independent money panic in April 1847, was here therefore, as always, but a precursor of the crisis, and a turn had already taken place before it broke out. In 1839, a heavy drain of bullion took place for grain, etc., while business was strongly depressed, but there was no crisis or money panic.

Seventhly, as soon as general crises have spent themselves, gold and silver—leaving aside the inflow of new precious metal from the producing countries—distribute themselves once more in the proportions in which they existed in a state of equilibrium as individual hoards of the various countries. Other conditions being equal, the relative magnitude of a hoard in each country will be determined by the role of that country in the world market. They flow from the country which had more than its normal share to other countries. These movements of outgoing and incoming metal merely restore the original distribution among the various national reserves. This redistribution, however, is brought about by the effects of various circumstances, which will be taken up in our treatment of rates of exchange. As soon as the normal distribution is once more re-

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* Ibid., No. 3003.
stored — beginning with this moment — a stage of growth sets in and then again a drain. This last statement applies, of course, only to England, as the centre of the world money market. — F. E. //

Eighthly, a drain of metal is generally the symptom of a change in the state of foreign trade, and this change in turn is a premonition that conditions are again approaching a crisis.\textsuperscript{15}

Ninthly, the balance of payments can favour Asia against Europe and America.\textsuperscript{16}

An import of precious metal takes place mainly during two periods. On the one hand, it takes place in the first phase of a low interest rate, which follows upon a crisis and reflects a restriction of production; and then in the second phase, when the interest rate rises, but before it attains its average level. This is the phase during which returns come quickly, commercial credit is abundant, and therefore the demand for loan capital does not grow in proportion to the expansion of production. In both phases, with loan capital relatively abundant, the superfluous addition of capital existing in the form of gold and silver, i. e., a form in which it can primarily serve only as loan capital, must seriously affect the rate of interest and concomitantly the atmosphere of business in general.

On the other hand, a drain, a continued and heavy export of precious metal, takes place as soon as returns no longer flow, markets are overstocked, and an illusory prosperity is maintained only by means of credit; in other words, as soon as a greatly increased demand for loan capital exists and the interest rate, therefore, has reached at least its average level. Under such circumstances, which are reflected pre-

\textsuperscript{15} According to Newmarch,\textsuperscript{a} a drain of gold to foreign countries can arise from three causes: 1) from purely commercial conditions, that is, if imports have exceeded exports, as was the case in 1836 to 1844, and again in 1847 — principally a heavy import of grain; 2) in order to secure the means for investing English capital in foreign countries, as in 1857 for railways in India, and 3) for definite expenditures abroad, as in 1853 and 1854 for war purposes in the Orient.

\textsuperscript{16} 1918. Newmarch. "When you combine India and China, when you bring into account the transactions between India and Australia, and the still more important transactions between China and the United States, the trade being a triangular one, and the adjustment taking place through us ... then it is true that the balance of trade was not merely against this country, but against France, and against the United States." — (B. A. 1857.)

\textsuperscript{a} Ibid., Nos. 1498-1509.
cisely in a drain of precious metal, the effect of continued withdrawal of capital, in a form in which it exists directly as loanable money capital, is considerably intensified. This must have a direct influence on the interest rate. But instead of restricting credit transactions, the rise in interest rate extends them and leads to an overstraining of all their auxiliary resources. This period, therefore, precedes the crash.

Newmarch is asked (B. A. 1857):

“1520. But then the volume of bills in circulation increases with the rate of discount? — It seems to do so.”—“1522. In quiet ordinary times the ledger is the real instrument of exchange; but when any difficulty arises; when, for example, under such circumstances as I have suggested, there is a rise in the bank rate of discount ... then the transactions naturally resolve themselves into drawing bills of exchange, those bills of exchange being not only more convenient as regards legal proof of the transaction which has taken place, but also being more convenient in order to effect purchases elsewhere, and being pre-eminently convenient as a means of credit by which capital can be raised.”

Furthermore, as soon as somewhat threatening conditions induce the bank to raise its discount rate — whereby the probability exists at the same time that the bank will cut down the running time of the bills to be discounted by it — the general apprehension spreads that this will rise in crescendo. Everyone, and above all the credit swindler, will therefore strive to discount the future and have as many means of credit as possible at his command at the given time. These reasons, then, amount to this: it is not that the mere quantity of imported or exported precious metal as such which makes its influence felt, but that it exerts its effect, firstly, by virtue of the specific character of precious metal as capital in money form, and secondly, by acting like a feather which, when added to the weight on the scales, suffices to tip the oscillating balance definitely to one side; it acts because it arises under conditions when any addition decides in favour of one or the other side. Without these grounds, it would be quite inexplicable why a drain of gold amounting to, say, £5,000,000 to £8,000,000 — and this is the limit of experience to date — should have any appreciable effect. This small decrease or increase of capital, which seems insignificant even compared to the £70 million in gold which circulate on an average in England, is really a negligibly small magnitude when compared to production of such volume as that of the English.17) But it is precisely the development of the credit and

17) See, for instance, the ridiculous reply of Weguelin, where he states that a drain of five million in gold is so much capital less, and thus attempts to explain certain phe-
banking system, which tends, on the one hand, to press all money capital into the service of production (or what amounts to the same thing, to transform all money income into capital), and which, on the other hand, reduces the metal reserve to a minimum in a certain phase of the cycle, so that it can no longer perform the functions for which it is intended—it is this developed credit and banking system which creates this over-sensitivity of the whole organism. At less developed stages of production, the decrease or increase of the hoard below or above its average level is a relatively insignificant matter. Similarly, on the other hand, even a very considerable drain of gold is relatively ineffective if it does not occur in the critical period of the industrial cycle.

In the given explanation we have not considered cases in which a drain of gold takes place as a result of crop failures, etc. In such cases the large and sudden disturbance of the equilibrium of production, which is expressed by this drain, requires no further explanation as to its effect. This effect is that much greater the more such a disturbance occurs in a period when production is in full swing.

We have also omitted from consideration the function of the metal reserve as a security for banknote convertibility and as the pivot of the entire credit system. The central bank is the pivot of the credit system. And the metal reserve, in turn, is the pivot of the bank. The changeover from the credit system to the monetary system is necessary, as I have already shown in Book I, Ch. III in discussing means of payment. That the greatest sacrifices of real wealth are necessary to maintain the metallic basis in a critical moment has been admitted by both Tooke and Loyd-Overstone. The controversy revolves merely round a plus or a minus and round the more or less phenomena which do not take place when there is an infinitely greater increase in prices or depreciation, expansion or contraction of real industrial capital. On the other hand, it is just as ridiculous to attempt to explain these phenomena directly as symptoms of an expansion or contraction of the mass of real capital (considered from the viewpoint of its material elements).

181 Newmarch (B. A. 1857): "1364. The reserve of bullion in the Bank of England is, in truth ... the central reserve or hoard of treasure upon which the whole trade of the country is made to turn; all the other banks in the country look to the Bank of England as the central hoard or reservoir from which they are to draw their reserve of coin; and it is upon that hoard or reservoir that the action of the foreign exchanges always falls."

a See present edition, Vol. 35.
rational treatment of the inevitable.\textsuperscript{19} A certain quantity of metal, insignificant compared with the total production, is admitted to be the pivotal point of the system. Hence the superb theoretical dualism, aside from the appalling manifestation of this characteristic that it possesses as the pivotal point during crises. So long as enlightened economy treats “of capital” \textit{ex professo}, it looks down upon gold and silver with the greatest disdain, considering them as the most indifferent and useless form of capital. But as soon as it treats of the banking system, everything is reversed, and gold and silver become capital \textit{par excellence}, for whose preservation every other form of capital and labour is to be sacrificed. But how are gold and silver distinguished from other forms of wealth? Not by the magnitude of their value, for this is determined by the quantity of labour incorporated in them; but by the fact that they represent independent incarnations, expressions of the \textit{social} character of wealth. The wealth of society exists only as the wealth of private individuals, who are its private owners. It preserves its social character only in that these individuals mutually exchange qualitatively different use values for the satisfaction of their wants. Under capitalist production they can do so only by means of money. Thus the wealth of the individual is realised as social wealth only through the medium of money. It is in money, in this thing, that the social nature of this wealth is incarnated.—\textit{F. E.} \\

This social existence of wealth therefore assumes the aspect of a world beyond, of a thing, matter, commodity, alongside of and external to the real elements of social wealth. So long as production is in a state of flux this is forgotten. Credit, likewise a social form of wealth, crowds out money and usurps its place. It is faith in the social character of production which allows the money form of products to assume the aspect of something that is only evanescent and ideal, something merely imaginative. But as soon as credit is shaken—and this phase of necessity always appears in the modern industrial cycle—all the real wealth is to be actually and suddenly transformed into money, into

\textsuperscript{19} “Practically, then, both Mr. Tooke and Mr. Loyd would meet an additional demand for gold ... by an early ... contraction of credit by raising the rate of interest, and restricting advances of capital... But the principles of Mr. Loyd lead to certain” (legal) “restrictions and regulations which ... produce the most serious inconvenience” (\textit{Economist}, 1847, p. 1418).\textsuperscript{a}

\textsuperscript{a} “Conformity of Convertible Notes with a Metallic Currency”, \textit{The Economist}, No. 224, December 11, 1847.
gold and silver — a mad demand, which, however, grows necessarily out of the system itself. And all the gold and silver which is supposed to satisfy these enormous demands amounts to but a few millions in the vaults of the Bank. Among the effects of the gold drain, then, the fact that production as social production is not really subject to social control, is strikingly emphasised by the existence of the social form of wealth as a thing external to it. The capitalist system of production, in fact, has this feature in common with former systems of production, in so far as they are based on trade in commodities and private exchange. But only in the capitalist system of production does this become apparent in the most striking and grotesque form of absurd contradiction and paradox, because, in the first place, production for direct use value, for consumption by the producers themselves, is most completely eliminated under the capitalist system, so that wealth exists only as a social process expressed as the intertwining of production and circulation; and, secondly, because with the development of the credit system, capitalist production continually strives to overcome the metal barrier, which is simultaneously a material and imaginative barrier of wealth and its movement, but again and again it breaks its back on this barrier.

In the crisis, the demand is made that all bills of exchange, securities and commodities shall be simultaneously convertible into bank money, and all this bank money, in turn, into gold.

II. THE RATE OF EXCHANGE

The rate of exchange is known to be the barometer for the international movement of money metals. If England has more payments to make to Germany than Germany to England, the price of marks, expressed in sterling, rises in London, and the price of sterling, expressed in marks, falls in Hamburg and Berlin. If this preponderance of England's payment obligations towards Germany is not balanced again, for instance, by a preponderance of purchases by Germany in

20: "You quite agree that there is no mode by which you can modify the demand for bullion except by raising the rate of interest?" — Chapman (associate member of the great bill-brokers' firm of Overend, Gurney & Co.): "I should say so.... When our bullion falls to a certain point, we had better sound the tocsin at once and say we are drooping, and every man sending money abroad must do it at his own peril." B.A. 1857, Evid. No. 5057.
England, the sterling price of bills of exchange in marks on Germany must rise to the point where it will pay to send metal (gold coin or bullion) from England to Germany in payment of obligations, instead of sending bills of exchange. This is the typical course of events.

If this export of precious metal assumes a larger scope and lasts for a longer period, then the English bank reserve is affected, and the English money market, particularly the Bank of England, must take protective measures. These consist mainly, as we have already seen, in raising the interest rate. When the drain of gold is considerable, the money market as a rule becomes tight, that is, the demand for loan capital in the form of money significantly exceeds the supply and the higher interest rate follows quite naturally from this; the discount rate fixed by the Bank of England corresponds to this situation and asserts itself on the market. However there are cases when the drain of bullion is due to other than ordinary combinations of business transactions (for instance, loans to foreign states, investment of capital in foreign countries, etc.), and the London money market as such does not justify an effective rise in the interest rate; the Bank of England must then first “make money scarce”, as the phrase goes, through heavy loans in the “open market” and thus artificially create a situation which justifies, or renders necessary, a rise in the interest rate; such a manoeuvre becomes more difficult from year to year.—F.E./

How this raising of the interest rate affects the rates of exchange is shown by the following testimony before the Committee of the Lower House concerning bank legislation in 1857 (quoted as B. A. or B. C. 1857).

John Stuart Mill:

“2176. When there is a state of commercial difficulty there is always ... a considerable fall in the price of securities ... foreigners send over to buy railway shares in this country, or English holders of foreign railway shares sell their foreign railway shares abroad ... there is so much transfer of bullion prevented.”—“2182. A large and rich class of bankers and dealers in securities, through whom the equalisation of the rate of interest and the equalisation of commercial PRESSUREa between different countries usually takes place ... are always on the look out to buy securities which are likely to rise.... The place for them to buy securities will be the country which is sending bullion away.”—“2184. These investments of capital took place to a very considerable extent in 1847, to a sufficient extent to have relieved the drain considerably.”

a In the 1894 German edition this English word is given in parentheses after its German equivalent.
J. G. Hubbard, ex-Governor, and a Director of the Bank of England since 1838:

"2545. There are great quantities of European securities ... which have a European currency in all the different money markets, and those bonds, as soon as their value is ... reduced by 1 or 2 per cent in one market, are immediately purchased for transmission to those markets where their value is still unimpaired."—"2565. Are not foreign countries considerably in debt to the merchants of this country? — Very largely. "—
"2566. Therefore, the cashment of those debts might be sufficient to account for a very large accumulation of capital in this country? — In 1847, the ultimate restoration of our position was effected by our striking off so many millions previously due by America, and so many millions due by Russia to this country."

//At the same time, England owed these same countries "so and so many millions" for grain and also did not fail to "draw a line" through the greater portion of these millions via the bankruptcy of the English debtors. See the report on Bank Acts, 1857, Chapter XXX, p. 31 a above.

"2572. In 1847, the exchange between this country and St. Petersburg was very high. When the Government Letter came out authorising the Bank to issue irrespectively of the limitation of £14,000,000" (above and beyond the gold reserve), "the stipulation was that the rate of discount should be 8%. At that moment, with the then rate of discount, it was a profitable operation to order gold to be shipped from St. Petersburg to London and on its arrival to lend it at 8% up to the maturity of the three months' bills drawn against the purchase of gold."—"2573. In all bullion operations there are many points to be taken into consideration; there is the rate of exchange and the rate of interest, which is available for the investment during the period of the maturity of the bill" (drawn against it).

RATE OF EXCHANGE WITH ASIA

The following points are important because, on the one hand, they show how England recoups its losses, when its rate of exchange with Asia is unfavourable, at the expense of other countries, whose imports from Asia are paid through English middlemen. On the other hand, they are important because Mr. Wilson once again makes the foolish attempt here to identify the effect of the export of precious metal on the rates of exchange with the effect of the export of capital in general upon these rates; the export being in both cases not as a means of paying or buying, but for capital investment. In the first place, it goes without saying that whether so many millions of pounds sterling are

\[ a \] See this volume, pp. 491-92.
sent to India in precious metal or iron rails, to be invested in railways there, these are merely two different forms of transferring the same amount of capital to another country; namely, a transfer which does not enter the calculation of ordinary mercantile business, and for which the exporting country expects no other return than the future annual revenue from the income of these railways. If this export is made in the form of precious metal, it will exert a direct influence upon the money market and with it upon the interest rate of the country exporting this precious metal; if not necessarily under all circumstances, then under the previously outlined conditions, since it is precious metal and as such is directly loanable money capital and the basis of the entire money system. Similarly, this export also directly affects the rate of exchange. Precious metal is exported only for the reason, and to the extent, that bills of exchange, say on India, which are offered in the London money market, do not suffice to make these extra remittances. In other words, there is a demand for Indian bills of exchange which exceeds their supply, and so the rates turn for a time against England, not because it is in debt to India, but because it has to send extraordinary sums to India. In the long run, such a shipment of precious metal to India must have the effect of increasing the Indian demand for English commodities, because it indirectly increases the consuming power of India for European goods. But if the capital is shipped in the form of rails, etc., it cannot have any influence on the rates of exchange, since India has no return payment to make for it. Precisely for this reason, it need not have any influence on the money market. Wilson seeks to establish the existence of such an influence by declaring that such an extra expenditure would bring about an additional demand for money accommodation and would thus influence the interest rate. This may be the case; but to maintain that it must take place under all circumstances is totally wrong. No matter where the rails are shipped and whether laid on English or Indian soil, they represent nothing but a definite expansion of English production in a particular sphere. To contend that an expansion of production, even within very broad limits, cannot take place without driving up the interest rate, is absurd. Money accommodation, i.e., the amount of business transacted which includes credit operations, may grow; but these credit operations can increase while the interest rate remains unchanged. This was actually the case during the railway mania in England in the forties. The interest rate did not rise. And it is evident that, so far as actual capital is concerned, in this case commodi-
ities, the effect on the money market will be just the same, whether these commodities are destined for foreign countries or for domestic consumption. It could only make a difference when capital investments by England in foreign countries exerted a restraining influence upon its commercial exports, i.e., exports for which payment must be made, thus giving rise to a return flow, or to the extent that these capital investments are already general symptoms indicating the overexertion of credit and the initiation of swindling operations.

In the following, Wilson puts the questions and Newmarc replies.

"1786. On a former day you stated, with reference to the demand for silver for the East, that you believed that the exchanges with India were in favour of this country, notwithstanding the large amount of bullion that is continually transmitted to the East; have you any ground for supposing the exchanges to be in favour of this country? — Yes, I have.... I find that the real value of the exports from the United Kingdom to India in 1851 was £7,420,000; to that is to be added the amount of India House drafts, that is, the funds drawn from India by the East India Company for the purpose of their own expenditure. Those drafts in that year amounted to £3,200,000, making, therefore, the total export from the United Kingdom to India £10,620,000. In 1855... the actual value of the export of goods from the United Kingdom had risen to £10,350,000 and the India House drafts were £3,700,000, making, therefore, the total export from this country £14,050,000. Now as regards 1851, I believe there are no means of stating what was the real value of the import of goods from India to this country, but in 1854 and 1855 we have a statement of the real value; in 1855, the total real value of the imports of goods from India to this country was £12,670,000 and that sum, compared with the £14,050,000 I have mentioned, left a balance in favour of the United Kingdom, as regards the direct trade between the two countries, of £1,380,000."*

Thereupon Wilson remarks that the rates of exchange are also affected by indirect commerce. For instance, exports from India to Australia and North America are covered by drafts on London, and therefore affect the rate of exchange just as though the commodities had gone directly from India to England. Furthermore, when India and China are considered together, the balance is against England, since China has constantly to make heavy payments to India for opium, and England has to make payments to China, so that the sums go by this circuitous route to India (1787, 1788).

1791. Wilson now asks if the effect on the rates of exchange will not be the same whether capital

"went in the form of iron rails and locomotives, or whether it went in the form of coin".

* See Report from the Select Committee on Bank Acts.... 1857.
Newmarch correctly answers:

The £12 million which have been sent during the last few years to India for railway construction served to purchase an annuity which India has to pay at regular intervals to England.

"But as far as regards the immediate operation on the bullion market, the investments of the £12 million would only be operative as far as bullion was required to be sent out for actual money disbursements." [1792]

1797. Weguelin asks: "If no return is made for this iron" (rails), "how can it be said to affect the exchanges? — I do not think that that part of the expenditure which is sent out in the form of commodities affects the computation of the exchange.... The computation of the exchange between two countries is affected, one might say, solely by the quantity of obligations or bills offering in one country, as compared with the quantity offering in the other country against it; that is the rationale of the exchange. Now, as regards the transmission of those £12,000,000, the money in the first place is subscribed in this country ... now, if the nature of the transaction was such that the whole of that £12,000,000 was required to be laid down in Calcutta, Bombay, and Madras in treasure ... a sudden demand would very violently operate upon the price of silver, and upon the exchange, just the same as if the India Company were to give notice tomorrow that their drafts were to be raised from £3,000,000 to £12,000,000. But half of those £12,000,000 is spent ... in buying commodities in this country ... iron rails and timber, and other materials ... it is an expenditure in this country of the capital of this country for a particular kind of commodity to be sent out to India, and there is an end of it."—"1798. Weguelin: But the production of those articles of iron and timber necessary for the railways produces a large consumption of foreign articles, which might affect the exchange? — Certainly."

Wilson now thinks that iron represents labour to a large extent, and that the wage paid for this labour largely represents imported goods (1799), and then questions further:

"1801. But speaking quite generally, it would have the effect of turning the exchanges against this country if you sent abroad the articles which were produced by the consumption of the imported articles without receiving any remittance for them either in the shape of produce or otherwise? — That principle is exactly what took place in this country during the time of the great railway expenditure" (1845). "For three or four or five years, you spent upon railways £30,000,000, nearly the whole of which went in the payment of wages. You sustained in three years a larger population employed in constructing railways, and locomotives, and carriages, and stations than you employed in the whole of the factory districts. The people ... spent those wages in buying tea and sugar and spirits and other foreign commodities; those commodities were imported; but it was a fact, that during the time this great expenditure was going on the foreign exchanges between this country and other countries were not materially deranged. There was no efflux of bullion, on the contrary, there was rather an influx."

1802. Wilson insists that with an equalised trade balance and par rates between England and India the extra shipment of iron and locomotives "would affect the exchanges with India". Newmarch cannot see it that way so long as the rails are sent out as capital invest-
ment and India has no payment to make for them in one form or another; he adds:

"I agree with the principle that no one country can have permanently against itself an adverse state of exchange with all the other countries, with which it deals; an adverse exchange with one country necessarily produces a favourable exchange with another."

Wilson retorts with this triviality:

"1803. But would not a transfer of capital be the same whether it was sent in one form or another? — As regards the obligation it would."—"1804. The effect therefore of making railways in India, whether you send bullion or whether you send materials, would be the same upon the capital market here in increasing the value of capital as if the whole was sent out in bullion?"

If iron prices did not rise, it was in any case proof that the "value" of "capital" contained in the rails had not been increased. What we are here concerned with is the value of money capital, i. e., the interest rate. Wilson would like to identify money capital with capital in general. The simple fact is essentially that 12 million were subscribed in England for Indian railways. This is a matter which has nothing directly to do with the rates of exchange, and the designation of the £12 million is also the same to the money market. If the money market is in good shape, it need not produce any effect at all on it, just as the English railway subscriptions in 1844 and 1845 left the money market unaffected. If the money market is already in somewhat difficult straits, the interest rate might indeed be affected by it, but certainly only in an upward direction, and this, according to Wilson's theory, would favourably affect the rates of exchange for England, that is, it would work against the tendency to export precious metal; if not to India, then to some other country. Mr. Wilson jumps from one thing to another. In Question 1802 it is the rates of exchange that are supposed to be affected, and in Question 1804 the "value of capital"—which are two very different things. The interest rate may affect the rates of exchange, and the rates of exchange may affect the interest rate, but the latter can be stable while the rates of exchange fluctuate, and the rates of exchange can be stable while the interest rate fluctuates. Wilson cannot get it through his head that the mere form in which capital is shipped abroad makes such a difference in the effect, i. e., that the difference in the form of capital is of such importance, and particularly its money form, which runs very much counter to the explanations of economists. Newmarch replies to Wilson one-sidedly in that he does not indicate that he has jumped so
suddenly and without reason from rate of exchange to interest rate. Newmarch answers Question 1804 with uncertainty and equivocation:

“No doubt, if there is a demand for £12,000,000 to be raised, it is immaterial, as regards the general rate of interest, whether that £12 million is required to be sent in bullion or in materials. I think, however”

//a fine transition, this “however”, when he intends to say the exact opposite//

“it is not quite immaterial”

//it is immaterial, but, nevertheless, it is not immaterial//

“because in the one case the £6 million would be returned immediately; in the other case it would not be returned so rapidly. Therefore it would make some”

//what definiteness!///

“difference, whether the £6 million was expended in this country or sent wholly out of it.”

What does he mean when he says six million would return immediately? In so far as the £6 million have been expended in England, they exist in rails, locomotives, etc., which are to be shipped to India, whence they do not return; their value returns very slowly through amortisation, whereas the six million in precious metal may perhaps return very quickly in kind. In so far as the six million have been expended in wages, they have been consumed; but the money used for payment circulates in the country the same as ever, or forms a reserve. The same holds true for the profits of rail producers and that portion of the six million which replaces their constant capital. Thus, this ambiguous statement about returns is used by Newmarch only to avoid saying directly: The money has remained in the country, and in so far as it serves as loanable money capital the difference for the money market (aside from the possibility that circulation could have absorbed more coin) is only that it is charged to the account of A instead of B. An investment of this kind, where capital is transferred to other countries in commodities, not in precious metal, can affect the rate of exchange (but not the rate of exchange with the country in which the exported capital is invested) only in so far as the production of these exported commodities requires an additional import of other foreign commodities. This production then cannot balance out the additional import. However, the same thing happens with every export on credit, no matter whether intended for capital investment
or ordinary commercial purposes. Moreover, this additional import can also call forth by way of reaction an additional demand for English goods, for instance, on the part of the colonies or the United States.

Previously,\(^a\) Newmarcch stated that, owing to drafts of the East India Company, exports from England to India were larger than imports. Sir Charles Wood cross-examines him on this score. This preponderance of English exports to India over imports from India is actually brought about by imports from India for which England does not pay any equivalent. The drafts of the East India Company (now the East India government) resolve themselves into a tribute levied on India. For instance, in 1855, imports from India to England amounted to £12,670,000; English exports to India amounted to £10,350,000; balance in India’s favour £2,250,000.

“If that was the whole state of the case, that £2,250,000 would have to be remitted in some form to India. But then come in the advertisements from the India House. The India House advertise to this effect that they are prepared to grant drafts on the various presidencies in India to the extent of £3,250,000.”

//This amount was levied for the London expenses of the East India Company and for the dividends to be paid to stockholders.//

“And that not merely liquidates the £2,250,000 which arose out of the course of trade, but it presents £1,000,000 of surplus” (1917).

“1922. //Wood:// Then the effect of those India House drafts is not to increase the exports to India, but pro tanto to diminish them?”

//This should read: to reduce the necessity of covering the imports from India by exports to that country to the same amount.// Mr. Newmarcch explains this by saying that the British import “good government” into India for these £3,700,000 (1925). Wood, as Minister for India, knows full well the kind of “good government” which the British import to India, and correctly replies with irony:

“1926. Then the export, which, you state, is caused by the East India drafts, is an export of good government, and not of produce.”

Since England exports a good deal “in this way” for “good government” and as capital investment in foreign countries — thus obtaining imports which are completely independent of the ordinary run of

\(^a\) See Report from the Select Committee on Bank Acts... 1857. No. 1786.
business, tribute partly for exported "good government" and partly in the form of revenues from capital invested in the colonies or elsewhere, i.e., tribute for which it does not have to pay any equivalent—it is evident that the rates of exchange are not affected when England simply consumes this tribute without exporting anything in return. Hence, it is also evident that the rates of exchange are not affected when it reinvests this tribute, not in England, but productively or unproductively in foreign countries; for instance, when it sends munitions for it to the Crimea. Moreover, to the extent that imports from abroad enter into the revenue of England—of course, they must be paid for in the form of tribute, for which no equivalent return is necessary, or by exchange for this unpaid tribute or in the ordinary course of commerce—England can either consume them or reinvest them as capital. In neither case are the rates of exchange affected, and this is overlooked by the sage Wilson. Whether a domestic or a foreign product constitutes a part of the revenue—whereby the latter case merely requires an exchange of domestic for foreign products—the consumption of this revenue, be it productive or unproductive, alters nothing in the rates of exchange, even though it may alter the scale of production. The following should be read with the foregoing in mind:

1934. Wood asks Newmarch how the shipment of war supplies to the Crimea would affect the rate of exchange with Turkey. Newmarch replies:

"I do not see that the mere transmission of warlike stores would necessarily affect the exchange, but certainly the transmission of treasure would affect the exchange."

In this case he thus distinguishes capital in the form of money from capital in other forms. But now Wilson asks:

"1935. If you make an export of any article to a great extent, for which there is to be no corresponding import"

//Mr. Wilson forgets that there are very considerable imports into England for which corresponding exports have never taken place, except in the form of "good government" or of previously exported investment capital; in any case imports which do not enter into normal commercial movement. But these imports are again exchanged, for instance, for American products, and the circumstance that Amer-

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a Shipment of munitions during the Crimean War of 1853-56.
ican goods are exported without corresponding imports does not alter the fact that the value of these imports can be consumed without an equivalent flow abroad; they have been received without reciprocal exports and can therefore be consumed without entering into the balance of trade,

"you do not discharge the foreign debt you have created by your imports"

//but, if you have previously paid for these imports, for instance, by credit given abroad, then no debt is contracted thereby, and the question has nothing to do with the international balance; it resolves itself into productive and unproductive expenditures, no matter whether the products so consumed are domestic or foreign,

"and therefore you must by that transaction affect the exchanges by not discharging the foreign debt, by reason of your export having no corresponding imports? — That is true as regards countries generally."

This lecture by Wilson amounts to saying that every export with no corresponding import is simultaneously an import with no corresponding export, because foreign, i.e., imported, commodities enter into the production of the exported article. The assumption is that every export of this kind is based on, or creates, an unpaid import and thus presupposes a debt abroad. This is wrong, even when the following two circumstances are disregarded: 1) England receives certain imports free of charge for which it pays no equivalent, e.g., a portion of its Indian imports. It can exchange these for American imports and export the latter without importing in return; in any case, so far as the value is concerned, it has only exported something that has cost it nothing. 2) England may have paid for imports, for instance, American imports, which constitute additional capital; if it consumes these unproductively, for instance, as war materials, this does not constitute any debt towards America and does not affect the rate of exchange with America. Newmarch contradicts himself in Nos. 1934 and 1935, and Wood calls this to his attention in No. 1938:

"If no portion of the goods which are employed in the manufacture of the articles exported without return" (war materials) "came from the country to which those articles are sent, how is the exchange with that country affected; supposing the trade with Turkey to be in an ordinary state of equilibrium, how is the exchange between this country and Turkey affected by the export of warlike stores to the Crimea?"

Here Newmarch loses his equanimity; he forgets that he has answered the same simple question correctly in No. 1934, and says:
"We seem, I think, to have exhausted the practical question, and to have now attained a very elevated region of metaphysical discussion."

Wilson has still another version of his claim that the rate of exchange is affected by every transfer of capital from one country to another, no matter whether in the form of precious metal or commodities. Wilson knows, of course, that the rate of exchange is affected by the interest rate, particularly by the relation of the rates of interest prevailing in the two countries whose mutual rates of exchange are under discussion. If he can now demonstrate that surpluses of capital in general, i.e., in the first place, of commodities of all kinds including precious metal, have a hand in influencing the interest rate, then he is a step closer to his goal; a transfer of any considerable portion of this capital to some other country must then change the interest rate in both countries, with the change taking place in opposite directions. Thereby, in a secondary way, the rate of exchange between both countries is also altered.—F.E.//

He then says in the *Economist*, 1847, page 574, which he edited at the time a:

"No doubt, however, such abundance of capital as is indicated by large stocks of commodities of all kinds, including bullion, would necessarily lead, not only to low prices of commodities in general, but also to a lower rate of interest for the use of capital (1). If we have a stock of commodities on hand, which is sufficient to serve the country for two years to come, a command over those commodities would be obtained for a given period at a much lower rate than if the stocks were barely sufficient to last us two months (2). All loans of money, in whatever shape they are made, are simply a transfer of a command over commodities from one to another. Whenever, therefore, commodities are abundant, the interest of money must be low, and when they are scarce, the interest of money must be high (3). As commodities become abundant, the number of sellers, in proportion to the number of buyers, increases, and, in proportion as the quantity is more than is required for immediate consumption, so must a larger portion be kept for future use. Under these circumstances, the terms on which a holder becomes willing to sell for a future payment, or on credit, become lower than if he were certain that his whole stock would be required within a few weeks" (4).

In regard to statement (1), it is to be noted that a large *influx* in precious metal can take place simultaneously with a *contraction* in production, as is always the case in the period following a crisis. In the

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subsequent phase, precious metal may come in from countries which mainly produce precious metal; imports of other commodities are generally balanced by exports during this period. In these two phases, the interest rate is low and rises but slowly; we have already discussed the reason for this. This low interest rate could always be explained without recourse to the influence of any "large stocks of commodities of all kinds". And how is this influence to take place? The low price of cotton, for instance, renders possible the high profits of the spinners, etc. Now why is the interest rate low? Surely not because the profit, which may be made on borrowed capital, is high. But simply and solely because, under existing conditions, the demand for loan capital does not grow in proportion to this profit; in other words, because loan capital has a movement different from industrial capital. What the Economist wants to prove is exactly the reverse, namely, that the movements of loan capital are identical with those of industrial capital.

In regard to statement (2), if we reduce the absurd assumption of stocks for two years in advance to the point where it begins to take on some meaning, it signifies that the commodity market is overstocked. This would cause a fall in prices. Less would have to be paid for a bale of cotton. This would by no means justify the conclusion that money for the purchase of a bale of cotton is more easily borrowed. This depends on the state of the money market. If money can be borrowed more easily, it is only because commercial credit is in a state requiring it to make less use than usual of bank credit. The commodities glutting the market are either means of subsistence or means of production. The low price of both increases the industrial capitalist's profit. Why should it depress the interest rate, unless it be through the antithesis, rather than the identity, between the abundance of industrial capital and the demand for money accommodation? Circumstances are such that the merchant and the industrial capitalist can more easily advance credit to one another; owing to this facilitation of commercial credit, both industrialist as well as merchant need less bank credit; hence the interest rate can be low. This low interest rate has nothing to do with the influx in precious metal, although both may run parallel to each other, and the same causes bringing about low prices of imported articles may also produce a surplus of imported precious metal. If the import market were really glutted, it would prove that a decrease in the demand for imported articles had taken place, and this would be inexplicable at low prices, unless it were attributed to a contraction of domestic industrial production; but this,
again, would be inexplicable, so long as there is excessive importing at low prices. A mass of absurdities—in order to prove that a fall in prices = a fall in the interest rate. Both may simultaneously exist side by side. But if they do, it will be a reflection of the opposition in the directions of the movement of industrial and the movement of loanable money capital. It will not be a reflection of their identity.

In regard to statement (3), it is hard to understand even after this exposition why money interest should be low when commodities are available in abundance. If commodities are cheap, then I may need only £1,000 instead of the previous £2,000 to buy a definite quantity. But perhaps I nevertheless invest £2,000, and thus buy twice the quantity which I could have bought formerly. In this way, I expand my business by advancing the same capital, which I may have to borrow. I buy £2,000 worth of commodities, the same as before. My demand on the money market therefore remains the same, even though my demand on the commodity market rises with the fall in commodity prices. But if this demand for commodities should decrease, that is, if production should not expand with the fall in commodity prices, an event which would contradict all the laws of the Economist, then the demand for loanable money capital would decrease, although the profit would increase. But this increasing profit would create a demand for loan capital. Incidentally, a low level of commodity prices may be due to three causes. First, to lack of demand. In such a case, the interest rate is low because production is paralysed and not because commodities are cheap, for the low prices are but a reflection of that paralysis. Second, it may be due to supply exceeding demand. This may be the result of a glut on the market, etc., which leads to a crisis and may coincide with a high interest rate during the crisis itself; or, it may be the result of a fall in the value of commodities, so that the same demand can be satisfied at lower prices. Why should the interest rate fall in the last case? Because profits increase? If this were due to less money capital being required for obtaining the same productive or commodity capital, it would merely prove that profit and interest are inversely proportional to each other. In any case, the general statement of the Economist is false. Low money prices for commodities and a low interest rate do not necessarily go together. Otherwise, the interest rate would be lowest in the poorest countries, where money prices for produce are lowest, and highest in the richest countries, where money prices for agricultural products are highest. In general, the Economist admits: If the value of
money falls, it exerts no influence on the interest rate. £100 bring £105 the same as ever. If the £100 are worth less, so are the £5 interest. This relation is not affected by the appreciation or depreciation of the original sum. Considered from the point of view of value, a definite quantity of commodities is equal to a definite sum of money. If this value increases, it is equal to a larger sum of money. The opposite is true when it falls. If the value is equal to 2,000, then 5% = 100; if it is equal to 1,000, then 5% = 50. But this does not alter the interest rate in any way. The rational part of this matter is merely that greater money accommodation is required when it takes £2,000 to sell the same quantity of commodities than when only £1,000 are required. But this merely shows that profit and interest are here inversely proportional to each other. For the lower the prices of the components of constant and variable capital, the higher the profit and the lower the interest. But the opposite can also be and is often the case. For instance, cotton may be cheap because no demand exists for yarn and fabrics; and cotton may be relatively expensive because a large profit in the cotton industry creates a great demand for it. On the other hand, the profits of industrialists may be high precisely because the price of cotton is low. Hubbard’s table proves that the interest rate and the prices of commodities execute completely independent movements, whereas the movements of the interest rate adhere closely to those of the metal reserve and the rates of exchange.\footnote{See this volume, pp. 546-47.}

The \textit{Economist} states:

"Whenever, therefore, commodities are abundant, the interest of money must be low."

Precisely the opposite obtains during crises. Commodities are super-abundant, inconvertible into money, and therefore the interest rate is high; in another phase of the cycle the demand for commodities is great and therefore quick returns are made, but at the same time, prices of commodities are rising and because of the quick returns the interest rate is low.

"When they //the commodities// are scarce, the interest of money must be high."

The opposite is again true in the slack period following a crisis. Commodities are scarce, absolutely speaking, not with reference to demand; and the interest rate is low.
In regard to statement (4), it is pretty evident that an owner of commodities, provided he can sell the latter at all, will get rid of them at a lower price when the market is glutted than he would when there is a prospect of the existing supply becoming rapidly exhausted. But why the interest rate should fall because of that is not so clear.

If the market is glutted with imported commodities, the interest rate may rise as a result of an increased demand on the part of the owners for loan capital, in order to avoid dumping their commodities on the market. The interest rate may fall, because the fluidity of commercial credit may keep the demand for bank credit relatively low.

The *Economist*\(^a\) mentions the rapid effect on the rates of exchange in 1847 of the raising of the interest rate and other circumstances exerting pressure on the money market. But it should be borne in mind that the gold drain continued until the end of April in spite of the change in the rates of exchange; a turn did not take place here until early May.

On January 1, 1847, the metal reserve of the Bank was £15,066,691; the interest rate 3 \(\frac{1}{2}\)%; three months’ rates of exchange on Paris 25.75; on Hamburg 13.10; on Amsterdam 12.3 \(\frac{1}{4}\). On March 5, the metal reserve had fallen to £11,595,535; the discount had risen to 4%; the rate of exchange fell to 25.67 \(\frac{1}{2}\) on Paris; 13.9 \(\frac{1}{4}\) on Hamburg; and 12.2 \(\frac{1}{2}\) on Amsterdam. The drain of gold continued.

See the following table:

<table>
<thead>
<tr>
<th>1847</th>
<th>Bullion Reserve of the Bank of England (£)</th>
<th>Money Market</th>
<th>Highest Three-Month Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Paris</td>
</tr>
<tr>
<td>March 20</td>
<td>11,231,630</td>
<td>Bank disc. 4% . . . . . . . . .</td>
<td>25.67(\frac{1}{2})</td>
</tr>
<tr>
<td>April 3</td>
<td>10,246,410</td>
<td>&quot; &quot; &quot; 5% . . . . . . . . . . .</td>
<td>25.80</td>
</tr>
<tr>
<td>April 10</td>
<td>9,867,053</td>
<td>Money very scarce . . . . . .</td>
<td>25.90</td>
</tr>
<tr>
<td>April 17</td>
<td>9,329,941</td>
<td>Bank disc. 5.5% . . . . . . .</td>
<td>26.02(\frac{1}{2})</td>
</tr>
<tr>
<td>April 24</td>
<td>9,213,890</td>
<td>Pressure . . . . . . . . . . .</td>
<td>26.05</td>
</tr>
<tr>
<td>May 1</td>
<td>9,337,716</td>
<td>Increasing pressure . . . . .</td>
<td>26.15</td>
</tr>
<tr>
<td>May 8</td>
<td>9,588,759</td>
<td>Highest pressure . . . . . . .</td>
<td>26.27(\frac{1}{2})</td>
</tr>
</tbody>
</table>

\(^a\) The foregoing table is given in the article “The Present Crisis and the Bank Bill”, *The Economist*, No. 208, August 21, 1847.
In 1847, the total export of precious metal from England amounted to £8,602,597.

<table>
<thead>
<tr>
<th></th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of this to the United States</td>
<td>£3,226,411</td>
</tr>
<tr>
<td>France</td>
<td>£2,479,892</td>
</tr>
<tr>
<td>Hanse towns</td>
<td>£ 958,781</td>
</tr>
<tr>
<td>Holland</td>
<td>£ 247,743</td>
</tr>
</tbody>
</table>

In spite of the change in the rates at the end of March, the drain of gold continued for another full month, probably to the United States.

“We thus see” //says the Economist, 1847, p. 954// “how rapid and striking was the effect of a rise in the rate of interest, and the pressure which ensued in correcting an adverse exchange, and in turning the tide of bullion back to this country. This effect was produced entirely independent of the balance of trade. A higher rate of interest caused a lower price of securities, both foreign and English, and induced large purchases to be made on foreign account, which increased the amount of bills to be drawn from this country, while, on the other hand, the high rate of interest and the difficulty of obtaining money was such that the demand of those bills fell off, while their amount increased.... For the same cause orders for imports were countermanded, and investments of English funds abroad were realised and brought home for employment here. Thus, for example, we read in the Rio de Janeiro Price Current of the 10th May, ‘Exchange //on England// has experienced a further decline, principally caused by a pressure on the market for remittance of the proceeds of large sales of //Brazilian// government stock, on English account.’ Capital belonging to this country, which has been invested in public and other securities abroad, when the interest was very low here, was thus again brought back when the interest became high.”

**ENGLAND’S BALANCE OF TRADE**

India alone has to pay 5 million in tribute for “good government”, interest and dividends on British capital, etc., not counting the sums sent home annually by officials as savings from their salaries, or by English merchants as part of their profit to be invested in England. Every British colony continually has to make large remittances for the same reason. Most of the banks in Australia, the West Indies, and Canada, have been founded with English capital, and the dividends are payable in England. In the same way, England owns many foreign securities—European, North American and South American—on which it draws interest. In addition to this it has interests in foreign railways, canals, mines, etc., with corresponding dividends. Remittance on all these items is made almost exclusively in products

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a Ibid.
over and above the amount of English exports. On the other hand, what is sent from England to owners of English securities abroad and for consumption by Englishmen abroad, is insignificant in comparison.

The question, so far as it concerns the balance of trade and the rates of exchange, is "at any particular moment one of time".

"Practically speaking ... England gives long credits upon her exports, while the imports are paid for in ready money. At particular moments this difference of practice has a considerable effect upon the exchanges. At a time when our exports are very considerably increasing, e.g., 1850, a continual increase of investment of British capital must be going on ... in this way remittances of 1850 may be made against goods exported in 1849. But if the exports of 1850 exceed those of 1849 by more than 6 million, the practical effect must be that more money is sent abroad, to this amount, than returned in the same year. And in this way an effect is produced on the rates of exchange and the rate of interest. When, on the contrary, our trade is depressed after a commercial crisis, and when our exports are much reduced, the remittances due for the past years of larger exports greatly exceed the value of our imports; the exchanges become correspondingly in our favour, capital rapidly accumulates at home, and the rate of interest becomes less." (Economist, January 11, 1851. a)

The foreign rates of exchange can change:

1) In consequence of the immediate balance of payments, no matter what the cause — a purely mercantile one, or capital investment abroad, or government expenditures for wars, etc., in so far as cash payments thereby are made to foreign countries.

2) In consequence of money depreciation — whether metal or paper — in a particular country. This is purely nominal. If £1 should represent only half as much money as formerly, it would naturally be counted as 12.5 francs instead of 25 francs.

3) When it is a matter of a rate of exchange between countries, of which one uses silver and the other gold as "money", the rate of exchange depends upon the relative fluctuations of the value of these two metals, since these necessarily alter the parity between them. This is illustrated by the rates of exchange in 1850; they were unfavourable to England, although that country's export rose enormously. Yet no drain of gold took place. This was a result of a momentary rise in the value of silver as against gold. (See Economist, November 30, 1850. b)

Parity for the rate of exchange of £1 is: Paris, 25 francs 20 cent.

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Hamburg, 13 marks banko 10.5 shillings; Amsterdam, 11 florins 97 cent. To the extent that the Paris rate of exchange exceeds 25.20 francs, it becomes more favourable to the English debtor of France, or the buyer of French commodities. In both cases he needs fewer pounds sterling in order to accomplish his purpose.—In remoter countries, where precious metal is not easily obtained when bills of exchange are scarce and insufficient for remittances to be made to England, the natural effect is to drive up the prices of such products as are generally shipped to England since a greater demand arises for them, in order to send them to England in place of bills of exchange; this is often the case in India.

An unfavourable rate of exchange, or even a drain of gold, can take place when there is a great abundance of money in England, the interest rate is low and the price for securities is high.

In the course of 1848 England received large quantities of silver from India, since good bills of exchange were rare and mediocre ones were not readily accepted in consequence of the crisis of 1847 and the general lack of credit in business with India. All this silver had barely arrived before it found its way to the continent, where the revolution led to the formation of many hoards. The bulk of the same silver made the trip back to India in 1850, since the rate of exchange now made this profitable.

The monetary system is essentially a Catholic institution, the credit system essentially Protestant. "THE SCOTCH HATE GOLD." In the form of paper the monetary existence of commodities is only a social one. It is Faith that brings salvation. Faith in money value as the immanent spirit of commodities, faith in the mode of production and its predestined order, faith in the individual agents of production as mere personifications of self-expanding capital. But the credit system does not emancipate itself from the basis of the monetary system any more than Protestantism has emancipated itself from the foundations of Catholicism.

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a Mark 16:16.
Chapter XXXVI
PRECAPITALIST RELATIONSHIPS

Interest-bearing capital, or, as we may call it in its antiquated form, usurer's capital, belongs together with its twin brother, merchant's capital, to the antediluvian forms of capital, which long precede the capitalist mode of production and are to be found in the most diverse economic formations of society.

The existence of usurer's capital requires that at least a portion of products should be transformed into commodities, and that money should have developed in its various functions along with trade in commodities.

The development of usurer's capital is bound up with the development of merchant's capital and especially that of money-dealing capital. In ancient Rome, beginning with the last years of the Republic, when manufacturing stood far below its average level of development in the ancient world, merchant's capital, money-dealing capital, and usurer's capital developed to their highest point within the ancient form.

We have seen that hoarding necessarily appears along with money. But the professional hoarder does not become important until he is transformed into a usurer.

The merchant borrows money in order to make a profit with it, in order to use it as capital, that is, to expend it. Hence in earlier forms of society the money lender stands in the same relation to him as to the modern capitalist. This specific relation was also experienced by the Catholic universities.

"The universities of Alcalá, Salamanca, Ingolstadt, Freiburg in Breisgau, Mayence, Cologne, Trèves, one after another recognised the legality of interest for commercial loans. The first five of these approbations were deposited in the archives of the Consulate of the city of Lyons and published in the appendix to the Traité de l'usure et des intérêts, by Bruyset-Ponthus, Lyons." (M. Augier, Le Crédit public, etc., Paris, 1842, p. 206.)

In all the forms in which slave economy (not the patriarchal kind, but that of later Grecian and Roman times) serves as a means of amassing wealth, where money therefore is a means of appropriating the labour of others through the purchase of slaves, land, etc., money can be expanded as capital, i.e., bear interest, for the very reason that it can be so invested.
The characteristic forms, however, in which usurer’s capital exists in periods antedating capitalist production are of two kinds. I purposely say characteristic forms. The same forms repeat themselves on the basis of capitalist production, but as mere subordinate forms. They are then no longer the forms which determine the character of interest-bearing capital. These two forms are: first, usury by lending money to extravagant members of the upper classes, particularly landowners; secondly, usury by lending money to small producers who possess their own conditions of labour—this includes the artisan, but mainly the peasant, since particularly under precapitalist conditions, in so far as they permit of small independent individual producers, the peasant class necessarily constitutes the overwhelming majority of them.

Both the ruin of rich landowners through usury and the impoverishment of the small producers lead to the formation and concentration of large amounts of money capital. But to what extent this process does away with the old mode of production, as happened in modern Europe, and whether it puts the capitalist mode of production in its stead, depends entirely upon the stage of historical development and the attendant circumstances.

Usurer's capital as the characteristic form of interest-bearing capital corresponds to the predominance of small-scale production of the self-employed peasant and small master craftsman. When the labourer is confronted by the conditions of labour and by the product of labour in the shape of capital, as under the developed capitalist mode of production, he has no occasion to borrow any money as a producer. When he does any money borrowing, he does so, for instance, at the pawnshop to secure personal necessities. But wherever the labourer is the owner, whether actual or nominal, of his conditions of labour and his product, he stands as a producer in relation to the money lender's capital, which confronts him as usurer's capital. Newman expresses the matter insipidly when he says the banker is respected, while the usurer is hated and despised, because the banker lends to the rich, whereas the usurer lends to the poor. (F. W. Newman, Lectures on Pol. Econ., London, 1851, p. 44). He overlooks the fact that a difference between two modes of social production and their corresponding social orders lies at the heart of the matter and that the situation cannot be explained by the distinction between rich and poor. Moreover, the usury which sucks dry the small producer goes hand in hand with the usury which sucks dry the rich owner of
a large estate. As soon as the usury of the Roman patricians had completely ruined the Roman plebeians, the small peasants, this form of exploitation came to an end and a pure slave economy replaced the small-peasant economy.

In the form of interest, the entire surplus above the barest means of subsistence (the amount that later becomes wages of the producers) can be consumed by usury (this later assumes the form of profit and ground rent), and hence it is highly absurd to compare the level of this interest, which assimilates all the surplus value excepting the share claimed by the state, with the level of the modern interest rate, where interest constitutes at least normally only a part of the surplus value. Such a comparison overlooks that the wage worker produces and gives to the capitalist who employs him, profit, interest and ground rent, i.e., the entire surplus value. Carey makes this absurd comparison in order to show how advantageous the development of capital, and the fall in the interest rate that accompanies it, are for the labourer. Furthermore, while the usurer, not content with squeezing the surplus labour out of his victim, gradually acquires possession even of his very conditions of labour, land, house, etc., and is continually engaged in thus expropriating him, it is again forgotten that, on the other hand, this complete expropriation of the labourer from his conditions of labour is not a result which the capitalist mode of production seeks to achieve, but rather the established prerequisite for its point of departure. The wage slave, just like the real slave, cannot become a creditor's slave due to his position—at least in his capacity as producer; the wage slave, it is true, can become a creditor's slave in his capacity as consumer. Usurer's capital in the form whereby it indeed appropriates all of the surplus labour of the direct producers, without altering the mode of production; whereby the ownership or possession by the producers of the conditions of labour—and small-scale production corresponding to this—is its essential prerequisite; whereby, in other words, capital does not directly subordinate labour to itself, and does not, therefore, confront it as industrial capital—this usurer's capital impoverishes the mode of production, paralyses the productive forces instead of developing them, and at the same time perpetuates the miserable conditions in which the social productivity of labour is not developed at the expense of labour itself, as in the capitalist mode of production.

Usury thus exerts, on the one hand, an undermining and destructive influence on ancient and feudal wealth and ancient and feudal
On the other hand, it undermines and ruins small-peasant and small-burgher production, in short, all forms in which the producer still appears as the owner of his means of production. Under the developed capitalist mode of production, the labourer is not the owner of the conditions of production, i.e., the field which he cultivates, the raw materials which he processes, etc. But under this system estrangement of the producer from the conditions of production reflects an actual revolution in the mode of production itself. The isolated labourers are brought together in large workshops for the purpose of carrying out separate but interconnected activities; the tool becomes a machine. The mode of production itself no longer permits the dispersion of the instruments of production associated with small property; nor does it permit the isolation of the labourer himself. Under the capitalist mode of production usury can no longer separate the producer from his conditions of production, for they have already been separated.

Usury centralises money wealth where the means of production are dispersed. It does not alter the mode of production, but attaches itself firmly to it like a parasite and makes it wretched. It sucks out its blood, enervates it and compels reproduction to proceed under ever more pitiable conditions. Hence the popular hatred against usurers, which was most pronounced in the ancient world where ownership of the conditions of production by the producer himself was at the same time the basis for political status, the independence of the citizen.

To the extent that slavery prevails, or in so far as the surplus product is consumed by the feudal lord and his retinue, while either the slave-owner or the feudal lord fall into the clutches of the usurer, the mode of production still remains the same; it only becomes harder on the labourer. The indebted slave-holder or feudal lord becomes more oppressive because he is himself more oppressed. Or he finally makes way for the usurer, who becomes a landed proprietor or a slave-holder himself, like the knights in ancient Rome. The place of the old exploiter, whose exploitation was more or less patriarchal because it was largely a means of political power, is taken by a hard, money-mad parvenu. But the mode of production itself is not altered thereby.

Usury has a revolutionary effect in all precapitalist modes of pro-

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a The passage beginning with this paragraph and up to the quotation from Hüllmann, is to be compared with The Economic Manuscript of 1861-63. See present edition, Vol. 32, pp. 534-41.
duction only in so far as it destroys and dissolves those forms of property on whose solid foundation and continual reproduction in the same form the political organisation is based. Under Asian forms, usury can continue a long time, without producing anything more than economic decay and political corruption. Only where and when the other prerequisites of the capitalist mode of production are present does usury become one of the means assisting in establishment of the new mode of production by ruining the feudal lord and small-scale producer, on the one hand, and centralising the conditions of labour into capital, on the other.

In the Middle Ages, no country had a general rate of interest. The Church forbade, from the outset, all lending at interest. Laws and courts offered little protection for loans. The interest rate was so much the higher in individual cases. The limited circulation of money, the need to make most payments in cash, compelled people to borrow money, and all the more so when the exchange business was still undeveloped. Therefore wide divergences in interest rates and in the concept of usury. In Charlemagne's time, it was considered usurious to charge 100%. In Lindau on Lake Constance, local burghers took $216\frac{2}{3}$% in 1344. In Zurich, the City Council fixed the legal interest rate at $43\frac{1}{3}$%. In Italy, 40% had to be paid sometimes, although the usual rate from the 12th to the 14th century did not exceed 20%. Verona decreed that $12\frac{1}{2}$% should be the legal rate. Frederick II fixed the rate at 10%, but only for Jews. He did not wish to speak for Christians. In Rhenish Germany, 10% was the usual rate as early as the 13th century (Hüllmann, Geschichte des Städtewesens, II, S. 55-57).

Usurer's capital employs the method of exploitation characteristic of capital yet without the latter's mode of production. This condition also repeats itself within bourgeois economy, in backward branches of industry or in those branches which resist the transition to the modern mode of production. For instance, if we wish to compare the English interest rate with the Indian, we should not take the interest rate of the Bank of England, but rather, e.g., that charged by lenders of small machinery to small producers in domestic industry.

Usury, in contradistinction to consuming wealth, is historically important, inasmuch as it is in itself a process generating capital. Usurer's capital and merchant's wealth promote the formation of moneyed wealth independent of landed property. The less products assume the character of commodities, and the less intensively and extensively exchange value has taken hold of production, the more does money appear as actual wealth as such, as wealth in general—in contrast to its limited representation in use values. This is the basis of hoarding. Aside from money as world money and as hoard, it is, in particular, the form of means of payment whereby it appears as

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a Ibid., p. 535.
the absolute form of commodities. And it is especially its function as a means of payment which develops interest and thereby money capital. What squandering and corrupting wealth desires is money as such, money as a means of buying everything (also as a means of paying debts). The small producer needs money above all for making payments. (The transformation of services and taxes in kind to landlords and the state into money rent and money taxes plays a great role here.) In either case, money is needed as such. On the other hand, it is in usury that hoarding first becomes reality and that the hoarder fulfils his dream. What is sought from the owner of a hoard is not capital, but money as such; but by means of interest he transforms this hoard of money into capital, that is, into a means of appropriating surplus labour in part or in its entirety, and similarly of securing a hold on a part of the conditions of production themselves, even though they may nominally remain the property of others. Usury lives in the pores of production, as it were, just as the gods of Epicurus lived in the space between worlds. Money is so much harder to obtain, the less the commodity form constitutes the general form of products. Hence the usurer knows no other barrier but the capacity of those who need money to pay or to resist. In small-peasant and small-burgher production money serves as a means of purchase, mainly, whenever the conditions of production of the labourer (who is still predominantly their owner under these modes of production) are lost to him either by accident or through extraordinary upheavals, or at least are not replaced in the normal course of reproduction. Means of subsistence and raw materials constitute an essential part of these conditions of production. If these become more expensive, it may make it impossible to replace them out of the returns for the product, just as ordinary crop failures may prevent the peasant from replacing his seed in kind. The same wars through which the Roman patricians ruined the plebeians by compelling them to serve as soldiers and which prevented them from reproducing their conditions of labour, and therefore made paupers of them (and pauperisation, the crippling or loss of the conditions of reproduction is here the predominant form) — these same wars filled the store-rooms and coffers of the patricians with looted copper, the money of that time. Instead of directly giving plebeians the necessary commodities, i.e., grain, horses, and cattle, they loaned them this copper for which they had no use themselves, and took advantage of this situation to exact enormous usurious interest, thereby turning the plebeians into their debtor
slaves. During the reign of Charlemagne, the Frankish peasants were likewise ruined by wars, so that they faced no choice but to become serfs instead of debtors. In the Roman Empire, as is known, extreme hunger frequently resulted in the sale of children and also in free men selling themselves as slaves to the rich. So much for general turning-points. In individual cases the maintenance or loss of the conditions of production on the part of small producers depends on a thousand contingencies, and every one of these contingencies or losses signifies impoverishment and becomes a crevice into which a parasitic usurer may creep. The mere death of his cow may render the small peasant incapable of renewing his reproduction on its former scale. He then falls into the clutches of the usurer, and once in the usurer's power he can never extricate himself.

The really important and characteristic domain of the usurer, however, is the function of money as a means of payment. Every payment of money, ground rent, tribute, tax, etc., which becomes due on a certain date, carries with it the need to secure money for such a purpose. Hence from the days of ancient Rome to those of modern times, wholesale usury relies upon tax collectors, fermiers généraux, receveurs généraux. Then, there develops with commerce and the generalisation of commodity production the separation, in time, of purchase and payment. The money has to be paid on a definite date. How this can lead to circumstances in which the money capitalist and usurer, even nowadays, merge into one is shown by modern money crises. This same usury, however, becomes one of the principal means of further developing the necessity for money as a means of payment — by driving the producer ever more deeply into debt and destroying his usual means of payment, since the burden of interest alone makes his normal reproduction impossible. At this point, usury sprouts up out of money as a means of payment and extends this function of money as its very own domain.

The credit system develops as a reaction against usury. But this should not be misunderstood, nor by any means interpreted in the manner of the ancient writers, the church fathers, Luther or the early socialists. It signifies no more and no less than the subordination of interest-bearing capital to the conditions and requirements of the capitalist mode of production.

On the whole, interest-bearing capital under the modern credit system is adapted to the conditions of capitalist production. Usury as such does not only continue to exist, but is even freed, among nations
with a developed capitalist production, from the fetters imposed upon it by all previous legislation. Interest-bearing capital retains the form of usurer's capital in relation to persons or classes, or in circumstances where borrowing does not, nor can, take place in the sense corresponding to the capitalist mode of production; where borrowing takes place as a result of individual need, as at the pawnshop; where money is borrowed by wealthy spendthrifts for the purpose of squandering; or where the producer is a non-capitalist producer, such as a small farmer or craftsman, who is thus still, as the immediate producer, the owner of his own conditions of production; finally where the capitalist producer himself operates on such a small scale that he resembles those self-employed producers.

What distinguishes interest-bearing capital—in so far as it is an essential element of the capitalist mode of production—from usurer's capital is by no means the nature or character of this capital itself. It is merely the altered conditions under which it operates, and consequently also the totally transformed character of the borrower who confronts the money lender. Even when a man without fortune receives credit in his capacity of industrialist or merchant, it occurs with the expectation that he will function as capitalist and appropriate unpaid labour with the borrowed capital. He receives credit in his capacity of potential capitalist. The circumstance that a man without fortune but possessing energy, solidity, ability and business acumen may become a capitalist in this manner—and the commercial value of each individual is pretty accurately estimated under the capitalist mode of production—is greatly admired by apologists of the capitalist system. Although this circumstance continually brings an unwelcome number of new soldiers of fortune into the field and into competition with the already existing individual capitalists, it also reinforces the supremacy of capital itself, expands its base and enables it to recruit ever new forces for itself out of the substratum of society. In a similar way, the circumstance that the Catholic Church in the Middle Ages formed its hierarchy out of the best brains in the land, regardless of their estate, birth or fortune, was one of the principal means of consolidating ecclesiastical rule and suppressing the laity. The more a ruling class is able to assimilate the foremost minds of a ruled class, the more stable and dangerous becomes its rule.

The initiators of the modern credit system take as their point of departure not an anathema against interest-bearing capital in
general, but, on the contrary, its explicit recognition.

We are not referring here to such reactions against usury which attempted to protect the poor against it, like the Monts-de-piété (1350 in Sarlins in Franche-Comté, later in Perugia and Savona in Italy, 1400 and 1479). These are noteworthy mainly because they reveal the irony of history, which turns pious wishes into their very opposite during the process of realisation. According to a moderate estimate, the English working class pays 100% to the pawnshops, the modern successors of Monts-de-piété. We are also not referring to the credit fantasies of such men as Dr. Hugh Chamberleyne or John Briscoe, who attempted during the last decade of the 17th century to emancipate the English aristocracy from usury by means of a farmers’ bank using paper money based on real estate.

The credit associations established in the 12th and 14th centuries in Venice and Genoa arose from the need for marine commerce and the wholesale trade based on it to emancipate themselves from the domination of outmoded usury and the monopolisation of the money business. While the actual banks founded in those city-republics assumed simultaneously the shape of public credit institutions from which the state received loans on future tax revenues, it should not be forgotten that the merchants founding those associations were themselves prominent citizens of those states and as much interested in emancipating their government as they were in emancipating

21) “It is by frequent fluctuations within the month, and by pawning one article to relieve another, where a small sum is obtained, that the premium for money becomes so excessive. There are about 240 licensed pawnbrokers in the metropolis, and nearly 1,450 in the country. The capital employed is supposed somewhat to exceed a million pounds sterling; and this capital is turned round thrice in the course of a year, and yields each time about $33\frac{1}{2}$ per cent on an average; according to which calculation, the inferior orders of society in England pay about one million a year for the use of a temporary loan, exclusive of what they lose by goods being forfeited” (J. D. Tuckett, A History of the Past and Present State of the Labouring Population, London, 1846, I, p. 114).

22) Even in the titles of their works they state as their principal purpose “the general good of the landed men, the great increase of the value of land, the exemption of the nobility, gentry, etc., from taxes, enlarging their yearly estates, etc.” Only the usurers would stand to lose, those worst enemies of the nation who had done more injury to the nobility and yeomanry than an army of invasion from France could have done.

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See H. Chamberlayne, A Proposal by Dr. Hugh Chamberlayne in Essex Street, for a Bank of Secure Current Credit to be Founded upon Land..., [London], 1695; and J. Briscoe, A Discourse on the Late Funds of the Million, Lottery-Act, and Bank of England, London, 1696.
themselves from the exactions of usurers, and at the same time in getting tighter and more secure control over the state. Hence, when the Bank of England was to be established, the Tories also protested:

"Banks are republican institutions. Flourishing banks existed in Venice, Genoa, Amsterdam, and Hamburg. But who ever heard of a Bank of France or Spain?"

The Bank of Amsterdam, in 1609, was not epoch-making in the development of the modern credit system any more than that of Hamburg in 1619. It was purely a bank for deposits. The cheques issued by the bank were indeed merely receipts for the deposited coined and uncoined precious metal, and circulated only with the endorsement of the acceptors. But in Holland commercial credit and dealing in money developed hand in hand with commerce and manufacture, and interest-bearing capital was subordinated to industrial and commercial capital by the course of development itself. This could already be seen in the low interest rate. Holland, however, was considered in the 17th century the model of economic development, as England is now. The monopoly of old-style usury, based on poverty, collapsed in that country of its own weight.

During the entire 18th century there is the cry, with Holland referred to as an example, for a compulsory reduction of the rate of interest (and legislation acts accordingly), in order to subordinate interest-bearing capital to commercial and industrial capital, instead of the reverse. The main spokesman for this movement is Sir Josiah Child, the father of ordinary English private banking. He declaims against the monopoly of usurers in much the same way as the wholesale clothing manufacturers, Moses & Son, do when leading the fight against the monopoly of "private tailors". This same Josiah Child is simultaneously the father of English stock-jobbing. Thus, this

23: "The rich goldsmith" (the precursor of the banker), "for example, made Charles II of England pay twenty and thirty per cent for accommodation. A business so profitable, induced the goldsmith 'more and more to become lender to the King, to anticipate all the revenue, to take every grant of Parliament into pawn as soon as it was given; also to outvie each other in buying and taking to pawn BILLS, ORDERS, and TALLIES, so that, in effect, all the revenue passed through their hands'" (John Francis, History of the Bank of England, London, 1848, I, p. 31). "The erection of a bank had been suggested several times before that. It was at last a necessity" (l. c., p. 38). "The bank was a necessity for the government itself, sucked dry by usurers, in order to obtain money at a reasonable rate, on the security of parliamentary grants" (l. c., pp. 59, 60).
autocrat of the East India Company defends its monopoly in the name of free trade. Versus Thomas Manley (*Interest of Money Mistaken*) he says:

"As the champion of the timid and trembling band of usurers he erects his main batteries at that point which I have declared to be the weakest... he denies point-blank that the low rate of interest is the cause of wealth and vows that it is merely its effect." (*Traités sur le Commerce*, etc., 1669, trad. Amsterdam et Berlin, 1754.). "If it is commerce that enriches a country, and if a lowering of interest increases commerce, then a lowering of interest or a restriction of usury is doubtless a fruitful primary cause of the wealth of a nation. It is not at all absurd to say that the same thing may be simultaneously a cause under certain circumstances, and an effect under others" (1. c., p. 155). "The egg is the cause of the hen, and the hen is the cause of the egg. The lowering of interest may cause an increase of wealth, and the increase of wealth may cause a still greater reduction of interest" (1. c., p. 156). "I am the defender of industry and my opponent defends laziness and sloth" (p. 179).

This violent battle against usury, this demand for the subordination of interest-bearing capital to industrial capital, is but the herald of the organic creations that establish these prerequisites of capitalist production in the modern banking system, which on the one hand robs usurer’s capital of its monopoly by concentrating all idle money reserves and throwing them on the money market, and on the other hand limits the monopoly of the precious metal itself by creating credit money.

The same opposition to usury, the demand for the emancipation of commerce, industry and the state from usury, which are observed here in the case of Child, will be found in all writings on banking in England during the last third of the 17th and the early 18th centuries. We also find colossal illusions about the miraculous effects of credit, abolition of the monopoly of precious metal, its displacement by paper, etc. The Scotsman William Paterson, founder of the Bank of England and the Bank of Scotland, is by all odds Law the First.


“During the first ten years the Bank had to struggle with great difficulties; great foreign feuds; its notes were only accepted far below their nominal value... the goldsmiths” (in whose hands the trade in precious metals served as a basis of a primitive

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a l. c., p. 120.
banking business) "were jealous of the Bank, because their business was diminished, their discounts were lowered, their transactions with the government had passed to their opponents" (J. Francis, l. c., p. 73).a

Even before the establishment of the Bank of England a plan was proposed in 1683 for a National Bank of Credit, which had for its purpose, among others,

"that tradesmen, when they have a considerable quantity of goods, may, by the help of this bank, deposit their goods, by raising a credit on their own dead stock, employ their servants, and increase their trade, till they get a good market instead of selling them at a loss".b

After many endeavours this Bank of Credit was established in Devonshire House on Bishopsgate Street. It made loans to industrialists and merchants on the security of deposited goods to the amount of three-quarters of their value, in the form of bills of exchange. In order to make these bills of exchange capable of circulating, a number of people in each branch of business were organised into a society, from which every possessor of such bills would be able to obtain goods with the same facility as if he were to offer them cash payment. This bank’s business did not flourish. Its machinery was too complicated, and the risk too great in case of a commodity depreciation.

If we go by the actual content of those records which accompany and theoretically promote the formation of the modern credit system in England, we shall not find anything in them but—as one of its conditions—the demand for a subordination of interest-bearing capital and of loanable means of production in general to the capitalist mode of production. On the other hand, if we simply cling to the phraseology, we shall be frequently surprised by the agreement—including the mode of expression—with the illusions of the followers of Saint-Simon about banking and credit.

Just as in the writings of the physiocrats the cultivateur does not stand for the actual tiller of the soil, but for the big farmer, so the travailleur with Saint-Simon, and continuing on through his disciples, does not stand for the labourer, but for the industrial and commercial capitalist.

"Un travailleur a besoin d'aides, de seconds, d'ouvriers; il les cherche intelligents,

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a The quotation is paraphrased.  
habiles, dévoués; il les met à l'oeuvre, et leurs travaux sont productifs." (Religion saint-simonienne. Économie politique et Politique, Paris, 1831, p. 104.)

In fact, one should bear in mind that only in his last work, *Le Nouveau christianisme*, Saint-Simon speaks directly for the working class and declares their emancipation to be the goal of his efforts. All his former writings are, indeed, mere encomiums of modern bourgeois society in contrast to the feudal order, or of industrialists and bankers in contrast to marshals and juristic law manufacturers of the Napoleonic era. What a difference compared with the contemporaneous writings of Owen! For the followers of Saint-Simon, the industrial capitalist likewise remains the *travailleur par excellence*, as the above-quoted passage indicates. After reading their writings critically, one will not be surprised that their credit and bank fantasies materialised in the *Crédit mobilier*, founded by an ex-follower of Saint-Simon, Emile Péreire. This form, incidentally, could become dominant only in a country like France, where neither the credit system nor large-scale industry had reached the modern level of development. This was not at all possible in England and America.—The embryo of *Crédit mobilier* is already contained in the following passages from *Doctrine de St. Simon. Exposition. Première année, 1828-29*, 3ème éd., Paris, 1831. It is understandable that bankers can lend money more cheaply than the capitalists and private usurers. These bankers are, therefore,

"able to supply tools to the industrialists far more cheaply, that is, at lower interest, than the real estate owners and capitalists, who may be more easily mistaken in their choice of borrowers" (p. 202).

24 Marx would surely have modified this passage considerably, had he reworked his manuscript. It was inspired by the role of the ex-followers of Saint-Simon under France's Second Empire, where, just at the time that Marx wrote the above, the world-redeeming credit fantasies of this school, through the irony of history, were being realised in the form of a swindle on a scale never seen before. Later Marx spoke only with admiration of the genius and encyclopaedic mind of Saint-Simon. When in his earlier works the latter ignores the antithesis between the bourgeoisie and the proletariat which was just then coming into existence in France, when he includes among the *travailleurs* that part of the bourgeoisie which was active in production, this corresponds to Fourier's conception of attempting to reconcile capital and labour and is explained by the economic and political situation of France in those days. The fact that Owen was more far-sighted in this respect is due to his different environment, for he lived in a period of industrial revolution and of acutely sharpening class antagonisms.—F. E.

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[a] "A *travailleur* needs helpers, supporters, *labourers*; he looks for such as are intelligent, able, devoted; he puts them to work, and their labour is productive."
But the authors themselves add in a footnote:

"The advantage that would accrue from the mediation of bankers between the idle rich and the travailleurs is often counterbalanced, or even cancelled, by the opportunities offered in our disorganised society to egoism, which may manifest itself in various forms of fraud and charlatanism. The bankers often worm their way between the travailleurs and idle rich for the purpose of exploiting both to the detriment of society."

Travailleur here means capitaliste industriel. Incidentally, it is wrong to regard the means at the command of the modern banking system merely as the means of idle people. In the first place, it is the portion of capital which industrialists and merchants temporarily hold in the form of idle money, as a money reserve or as capital to be invested. Hence it is idle capital, but not capital of the idle. In the second place, it is the portion of all revenue and savings in general which is to be temporarily or permanently accumulated. Both are essential to the nature of the banking system.

But it should always be borne in mind that, in the first place, money—in the form of precious metal—remains the foundation from which the credit system, by its very nature, can never detach itself. Secondly, that the credit system presupposes the monopoly of social means of production by private persons (in the form of capital and landed property), that it is itself, on the one hand, an immanent form of the capitalist mode of production, and, on the other, a driving force in its development to its highest and ultimate form.

The banking system, so far as its formal organisation and centralisation is concerned, is the most artificial and most developed product turned out by the capitalist mode of production, a fact already expressed in 1697 in Some Thoughts of the Interests of England. This accounts for the immense power of an institution such as the Bank of England over commerce and industry, although their actual movements remain completely beyond its province and it is passive toward them. The banking system possesses indeed the form of universal book-keeping and distribution of the means of production on a social scale, but solely the form. We have seen that the average profit of the individual capitalist, or of every individual capital, is determined not by the surplus labour appropriated at first hand by each capital, but by the quantity of total surplus labour appropriated by the total capital, from which each individual capital receives its dividend only proportional to its aliquot part of the total capital. This social
character of capital is first promoted and wholly realised through the full development of the credit and banking system. On the other hand this goes farther. It places all the available and even potential capital of society that is not yet actively employed at the disposal of the industrial and commercial capitalists so that neither the lenders nor users of this capital are its owners or producers. It thus does away with the private character of capital and thus contains in itself, but only in itself, the abolition of capital itself. By means of the banking system the distribution of capital as a special business, a social function, is taken out of the hands of the private capitalists and usurers. But at the same time, banking and credit thus become the most potent means of driving capitalist production beyond its own limits, and one of the most effective vehicles of crises and swindle.

The banking system shows, furthermore, by substituting various forms of circulating credit in place of money, that money is in reality nothing but a particular expression of the social character of labour and its products, which, however, as antithetical to the basis of private production, must always appear in the last analysis as a thing, a special commodity, alongside other commodities.

Finally, there is no doubt that the credit system will serve as a powerful lever during the transition from the capitalist mode of production to the mode of production of associated labour; but only as one element in connection with other great organic revolutions of the mode of production itself. On the other hand, the illusions concerning the miraculous power of the credit and banking system, in the socialist sense, arise from a complete lack of familiarity with the capitalist mode of production and the credit system as one of its forms. As soon as the means of production cease being transformed into capital (which also includes the abolition of private property in land), credit as such no longer has any meaning. This, incidentally, was even understood by the followers of Saint-Simon. On the other hand, as long as the capitalist mode of production continues to exist, interest-bearing capital, as one of its forms, also continues to exist and constitutes in fact the basis of its credit system. Only that sensational writer, Proudhon, who wanted to perpetuate commodity production and abolish money,25:


was capable of dreaming up the monstrous *crédit gratuit*,\(^6\) the ostensible realisation of the pious wish of the petty-bourgeois estate.

In *Religion saint-simonienne. Économie politique et Politique*, we read on page 45:

"Credit serves the purpose, in a society in which some own the instruments of industry without the ability or will to employ them, and where other industrious people have no instruments of labour, of transferring these instruments in the easiest manner possible from the hands of the former, their owners, to the hands of the others who know how to use them. Note that this definition regards credit as a result of the way in which property is constituted."

Therefore, credit disappears with this constitution of property. We read, furthermore, on page 98, that the present banks

"consider it their business to follow the movement initiated by transactions taking place outside of their domain, but not themselves to provide an impulse to this movement; in other words, the banks perform the role of capitalists in relation to the travailleurs, whom they loan money".

The notion that the banks themselves should take over the management and distinguish themselves

"through the number and usefulness of their managed establishments and of promoted works" (p. 101)

contains the *Crédit mobilier* in embryo. In the same way, Charles Pecqueur demands that the banks (which the followers of Saint-Simon call a *Système général des banques*) "should rule production". Pecqueur is essentially a follower of Saint-Simon, but much more radical. He wants

"the credit institution ... to control the entire movement of national production."—

"Try to create a national credit institution, which shall advance the wherewithal to needy people of talent and merit, without, however, forcibly tying these borrowers together through close solidarity in production and consumption, but on the contrary enabling them to determine their own exchange and production. In this way, you will only accomplish what the private banks already accomplish now, that is, anarchy, disproportion between production and consumption, the sudden ruin of one person, and the sudden enrichment of another; so that your institution will never get any farther than producing a certain amount of benefits for one person, corresponding to an equivalent amount of misfortune to be endured by another ... and you will have only provided the wage labourers assisted by you with the means to complete with one another just as their capitalist masters now do" (C. Pecqueur, *Théorie nouvelle d’économie soc. et pol.*, Paris, 1842, p. 434).\(^a\)

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\(^a\) I. c., pp. 433-34.
We have seen that merchant's capital and interest-bearing capital are the oldest forms of capital. But it is in the nature of things that interest-bearing capital assumes in popular conception the form of capital *par excellence*. In merchant's capital there takes place the work of middleman, no matter whether considered as cheating, labour, or anything else. But in the case of interest-bearing capital the self-reproducing character of capital, the self-expanding value, the production of surplus value, appears purely as an occult property. This accounts for the fact that even some political economists, particularly in countries where industrial capital is not yet fully developed, as in France, cling to interest-bearing capital as the fundamental form of capital and regard ground rent, for example, merely as a modified form of it, since the loan form also predominates here. In this way, the internal organisation of the capitalist mode of production is completely misunderstood, and the fact is entirely overlooked that land, like capital, is loaned only to capitalists. Of course, means of production in kind, such as machines and business offices, can also be loaned instead of money. But they then represent a definite sum of money, and the fact that in addition to interest a part is paid for wear and tear is due to their use value, i.e., the specific natural form of these elements of capital. The decisive factor here is again whether they are loaned to direct producers, which would presuppose the non-existence of the capitalist mode of production — at least in the sphere in which this occurs — or whether they are loaned to industrial capitalists, which is precisely the assumption based upon the capitalist mode of production. It is still more irrelevant and meaningless to drag the lending of houses, etc., for individual use into this discussion. That the working class is also swindled in this form, and to an enormous extent, is self-evident; but this is also done by the retail dealer, who sells means of subsistence to the worker. This is secondary exploitation, which runs parallel to the primary exploitation taking place in the production process itself. The distinction between selling and loaning is quite immaterial in this case and merely formal, and, as already indicated, a cannot appear as essential to anyone, unless he be wholly unfamiliar with the actual nature of the problem.

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a See this volume, pp. 345-48.
Usury, like commerce, exploits a given mode of production. It does not create it, but is related to it outwardly. Usury tries to maintain it directly, so as to exploit it ever anew; it is conservative and makes this mode of production only more pitiable. The less elements of production enter into the production process as commodities, and emerge from it as commodities, the more does their origination from money appear as a separate act. The more insignificant the role played by circulation in the social reproduction, the more usury flourishes.

That money wealth develops as a special kind of wealth, means in respect to usurer’s capital that it possesses all its claims in the form of money claims. It develops that much more in a given country, the more the main body of production is limited to natural services, etc., that is, to use values.

Usury is a powerful lever in developing the preconditions for industrial capital in so far as it plays the double role, first, building up, in general, an independent money wealth alongside that of the merchant, and, secondly, appropriating the conditions of labour, that is, ruining the owners of the old conditions of labour.

INTEREST IN THE MIDDLE AGES

“In the Middle Ages the population was purely agricultural. Under such a government as was the feudal system there can be but little traffic, and hence but little profit. Hence the laws against usury were justified in the Middle Ages. Besides, in an agricultural country a person seldom wants to borrow money except he be reduced to poverty or distress.... In the reign of Henry VIII, interest was limited to 10 per cent. James I reduced it to 8 per cent. ... Charles II reduced it to 6 per cent; in the reign of Queen Anne, it was reduced to 5 per cent.... In those times, the lenders ... had, in fact, though not a legal, yet an actual monopoly, and hence it was necessary that they, like other monopolists, should be placed under restraint. In our times, it is the rate of profit which regulates the rate of interest. In those times, it was the rate of interest which regulated the rate of profit. If the money lender charged a high rate of interest to the merchant, the merchant must have charged a higher rate of profit on his goods. Hence, a large sum of money would be taken from the pockets of the purchasers to be put into the pockets of the money lenders” (Gilbart, The History and Princ. of Banking, pp. 164, 165).

“I have been told that 10 gulden are now taken annually at every Leipzig Fair, that is, 30 on each hundred; some add the Neuenburg Fair, thus making 40 per hundred; whether that is so, I don’t know. For shame! What will be the infernal outcome of this?... Whoever now has 100 florins at Leipzig, takes 40 annually, which is the same as devouring one peasant or burgher each year. If one has 1,000 florins, he takes 400 annually, which means devouring a knight or a rich nobleman per year. If one has 10,000 florins, he takes 4,000 per year, which means devouring a rich count each year. If one has 100,000 florins, as the big merchants must possess, he takes 40,000 annually, which
means devouring one affluent prince each year. If one has 1,000,000 florins, he takes 400,000 annually, which means devouring one mighty king every year. And he does not risk either his person or his wares, does not work, sits near his fire-place and roasts apples; so might a lowly robber sit at home and devour a whole world in ten years." (Quoted from Bücher vom Kaufhandel und Wucher vom Jahre 1524, Luther's Werke, Wittenberg, 1589, Teil 6. 

"Fifteen years ago I took pen in hand against usury, when it had spread so alarmingly that I could scarcely hope for any improvement. Since then it has become so arrogant that it deigns not to be classed as vice, sin or shame, but achieves praise as pure virtue and honour, as though it were performing a great favour and Christian service for the people. What will help deliver us now that shame has turned into honour and vice into virtue?" (An die Pfarrherren wider den Wucher zu predigen, Wittenberg, 1540.)

"Jews, Lombards, usurers and extortioners were our first bankers, our primitive traffickers in money, their character little short of infamous.... They were joined by London goldsmiths. As a body ... our primitive bankers ... were a very bad set, they were gripping usurers, iron-hearted extortioners." (D. Hardcastle, Banks and Bankers, 2nd ed., London, 1843, pp. 19, 20.)

"The example shown by Venice" (in establishing a bank) "was thus quickly imitated; all sea-coast towns, and in general all towns which had earned fame through their independence and commerce, founded their first banks. The return voyage of their ships, which often was of long duration, inevitably led to the custom of lending on credit. This was further intensified by the discovery of America and the ensuing trade with that continent." (This is the main point.) "The chartering of ships made large loans necessary — a procedure already obtaining in ancient Athens and Greece. In 1308, the Hanse town of Bruges possessed an insurance company" (M. Augier, l. c., pp. 202, 203).

To what extent the granting of loans to landowners, and thus to the pleasure-seeking wealthy in general, still prevailed in the last third of the 17th century, even in England, before the development of modern credit, may be seen, among others, in the works of Sir Dudley North. He was not only one of the first English merchants, but also one of the most prominent theoretical economists of his time: 64

"The moneys employed at interest in this nation, are not near the tenth part; disposed to trading people, wherewith to manage their trades; but are for the most part lent for the supplying of luxury, and to support the expense of persons, who though great owners of lands, yet spend faster than their lands bring in; and being loath to sell, choose rather to mortgage their estates" (Discourses upon Trade, London, 1691, pp. 6, 7).

Poland in the 18th century:

"Warsaw carried on a large bustling business in bills of exchange which, however, had as its principal basis and aim the usury of its bankers. In order to secure money, which they could lend to spendthrift gentry at 8% and more, they sought and obtained

a S. 312-13.
abroad open exchange credit, that is, credit that had no commodity trade as its basis, but which the foreign drawee continued to accept as long as the returns from these manipulations did not fail to come in. However, they paid heavily for this through bankruptcies of men like Tepper and other highly respected Warsaw bankers” (J. G. Büsch, *Theoretisch-praktische Darstellung der Handlung, etc.*, 3rd ed., Hamburg, 1808, Vol. II, pp. 232, 233).

ADVANTAGES DERIVED BY THE CHURCH FROM THE PROHIBITION OF INTEREST

“Taking interest had been interdicted by the Church. But selling property for the purpose of finding succour in distress had not been forbidden. It had not even been prohibited to transfer property to the money lender as security for a certain term, until a debtor repaid his loan, leaving the money lender free to enjoy the usufruct of the property as a reward for his abstinence from his money.... The Church itself, and its associated communes and pia corpora, derived much profit from this practice, particularly during the crusades. This brought a very large portion of national wealth into possession of the so-called ‘dead hand’, all the more so because the Jews were barred from engaging in such usury, the possession of such fixed liens not being concealable.... Without the ban on interest churches and cloisters would never have become so affluent” (1. c., p. 55).

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*a* pious corporations
Part VI

TRANSFORMATION OF SURPLUS PROFIT
INTO GROUND RENT

Chapter XXXVII

INTRODUCTION

The analysis of landed property in its various historical forms is beyond the scope of this work. We shall be concerned with it only in so far as a portion of the surplus value produced by capital falls to the share of the landowner. We assume, then, that agriculture is dominated by the capitalist mode of production, just as manufacture is; in other words, that agriculture is carried on by capitalists who differ from other capitalists primarily in the manner in which their capital, and the wage labour set in motion by this capital, are invested. So far as we are concerned, the farmer produces wheat, etc., in much the same way as the manufacturer produces yarn or machines. The assumption that the capitalist mode of production has encompassed agriculture implies that it rules over all spheres of production and bourgeois society, i.e., that its prerequisites, such as free competition among capitals, the possibility of transferring the latter from one production sphere to another, and a uniform level of the average profit, etc., are fully matured. The form of landed property which we shall consider here is a specifically historical one, a form transformed through the influence of capital and of the capitalist mode of production, either of feudal landownership, or of small-peasant agriculture as a means of livelihood, in which the possession of the land constitutes one of the prerequisites of production for the direct producer, and in which his ownership of land appears as the most advantageous condition for the prosperity of his mode of production. Just as the capitalist mode of production in general is based on the expropriation of the conditions of labour from the labourers, so does it in agriculture presuppose the expropriation of the rural labourers from the land and their subordination to a capitalist, who carries on agriculture for the
sake of profit. Thus, for the purpose of our analysis, the objection that other forms of landed property and of agriculture have existed, or still exist, is quite irrelevant. Such an objection can only apply to those economists who treat the capitalist mode of production in agriculture, and the form of landed property corresponding to it, not as historical but rather as eternal categories.67

For our purposes it is necessary to study the modern form of landed property, because our task is to consider the specific conditions of production and circulation which arise from the investment of capital in agriculture. Without this, our analysis of capital would not be complete. We therefore confine ourselves exclusively to the investment of capital in agriculture itself, that is, in producing the principal agricultural crop which feeds a given people. We can use wheat for this purpose, because it is the principal means of subsistence in modern capitalistically developed nations. (Or, instead of agriculture, we can use mining because the laws are the same for both.)

One of the big contributions of Adam Smith was to have shown that ground rent for capital invested in the production of such agricultural products as flax and dye-stuffs, and in independent cattle-raising, etc., is determined by the ground rent obtained from capital invested in the production of the principal article of subsistence.3 In fact, no further progress has been made in this regard since then. Any limitations or additions would belong in an independent study of landed property, not here.68 Hence, we shall not speak of landed property ex professo—in so far as it does not refer to land destined for wheat production—but shall merely refer to it on occasion by way of illustration.

It should be noted for the sake of completeness that we also include water, etc., in the term land, in so far as it belongs to someone as an accessory to the land.

Landed property is based on the monopoly by certain persons over definite portions of the globe, as exclusive spheres of their private will to the exclusion of all others.26 With this in mind, the problem is to ascertain the economic value, that is, the realisation of this monopoly

26 Nothing could be more comical than Hegel’s development of private landed property. According to this, man as an individual must endow his will with reality as the soul of external nature, and must therefore take possession of this nature and make

on the basis of capitalist production. With the legal power of these persons to use or misuse certain portions of the globe, nothing is decided. The use of this power depends wholly upon economic conditions, which are independent of their will. The legal view itself only means that the landowner can do with the land what every owner of commodities can do with his commodities. And this view, this legal view of free private ownership of land, arises in the ancient world only with the dissolution of the organic order of society, and in the modern world only with the development of capitalist production. It has been imported by Europeans to Asia only here and there. In the section dealing with primitive accumulation (Buch I, Kap. XXIV\(^b\)), we saw that this mode of production presupposes, on the one hand, the separation of the direct producers from their position as mere ac-

it his private property. If this were the destiny of the "individual", of man as an individual, it would follow that every human being must be a landowner, in order to become a real individual. Free private ownership of land, a very recent product, is, according to Hegel, not a definite social relation, but a relation of man as an individual to "nature", "an absolute right of man to appropriate all things" (Hegel, Philosophie des Rechts, Berlin, 1840, S. 79). This much, at least, is evident: the individual cannot maintain himself as a landowner by his mere "will" against the will of another individual, who likewise wants to become a real individual by virtue of the same strip of land. It definitely requires something other than goodwill. Furthermore, it is absolutely impossible to determine where the "individual" draws the line for realising his will —whether this will requires for its realisation a whole country, or whether it requires a whole group of countries by whose appropriation "the supremacy of my will over the thing can be manifested".\(^a\) Here Hegel comes to a complete impasse. "The appropriation is of a very particular kind; I do not take possession of more than I touch with my body; but it is clear, on the other hand, that external things are more extensive than I can grasp. By thus having possession of such a thing, some other is thereby connected to it. I carry out the act of appropriation by means of my hand, but its scope can be extended" (p. 90). But this other thing is again linked with still another, and so the boundary within which my will, as the soul, can pour into the soil, disappears. "When I possess something, my mind at once passes over to the idea that not only this property in my immediate possession, but what is associated with it is also mine. Here positive right must decide, for nothing more can be deduced from the concept" (p. 91). This is an extraordinarily naïve admission "of the concept", and proves that this concept which makes the blunder at the very outset of regarding as absolute a very definite legal view of landed property — belonging to bourgeois society — understands "nothing" of the actual nature of this landed property. This contains at the same time the admission that "positive right" can, and must, alter its determinations as the requirements of social, i. e., economic, development change.

cessories to the land (in the form of vassals, serfs, slaves, etc.), and, on the other hand, the expropriation of the mass of the people from the land. To this extent the monopoly of landed property is a historical premise, and continues to remain the basis of the capitalist mode of production, just as in all previous modes of production which are based on the exploitation of the masses in one form or another. But the form of landed property with which the incipient capitalist mode of production is confronted does not suit it. It first creates for itself the form required by subordinating agriculture to capital. It thus transforms feudal landed property, clan property, small-peasant property in mark communes — no matter how divergent their juristic forms may be — into the economic form corresponding to the requirements of this mode of production. One of the major results of the capitalist mode of production is that, on the one hand, it transforms agriculture from a mere empirical and mechanical self-perpetuating process employed by the least developed part of society into the conscious scientific application of agronomy, in so far as this is at all feasible under conditions of private property\textsuperscript{27}; that it completely divorces landed

\textsuperscript{27} Very conservative agricultural chemists, such as Johnston, admit that a really rational agriculture is confronted everywhere with insurmountable barriers stemming from private property.a So do writers who are \textit{ex profeso} advocates of the monopoly of private property in the world, for instance, Charles Comte in his two-volume work,\textsuperscript{b} which has as its special aim the defence of private property. "A nation," he says, "cannot attain to the degree of prosperity and power compatible with its nature, unless every portion of the soil nourishing it is assigned to that purpose which agrees best with the general interest. In order to give to its wealth a strong development, one sole and above all highly enlightened will should, if possible, take it upon itself to assign each piece of its domain its task and make every piece contribute to the prosperity of all others. But the existence of such a will ... would be incompatible with the division of the land into private plots ...and with the authority guaranteed each owner to dispose of his property in an almost absolute manner."\textsuperscript{c} Johnston, Comte, and others, only have in mind the necessity of tilling the land of a certain country as a whole, when they speak of a contradiction between property and a rational system of agronomy. But the dependence of the cultivation of particular agricultural products upon the fluctuations of market prices, and the continual changes in this cultivation with these price fluctuations — the whole spirit of capitalist production, which is directed toward the immediate gain of money — are in contradiction to agriculture, which has to minister to the entire range of permanent necessities of life required by the chain of successive generations. A striking illustration of this is furnished by the forests, which are only rarely managed in a way more or less corresponding to the interests of society as a whole, i.e., when they are not private property, but subject to the control of the state.

property from the relations of dominion and servitude, on the one hand, and, on the other, totally separates land as a condition of labour from landed property and landowner—for whom the land merely represents a certain money assessment which he collects by virtue of his monopoly from the industrial capitalist, the tenant farmer; it dissolves the connection between landownership and the land so thoroughly that the landowner may spend his whole life in Constantinople, while his estates lie in Scotland. Landed property thus receives its purely economic form by discarding all its former political and social embellishments and associations, in brief all those traditional accessories, which are denounced, as we shall see later, as useless and absurd superfluities by the industrial capitalists themselves, as well as their theoretical spokesmen, in the heat of their struggle with landed property. The rationalising of agriculture, on the one hand, which makes it for the first time capable of operating on a social scale, and the reduction ad absurdum of property in land, on the other, are the great achievements of the capitalist mode of production. Like all of its other historical advances, it also attained these by first completely impoverishing the direct producers.

Before we proceed to the problem itself, several more preliminary remarks are necessary to avoid misunderstanding.

The prerequisites for the capitalist mode of production therefore are the following: The actual tillers of the soil are wage labourers employed by a capitalist, the tenant farmer who is engaged in agriculture merely as a particular field of exploitation for capital, as investment for his capital in a particular sphere of production. This capitalist farmer pays the landowner, the owner of the land exploited by him, a sum of money at definite periods fixed by contract, for instance, annually (just as the borrower of money capital pays a fixed interest), for the right to invest his capital in this specific sphere of production. This sum of money is called ground rent, no matter whether it is paid for agricultural land, building lots, mines, fishing grounds, or forests, etc. It is paid for the entire time for which the landowner has contracted to rent his land to the tenant farmer. Ground rent, therefore, is here that form in which property in land is realised economically, that is, produces value. Here, then, we have all three classes—wage labourers, industrial capitalists, and landowners—constituting together, and in their mutual opposition, the framework of modern society.

Capital may be fixed in the land, incorporated in it either in a
transitory manner, as through improvements of a chemical nature, fertilisation, etc., or more permanently, as in drainage canals, irrigation works, levelling, farm buildings, etc. Elsewhere I have called the capital thus applied to land la terre-capital.\textsuperscript{28} It belongs to the category of fixed capital. The interest on capital incorporated in the land and the improvements thus made in it as an instrument of production can constitute a part of the rent paid by the farmer to the landowner,\textsuperscript{29} but it does not constitute the actual ground rent, which is paid for the use of the land as such — be it in a natural or cultivated state. In a systematic treatment of landed property, which is not within our scope, this part of the landowner's revenue would have to be discussed at length.\textsuperscript{66} But a few words about it will suffice here. The more transitory capital investments, which accompany the ordinary production processes in agriculture, are all made without exception by the farmer. These investments, like cultivation proper in general, improve the land,\textsuperscript{30} increase its output, and transform the land from mere material into land-capital when the cultivation is carried on more or less rationally, i. e., when it is not reduced to a brutal spoliation of the soil, as was in vogue, e. g., among the former slave-holders in the United States; however, the gentlemen landowners secure themselves against such practice by contract. A cultivated field is worth more than an uncultivated one of the same natural quality. The more permanent fixed capital investments, which are incorporated in the soil and used up in a longer period of time, are also in the main, and in some spheres often exclusively, made by the farmer. But as soon as the time stipulated by contract has expired — and this is one of the reasons why with the development of capitalist production the

\textsuperscript{28} Misère de la Philosophie,\textsuperscript{a} There I have made a distinction between terre-matière and terre-capital. "The very fact of applying further outlays of capital to land already transformed into means of production increases land as capital without adding anything to land as matter, that is, to the extent of the land.... Land as capital is no more eternal than any other capital... Land as capital is fixed capital; but fixed capital gets used up just as much as circulating capital."

\textsuperscript{29} I say "can" because under certain circumstances this interest is regulated by the law of ground rent and, therefore, can disappear, as in the case of competition between virgin lands of great natural fertility.

\textsuperscript{30} See James Anderson and Carey.\textsuperscript{b}

landowners seek to shorten the contract period as much as possible—the improvements incorporated in the soil become the property of the landowner as an inseparable feature of the substance, the land. In the new contract made by the landowner he adds the interest for capital incorporated in the land to the ground rent itself. And he does this whether he now leases the land to the farmer who made these improvements or to some other farmer. His rent is thus inflated; and should he wish to sell his land (we shall see immediately how its price is determined), its value is now higher. He sells not merely the land but the improved land, the capital incorporated in the land for which he paid nothing. Quite aside from the movements of ground rent itself, here lies one of the secrets of the increasing enrichment of landowners, the continuous inflation of their rents, and the constantly growing money value of their estates along with progress in economic development. Thus they pocket a product of social development created without their help—fruges consumere natia. But this is at the same time one of the greatest obstacles to a rational development of agriculture, for the tenant farmer avoids all improvements and outlays for which he cannot expect complete returns during the term of his lease. We find this situation denounced as such an obstacle again and again, not only in the 18th century by James Anderson, the actual discoverer of the modern theory of rent—who was also a practical farmer and an advanced agronomist for his time—but also in our own day by opponents of the present constitution of landed property in England.

A. A. Walton, in his History of the Landed Tenures of Great Britain and Ireland, London, 1865, says on this score (pp. 96, 97):

"All the efforts of the numerous agricultural associations throughout the country must fail to produce any very extensive or really appreciable results in the real advancement of agricultural improvement, so long as such improvements mean in a far higher degree increased value to the estate and rent-roll of the landlord, than bettering the condition of the tenant farmer or the labourer. The farmers, generally, are as well aware as either the landlord or his agent, or even the president of the Agricultural Association, that good drainage, plenty of manure, and good management, combined with the increased employment of labour, to thoroughly cleanse and work the land, will produce wonderful results both in improvement and production. To do all this, however, considerable outlay is required, and the farmers are also aware, that however much they may improve the land or enhance its value, the landlords will, in

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the long run, reap the principal benefit, in higher rents and the increased value of their estates. They are shrewd enough to observe what those orators" (landowners and their agents speaking at agricultural festivities), "by some singular inadvertence, omit to tell them — namely, that the lion's share of any improvements they may make is sure to go into the pockets of the landlords in the long run.... However much the former tenant may have improved the farm, his successor will find that the landlord will always increase the rent in proportion to the increased value of the land from former improvements."

In agriculture proper this process does not yet appear quite as plainly as when the land is used for building purposes. By far the largest portion of land used in England for building purposes but not sold as a Freehold is leased by the landowners for 99 years or, if possible, for a shorter term. After the lapse of this period the buildings fall into the hands of the landowner together with the land itself.

"They" (the tenants) "are bound to deliver up the house at the expiration of the lease, in good tenantable condition, to the great landlord, after having paid an exorbitant ground rent up to the expiration of the lease. No sooner is the lease expired, than the agent or surveyor will come and examine your house, and see that you put it into good repair, and then take possession of it, and annex it to his lord's domains.... The fact is, if this system is permitted to be in full operation for any considerable period longer, the whole of the house property in the kingdom will be in the hands of the great landords, as well as the land. The whole of the West End of London, north and south from Temple Bar, may be said to belong to about half a dozen great landords, all let at enormous rents, and where the leases have not quite expired they are fast falling due. The same may be said either more or less of every town in the kingdom. Nor does this grasping system of exclusion and monopoly stop even here. Nearly the whole of the dock accommodation in our seaport towns is by the same process of usurpation in the hands of the great leviathans of the land" (l. c., p. 93).a

It is evident in these circumstances that when the census for England and Wales in 1861 gives the total population as 20,066,224 and the number of landords as 36,032, the proportion of owners to the number of houses and to population would look completely different if the large owners were placed on one side and the small ones on the other.

This illustration of ownership in buildings is important. In the first place, it clearly shows the difference between actual ground rent and interest on fixed capital incorporated in the land, which may constitute an addition to ground rent. Interest on buildings, like that on capital incorporated in the land by the tenant in agriculture, falls into the hands of the industrial capitalist, the building speculator,
or the tenant, so long as the lease lasts, and has in itself nothing to do with ground rent, which must be paid on stated dates annually for the use of the land. Secondly, it shows that capital incorporated in the land by others ultimately passes into the hands of the landlord together with the land, and that the interest for it inflates his rent.

Some writers, acting either as spokesmen of landed property and taking up the cudgels against the attacks of bourgeois economists, or in an endeavour to transform the capitalist system of production from a system of contradictions into one of "harmonies", like Carey, have tried to represent ground rent, the specific economic expression of landed property, as identical with interest. This would eliminate the opposition between landlords and capitalists. The opposite method was employed in the early stages of capitalist production. In those days, landed property was still regarded by popular conception as the pristine and respectable form of private property, while interest on capital was decried as usury. Dudley North, Locke and others, therefore, represented interest on capital as a form analogous to ground rent, just as Turgot deduced the justification for interest from the existence of ground rent.— Aside from the fact that ground rent may, and does, exist in its pure form without any addition for interest on capital incorporated in the land, those more recent writers forget that, in this way, the landlord not only receives interest on other persons' capital that costs him nothing, but also pockets this capital of others without recompense. The justification of landed property, like that of all other forms of property corresponding to a certain mode of production, is that the mode of production itself is a transient historical necessity, and this includes the relations of production and exchange which stem from it. It is true, as we shall see later, that landed property differs from other kinds of property in that it appears superfluous and harmful at a certain stage of development, even from the point of view of the capitalist mode of production.

Ground rent may in another form be confused with interest and thereby its specific character overlooked. Ground rent assumes the form of a certain sum of money, which the landlord draws annually by leasing a certain plot on our planet. We have seen that every

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b A. R. J. Turgot, Réflexions sur la formation et la distribution des richesses, §§ 73, 85.

c See this volume, pp. 798-800.
particular sum of money may be capitalised, that is, considered as the interest on an imaginary capital. For instance, if the average rate of interest is 5%, then an annual ground rent of £200 may be regarded as interest on a capital of £4,000. Ground rent so capitalised constitutes the purchase price or value of the land, a category which like the price of labour is prima facie irrational, since the earth is not the product of labour and therefore has no value. But on the other hand, a real relation in production is concealed behind this irrational form. If a capitalist buys land yielding a rent of £200 annually and pays £4,000 for it, then he draws the average annual interest of 5% on his capital of £4,000, just as if he had invested this capital in interest-bearing papers or loaned it directly at 5% interest. It is the expansion of a capital of £4,000 at 5%. On this assumption, he would recover the purchase price of his estate through its revenues in twenty years. In England, therefore, the purchase price of land is calculated in so many years' purchase which is merely another way of expressing the capitalisation of ground rent. It is in fact the purchase price— not of the land, but of the ground rent yielded by it—calculated in accordance with the usual interest rate. But this capitalisation of rent assumes the existence of rent, while rent cannot inversely be derived and explained from its own capitalisation. Its existence, independent of its sale, is rather the starting-point for the inquiry.

It follows, then, that the price of land may rise or fall inversely as the interest rate rises or falls if we assume ground rent to be a constant magnitude. If the ordinary interest rate should fall from 5% to 4%, then the annual ground rent of £200 would represent the annual realisation from a capital of £5,000 instead of £4,000. The price of the same piece of land would thus have risen from £4,000 to £5,000, or from 20 years' to 25 years' purchase. The converse would take place in the opposite case. This is a movement of the price of land which is independent of the movement of ground rent itself and regulated only by the interest rate. But as we have seen that the rate of profit has a tendency to fall in the course of social progress, and, therefore, the interest rate has the same tendency, so far as it is regulated by the rate of profit; and that, furthermore, the interest rate shows a tendency to fall in consequence of the growth of loanable capital, apart from the influence of the rate of profit, it follows that the price of land has a tendency to rise, even independently of the movement of ground rent and the prices of the products of the land, of which rent constitutes a part.
The confusion of ground rent itself with the interest form which it assumes for the buyer of the land—a confusion resulting from complete lack of familiarity with the nature of ground rent—must necessarily lead to the most absurd conclusions. Since landed property is considered in all ancient countries as a particularly genteel form of property, and its purchase also as an eminently safe capital investment, the interest rate at which ground rent is bought is generally lower than that of other long-term investments of capital, so that a buyer of real estate draws, for instance, only 4% on his purchase price, whereas he would draw 5% for the same capital in other investments. In other words, he pays more capital for ground rent than he would for the same annual amount of income from other investments. This leads Mr. Thiers to conclude in his generally very poor work on *La Propriété* (a reprint of his speech in the French National Assembly in 1848 directed against Proudhon) that ground rent is low, whereas it merely proves that its purchase price is high.

The fact that capitalised ground rent appears as the price or value of land, so that land, therefore, is bought and sold like any other commodity, serves some apologists as a justification for landed property since the buyer pays an equivalent for it, the same as for other commodities; and the major portion of landed property has changed hands in this way. The same reason in that case would also serve to justify slavery, since the returns from the labour of the slave, whom the slave-holder has bought, merely represent the interest on the capital invested in this purchase. To derive a justification for the existence of ground rent from its sale and purchase means in general to justify its existence by its existence.

As important as it may be for a scientific analysis of ground rent—that is, the independent and specific economic form of landed property on the basis of the capitalist mode of production—to study it in its pure form free of all distorting and obfuscating irrelevancies, it is just as important for an understanding of the practical effects of landed property—even for a theoretical comprehension of a multitude of facts which contradict the concept and nature of ground rent and yet appear as modes of existence of ground rent—to learn the sources which give rise to such muddling in theory.

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In practice, naturally, everything appears as ground rent that is paid as lease money by tenant to landlord for the right to cultivate the soil. No matter what the composition of this tribute and no matter what its sources, it has this in common with the actual ground rent—that the monopoly of the so-called landed proprietor of a portion of our planet enables him to levy such tribute and impose such an assessment. It has this in common with the actual ground rent—that it determines the price of land, which, as we have indicated earlier, is nothing but the capitalised income from the lease of the land.

We have already seen that interest for the capital incorporated in the land may constitute such an extraneous component of ground rent, a component which must become a continually growing extra charge on the total rent of a country as economic development progresses. But aside from this interest, it is possible that the lease money may conceal in part, and in certain cases in its entirety, i.e., in complete absence of the actual ground rent—when the land is, therefore, actually worthless—a deduction from the average profit or from the normal wages, or both. This portion, whether of profit or wages, appears here as ground rent, because instead of falling to the industrial capitalist or the wage worker, as would normally be the case, it is paid to the landlord in the form of lease money. Economically speaking, neither the one nor the other of these portions constitutes ground rent; but, in practice, it constitutes the landlord’s revenue, an economic realisation of his monopoly, much as actual ground rent, and it has just as determining an influence on land prices.

We are not speaking now of conditions in which ground rent, the manner of expressing landed property in the capitalist mode of production, formally exists without the existence of the capitalist mode of production itself, i.e., without the tenant himself being an industrial capitalist, nor the type of his management being a capitalist one. Such is the case, e.g., in Ireland. The tenant there is generally a small farmer. What he pays to the landlord in the form of rent frequently absorbs not merely a part of his profit, that is, his own surplus labour (to which he is entitled as possessor of his own instruments of labour), but also a part of his normal wage, which he would otherwise receive for the same amount of labour. Besides, the landlord, who does nothing at all for the improvement of the land, also expropriates his small capital, which the tenant for the most part incorporates in the land through his own labour. This is precisely
what a usurer would do under similar circumstances, with just the difference that the usurer would at least risk his own capital in the operation. This continual plunder is the core of the dispute over the Irish Tenancy Rights Bill. The main purpose of this Bill is to compel the landlord when ordering his tenant off the land to indemnify the latter for his improvements on the land, or for his capital incorporated in the land.\(^7\) Palmerston used to wave this demand aside with the cynical answer:

“The House of Commons is a house of landed proprietors.”

Nor are we referring to exceptional circumstances in which the landlord may enforce a high rental — even in countries with capitalist production — that stands in no relation to the yield from the soil. Of such a nature, for example, is the leasing of small patches of land to labourers in English factory districts, either as small gardens or for amateur spare-time farming (Reports of Inspectors of Factories).

We are referring to ground rent in countries with developed capitalist production. Among English tenants, for instance, there are a number of small capitalists who are destined and compelled by education, training, tradition, competition, and other circumstances to invest their capital as tenants in agriculture. They are forced to be satisfied with less than the average profit, and to turn over part of it to the landlords as rent. This is the only condition under which they are permitted to invest their capital in the land, in agriculture. Since landlords everywhere exert considerable, and in England even overwhelming, influence on legislation, they are able to exploit this situation for the purpose of victimising the entire class of tenants. For instance, the Corn Laws of 1815\(^7\) — a bread tax, admittedly imposed upon the country to secure for the idle landlords a continuation of their abnormally increased rentals during the anti-Jacobin war\(^7\) — had indeed the effect, excluding cases of a few extraordinarily rich harvests, of maintaining prices of agricultural products above the level to which they would have fallen had corn imports been unrestricted. But they did not have the effect of maintaining prices at the level decreed by the law-making landlords to serve as normal prices in such manner as to constitute the legal limit for imports of foreign corn. But the leaseholds were contracted in an atmosphere created by these normal prices. As soon as the illusion was dispelled, a new law was passed, containing new normal prices, which were as much the impotent expression of a greedy landlord’s fantasy as the
old ones. In this way, tenants were defrauded from 1815 up to the thirties. Hence the standing problem of agricultural distress during this entire period. Hence the expropriation and the ruin of a whole generation of tenants during this period and their replacement by a new class of capitalists.  

A much more general and important fact, however, is the depression of the actual farm labourer’s wage below its normal average, so that part of it is deducted to become part of the lease money and thus, in the guise of ground rent, it flows into the pocket of the landlord rather than the labourer. This is, for example, quite generally the case in England and Scotland, with the exception of a few favourably situated counties. The inquiries into the level of wages by the parliamentary investigating committees, which were appointed before the passage of the Corn Laws in England — so far the most valuable and almost unexploited contributions to the history of wages in the 19th century, and at the same time a pillory erected for themselves by the English aristocracy and bourgeoisie — proved convincingly and beyond a doubt that the high rates of rent, and the corresponding rise in land prices during the anti-Jocobin war, were due in part to no other cause but deductions from wages and their depression to a level that was even below the physical minimum requirement; in other words, to part of the normal wage being handed over to the landlords. Various circumstances, such as the depreciation of money and the manipulation of the Poor Laws in the agricultural districts, had made this operation possible at a time when the incomes of the tenants were enormously increasing and the landlords were amassing fabulous riches. Indeed, one of the main arguments of both tenants and landlords for the introduction of duties on corn was that it was physically impossible to depress farm labourers’ wages any lower. This state of affairs has not significantly changed, and in England, as in all European countries, a portion of the normal wage is absorbed by ground rent just as ever. When Count Shaftesbury, then Lord Ashley, one of the philanthropic aristocrats, was so extraordinarily moved by the condition of English factory operatives and acted as

31) See the Anti-Corn Law Prize Essays. However, the Corn Laws always kept prices at an artificially higher level. For the better placed tenants this was favourable. They profited from the passivity in which the protective duties kept the great mass of tenants who relied, with or without good reason, on the exceptional average price.

their spokesman in Parliament during the agitation for a ten-hour day, the spokesmen of the industrialists took their revenge by publishing wage statistics of agricultural labourers in the villages belonging to him (see Buch I, Kap. XXIII, 5, e*) ("The British Agricultural Proletariat"), which clearly showed that a portion of the ground rent of this philanthropist consisted merely of loot filched for him by his tenants out of the wages of agricultural labourers. This publication is also interesting for the fact that its revelations may bravely take their place beside the worst exposures made by the committees in 1814 and 1815. As soon as circumstances force a temporary increase in the wage of agricultural labourers a cry goes up from the tenant farmers that raising wages to the normal level, as done in other branches of industry, would be impossible and would ruin them, unless ground rent were reduced at the same time. Therein lies the confession that under the head of ground rent there is a deduction of the labourers' wages which is handed over to the landlords. For instance, from 1849 to 1859 the wages of agricultural labourers rose in England through a combination of momentous events: the exodus from Ireland, which cut off the supply of agricultural labourers coming from there; an extraordinary absorption of the agricultural population by factories; a war-time demand for soldiers; an exceptionally large emigration to Australia and the United States (California), and other circumstances which need not be dwelt upon here. At the same time, average prices of grain fell by more than 16% during this period, with the exception of the poor agricultural years 1854 to 1856. The tenant farmers clamoured for a reduction in rents. They were successful in individual cases, but on the whole failed to achieve this demand. They had recourse to a decrease in production costs, among other things by the mass introduction of steam-engines and new machinery, which to some extent replaced horses and pushed them out of the economy, but also brought about, in part, an artificial overpopulation by throwing agricultural day labourers out of work, and thereby caused a new drop in wages. And this took place in spite of the overall relative decrease in agricultural population during that decade as compared with the growth of total population, and in spite of an absolute decrease in agricultural population in

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*a* English edition: Ch. XXV, 5, e (see present edition, Vol. 35, pp. 665-88). - *b* The reference is to The House of Lords investigating committees which made inquiries into the level of wages.
some purely agricultural districts.\textsuperscript{32} Thus Fawcett, then professor of political economy at Cambridge, who died in 1884 while Postmaster General, stated at the Social Science Congress on October 12, 1865: \textsuperscript{78}

"The labourers were beginning to emigrate, and the farmers were already beginning to complain that they would not be able to pay such high rents as they have been accustomed to pay, because labour was becoming dearer in consequence of emigration."

Here, then, high ground rent is directly identified with low wages. And in so far as the level of land prices is determined by this circumstance — increasing rent — a rise in the value of land is identical with a depreciation of labour, the high price of land is identical with the low price of labour.

The same is true of France.

"The rental rises because the prices of bread, wine, meat, vegetables and fruit rise, on the one hand, while, on the other hand, the price of labour remains unchanged. If the older people examine the accounts of their fathers, taking us back about 100 years, they will find that the price of a day's labour in rural France was the same as it is now. The price of meat has trebled since then.... Who is the victim of this revolution? Is it the rich man, who is the proprietor of an estate, or the poor man who works it?... The increase in rental is evidence of a public disaster" (Du Mécanisme de la Société en France et en Angleterre, by M. Rubichon, 2nd ed., Paris, 1837, p. 101).

Illustrations of rent representing deductions, on the one hand, from average profit and, on the other, from average wages:

Morton,\textsuperscript{b} real estate agent and agricultural mechanic who was previously quoted, states that it has been observed in many localities that rent for large estates is lower than for small ones because

"the competition is usually greater for the latter than for the former, and as few small farmers are able to turn their attention to any other business than that of farming, their anxiety to get a suitable occupation leads them in many instances to give more rent than their judgement can approve of" (John I. Morton, The Resources of Estates, London, 1858, p. 116).

However, this difference is supposed to be gradually disappearing in England; this he attributes largely to the emigration precisely

\textsuperscript{32} John Ch. Morton, The Forces Used in Agriculture. Lecture read in the London Society of Arts,\textsuperscript{77} in 1859,\textsuperscript{a} was based upon authentic documents collected from about 100 tenants in 12 Scottish and 35 English counties.

\textsuperscript{77} Under the title: "On the Forces Used in Agriculture". \textsuperscript{b} Here Marx quotes John Lockart Morton and not John Chalmers Morton who was quoted above.
of the class of small tenants. The same Morton illustrates with an example in which clearly the wage of the tenant himself, and even more surely that of his labourers, suffers a deduction for ground rent. This takes place in the case of leaseholds with less than 70 to 80 acres (30-34 ha.) where a two-horse plough cannot be maintained.

"Unless the tenant works with his own hands as laboriously as any labourer, his farm will not keep him. If he entrusts the performance of his work to workmen while he continues merely to observe them, the chances are, that at no distant period, he will find he is unable to pay his rent" (l.c., p. 118).

Morton concludes, therefore, that unless the tenants of a certain locality are very poor, the leaseholds should not be smaller than 70 acres, so that the tenants may keep two or three horses.

Extraordinary sagacity on the part of Monsieur Léonce de Lavergne, Membre de l'Institut et de la Société Centrale d'Agriculture." In his *Economie Rurale de l'Angleterre* (quoted from the English translation, London, 1855), he makes the following comparison of the annual advantage derived from cattle which is employed in France but not in England where it is replaced by horses (p. 42):

<table>
<thead>
<tr>
<th>Country</th>
<th>Milk</th>
<th>Meat</th>
<th>Labour</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>£4 m</td>
<td>£16 m</td>
<td>£8 m</td>
<td>£28 m</td>
</tr>
<tr>
<td>England</td>
<td>£16 m</td>
<td>£20 m</td>
<td>—</td>
<td>£36 m</td>
</tr>
</tbody>
</table>

But the greater total for England is obtained here because according to his own testimony milk is twice as expensive in England as in France whereas he assumes the same prices for meat in both countries (p. 35); therefore, English milk production shrinks to £8 million and the total to £28 million, which is the same as in France. It is indeed rather too much when Mr. Lavergne allows the quantities and price differences to enter simultaneously into his calculations so that when England produces certain articles more dearly than France, this appears to be an advantage of English agriculture, whereas at best it signifies a larger profit for the tenants and landlords.

That Mr. Lavergne is not only familiar with the economic achievements of English agriculture, but also subscribes to the prejudices of the English tenants and landlords, is shown on page 48:

"One great drawback attends cereals generally ... they exhaust the soil which bears them."
Not only does Mr. Lavergne believe that other plants do not do so, but also believes that fodder crops and root crops enrich the soil:

"Forage plants derive from the atmosphere the principal elements of their growth, while they give to the soil more than they take from it; thus both directly and by their conversion into animal manure contributing in two ways to repair the mischief done by cereals and exhausting crops generally; one principle, therefore, is that they should at least alternate with these crops; in this consists the Norfolk rotation" (pp. 50, 51).

No wonder that Mr. Lavergne, who believes these English rustic fairy-tales, also believes that the wages of English farm labourers have lost their former abnormality since the duties on corn have been lifted. (See what has been previously said on this point. Buch I, Kap. XXIII, 5, pp. 701 to 729.\(^{a)}\) But let us also listen to Mr. John Bright’s speech in Birmingham, December 13, 1865. After mentioning the 5 million families entirely unrepresented in Parliament, he continues:

"There is among them one million, or rather more than one million, in the United Kingdom who are classed in the unfortunate list of paupers. There is another million just above pauperism, but always in peril lest they should become paupers. Their condition and prospects are not more favourable than that. Now look at the ignorant and lower strata of this portion of the community. Look to their abject condition, to their poverty, to their suffering, to their utter hopelessness of any good. Why, in the United States — even in the Southern States during the reign of slavery — every Negro had an idea that there was a day of jubilee for him. But to these people — to this class of the lowest strata in this country — I am here to state that there is neither the belief of anything better nor scarcely an aspiration after it. Have you read a paragraph which lately appeared in the newspapers about John Cross, a Dorsetshire labourer? He worked six days in the week, had an excellent character from his employer for whom he had worked twenty-four years at the rate of eight shillings per week. John Cross had a family of seven children to provide for out of these wages in his hovel — for a feeble wife and an infant child. He took — legally, I believe he stole — a wooden hurdle of the value of sixpence. For this offence he was tried before the magistrates and sentenced to 14 or 20 days’ imprisonment.... I can tell you that many thousands of cases like that of John Cross are to be found throughout the country, and especially in the south, and that their condition is such that hitherto the most anxious investigator has been unable to solve the mystery as to how they keep body and soul together. Now cast your eye over the country and look at these five million of families and the desperate condition of this strata of them. Is it not true that the unenfranchised nation may be said to toil and toil and knowing almost no rest? Compare it with the ruling class — but if I do I shall be charged with communism.... But compare this great toiling and unenfranchised nation with the section who may be considered the governing classes. Look at its wealth; look at its ostentation — look at its luxury. Behold its weariness — for there is weariness amongst them, but it is the weariness of satiety — and see how they rush from place to place, as it were, to discover some new pleasure” (Morning Star, December 14, 1865).

It is shown in what follows how surplus labour, and consequently surplus product, is generally confused with ground rent—that qualitatively and quantitatively specifically determined, at least on the basis of the capitalist mode of production, part of the surplus product.\(^a\) The natural basis of surplus labour in general, that is, a natural prerequisite without which such labour cannot be performed, is that Nature must supply—in the form of animal or vegetable products of the land, in fisheries, etc.—the necessary means of subsistence under conditions of an expenditure of labour which does not consume the entire working day. This natural productivity of agricultural labour (which includes here the labour of simple gathering, hunting, fishing and cattle-raising) is the basis of all surplus labour, as all labour is primarily and initially directed toward the appropriation and production of food. (Animals also supply at the same time skins for warmth in colder climates; also cave-dwellings, etc.)

The same confusion between surplus product and ground rent is found differently expressed by Mr. Dove.\(^b\) Originally agricultural and industrial labour were not separated; the latter was an adjunct of the former. The surplus labour and the surplus product of the land-cultivating tribe, house commune, or family included both agricultural and industrial labour. Both went hand in hand. Hunting, fishing and agriculture were impossible without suitable tools. Weaving, spinning, etc., were first carried on as an agrarian side line.

We have previously shown that just as the labour of an individual workman breaks up into necessary and surplus labour, the aggregate labour of the working class may be so divided that the portion which produces the total means of subsistence for the working class (including the means of production required for this purpose) performs the necessary labour for the whole of society. The labour performed by the remainder of the working class may then be regarded as surplus labour. But the necessary labour consists by no means only of agricultural labour, but also of that labour which produces all other products necessarily included in the average consumption of the labourer. Furthermore, from the social standpoint, some perform only necessary labour because others perform only surplus labour, and vice versa. It is but a division of labour between them. The same holds for the division of labour between agricultural and industrial

\(^a\) See this volume, pp. 768-76. - \(^b\) P. E. Dove, *The Elements of Political Science*, pp. 264, 273.
labourers in general. The purely industrial character of labour, on the one hand, corresponds to the purely agricultural character on the other. This purely agricultural labour is by no means natural, but is rather a product—and a very modern one at that, which has not yet been achieved everywhere—of social development—and corresponds to a very definite stage of the development of production. Just as a portion of agricultural labour is objectified in products which either minister only to luxury or serve as raw materials in industry, but by no means serve as food, let alone as food for the masses, so on the other hand a portion of industrial labour is objectified in products which serve as necessary means of consumption for both agricultural and non-agricultural labourers. It is a mistake, from a social point of view, to regard this industrial labour as surplus labour. It is, in part, as much necessary labour as the necessary portion of the agricultural labour. It is also but a form rendered independent of a part of industrial labour which was formerly naturally connected with agricultural labour, a necessary mutual supplement to the specifically agricultural labour now separated from it. (From a purely material point of view, 500 mechanical weavers, e.g., produce surplus fabrics to a far greater degree, that is, more than is required for their own clothing.)

Finally, it should be borne in mind in considering the forms of manifestation of ground rent, that is, the lease money paid under the heading of ground rent to the landlord for the use of the land for purposes of production or consumption, that the price of things which have in themselves no value, i.e., are not the product of labour, such as land, or which at least cannot be reproduced by labour, such as antiques and works of art by certain masters, etc., may be determined by many fortuitous combinations. In order to sell a thing, nothing more is required than its capacity to be monopolised and alienated.

There are three main errors to be avoided in studying ground rent, and which obscure its analysis.

1) Confusing the various forms of rent pertaining to different stages of development of the social production process.

Whatever the specific form of rent may be, all types have this in common: the appropriation of rent is that economic form in which landed property is realised, and ground rent, in turn, presupposes the existence of landed property, the ownership of certain portions of
our planet by certain individuals. The owner may be an individual representing the community, as in Asia, Egypt, etc.; or this landed property may be merely incidental to the ownership of the immediate producers themselves by some individuals as under slavery or serfdom; or it may be a purely private ownership of Nature by non-producers, a mere title to land; or, finally, it may be a relationship to the land which, as in the case of colonists and small peasants owning land, seems to be directly included — in the isolated and not socially developed labour — in the appropriation and production of the products of particular plots of land by the direct producers.

This common element in the various forms of rent, namely that of being the economic realisation of landed property, of legal fiction by grace of which certain individuals have an exclusive right to certain parts of our planet — makes it possible for the differences to escape detection.

2) All ground rent is surplus value, the product of surplus labour. In its undeveloped form as rent in kind it is still directly the surplus product itself. Hence, the mistaken idea that the rent corresponding to the capitalist mode of production — which is always a surplus over and above profit, i.e., above a value portion of commodities which itself consists of surplus value (surplus labour) — that this special and specific component of surplus value is explained by merely explaining the general conditions for the existence of surplus value and profit in general. These conditions are: the direct producers must work beyond the time necessary for reproducing their own labour power, for their own reproduction. They must perform surplus labour in general. This is the subjective condition. The objective condition is that they must be able to perform surplus labour. The natural conditions must be such that a part of their available labour time suffices for their reproduction and self-maintenance as producers, that the production of their necessary means of subsistence shall not consume their whole labour power. The fertility of Nature establishes a limit here, a starting-point, a basis. On the other hand, the development of the social productive power of their labour forms the other limit. Examined more closely, since the production of means of subsistence is the very first condition of their existence and of all production in general, labour used in this production, that is, agricultural labour in the broadest economic sense, must be fruitful enough so as not to absorb the entire available labour time in the production of means of subsistence for the direct producers, that is, agricultural surplus labour and there-
fore agricultural surplus product must be possible. Developed further, the total agricultural labour, both necessary and surplus labour, of a segment of society must suffice to produce the necessary subsistence for the whole of society, that is, for non-agricultural labourers too. This means therefore that the major division of labour between agricultural and industrial labourers must be possible; and similarly between tillers of the soil producing means of subsistence and those producing raw materials. Although the labour of the direct producers of means of subsistence breaks up into necessary and surplus labour as far as they themselves are concerned, it represents from the social standpoint only the necessary labour required to produce the means of subsistence. Incidentally, the same is true for all division of labour within society as a whole, as distinct from the division of labour within individual workshops. It is the labour necessary for the production of particular articles, for the satisfaction of some particular need of society for these particular articles. If this division is proportional, then the products of various groups are sold at their values (at a later stage of development they are sold at their prices of production), or at prices which are certain modifications of these values or prices of production determined by general laws. It is indeed the effect of the law of value, not with reference to individual commodities or articles, but to each total product of the particular social spheres of production made independent by the division of labour; so that not only is no more than the necessary labour time used up for each specific commodity, but only the necessary proportional quantity of the total social labour time is used up in the various groups. For the condition remains that the commodity represents use value. But if the use value of individual commodities depends on whether they satisfy a particular need then the use value of the mass of the social product depends on whether it satisfies the quantitatively definite social need for each particular kind of product in an adequate manner, and whether the labour is therefore proportionately distributed among the different spheres of production in keeping with these social needs, which are quantitatively circumscribed. (This point is to be noted in connection with the distribution of capital among the various spheres of production.) The social need, that is, the use value on a social scale, appears here as a determining factor for the amount of total social labour time which is expended in various specific spheres of production. But it is merely the same law which is already applied in the case of single commodities, namely, that the use value of a commodity is
the basis of its exchange value and thus of its value. This point has a bearing upon the relationship between necessary and surplus labour only in so far as a violation of this proportion makes it impossible to realise the value of the commodity and thus the surplus value contained in it. For instance, let us assume that proportionally too much cotton goods have been produced, although only the labour time necessary under the prevailing conditions is incorporated in this total cloth production. But in general too much social labour has been expended in this particular line; in other words, a portion of this product is useless. The whole of it is therefore sold solely as if it had been produced in the necessary proportion. This quantitative limit to the quota of social labour time available for the various particular spheres of production is but a more developed expression of the law of value in general, although the necessary labour time assumes a different meaning here. Only just so much of it is required for the satisfaction of social needs. The limitation occurring here is due to the use value. Society can use only so much of its total labour time for this particular kind of product under prevailing conditions of production. But the subjective and objective conditions of surplus labour and surplus value in general have nothing to do with the particular form of either the profit or the rent. These conditions apply to surplus value as such, no matter what special form it may assume. Hence they do not explain ground rent.

3) It is precisely in the economic realisation of landed property, in the development of ground rent, that the following characteristic peculiarity comes to the fore, namely that its amount is by no means determined by the actions of its recipient, but rather by the independent development of social labour in which the recipient takes no part. It may easily happen, therefore, that something is regarded as a peculiarity of rent (and of the product of agriculture in general), which is really a common feature of all branches of production and all their products where the basis is commodity production — and, in particular, capitalist production, which is in its entirety commodity production.

The amount of ground rent (and with it the value of land) grows with social development as a result of the total social labour. On the one hand, this leads to an expansion of the market and of the demand for products of the soil, and, on the other, it stimulates the demand

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*a See present edition, Vol. 28, p. 332.*
for land itself, which is a prerequisite of competitive production in all lines of business activity, even those which are not agricultural. More exactly—if one considers only the actual agricultural rent—rent, and thereby the value of the land, develops with the market for the products of the soil, and thus with the increase in the non-agricultural population, with its need and demand partly for means of subsistence and partly for raw materials. It is in the nature of the capitalist mode of production to continually reduce the agricultural population as compared with the non-agricultural, because in industry (in the strict sense) the increase of constant capital in relation to variable capital goes hand in hand with an absolute increase, though relative decrease, in variable capital; on the other hand, in agriculture the variable capital required for the exploitation of a certain plot of land decreases absolutely; it can thus only increase to the extent that new land is taken into cultivation, but this again requires as a prerequisite a still greater growth of the non-agricultural population.

In fact, we are not dealing here with a characteristic peculiarity of agriculture and its products. On the contrary, the same applies to all other branches of production and products where the basis is commodity production and its absolute form, capitalist production.

These products are commodities, or use values, which have an exchange value that is to be realised, to be converted into money, only in so far as other commodities form an equivalent for them, that is, other products confront them as commodities and values; thus, in so far as they are not produced as immediate means of subsistence for the producers themselves, but as commodities, as products which become use values only by their transformation into exchange values (money), by their alienation. The market for these commodities develops through the social division of labour; the division of productive labour mutually transforms their respective products into commodities, into equivalents for each other, making them mutually serve as markets. This is in no way peculiar to agricultural products.

Rent can develop as money rent only on the basis of commodity production, in particular capitalist production, and it develops to the same extent that agricultural production becomes commodity production, that is, to the same extent that non-agricultural production develops independently of agricultural production, for to that degree the agricultural product becomes commodity, exchange value, and value. In so far as commodity production and thus the production of value develops with capitalist production so does the production of
surplus value and surplus product. But in the same proportion as the latter develops, landed property acquires the capacity of capturing an ever-increasing portion of this surplus value by means of its land monopoly and thereby, of raising the value of its rent and the price of the land itself. The capitalist still performs an active function in the development of this surplus value and surplus product. But the landowner need only appropriate the growing share in the surplus product and the surplus value, without having contributed anything to this growth. This is the characteristic peculiarity of his position, and not the fact that the value of the products of the land, and thus of the land itself, increases to the degree that the market for them expands, the demand grows and with it the world of commodities which confronts the products of the land — in other words, the mass of non-agricultural commodity producers and non-agricultural commodity production. But since this takes place without any action on his part, it appears to him as something unique that the mass of value, the mass of surplus value, and the transformation of a portion of surplus value into ground rent should depend upon the social production process, on the development of commodity production in general. For this reason, Dove, for instance, tries to evolve rent from this. He says that rent does not depend upon the mass of the agricultural product, but upon its value; however, this depends upon the mass and productivity of the non-agricultural population. But it is also true of every other product that it can only develop as a commodity partly as the mass and partly as the variety of other commodities, which form equivalents for it, increase. This has already been demonstrated in connection with the general presentation of value. On the one hand, the exchangeability of a product in general depends on the multiplicity of commodities existing in addition to it. On the other hand, on it depends in particular the quantity in which this product can be produced as a commodity.

No producer, whether industrial or agricultural, when considered by himself alone, produces value or commodities. His product becomes a value and a commodity only in the context of definite social interrelations. In the first place, in so far as it appears as the expression of social labour, hence in so far as the individual producer’s labour time counts as a part of the social labour time in general; and, second-

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ly, this social character of his labour appears impressed upon his
product through its pecuniary character and through its general
exchangeability determined by its price.

Therefore, if, on the one hand, surplus value or, still more nar-
rowly, the surplus product in general is explained instead of rent, the
mistake is made, on the other hand, of ascribing exclusively to agri-
cultural products a characteristic which belongs to all products in
their capacity as commodities and values. This is vulgarised still more
by those who pass from the general determination of value over to the
realisation of the value of a specific commodity. Every commodity
can realise its value only in the process of circulation, and whether it
realises its value, or to what extent it does so, depends on prevailing
market conditions.

It is not a singularity of ground rent, then, that agricultural
products develop into, and as, values, i.e., that they confront other
commodities as commodities, and that non-agricultural products con-
front them as commodities; or that they develop as specific expres-
sions of social labour. The singularity of ground rent is rather that
together with the conditions in which agricultural products develop
as values (commodities), and together with the conditions in which
their values are realised, there also grows the power of landed prop-
erty to appropriate an increasing portion of these values, which were
created without its assistance; and so an increasing portion of surplus
value is transformed into ground rent.

Chapter XXXVIII
DIFFERENTIAL RENT: GENERAL REMARKS

In the analysis of ground rent we shall begin with the assumption
that products paying such a rent, products in which a portion of the
surplus value, and therefore also a portion of the total price, resolves
itself into ground rent, i.e., that agricultural as well as mining pro-
ducts are sold at their prices of production like all other commodities.
(It suffices for our purposes to confine ourselves to agricultural and
mining products.) In other words, their selling prices are made up
of the elements of their cost (the value of consumed constant and
variable capital) plus a profit determined by the general rate of prof-
it and calculated on the total advanced capital, whether consumed
or not. We assume, then, that average selling prices of these products
are equal to their prices of production. The question now arises how it is possible for ground rent to develop under these conditions, i.e., how it is possible for a portion of the profit to become transformed into ground rent, so that a portion of the commodity price falls to the landlord.

In order to demonstrate the general character of this form of ground rent, let us assume that most of the factories of a certain country derive their power from steam-engines, while a smaller number derive it from natural waterfalls. Let us further assume that the price of production in the former amounts to 115 for a quantity of commodities which have consumed a capital of 100. The 15% profit is calculated not solely on the consumed capital of 100, but on the total capital employed in the production of this commodity value. We have previously shown\(^a\) that this price of production is not determined by the individual cost price of every single industrial producer, but by the average cost price of the commodity under average conditions of capital in the entire sphere of production. It is, in fact, the market price of production, the average market price as distinct from its oscillations. It is in general in the form of the market price, and, furthermore, in the form of the regulating market price, or market price of production, that the nature of the value of commodities asserts itself, its determination not by the labour time necessary in the case of any individual producer for the production of a certain quantity of commodities, or of some individual commodity, but by the socially necessary labour time; that is, by the labour time, required for the production of the socially necessary total quantity of commodity varieties on the market under the existing average conditions of social production.

As definite numerical proportions are immaterial in this case, we shall assume furthermore that the cost price in factories run on water power is only 90 instead of 100. Since the regulating market price of production of this quantity of commodities = 115, with a profit of 15%, the manufacturers who operate their machines on water power will also sell their commodities at 115, i.e., the average price regulating the market price. Their profit would then be 25 instead of 15; the regulating price of production would allow them a surplus profit of 10% not because they sell their commodities above the price of

\(^a\) See this volume, pp. 171-98.
production, but because they sell them at the price of production, because their commodities are produced, or their capital operates, under exceptionally favourable conditions, i.e., under conditions which are more favourable than the average prevailing in this sphere.

Two things become evident at once:

First, the surplus profit of the producers who use a natural waterfall as motive power is, to begin with, in the same class with all surplus profit (and we have already analysed this category when discussing prices of production) which is not the fortuitous result of transactions in the circulation process, of the fortuitous fluctuations in market prices. This surplus profit, then, is likewise equal to the difference between the individual price of production of these favoured producers and the general social price of production regulating the market in this entire production sphere. This difference is equal to the excess of the general price of production of the commodities over their individual price of production. The two regulating limits of this excess are, on the one hand, the individual cost price, and thus the individual price of production, and, on the other hand, the general price of production. The value of commodities produced with water power is smaller because a smaller total quantity of labour is required for their production, i.e., less labour — in an objectified form — enters into the constant capital as part of the latter. The labour employed here is more productive, its individual productive power is greater than that employed in the majority of factories of the same kind. Its greater productive power is shown in the fact that in order to produce the same quantity of commodities, it requires a smaller quantity of constant capital, a smaller quantity of objectified labour, than the other. It also requires less living labour, because the water-wheel need not be heated. This greater individual productive power of employed labour reduces the value, but also the cost price and thereby the price of production of the commodity. For the industrial capitalist this expresses itself in a lower cost price for his commodities. He has to pay for less objectified labour, and also less wages for less living labour power employed. Since the cost price of his commodities is lower, his individual price of production is also lower. His cost price is 90 instead of 100. His individual price of production would therefore be only $103\frac{1}{2}$ instead of 115 ($100:115 = 90:103\frac{1}{2}$). The difference between his individual price of production and the general price of production

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*a* See this volume, pp. 196-97.
is limited by the difference between his individual cost price and the general cost price. This is one of the magnitudes which form the limits to his surplus profit. The other is the magnitude of the general price of production into which the general rate of profit enters as one of the regulating factors. Were coal to become cheaper, the difference between his individual cost price and the general cost price would decrease, and with it his surplus profit. Should he be compelled to sell his commodities at their individual value, or at the price of production determined by their individual value, then the difference would disappear. It is, on the one hand, a result of the fact that the commodities are sold at their general market price, the price brought about by the equalisation of individual prices through competition, and, on the other, a result of the fact that the greater individual productive power of labour set in motion by him does not benefit the labourer, but the employer, as does all productive power of labour; that it appears as the productive power of capital.

Since the level of the general price of production is one of the limits of this surplus profit, the level of the general rate of profit being one of its factors, this surplus profit can only arise from the difference between the general and the individual price of production, and consequently from the difference between the general and the individual rate of profit. An excess above this difference presupposes the sale of products above, not at, the price of production regulated by the market.

Secondly, thus far, the surplus profit of the manufacturer using natural water power instead of steam does not differ in any way from any other surplus profit. All normal surplus profit, that is, all surplus profit not due to fortuitous sales or market price fluctuations is determined by the difference between the individual price of production of the commodities of a particular capital and the general price of production, which regulates the market prices of the commodities produced by the capital in this sphere of production in general, or, in other words, the market prices of commodities of the total capital invested in this sphere of production.

But now we come to the difference.

To what circumstance does the manufacturer in the present case owe his surplus profit, the surplus resulting for him personally from the price of production regulated by the general rate of profit?

He owes it in the first instance to a natural force — the motive power of the waterfall — which is found readily available in Nature and
is not itself a product of labour like the coal which transforms water into steam. The coal, therefore, has value, must be paid for by an equivalent, and has a cost. The waterfall is a natural production agent in the production of which no labour enters.

But this is not all. The manufacturer who operates with steam also employs natural forces which cost him nothing yet make the labour more productive and increase the surplus value and thereby the profit, inasmuch as they thus cheapen the manufacture of the means of subsistence required for the labourers. These natural forces are thus quite as much monopolised by capital as the social natural forces of labour arising from co-operation, division of labour, etc. The manufacturer pays for coal, but not for the capacity of water to alter its physical state, to turn into steam, not for the elasticity of the steam, etc. This monopolisation of natural forces, that is, of the increase in labour power produced by them, is common to all capital operating with steam-engines. It may increase that portion of the product of labour which represents surplus value in relation to that portion which is transformed into wages. In so far as it does this, it raises the general rate of profit, but it does not create any surplus profit, for this consists precisely of the excess of individual profit over average profit. The fact that the application of a natural force, a waterfall, creates surplus profit in this case, cannot therefore be due solely to the circumstance that the increased productive power of labour here results from the application of a natural force. Other modifying circumstances are necessary.

Conversely. The mere application of natural forces in industry may influence the level of the general rate of profit because it affects the quantity of labour required to produce the necessary means of subsistence. But in itself it does not create any deviation from the general rate of profit, and this is precisely the point in which we are interested here. Furthermore, the surplus profit which some individual capital otherwise realises in a particular sphere of production—for deviations of the rates of profit in various spheres of production are continually balanced out into an average rate—is due, aside from purely fortuitous deviations, to a reduction in cost price, in production costs. This reduction arises either from the fact that capital is used in greater than average quantities, so that the *faux frais*\(^a\) of production are reduced, while the general causes increasing the productive power of

\(^a\) unproductive costs
labour (co-operation, division of labour, etc.) can become effective to a higher degree, with more intensity, because their field of activity has become larger; or it may arise from the fact that, aside from the amount of functioning capital, better methods of labour, new inventions, improved machinery, chemical manufacturing secrets, etc., in short, new and improved, better than average means of production and methods of production are used. The reduction in cost price and the surplus profit arising from it are here the result of the manner in which the functioning capital is invested. They result either from the fact that the capital is concentrated in the hands of one person in extraordinarily large quantities (a condition that is cancelled out as soon as equal magnitudes of capital are used on the average), or from the fact that a certain magnitude of capital functions in a particularly productive manner (a condition that disappears as soon as the exceptional method of production becomes general or is surpassed by a still more developed one).

The cause of the surplus profit, then, arises here from the capital itself (which includes the labour set in motion by it) whether it be due to the greater magnitude of capital employed or to its more efficient application; and, as a matter of fact, there is no particular reason why all capital in the same production sphere should not be invested in the same manner. On the contrary, the competition between capitals tends to cancel these differences more and more. The determination of value by the socially necessary labour time asserts itself through the cheapening of commodities and the compulsion to produce commodities under the same favourable conditions. But matters are different with the surplus profit of a manufacturer who makes use of the waterfall. The increased productive power of the labour used by him comes neither from the capital and labour itself, nor from the mere application of some natural force different from capital and labour but incorporated in the capital. It arises from the greater natural productive power of labour bound up with the application of a force of Nature, but not a force of Nature that is at the command of all capital in the same sphere of production, as for example the elasticity of steam. In other words, its application is not to be taken for granted whenever capital is generally invested in this sphere of production. On the contrary, it is a monopolisable force of Nature which, like the waterfall, is only at the command of those who have at their disposal particular portions of the earth and its appurtenances. It is by no means within the power of capital to call into existence this natural premise for a
greater productive power of labour in the same manner as any capital may transform water into steam. It is found only locally in Nature and, wherever it does not exist, it cannot be established by a definite investment of capital. It is not bound to goods which labour can produce, such as machines and coal, but to specific natural conditions prevailing in certain portions of land. Those manufacturers who own waterfalls exclude those who do not from using this natural force, because land, and particularly land endowed with water power, is scarce. This does not prevent the amount of water power available for industrial purposes from being increased, even though the number of natural waterfalls in a given country is limited. The waterfall may be harnessed by man in order to fully exploit its motive force. If such exists, the water-wheel may be improved so as to make use of as much of the water power as possible; where the ordinary wheel is not suitable for the water supply, turbines may be used, etc. The possession of this natural force constitutes a monopoly in the hands of its owner; it is a condition for an increase in the productive power of the invested capital that cannot be established by the production process of the capital itself; this natural force, which can be monopolised in this manner, is always bound to the land. Such a natural force does not belong to the general conditions of the sphere of production in question, nor to those conditions of the latter which may be generally established.

Now let us assume that the waterfalls, along with the land to which they belong, are held by individuals who are regarded as owners of these portions of the earth, i.e., who are landowners. These owners prevent the investment of capital in the waterfalls and their exploitation by capital. They can permit or forbid such utilisation. But a waterfall cannot be created by capital out of itself. Therefore, the surplus profit which arises from the employment of this waterfall is not due to capital, but to the utilisation of a natural force which can be monopolised, and has been monopolised, by capital. Under these circumstances, the surplus profit is transformed into ground rent, that is, it falls into possession of the owner of a waterfall. If the manufacturer pays the owner of a waterfall £10 annually, then his profit is £15, that

33: Concerning extra profit, see the Inquiry (against Malthus). a

a Reference to An Inquiry into Those Principles, Respecting the Nature of Demand and the Necessity of Consumption, lately advocated by Mr. Malthus, London, 1821.
is, 15% on the £100 which then make up his cost of production; and he is just as well or possibly better off than all other capitalists in his sphere of production who operate with steam. It would not alter matters one bit if the capitalist himself should be the owner of a waterfall. He would, in such a case, pocket as before the surplus profit of £10 in his capacity as waterfall owner, and not in his capacity as capitalist; and precisely because this surplus does not stem from his capital as such, but rather from the control of a limited natural force distinct from his capital which can be monopolised, is it transformed into ground rent.

First, it is evident that this rent is always a differential rent, for it does not enter as a determining factor into the general production price of commodities, but rather is based on it. It invariably arises from the difference between the individual production price of a particular capital having command over the monopolised natural force and the general production price of the total capital invested in the sphere of production concerned.

Secondly, this ground rent does not arise from the absolute increase in the productive power of employed capital, or labour appropriated by it, since this can only reduce the value of commodities; it is due to the greater relative fruitfulness of specific separate capitals invested in a certain production sphere, as compared with investments of capital which are excluded from these exceptional and natural conditions favouring productive power. For instance, if the use of steam should offer overwhelming advantages not offered by the use of water power, despite the fact that coal has value and the water power has not, and if these advantages more than compensated for the expense, then, the water power would not be used and could not produce any surplus profit, and therefore could not produce any rent.

Thirdly, the natural force is not the source of surplus profit, but only its natural basis, because this natural basis permits an exceptional increase in the productive power of labour. In the same way, use value is in general the bearer of exchange value, but not its cause. If the same use value could be obtained without labour, it would have no exchange value, yet it would retain, as before, the same natural usefulness as use value. On the other hand, nothing can have exchange value unless it has use value, i.e., unless it is a natural bearer of labour. Were it not for the fact that the various values are averaged out into prices of production, and the various individual prices of production into a general price of production regulating the market, the
mere increase in the productive power of labour through utilisation of the waterfall would merely lower the price of commodities produced with the aid of this waterfall, without increasing the share of profit contained in these commodities. Similarly, on the other hand, this increased productive power of labour itself would not be converted into surplus value were it not for the fact that capital appropriates the natural and social productive power of the labour used by it as its own.

Fourthly, the private ownership of the waterfall in itself has nothing to do with the creation of the surplus value (profit) portion, and therefore, of the price of the commodity in general, which is produced by means of the waterfall. This surplus profit would also exist if landed property did not exist; for instance, if the land on which the waterfall is situated were used by the manufacturer as unclaimed land. Hence landed property does not create the portion of value which is transformed into surplus profit, but merely enables the landowner, the owner of the waterfall, to coax this surplus profit out of the pocket of the manufacturer and into his own. It is not the cause of the creation of such surplus profit, but is the cause of its transformation into the form of ground rent, and therefore of the appropriation of this portion of the profit, or commodity price, by the owner of the land or waterfall.

Fifthly, it is evident that the price of the waterfall, that is, the price which the landowner would receive were he to sell it to a third party or even to the manufacturer himself, does not immediately enter into the production price of the commodities, although it does enter into the individual cost price of the manufacturer; because the rent arises here from the price of production of similar commodities produced by steam machinery, and this price is regulated independently of the waterfall. Furthermore, this price of the waterfall on the whole is an irrational expression, but behind it is hidden a real economic relationship. The waterfall, like land in general, and like any natural force, has no value because it does not represent any objectified labour, and therefore, it has no price, which is normally no more than the expression of value in money terms. Where there is no value, there is also eo ipso nothing to be expressed in money. This price is nothing more than the capitalised rent. Landed property enables the owner to appropriate the difference between the individual profit and average profit. The profit thus acquired, which is renewed every year, may be capitalised, and appears then as the price of the natural force itself.
If the surplus profit realised by the manufacturer using the waterfall amounts to £10 per year, and the average interest is 5%, then these £10 represent the annual interest on a capital of £200 and the capitalisation of the annual £10 which the waterfall enables its owner to appropriate from the manufacturer, appears then as the capital value of the waterfall itself. That it is not the waterfall itself which has value, but that its price is a mere reflection of the appropriated surplus profit capitalistically calculated, becomes at once evident from the fact that the price of £200 represents merely the product obtained by multiplying a surplus profit of £10 by 20 years, whereas, other conditions remaining equal, the same waterfall will enable its owner to appropriate these £10 every year for an indefinite number of years—30 years, 100 years, or $x$ years; and, whereas, on the other hand, should some new method of production not applicable with water power reduce the cost price of commodities produced by steam machinery from £100 to £90, the surplus profit, and thereby the rent, and thus the price of the waterfall, would disappear.

Now that we have described the general concept of differential rent, we shall pass on to its consideration in agriculture proper. What applies to agriculture will also apply on the whole to mining.

**Chapter XXXIX**

**FIRST FORM OF DIFFERENTIAL RENT**

(DIFFERENTIAL RENT I)

Ricardo is quite right in the following observations:

"RENT IS ALWAYS THE DIFFERENCE BETWEEN THE PRODUCE OBTAINED BY THE EMPLOYMENT OF TWO EQUAL QUANTITIES OF CAPITAL AND LABOUR" *(Principles, p. 59).*

//He means differential rent, for he assumes that no other rent but differential rent exists.//

He should have added, "on equal areas of land" in so far as it is a matter of ground rent and not surplus profit in general.

In other words, surplus profit, if normal and not due to accidental occurrences in the circulation process, is always produced as a difference between the products of two equal quantities of capital and labour, and this surplus profit is transformed into ground rent when

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two equal quantities of capital and labour are employed on equal areas of land with unequal results. Moreover, it is by no means absolutely necessary for this surplus profit to arise from the unequal results of equal quantities of invested capital. The various investments may also employ unequal quantities of capital. Indeed, this is generally the case. But equal proportions, for instance £100 of each, produce unequal results; that is, their rates of profit are different. This is the general prerequisite for the existence of surplus profit in any sphere of capital investment. The second prerequisite is the transformation of this surplus profit into the form of ground rent (of rent in general as a form distinct from profit); it must be investigated in each case: when, how, under what conditions this transformation takes place.

Ricardo is also right in the following observation, provided it is limited to differential rent:

"Whatever diminishes the inequality in the produce obtained on the same or on new land, tends to lower rent, and whatever increases that inequality, necessarily produces an opposite effect and tends to raise it" (p. 74).

However, among these causes are not merely the general ones (fertility and location), but also 1) the distribution of taxes, depending on whether it operates uniformly or not; the latter is always the case when, as in England, it is not centralised and when the tax is levied on land, not on rent; 2) the inequalities arising from a difference in agricultural development in different parts of the country, since this line of production, owing to its traditional character, evens out with more difficulty than manufacture; and 3) the inequality in distribution of capital among tenants. Since the invasion of agriculture by the capitalist mode of production, transformation of independently producing peasants into wage-workers, is in fact the last conquest of this mode of production, these inequalities are greater here than in any other line of production.

Having made these preliminary remarks, I will first present a brief summary of the characteristic features of my analysis in contradistinction to that of Ricardo, etc.

We shall first consider the unequal results of equal quantities of capital applied to different plots of land of equal size; or, in the case of unequal size, results calculated on the basis of equal areas.

The two general causes of these unequal results—quite independent of capital—are: 1) Fertility. (With reference to this first point,
it will be necessary to discuss what is meant by natural fertility of land and what diverse factors are involved.) 2) The location of the land. This is a decisive factor in the case of colonies and in general determines the sequence in which plots of land can be cultivated. Furthermore, it is evident that these two different causes of differential rent—fertility and location—may work in opposite directions. A certain plot of land may be very favourably located and yet be very poor in fertility, and vice versa. This circumstance is important, for it explains how it is possible that bringing into cultivation the land of a certain country may equally well proceed from the better to the worse land as vice versa. Finally, it is clear that the progress of social production in general has, on the one hand, the effect of evening out differences due to location as a cause of differential rent, by creating local markets and improving locations through establishing communication and transportation facilities; on the other, it increases the differences in individual locations of plots of land by separating agriculture from manufacture and by forming large centres of production, on the one hand, while relatively isolating agricultural districts, on the other.

For the present, however, we shall leave this point concerning location out of consideration and confine ourselves to natural fertility. Aside from climatic factors, etc., the difference in natural fertility depends on the difference in the chemical composition of the top soil, that is, on its different plant nutrition content. However, assuming the chemical composition and natural fertility in this respect to be the same for two plots of land, the actual effective fertility differs depending on whether these elements of plant nutrition are in a form which may be more or less easily assimilated and immediately utilised for nourishing the crops. Hence, it will depend partly upon chemical and partly upon mechanical developments in agriculture to what extent the same natural fertility may be made available on plots of land of similar natural fertility. Fertility, although an objective property of the soil, always implies an economic relation, a relation to the existing chemical and mechanical level of development in agriculture, and, therefore, changes with this level of development. Whether by chemical means (such as the use of certain liquid fertilisers on stiff clay soil and calcination of heavy clayey soils) or mechanical means (such as special ploughs for heavy soils), the obstacles which made a soil of equal fertility actually less fertile can be eliminated (drainage also belongs under this head). Or even the sequence in types of soils taken
under cultivation may be changed thereby, as was the case, for instance, with light sandy soil and heavy clayey soil at a certain period of development in English agriculture. This shows once again that historically, in the sequence of soils taken under cultivation, one may pass over from more fertile to less fertile soils as well as vice versa. The same results may be obtained by an artificially created improvement in soil composition or by a mere change in agricultural methods. Finally, the same result may be brought about by a change in the hierarchical arrangement of the soil types due to different conditions of the subsoil, as soon as the latter likewise begins to be tilled and turned over into top layers. This is in part dependent on the employment of new agricultural methods (such as the cultivation of fodder grass) and in part on the employment of mechanical means which either turn the subsoil over into top layers, mix it with top soil, or cultivate the subsoil without turning it up.

All these influences upon the differential fertility of various plots of land are such that from the standpoint of economic fertility the level of the productive power of labour, in this case the capacity of agriculture to make the natural soil fertility immediately exploitable — a capacity which differs in various periods of development — is as much a factor in so-called natural soil fertility as its chemical composition and other natural properties.

We assume, then, the existence of a particular stage of development in agriculture. We assume furthermore that the hierarchical arrangement of soil types accords with this stage of development, as is, of course, always the case for simultaneous capital investments on different plots of land. Differential rent may then form either an ascending or a descending sequence, for although the sequence is given for the totality of actually cultivated plots of land, a series of movements leading to its formation has invariably taken place.

Let us assume the existence of four kinds of soil: A, B, C, D. Let us furthermore assume the price of one quarter of wheat = £3, or 60 shillings. Since the rent is solely differential rent, this price of 60 shillings per quarter for the worst soil is equal to the price of production,\(^\text{80}\) that is, equal to the capital plus average profit.

Let A be this worst soil, which yields 1 quarter = 60 shillings for each 50 shillings spent; hence the profit amounts to 10 shillings, or 20%.

Let B yield 2 quarters = 120 shillings for the same expenditure. This would mean 70 shillings of profit, or a surplus profit of 60 shillings.
Let C yield 3 quarters = 180 shillings for the same expenditure; total profit = 130 shillings; surplus profit = 120 shillings.

Let D yield 4 quarters = 240 shillings = 180 shillings of surplus profit.

We would then have the following sequence:

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Product</th>
<th>Capital Advanced</th>
<th>Profit</th>
<th>Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Quarters Shillings</td>
<td>Quarters Shillings</td>
<td>Quarters Shillings</td>
</tr>
<tr>
<td>A</td>
<td>1</td>
<td>60</td>
<td>50</td>
<td>1/6</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>120</td>
<td>50</td>
<td>1 1/6</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
<td>180</td>
<td>50</td>
<td>2 1/6</td>
</tr>
<tr>
<td>D</td>
<td>4</td>
<td>240</td>
<td>50</td>
<td>3 1/6</td>
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<tr>
<td>Total</td>
<td>10 qrs</td>
<td>600sh.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
lings per quarter = 60 shillings, then of 45 shillings per quarter = 180 shillings for 4 quarters.

If the rate of profit of D originally was similarly = 20\%, then its total profit on 4 quarters of wheat was also but 10 shillings, but this represented more grain when the price was 15 shillings than it does when the price is 60 shillings. But since the grain enters into the reproduction of labour power, and part of each quarter has to make good some portion of wages and another constant capital, the surplus value under these conditions was higher, and thus other things being equal the rate of profit too. (The matter of the rate of profit will have to be specially analysed, and in greater detail.)

On the other hand, if the sequence were in the reverse order, that is, if the process initiated from A, then the price of wheat at first would rise above 60 shillings per quarter when new land would have to be taken under cultivation. But since the necessary supply would be produced by B, a supply of 2 quarters, the price would fall to 60 shillings again; for B produced wheat at a cost of 30 shillings per quarter, but sold it at 60 shillings because his supply just sufficed to cover the demand. Thus a rent was formed, first of 60 shillings for B, and in the same way for C and D; it is assumed throughout that the market price remained at 60 shillings, although C and D produced wheat having an actual value of 20 and 15 shillings per quarter respectively, because the supply of the one quarter produced by A was needed as much as ever to satisfy the total demand. In this case, the increase in demand above supply, which was first satisfied by A, then by A and B, would not have made it possible to cultivate B, C and D successively, but would merely have caused a general extension of the sphere of cultivation, and the more fertile lands might only later come under cultivation.

In the first sequence, an increase in price would raise the rent and decrease the rate of profit. Such a decrease might be entirely or partially checked by counteracting circumstances. This point will have to be treated later in more detail. It should not be forgotten that the general rate of profit is not determined uniformly in all spheres of production by the surplus value. It is not the agricultural profit which determines industrial profit, but vice versa. But of this more anon.

In the second sequence the rate of profit on invested capital would remain the same. The amount of profit would be represented by less grain; but the relative price of grain, compared with that of other com-
modities, would have risen. However, the increase in profit wherever such an increase takes place, becomes separated from the profit in the form of rent, instead of flowing into the pockets of the capitalist tenant farmer and appearing as a growing profit. The price of grain, however, would remain unchanged under the conditions assumed here.

The development and growth of differential rent would remain the same for fixed as well as for increasing prices, and for a continuous progression from worse to better soils as well as for a continuous regression from better to worse soils.

Thus far we have assumed: 1) that the price rises in one sequence and remains stationary in the other; 2) that there is a continuous progression from better to worse soil, or from worse to better soil.

But now let us assume that the demand for grain rises from its original figure of 10 to 17 quarters; furthermore, that the worst soil A is displaced by another soil A', which produces $1\frac{1}{3}$ quarters at a price of production of 60 shillings (50sh. cost plus 10sh. for 20% profit), so that its price of production per quarter = 45 shillings; or, perhaps, the old soil A may have improved through continuous rational cultivation, or be cultivated more productively at the same cost, for instance through the introduction of clover, etc., so that its output with the investment of capital rises to $1\frac{1}{3}$ quarters. Let us also assume that soil types B, C and D yield the same output as previously, but that new soil types have been introduced, for instance, A' with a fertility lying between A and B, and also B' and B'' with a fertility between B and C. We should then observe the following phenomena:

First: The price of production of a quarter of wheat, or its regulating market price, falls from 60 shillings to 45 shillings, or by 25%.

Second: The cultivation proceeds simultaneously from more fertile to less fertile soil, and from less fertile to more fertile soil. Soil A' is more fertile than A, but less fertile than the hitherto cultivated soils B, C and D. B' and B'' are more fertile than A, A' and B, but less fertile than C and D. The sequence thus proceeds in crisscross fashion. Cultivation does not proceed to soil absolutely less fertile than A, etc., but to relatively less fertile soil with respect to the hitherto most fertile soil types C and D; on the other hand, cultivation does not proceed to soil absolutely more fertile, but to relatively more fertile soil with respect to the hitherto least fertile soil A, or A and B.

Thirdly: The rent on B falls; likewise the rent on C and D; but the total rental in grain rises from 6 quarters to $7\frac{2}{3}$; the amount of cultivated and rent-yielding land increases, and the amount of produce
Ch. XXXIX.—First Form of Differential Rent

rises from 10 quarters to 17. The profit, although it remains the same for A, rises if expressed in grain, but the rate of profit itself might rise, because the relative surplus value does. In this case, the wage, i.e., the investment of variable capital and therefore the total outlay, is reduced because of the cheapening of means of subsistence. This total rental expressed in money falls from 360 shillings to 345 shillings.

Let us draw up the new sequence. //Table II.//

**Table II**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Product</th>
<th>Capital Invested</th>
<th>Profit</th>
<th>Rent</th>
<th>Price of Production per Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Quarters Shillings</td>
<td>Quarters Shillings</td>
<td>Quarters Shillings</td>
<td>Quarters Shillings</td>
</tr>
<tr>
<td>A</td>
<td>1(\frac{1}{3})</td>
<td>60 50</td>
<td>(\frac{3}{4})</td>
<td>10</td>
<td>—</td>
</tr>
<tr>
<td>A'</td>
<td>1(\frac{1}{2})</td>
<td>75 50</td>
<td>(\frac{1}{2})</td>
<td>25</td>
<td>(\frac{1}{3})</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>90 50</td>
<td>(\frac{2}{3})</td>
<td>40</td>
<td>(\frac{2}{3})</td>
</tr>
<tr>
<td>B'</td>
<td>2(\frac{1}{3})</td>
<td>105 50</td>
<td>(\frac{3}{4})</td>
<td>55</td>
<td>1</td>
</tr>
<tr>
<td>B''</td>
<td>2(\frac{2}{3})</td>
<td>120 50</td>
<td>(\frac{1}{3})</td>
<td>70</td>
<td>(\frac{1}{3})</td>
</tr>
<tr>
<td>C</td>
<td>3</td>
<td>135 50</td>
<td>(\frac{1}{3})</td>
<td>85</td>
<td>(\frac{1}{2})</td>
</tr>
<tr>
<td>C'</td>
<td>3(\frac{1}{3})</td>
<td>145 50</td>
<td>(\frac{1}{3})</td>
<td>90</td>
<td>(\frac{1}{3})</td>
</tr>
<tr>
<td>C''</td>
<td>3(\frac{2}{3})</td>
<td>150 50</td>
<td>(\frac{1}{3})</td>
<td>95</td>
<td>(\frac{1}{3})</td>
</tr>
<tr>
<td>D</td>
<td>4</td>
<td>180 50</td>
<td>(\frac{1}{3})</td>
<td>130</td>
<td>(\frac{1}{3})</td>
</tr>
</tbody>
</table>

| Total...    | 17      | 7\(\frac{1}{3}\) | 345     |

Finally, if only soil types A, B, C and D were cultivated as before, but their productiveness rose in such a way that A produced 2 quarters instead of 1 quarter, B — 4 quarters instead of 2, C — 7 quarters instead of 3, and D — 10 quarters instead of 4, so that the same causes affect the various types of soil differently, the total production increases from 10 quarters to 23. Assuming that demand absorbs these 23 quarters through an increase in population and a fall in prices, we should obtain the following result:

**Table III**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Product</th>
<th>Capital Invested</th>
<th>Price of Production per Quarter</th>
<th>Profit</th>
<th>Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quarters Shillings</td>
<td>Quarters Shillings</td>
<td>Quarters Shillings</td>
<td>Quarters Shillings</td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>2</td>
<td>60 50</td>
<td>30</td>
<td>(\frac{1}{3})</td>
<td>10</td>
</tr>
<tr>
<td>B</td>
<td>4</td>
<td>120 50</td>
<td>15</td>
<td>(\frac{2}{3})</td>
<td>70</td>
</tr>
<tr>
<td>C</td>
<td>7</td>
<td>210 50</td>
<td>8(\frac{1}{3})</td>
<td>(\frac{5}{3})</td>
<td>160</td>
</tr>
<tr>
<td>D</td>
<td>10</td>
<td>300 50</td>
<td>6</td>
<td>(\frac{8}{3})</td>
<td>250</td>
</tr>
</tbody>
</table>

| Total...    | 23      | 15 | 450 |
The numerical proportions in this and in other tables are chosen at random but the assumptions are quite rational.

The first and principal assumption is that an improvement in agriculture acts differently upon different soils, and in this case affects the best types of soil, C and D, more than types A and B. Experience has shown that this is generally the case, although the opposite may also take place. If the improvement affected the poorer soils more than the better ones, rent on the latter would have fallen instead of risen.— But in our table, we have assumed that the absolute growth in fertility of all soil types is simultaneously accompanied by an increase in greater relative fertility of the better soil types, C and D; this means an increase in the difference between the product at the same capital investment, and thus an increase in differential rent.

The second assumption is that total demand keeps pace with the increase in the total product. First, one need not imagine such an increase coming about abruptly, but rather gradually — until sequence III is established. Secondly, it is not true that the consumption of necessities of life does not increase as they become cheaper. The abolition of the Corn Laws in England proved the reverse to be the case (see Newman); the opposite view stems solely from the fact that large and sudden differences in harvests, which are mere results of weather, bring about at one time an extraordinary fall, at another an extraordinary rise, in grain prices. While in such a case the sudden and short-lived reduction in price does not have time to exert its full effect upon the extension of consumption, the opposite is true when a reduction arises from the lowering of the regulating price of production itself, i. e., is of a long-term nature. Thirdly, a part of the grain may be consumed in the form of brandy or beer; and the increasing consumption of both of these items is by no means confined within narrow limits. Fourthly, the matter depends in part upon the increase in population and in part on the fact that the country may be grain-exporting, as England still was long after the middle of the 18th century, so that the demand is not solely regulated within the confines of national consumption. Finally, the increase and the cheapness of wheat production may result in making wheat, instead of rye or oats, the principal article of consumption for the masses, so that the demand for it may grow if only for this reason, just as the opposite may take place when production decreases and prices rise.— Thus, under these assump-

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a F.W. Newman, Lectures on Political Economy, p. 158.
tions, and with the previously selected ratios, sequence III yields the result that the price per quarter falls from 60 to 30 shillings, that is, by 50%; that production, compared to sequence I, increases from 10 to 23 quarters, i.e., by 130%; that the rent remains fixed for soil B, increases by 25%\(^a\) for C, and by 33\(\frac{1}{3}\)%\(^b\) for D; and that the total rental increases from \(£18\) to \(£22 \frac{1}{2}\), i.e., by 25%\(^d\).

A comparison of these three tables (whereby sequence I is to be taken twice, rising from A to D, and descending from D to A), which may be considered either as given gradations under some stage of society, for instance, as existing side by side in three different countries, or as succeeding one another in different periods of development within the same country, shows:

1) The sequence, when complete, whatever the course of its formative process may have been, invariably appears as being in a descending line; for when analysing rent the point of departure will always be land yielding the maximum rent, and only finally do we come to land yielding no rent.

2) The price of production on the worst soil, i.e., which yields no rent, is always the one regulating the market price, although the latter in Table I, if its sequence were formed in an ascending line, only remained fixed because better and better soil was constantly drawn into cultivation. In such a case, the price of grain produced on the best soil is a regulating one in so far as it depends upon the quantity produced on such soil to what extent soil type A remains the regulator. If B, C and D should produce more than demand requires, A would cease to be the regulator. Storch has this point in mind when he adopts the best soil type as the regulating one.\(^c\) In this manner, the American price of grain regulates the English price.

3) Differential rent arises from differences in the natural fertility of the soil which is given for every given stage of agricultural development (leaving aside for the present the question of location); in other words, from the limited area of the best land, and from the circumstance that equal amounts of capital must be invested on unequal types of soil, so that an unequal product results from the same amount of capital.

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\(^a\) In the 1894 German edition this reads: doubles. - \(^b\) Ibid.: more than doubles. - \(^c\) Ibid.: 22. - \(^d\) Ibid.: \(22 \frac{1}{3}\)% - \(^e\) H. Storch, *Cours d'économie politique, ou Exposition des principes qui déterminent la prospérité des nations*, Tome II, pp. 78-79. See also this volume, p. 182.
4) The existence of a differential rent and of a graduated differential rent can develop equally well in a descending sequence, which proceeds from better to worse soils, as in an ascending one, which progresses in the opposite direction from worse to better soils; or it may be brought about in checkered fashion by alternating movements. (Sequence I may be formed by proceeding from D to A, or from A to D; sequence II comprises both types of movement.)

5) Depending on its mode of formation, differential rent may develop along with a stationary, rising or falling price of the products of the land. In the case of a falling price, total production and total rental may rise, and rent may develop on hitherto rentless land, even though the worst soil A may have been displaced by a better one or may itself have improved, and even though the rent may decrease on other land which is better, or even the best (Table II); this process may also be connected with a fall in total rent (in money). Finally, at a time when prices fall on account of a general improvement in cultivation, so that the product of the worst soil and its price decrease, the rent on some of the better soils may remain the same, or may fall, while it may rise on the best ones. Nevertheless, the differential rent of every soil, compared with the worst soil, depends, if the difference in quantity of products is given, upon the price, say, of a quarter of wheat. But when the price is given, differential rent depends upon the magnitude of the difference in quantity of products, and if with an increasing absolute fertility of all soils that of the better ones grows relatively more than that of the worse ones, the magnitude of this difference grows proportionately. In this way (Table I), when the price is 60 shillings, the rent on D is determined by its differential product as compared with A; in other words, by the surplus of 3 quarters. The rent is therefore $3 \times 60 = 180$ shillings. But in Table III, where the price = 30 shillings, the rent is determined by the quantity of surplus product of D as compared with A = 8 quarters; we therefore obtain $8 \times 30 = 240$ shillings.

This takes care of the first false assumption regarding differential rent—still found among West, Malthus, and Ricardo—namely, that it necessarily presupposes a movement toward worse and worse soil, or an ever-decreasing fertility of the soil. It can be formed, as we have seen, with a movement toward better and better soil; it can be formed when a better soil takes the lowest position that was formerly occupied by the worst soil; it can be connected with a progressive improvement in agriculture. The precondition is merely the unequal-
ity of different kinds of soil. So far as the increase in productivity is concerned, it assumes that the increase in absolute fertility of the total area does not eliminate this inequality, but either increases it, leaves it unchanged, or merely reduces it.

From the beginning to the middle of the 18th century, England's grain prices constantly fell in spite of the falling prices of gold and silver, while at the same time (viewing this entire period as a whole) there was an increase in rent, in the over-all amount of rent, in the area of cultivated land, in agricultural production, and in population. This corresponds to Table I taken in conjunction with Table II in an ascending line, but in such a way that the worst land A is either improved or eliminated from the grain-producing area; however, this does not mean that it was not used for other agricultural or industrial purposes.

From the early 19th century (date to be specified more precisely) until 1815 there is a constant rise in grain prices, accompanied by a steady increase in rent, in the over-all amount of rent, in the area of cultivated land, in agricultural production, and in population. This corresponds to Table I in a descending line. (Cite some sources here on the cultivation of inferior land in that period.)

In Petty's and Davenant's time, farmers and landowners complained about improvements and the bringing into cultivation of new land; the rent on better lands decreased, and the total amount of rent increased through the extension of the area of land yielding rent.

(These three points should be illustrated later by further quotations; likewise the difference in fertility of various cultivated sections of land in a particular country.)

Regarding differential rent in general, it is to be noted that the market value is always above the total price of production of the total quantity of products. As an example, let us take Table I. Ten quarters of total product are sold for 600 shillings because the market price is determined by the price of production of A, which amounts to 60 shillings per quarter. But the actual price of production is:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Quarters</th>
<th>Price per Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1 qr</td>
<td>60 sh.</td>
</tr>
<tr>
<td>B</td>
<td>2 qrs</td>
<td>60 sh.</td>
</tr>
<tr>
<td>C</td>
<td>3 qrs</td>
<td>60 sh.</td>
</tr>
<tr>
<td>D</td>
<td>4 qrs</td>
<td>60 sh.</td>
</tr>
</tbody>
</table>

\[ 10 \text{ qrs} = 240 \text{ sh.} \] Average \[ 1 \text{ qr} = 24 \text{ sh.} \]
The actual price of production of these 10 quarters is 240 shillings; but they are sold for 600 shillings, i.e., at 250% of the price of production. The actual average price for 1 quarter is 24 shillings; the market price is 60 shillings, i.e., also 250% of the production price.

This is determination by market value as it asserts itself on the basis of the capitalist mode of production through competition; the latter creates a false social value. This arises from the law of market value, to which the products of the soil are subject. The determination of the market value of products, including therefore agricultural products, is a social act, albeit a socially unconscious and unintentional one. It is based necessarily upon the exchange value of the product, not upon the soil and the differences in its fertility. If we suppose the capitalist form of society to be abolished and society organised as a conscious and planned association, then the 10 quarters would represent a quantity of independent labour time equal to that contained in 240 shillings. Society would not then buy this agricultural product at two and a half times the actual labour time embodied in it and the basis for a class of landowners would thus be destroyed. This would have the same effect as a reduction in price of the product to the same amount resulting from foreign imports. While it is, therefore, true that, by retaining the present mode of production, but assuming that the differential rent is paid to the state, prices of agricultural products would, everything else being equal, remain the same, it is equally wrong to say that the value of the products would remain the same if capitalist production were superseded by association. The identity of the market price for commodities of the same kind is the manner whereby the social character of value asserts itself on the basis of the capitalist mode of production and, in general, any production based on the exchange of commodities between individuals. What society overpays for agricultural products in its capacity of consumer, what is a minus in the realisation of its labour time in agricultural production, is now a plus for a portion of society, for the landlords.

A second circumstance, important for the analysis to be given under II in the next chapter, is the following:

It is not merely a matter of rent per acre, or per hectare, nor generally of a difference between the price of production and the market price, nor between the individual and the general price of production per acre, but it is also a question of how many acres of each type of soil are under cultivation. The point of importance here relates directly only to the magnitude of the rental, that is, the total rent of the
entire cultivated area; but it serves us at the same time as a stepping-stone to the consideration of a rise in the rate of rent although there is no rise in prices, nor increase in the differences in relative fertility of the various types of soil if prices fall. We had above:

**TABLE 1**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Price of Production</th>
<th>Product</th>
<th>Rent in Grain</th>
<th>Rent in Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>£3</td>
<td>1 qr</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>£3</td>
<td>2 qrs</td>
<td>1 qr</td>
<td>£3</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>£3</td>
<td>3 qrs</td>
<td>2 qrs</td>
<td>£6</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>£3</td>
<td>3 qrs</td>
<td>3 qrs</td>
<td>£9</td>
</tr>
<tr>
<td>Total</td>
<td>4 acres</td>
<td>10 qrs</td>
<td>6 qrs</td>
<td></td>
<td>£18</td>
</tr>
</tbody>
</table>

Now let us assume that the number of cultivated acres is doubled in every category. We then have:

**TABLE 1a**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Price of Production</th>
<th>Product</th>
<th>Rent in Grain</th>
<th>Rent in Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>2</td>
<td>£6</td>
<td>2 qrs</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>£6</td>
<td>4 qrs</td>
<td>2 qrs</td>
<td>£6</td>
</tr>
<tr>
<td>C</td>
<td>2</td>
<td>£6</td>
<td>6 qrs</td>
<td>4 qrs</td>
<td>£12</td>
</tr>
<tr>
<td>D</td>
<td>2</td>
<td>£6</td>
<td>8 qrs</td>
<td>6 qrs</td>
<td>£18</td>
</tr>
<tr>
<td>Total</td>
<td>8 acres</td>
<td>20 qrs</td>
<td>12 qrs</td>
<td></td>
<td>£36</td>
</tr>
</tbody>
</table>

Let us assume two more cases. Suppose in the first case production expands on the two poorest types of soil in the following manner:

**TABLE 1b**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Price of Production</th>
<th>Product</th>
<th>Rent in Grain</th>
<th>Rent in Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>4</td>
<td>£3</td>
<td>£12</td>
<td>4 qrs</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>4</td>
<td>£3</td>
<td>£12</td>
<td>8 qrs</td>
<td>£12</td>
</tr>
<tr>
<td>C</td>
<td>2</td>
<td>£3</td>
<td>£6</td>
<td>4 qrs</td>
<td>£12</td>
</tr>
<tr>
<td>D</td>
<td>2</td>
<td>£3</td>
<td>£6</td>
<td>6 qrs</td>
<td>£18</td>
</tr>
<tr>
<td>Total</td>
<td>12 acres</td>
<td>£36</td>
<td>26 qrs</td>
<td>14 qrs</td>
<td>£42</td>
</tr>
</tbody>
</table>
and, finally, let us assume an unequal expansion of production and cultivated area for the four soil categories:

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Price of Production Per Acre</th>
<th>Total</th>
<th>Rent in Grain</th>
<th>Rent in Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>£3</td>
<td>£3</td>
<td>1 qr</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>2</td>
<td>£3</td>
<td>£6</td>
<td>4 qrs</td>
<td>2 qrs</td>
</tr>
<tr>
<td>C</td>
<td>5</td>
<td>£3</td>
<td>£15</td>
<td>15 qrs</td>
<td>10 qrs</td>
</tr>
<tr>
<td>D</td>
<td>4</td>
<td>£3</td>
<td>£12</td>
<td>16 qrs</td>
<td>12 qrs</td>
</tr>
<tr>
<td>Total</td>
<td>12</td>
<td>£36</td>
<td>36 qrs</td>
<td>24 qrs</td>
<td>£72</td>
</tr>
</tbody>
</table>

In the first place, the rent per acre remains the same in all these cases — I, Ia, Ib and Ic — for, in fact, the result of the same investment of capital per acre of the same soil type has remained unchanged. We have only assumed what is true of any country at any given moment; namely, that various soil types exist in definite ratios to the total cultivated area. And we also assumed what is always true of any two countries being compared, or of the same country at different periods, namely, that the proportions in which the total cultivated area is distributed among the different soil types vary.

In comparing Ia with I we see that if the area under cultivation in all four categories increases in the same proportion a doubling of the cultivated acreage doubles the total production, and that the same applies to the rent in grain and money.

However, if we compare Ib and then Ic with I, we see that in both cases a tripling of the area under cultivation occurs. It increases in both cases from 4 acres to 12, but in Ib classes A and B contribute most to the increase, with A yielding no rent and B yielding the smallest amount of differential rent. Thus, out of the 8 newly cultivated acres, A and B account for 3 each, i.e., 6 together, whereas C and D account for 1 each, i.e., 2 together. In other words, three-quarters of the increase is accounted for by A and B, and only one-quarter by C and D. With this premise, in Ib compared with I the trebled area of cultivation does not result in a trebled product, for the product does not increase from 10 to 30, but only to 26. On the other hand, since a considerable part of the increase concerns A, which does not yield any rent, and since the major part of the increase on better soils con-
cerns B, the rent in grain rises only from 6 to 14 quarters, and the rent in money from £18 to £42.

But if we compare Ic with I, where the land yielding no rent does not increase in area and the land yielding a minimum rent increases but slightly, while C and D account for the major part of the increase, we find that when the cultivated area is trebled production increases from 10 to 36 quarters, i.e., to more than three times its original amount. The rent in grain increases from 6 to 24 quarters or to four times its original amount; and similarly money rent, from £18 to £72.

In all these cases it is in the nature of things that the price of the agricultural product remains unchanged. The total rental increases in all cases with the extension of cultivation, unless it takes place exclusively on the worst soil, which does not yield any rent. But this increase varies. Should this extension involve the better soil types and the total output, consequently, increase not merely in proportion to the extension of the area, but rather more rapidly, then the rent in grain and money increases to the same extent. Should it be the worst soil, and the types of soil close to it, that are principally involved in the extension (whereby it is assumed that the worst soil represents a constant type), the total rental does not increase in proportion to the extension of cultivation. Thus, given two countries in which soil A, yielding no rent, is of the same quality, the rental is inversely proportional to the aliquot part represented by the worst soil and the inferior soil types in the total area under cultivation, and therefore inversely proportional to the output, assuming equal capital investments on equal total land areas. A relationship between the quantity of the worst and the quantity of the better cultivated land in the total land area of a given country thus has an opposite influence on the total rental than the relationship between the quality of the worst cultivated land and the quality of the better and best has on the rent per acre and — other circumstances remaining the same — on the total rental. Confusion between these two points has given rise to all kinds of erroneous objections raised against differential rent.

The total rental, then, increases by the mere extension of cultivation, and by the consequent greater investment of capital and labour in the land.

But the most important point is this: Although it is our assumption that the ratio of rents per acre for the various kinds of soil remains the same, and therefore also the rate of rent considered with reference to capital invested in each acre, yet the following is to be observed: If we
compare Ia with I, the case in which the number of cultivated acres and the capital invested in them have been proportionately increased, we find that as the total production has increased proportionately to the expanded cultivated area, i.e., as both have been doubled, so has the rental. It has risen from £18 to £36, just as the number of acres has risen from 4 to 8.

If we take the total area of 4 acres, we find that the total rental amounted to £18 and thus the average rent, including the land which does not yield any rent is £4 1/2. Such a calculation might be made, say, by a landlord owning all 4 acres; and in this way the average rent is statistically computed for a whole country. The total rental of £18 is obtained by the investment of a capital of £10. We call the ratio of these two figures the rate of rent; in the present case it is therefore 180%.

The same rate of rent obtains in Ia, where 8 instead of 4 acres are cultivated, but all types of land have contributed to the increase in the same proportion. The total rental of £36 yields for 8 acres and an invested capital of £20 an average rent of £4 1/2 per acre and a rate of rent of 180%.

But if we consider Ib, where the increase has taken place mainly upon two inferior categories of soil, we obtain a rent of £42 for 12 acres, or an average rent of £3 1/2 per acre. The total invested capital is £30, and therefore the rate of rent = 140%. The average rent per acre has thus decreased by £1, and the rate of rent has fallen from 180 to 140%. Here then we have a rise in the total rental from £18 to £42, but a drop in the average rent calculated per acre as well as on the basis of capital; the drop takes place parallel to an increase in production, but not proportionately. This occurs even though the rent for all types of soil, calculated per acre as well as on the basis of capital outlay, remains the same. This occurs because three-quarters of the increase is accounted for by soil A, which does not yield any rent, and soil B, which yields only minimum rent.

If the total extension in Case Ib had taken place solely on soil A, we should have 9 acres on A, 1 acre on B, 1 acre on C and 1 acre on D. The total rental would be £18, the same as before; the average rent for the 12 acres therefore would be £1 1/2 per acre; and a rent of £18 on an invested capital of £30 would give a rate of rent of 60%. The average rent, calculated per acre as well as on the basis of the invested capital, would have greatly decreased, while the total rental would not have increased.
Finally, let us compare Ic with I and Ib. Compared with I, the area has been trebled, and also the invested capital. The total rental is £72 for 12 acres, or £6 per acre — as against £4 1\(\frac{1}{2}\) in Case I. The rate of rent on the invested capital (\(\frac{\text{£}72}{\text{£}30}\)) is 240% instead of 180%. The total output has risen from 10 to 36 quarters.

Compared with Ib, where the total number of cultivated acres, the invested capital, and the differences between the cultivated soil types are the same, but the distribution different, the output is 36 quarters instead of 26 quarters, the average rent per acre is £6 instead of £3 1\(\frac{1}{2}\), and the rate of rent with reference to the same total advanced capital is 240% instead of 140%.

No matter whether we regard the various conditions in tables Ia, Ib and Ic as existing simultaneously side by side in different countries, or as existing successively in the same country, we come to the following conclusions: So long as the price of grain remains unchanged because the yield on the worst, rentless soil remains the same; so long as the difference in the fertility of the various cultivated types of soil remains the same; so long as the respective outputs remain the same, hence, given equal capital investments on equal aliquot parts (acres) of cultivated area in every type of soil; so long as the ratio, therefore, between the rents per acre on each category of soil is constant, and the rate of rent on the capital invested in each plot of the same kind of soil is constant: First, the rental constantly increases with the extension of cultivated area and with the consequent increased capital investment, except for the case where the entire increase is accounted for by rentless land. Secondly, the average rent per acre (total rental divided by the total number of cultivated acres) as well as the average rate of rent (total rental divided by the invested total capital) may vary very considerably; and, indeed, both change in the same direction, but in different proportions to each other. If we leave out of consideration the case in which the expansion takes place only on the rentless soil A, we find that the average rent per acre and the average rate of rent on the capital invested in agriculture depend on the proportions which the various classes of soil constitute in the total cultivated area; or, what amounts to the same thing, on the distribution of the total employed capital among the kinds of soil of varying fertility. Whether much or little land is cultivated, and whether the total rental is therefore larger or smaller (with the exception of the case in which the expansion is confined to A), the average rent per acre, or the average rate of rent on the invested capital, remains the same as
long as the proportions of the various categories of soil in the total cultivated area remain unchanged. In spite of an increase, even a very considerable one, in the total rental with the extension of cultivation and expansion of capital investment, the average rent per acre and the average rate of rent on capital decrease when the extension of rentless land, and land yielding only little differential rent, is greater than the extension of the superior one yielding greater rent. Conversely, the average rent per acre and the average rate of rent on capital increase proportionately to the extent that better land constitutes a relatively greater part of the total area and therefore employs a relatively greater share of the invested capital.

Hence, if we consider the average rent per acre, or hectare, of the total cultivated land, as is generally done in statistical works, in comparing either different countries in the same period, or different periods in the same country, we find that the average level of rent per acre, and consequently total rental, corresponds to a certain extent (although by no means identical, but rather a more rapidly increasing extent) to the absolute, not to the relative, fertility of the soil in a given country; that is, to the average amount of produce which it yields from the same area. For the larger the share of superior soils in the total cultivated area, the greater the output for equal capital investments on equally large areas of land; and the higher the average rent per acre. In the reverse case the opposite takes place. Thus, rent does not appear to be determined by the ratio of differential fertility, but by the absolute fertility, and the law of differential rent appears invalid. For this reason certain phenomena are disputed, or an attempt is made to explain them by non-existing differences in average prices of grain and in the differential fertility of cultivated land, whereas such phenomena are merely due to the fact that the ratio of the total rental to the total area of cultivated land or to the total capital invested in the land—as long as the fertility of the rentless soil remains the same and therefore the prices of production, and the differences between the various kinds of soil remain unchanged—is determined not merely by the rent per acre or the rate of rent on capital, but quite as much by the relative number of acres of each type of soil in the total number of cultivated acres; or, what amounts to the same thing, by the distribution of the total invested capital among the various types of soil. Curiously enough, this fact has been completely overlooked thus far. At any rate, we see (and this is important for our further analysis) that the relative level of the average rent per acre,
and the average rate of rent (or the ratio of the total rental to the total capital invested in the land), may rise or fall by merely extensively expanding cultivation, as long as prices remain the same, the differential fertilities of the various soils remain unaltered, and the rent per acre, or rate of rent for capital invested per acre in every type of soil actually yielding rent, i.e., for all capital actually yielding rent, remains unchanged.

It is necessary to make the following additional points with reference to the form of differential rent considered under heading I; they also apply in part to differential rent II:

First, it was seen that the average rent per acre, or the average rate of rent on capital, may increase with an extension of cultivation when prices are stationary and the differential fertility of the cultivated plots of land remains unaltered. As soon as all the land in a given country has been appropriated, and investments of capital in land, cultivation, and population have reached a definite level—all given conditions as soon as the capitalist mode of production becomes the prevailing one and also encompasses agriculture—the price of uncultivated land of varying quality (merely assuming differential rent to exist) is determined by the price of the cultivated plots of land of the same quality and equivalent location. The price is the same—after deducting the cost of bringing the new land into cultivation—even though this land does not yield any rent. The price of the land is, indeed, nothing but the capitalised rent. But even in the case of cultivated land, the price pays only for future rents, as, for instance, when the prevalent interest rate is 5% and the rent for twenty years is paid at one time in advance. When land is sold, it is sold as land yielding rent, and the prospective character of the rent (which is here considered as a product of the soil, but it only seems to be that) does not distinguish the uncultivated from the cultivated land. The price of the uncultivated land, like its rent—the price of which represents the contracted form of the latter—is quite illusory as long as the land is not actually used. But it is thus determined a priori and is realised as soon as a purchaser is found. Hence, while the actual average rent in a given country is determined by its actual average annual rental and the relation of the latter to the total cultivated area, the price of the uncultivated land is determined by the price of the cultivated land, and is therefore but a reflection of the capital invested in the cultivated
land and the results obtained therefrom. Since all land with the exception of the worst yields rent (and this rent, as we shall see under the head of differential rent II, increases with the quantity of capital and corresponding intensity of cultivation), the nominal price of uncultivated plots of land is thus formed, and they thus become commodities, a source of wealth for their owners. This explains at the same time, why the price of land increases in a whole region, even in the uncultivated part (Opdyke\(^a\)). Land speculation, for instance, in the United States, is based solely on this reflection thrown by capital and labour on uncultivated land.

Secondly, progress in extending cultivated land generally takes place either toward inferior soil or on the various given types of soil in varying proportions depending on the manner in which they are met. Progress to inferior soil is naturally never made voluntarily, but can only result from rising prices, assuming a capitalist mode of production, and can only result from necessity under any other mode of production. However, this is not absolutely so. Poor soil may be preferred to a relatively better soil on account of location, which is of decisive importance for every extension of cultivation in young countries; furthermore, even though the soil formation in a certain region may generally be classified as fertile, it may nevertheless consist of a motley confusion of better and worse soils, so that the inferior soil may have to be cultivated if only because it is found in the immediate vicinity of the superior soil. If inferior soil is surrounded by superior soil, then the latter gives it the advantage of location in comparison with more fertile soil which is not yet, or is about to become, part of the cultivated area.

Thus, the State of Michigan was one of the first Western States to become an exporter of grain. Yet its soil on the whole is poor. But its proximity to the State of New York and its water-ways via the Lakes and Erie Canal initially gave it the advantage over the States endowed by Nature with more fertile soil, but situated farther to the West. The example of this State, as compared with the State of New York, also demonstrates the transition from superior to inferior soil. The soil of the State of New York, particularly its western part, is incomparably more fertile, especially for the cultivation of wheat. This fertile soil was transformed into infertile soil by rapacious methods of cultivation, and now the soil of Michigan appeared as the more fertile.

\(^a\) Reference to G. Opdyke, *A Treatise on Political Economy.*
"In 1838, wheaten flour was shipped at Buffalo for the West; and the wheat-region of New York, with that of Upper Canada, were the main sources of its supply. Now, after only twelve years, an enormous supply of wheat and flour is brought from the West, along Lake Erie, and shipped upon the Erie Canal for the East, at Buffalo and the adjoining port of Blackrock... The effect of these large arrivals from the Western States—which were unnaturally stimulated during the years of European famine... has been to render wheat less valuable in western New York, to make the wheat culture less remunerative, and to turn the attention of the New York farmers more to grazing and dairy husbandry, fruit culture, and other branches of rural economy, in which they think the North-West will be unable so directly to compete with them” (J.W. Johnston, Notes on North America, London, 1851, I, p. 222).

Thirdly, it is a mistaken assumption that the land in colonies and, in general, in young countries which can export grain at cheaper prices, must of necessity be of greater natural fertility. The grain is not only sold below its value in such cases, but below its price of production, i.e., below the price of production determined by the average rate of profit in the older countries.

The fact that we, as Johnston says (p. 223),

"are accustomed to attach the idea of great natural productiveness and of boundless tracts of rich land, to those new States from which come the large supplies of wheat that are annually poured into the port of Buffalo,”

is primarily the result of economic conditions. The entire population of such an area as Michigan, for instance, is at first almost exclusively engaged in farming, and particularly in producing agricultural mass products, which alone can be exchanged for industrial products and tropical goods. Its entire surplus production appears, therefore, in the form of grain. This from the outset sets apart the colonial states founded on the basis of the modern world market from those of earlier, particularly ancient, times. They receive through the world market finished products, such as clothing and tools which they would have to produce themselves under other circumstances. Only on such a basis were the Southern States of the Union enabled to make cotton their staple crop. The division of labour on the world market makes this possible. Hence, if they seem to have a large surplus production considering their youth and relatively small population, this is not so much due to the fertility of their soil, nor the fruitfulness of their labour, but rather to the one-sided form of their labour, and therefore of the surplus produce in which such labour is incorporated.

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a l. c., pp. 222-23.
Furthermore, a relatively inferior soil which is newly cultivated and never before touched by civilisation provided the climatic conditions are then not completely unfavourable, has accumulated a great deal of plant food that is easily assimilated — at least in the upper layers of the soil — so that it will yield crops for a long time without the application of fertilisers and even with very superficial cultivation. The western prairies have the additional advantage of hardly requiring any clearing expenses since Nature has made them arable.\textsuperscript{33a} In less fertile areas of this kind, the surplus is not produced as a result of the high fertility of the soil, i.e., the yield per acre, but as a result of the large acreage which may be superficially cultivated, since such land costs the cultivator nothing, or next to nothing as compared with older countries. This is the case, for instance, where share cropping exists, as in parts of New York, Michigan, Canada, etc. A family superficially cultivates, say, 100 acres, and although the output per acre is not large, the output from 100 acres yields a considerable surplus for sale. In addition to this, cattle may be grazed on natural pastures at almost no cost, without requiring artificial grass meadows. It is the quantity of the land, not its quality, which is decisive here. The possibility of such superficial cultivation is naturally more or less rapidly exhausted, namely, in inverse proportion to the fertility of the new soil and in direct proportion to the export of its products.

"And yet such a country will give excellent first crops, even of wheat, and will supply to those who skim the first cream off the country, a large surplus of this grain to send to market" (1.c., p. 224).

Property relations in countries with maturer civilisations, with their determination of the price of uncultivated soil by that of the cultivated, etc., make such an extensive economy impossible.

\textsuperscript{33a} //It is precisely the rapidly growing cultivation of such prairie or steppe regions which of late has turned the renowned statement of Malthus, that "the population is a burden upon the means of subsistence",\textsuperscript{a} into ridicule, and produced in its stead the agrarian lament that agriculture, and with it Germany, will be ruined, unless the means of subsistence which are a burden upon the population are forcibly kept away from them. The cultivation of these steppes, prairies, pampas, llanos, etc., is nevertheless only in its beginning; its revolutionising effect on European agriculture will, therefore, make itself felt in the future even more so than hitherto.— F. E.\textitalic

\textsuperscript{a} [T. R. Malthus], \textit{An Essay on the Principles of Population}. 
That this soil, therefore, need not be exceedingly rich, as Ricardo imagines, nor that soils of equal fertility need be cultivated, may be seen from the following: In the State of Michigan 465,900 acres were planted in 1848 to wheat which yielded 4,739,300 bushels, or an average of $10\frac{1}{5}$ bushels per acre; after deducting seed grain, this leaves less than 9 bushels per acre. Of the 29 counties of this State, 2 produced an average of 7 bushels, 3 an average of 8 bushels, 2—9, 7—10, 6—11, 3—12, 4—13 bushels, and only one county produced an average of 16 bushels, and another 18 bushels per acre (1.c., p. 225).

For practical cultivation higher soil fertility coincides with greater capability of immediate exploitation of such fertility. The latter may be greater in a naturally poor soil than in a naturally rich one; but it is the kind of soil which a colonist will take up first, and must take up when capital is wanting.

Finally, the extension of cultivation to larger areas—aside from the case just mentioned, in which recourse must be had to soil inferior than that cultivated hitherto—to the various kinds of soil from A to D, thus, for instance, the cultivation of larger tracts of B and C does not by any means presuppose a previous rise in grain prices any more than the preceding annual expansion of cotton spinning, for instance, requires a constant rise in yarn prices. Although a considerable rise or fall in market prices affects the volume of production, nevertheless, regardless of it there is in agriculture (just as in all other capitalistically operated branches of production) a continuous relative overproduction, in itself identical with accumulation, even at those average prices whose level has neither a retarding nor exceptionally stimulating effect on production. Under other modes of production this relative overproduction is effected directly by the population increase, and in colonies by steady immigration. The demand increases constantly, and, in anticipation of this, new capital is continually invested in new land, although this varies with the circumstances for different agricultural products. It is the formation of new capitals which in itself brings this about. But so far as the individual capitalist is concerned, he measures the volume of his production by that of his available capital, to the extent that he can still control it himself. His aim is to capture as big a portion as possible of the market. Should there be any overproduction, he will not take the blame upon himself, but places it upon his competitors. The individual capitalist may expand his production by appropriating a larger aliquot share of the existing market or by expanding the market itself.
Second Form of Differential Rent

Chapter XL

( Differential Rent II )

Thus far we have considered differential rent only as the result of varying productivity of equal amounts of capital invested in equal areas of land of different fertility, so that differential rent was determined by the difference between the yield from the capital invested in the worst, rentless soil and that from the capital invested in superior soil. We had side by side capitals invested in different plots of land, so that every new investment of capital signified a more extensive cultivation of the soil, an expansion of cultivated area. In the last analysis, however, differential rent was by its nature merely the result of the different productivity of equal capitals invested in land. But can it make any difference if capitals of different productivity are invested successively in the same plot of land or side by side in different plots of land, provided the results are the same?

To begin with, there is no denying that, in so far as the formation of surplus profit is concerned, it is immaterial whether £3 in production price per acre of A yield 1 qr, so that £3 is the price of production and the regulating market price of 1 qr, while £3 in production price per acre of B yield 2 qrs, and thereby £3 of surplus profit, similarly, £3 in production price per acre of C yield 3 qrs and £6 of surplus profit, and, finally, £3 in production price per acre of D yield 4 qrs and £9 of surplus profit; or whether the same result is achieved by applying these £12 in production price, or £10 of capital, with the same success in the same sequence upon one and the same acre. It is in both cases a capital of £10, whose value portions of £2 1/2 each are successively invested — whether in four acres of varying fertility side by side, or successively in one and the same acre of land — and because of their varying outputs, one portion yields no surplus profit, whereas the other portions yield surplus profit proportionate to their difference in yield with respect to rentless investment.

The surplus profits and the various rates of surplus profit for the different value portions of capital are formed in the same manner in both cases. And the rent is nothing but a form of this surplus profit, which constitutes its substance. But at any rate, in the second method, there are some difficulties concerning the transformation of surplus profit into rent, this change of form, which includes the transfer of surplus profit from the capitalist tenant farmer to the landowner.
This accounts for the obstinate resistance of English tenant farmers to official agricultural statistics. And it accounts for their struggle against the landlords over the determination of actual results derived from their capital investments (Morton). For rent is fixed when land is leased, and after that the surplus profit arising from successive investments of capital flows into the pockets of the tenant as long as the lease lasts. This is why the tenants have fought for long leases, and, on the other hand, due to the greater power of the landlords, an increase in the number of tenancies at will has taken place, i.e., leases which can be cancelled annually.

It is therefore evident from the very outset that, even if immaterial for the law of formation of surplus profit, it makes a considerable difference for the transformation of surplus profit into ground rent whether equal capitals are invested side by side in equal areas of land with unequal results, or whether they are invested successively in the same land. The latter method confines this transformation, on the one hand, within narrower limits, on the other hand, within more variable limits. For this reason, the work of the tax-assessor, as Morton shows in his Resources of Estates, becomes a very important, complicated and difficult profession in countries practising intensive cultivation (and, economically speaking, we mean nothing more by intensive cultivation than the concentration of capital upon the same plot rather than its distribution among several adjoining pieces of land). If soil improvements are of a more permanent nature the artificially increased differential fertility of the soil coincides with its natural differential fertility as soon as the lease expires, and therefore the assessment of the rent corresponds to the determination of the rent on plots of different fertilities in general. On the other hand, in so far as the formation of surplus profit is determined by the magnitude of operating capital, the amount of rent for a certain amount of operating capital is added to the average rent of the country and thus provision is made for the new tenant to command sufficient capital to continue cultivation in the same intensive manner.

In the study of differential rent II, the following points are still to be emphasised.

First, its basis and point of departure, not just historically, but also in so far as concerns its movement at any given period of time, is differential rent I, that is, the simultaneous cultivation side by side of
soils of unequal fertility and location; in other words, the simultaneous application, side by side, of unequal portions of the total agricultural capital upon plots of land of unequal quality.

Historically this is self-evident. In the colonies, colonists have but little capital to invest; the principal production agents are labour and land. Every individual head of family seeks for himself and his kin an independent field of employment alongside his fellow-colonists. This must generally be the case in agriculture proper even under precapitalist modes of production. In the case of sheep-herding and cattle-raising, in general, as independent lines of production, exploitation of the soil is more or less common and extensive from the very outset. The capitalist mode of production has for its point of departure former modes of production in which the means of production were, in fact or legally, the property of the tiller himself, in a word, a handi-craft-like pursuit of agriculture. It is in the nature of things that the latter gives way but gradually to the concentration of the means of production and their transformation into capital, as against direct producers transformed into wage labourers. In so far as the capitalist mode of production is manifested here typically, it occurs at first particularly in sheep-herding and cattle-raising. But it is thus manifested not in a concentration of capital upon a relatively small area of land, but in production on a larger scale, economising in the expense of keeping horses, and in other production costs; but, in fact, not by investing more capital in the same land. Furthermore, in accordance with the natural laws of field husbandry, capital—used here, at the same time, in the sense of means of production already produced—becomes the decisive element in soil cultivation when cultivation has reached a certain level of development and the soil has been correspondingly exhausted. So long as the tilled area is small in comparison with the untilled, and so long as the soil strength has not been exhausted (and this is the case when cattle-raising and meat consumption prevail in the period before agriculture proper and plant nutrition have become dominant), the new developing mode of production is opposed to peasant production mainly in the extensiveness of the land being tilled at the expense of a capitalist, in other words, again in the extensive application of capital to larger areas of land. It should therefore be remembered from the outset that differential rent I is the historical basis which serves as a point of departure. On the other hand, the movement of differential rent II at any given moment occurs only within a sphere which is itself but the variegated basis of differential rent I.
Secondly, in the differential rent in form II, the differences in distribution of capital (and ability to obtain credit) among tenants are added to the differences in fertility. In manufacture proper, each line of business rapidly develops its own minimum volume of business and a corresponding minimum of capital, below which no individual business can be conducted successfully. In the same way, each line of business develops a normal average amount of capital above this minimum, which the bulk of producers should, and do, command. A larger volume of capital can produce extra profit; a smaller volume does not so much as yield the average profit. The capitalist mode of production spreads in agriculture but slowly and unevenly, as may be observed in England, the classic land of the capitalist mode of production in agriculture. In so far as the free importation of grain does not exist, or its effect is but limited because its volume is small, producers working inferior soil, and thus under worse than average conditions of production, determine the market price. A larger portion of the total mass of capital invested in husbandry, and in general available to it, is in their hands.

It is true that the peasant, for example, expends much labour on his small plot of land. But it is labour isolated from objective social and material conditions of productivity, labour robbed and stripped of these conditions.

This circumstance enables the actual capitalist tenant farmers to appropriate a portion of surplus profit—a fact which would not obtain, at least so far as this point is concerned, if the capitalist mode of production were as evenly developed in agriculture as in manufacture.

Let us first consider just the formation of surplus profit with differential rent II, without for the present bothering about the conditions under which the transformation of this surplus profit into ground rent may take place.

It is then evident that differential rent II is merely differently expressed differential rent I, but identical to it in substance. The variation in fertility of various soil types exerts its influence in the case of differential rent I only in so far as unequal results are attained by capitals invested in the soil, i.e., the amount of products obtained either with respect to equal magnitudes of capital, or proportionate amounts. Whether this inequality takes place for various capitals invested successively in the same land or for capitals invested in several plots of differing soil type—this can change nothing in the difference
in fertility nor in its product and can therefore change nothing in the formation of differential rent for the more productively invested portions of capital. It is still the soil which, now as before, shows different fertility with the same investment of capital, save that here the same soil performs for a capital successively invested in different portions what various kinds of soil do in the case of differential rent I for different equal portions of social capital invested in them.

If the same capital of £10, which is shown in Table I\(^a\) to be invested in the form of independent capitals of £2\(^1\)\(\text{a}\) each by various tenants in each acre of the four soil types A, B, C and D, were instead successively invested in one and the same acre D, so that the first investment yielded 4 qrs, the second 3, the third 2, and the fourth 1 qr (or in the reverse order), then the price of the quarter furnished by the least productive capital, namely = £3, would not yield any differential rent, but would determine the price of production, so long as the supply of wheat whose price of production is £3 were needed. And since our assumption is that the capitalist mode of production prevails, so that the price of £3 includes the average profit made by a capital of £2\(^1\)\(\text{a}\) generally, the other three portions of £2\(^1\)\(\text{a}\) each will yield surplus profit in accordance with the difference in output, since this output is not sold at its own price of production, but at the price of production of the least productive investment of £2\(^1\)\(\text{a}\); the latter investment does not yield any rent and the price of its products is determined by the general law of prices of production. The formation of surplus profit would be the same as in Table I.

Once again it is seen here that differential rent II presupposes differential rent I. The minimum output obtained from a capital of £2\(^1\)\(\text{a}\), i.e., from the worst soil, is here assumed to be 1 qr. Assumed, also, is that aside from the £2\(^1\)\(\text{a}\) which yield him 4 qrs and for which he pays a differential rent of 3 qrs, the tenant operating with soil type D invests in this same soil £2\(^1\)\(\text{a}\) which yield him only 1 qr, like the same capital upon the worst soil A. This would be an investment of capital which does not yield rent, since it returns to him only average profit. There would be no surplus profit which could be transformed into rent. On the other hand, this decreasing yield of the second investment of capital in D would have no influence on the rate of profit. It would be the same as though £2\(^1\)\(\text{a}\) had been invested anew in an additional acre of soil type A, a circumstance which would in no way af-

\(^a\) See this volume, p. 646.
fect the surplus profit and, therefore, the differential rent of soils A, B, C and D. But for the tenant, this additional investment of £2 1/2 in D would have been quite as profitable as, in accordance with our assumption, the investment of the original £2 1/2 per acre of D, although the latter yields 4 qrs. Furthermore, if two other investments of £2 1/2 each should yield an additional output of 3 qrs and 2 qrs respectively, a decrease would have taken place again compared with the output from the investment of £2 1/2 in D, which yielded 4 qrs, i.e., a surplus profit of 3 qrs. But it would be merely a decrease in the amount of surplus profit, and would not affect either the average profit or the regulating price of production. The latter would be the case only if the additional production yielding this decreasing surplus profit made the production upon A superfluous, and threw acre A out of cultivation. In this case, the decreasing productiveness of the additional investment of capital in acre D would be accompanied by a fall in the price of production, for instance, from £3 to £1 1/2, if acre B would become the rentless soil and regulator of the market price.

The output from D would now be = 4 + 1 + 3 + 2 = 10 qrs whereas formerly it was = 4 qrs. But the price per quarter as regulated by B would have fallen to £1 1/2. The difference between D and B would be = 10 - 2 = 8 qrs, at £1 1/2 per quarter = £12, whereas the money rent from D was previously = £9. This should be noted. Calculated per acre, the magnitude of rent would have risen by 33 1/3 % in spite of the decreasing rate of surplus profit on the two additional capitals of £2 1/2 each.

We see from this to what highly complicated combinations differential rent in general, and in form II coupled with form I, in particular, may give rise, whereas Ricardo, for instance, treats it very one-sidedly and as though it were a simple matter. As in the above case, a fall in the regulating market price and at the same time rise in rent from fertile soils may take place so that both the absolute product and the absolute surplus product increase. (In differential rent I, in descending order, the relative surplus product and thus the rent per acre may increase, although the absolute surplus product per acre remains constant or even decreases.) But at the same time, productiveness of the investments of capital made successively in the same soil decreases, although a large portion of them falls to the more fertile soils. From a certain point of view — as concerns both output and prices of production — the productivity of labour has risen. But from another point of view, it has decreased because the rate of surplus profit
and the surplus product per acre decrease for the various investments of capital in the same land.

Differential rent II, with decreasing productiveness of successive investments of capital, would necessarily be accompanied by a rise in price of production and an absolute decrease in productivity only if investments of capital could be made in none but the worst soil A. If an acre of A, which with an investment of capital of £2 1/2 yielded 1 qr at a price of production of £3, should only yield a total of 1 1/2 qrs with an additional outlay of £2 1/2, i.e., a total investment of £5, then the price of production of this 1 1/2 qrs = £6, or that of 1 qr = £4. Every decrease in productivity with a growing investment of capital would here mean a relative decrease in output per acre, whereas upon superior soils it would only signify a decrease in the additional surplus product.

But by the nature of things, with the development of intensive cultivation, i.e., with successive investments of capital in the same soil, this will take place more advantageously, or to a greater extent on better soils. (We are not referring to permanent improvements by which a hitherto useless soil is converted into useful soil.) The decreasing productiveness of successive investments of capital must, therefore, have principally the effect indicated above. The better soil is selected because it affords the best promise that capital invested in it will be profitable, since it contains the most natural elements of fertility, which need but be utilised.

When, after the abolition of the Corn Laws, cultivation in England became still more intensive, a great deal of former wheat land was devoted to other purposes, particularly cattle pastures, while the fertile land best suited for wheat was drained and otherwise improved. The capital for wheat cultivation was thus concentrated in a more limited area.

In this case — and all possible surplus rates between the greatest surplus product of the best soil and the output of rentless soil A coincide here with an absolute, rather than a relative, increase in surplus product per acre — the newly formed surplus profit (potential rent) does not represent a portion of a former average profit transformed into rent (a portion of the output in which the average profit formerly was expressed) but an additional surplus profit, which is transformed out of this form into rent.

On the other hand, only in the case where the demand for grain increased to such an extent that the market price rose above the price of
production of A, so that the surplus product of A, B, or any other kind of soil could be supplied only at a price higher than £3 would the decrease in yield from an additional investment of capital in any of the soil types A, B, C and D be accompanied by a rise in the price of production and the regulating market price. In so far as this lasted for a lengthy period of time without resulting in the cultivation of additional soil A (of at least the quality of A), or without a cheaper supply resulting from other circumstances, wages would rise in consequence of the increase in the price of bread, everything else being equal, and the rate of profit would fall accordingly. In this case, it would be immaterial, whether the increased demand were satisfied by bringing under cultivation soil of inferior quality than A, or by additional investments of capital, in any of the four types of soil. Differential rent would then increase together with a falling rate of profit.

This one case, in which the decreasing productiveness of subsequent additional capitals invested in already cultivated soils may lead to an increase in the price of production, a fall in the rate of profit, and the formation of higher differential rent — for the latter would increase under the given circumstances upon all kinds of soil just as though soil of inferior quality than A were regulating the market price — has been labelled by Ricardo as the only case, the normal case — to which he reduces the entire formation of differential rent II.

This would also be the case if only type A soil were cultivated and successive investments of capital in it were not accompanied by a proportional increase in produce.

Here then, in the case of differential rent II, one completely loses sight of differential rent I.

Except for this case, in which the supply from the cultivated soils is either insufficient and the market price thus continually higher than the price of production until new additional soil of inferior quality is taken under cultivation or until the total product from the additional capital invested in various kinds of soil can be supplied only at a higher price of production than that hitherto prevailing — except for this case, the proportional drop in productivity of the additional capitals leaves the regulating price of production and the rate of profit unchanged. For the rest, three more cases are possible:

a) If the additional capital invested in any one of the types of soil A, B, C or D yields only the rate of profit determined by the price of production of A, then no surplus profit, and therefore no potential
rent, is formed, any more than there would be if additional type A soil had been cultivated.

b) If the additional capital yields a larger product, new surplus profit (potential rent) is, of course, formed provided the regulating price remains the same. This is not necessarily the case; it is not the case, in particular, when this additional production throws soil A out of cultivation and thus out of the sequence of competing soils. In this case, the regulating price of production falls. If this were accompanied by a fall in wages, or if the cheaper product were to enter into the constant capital as one of its elements, the rate of profit would rise. If the increased productivity of the additional capital had taken place upon the best soils C and D, it would depend entirely upon the degree of increased productivity and the amount of additional new capital to what extent the formation of increased surplus profit (and thus increased rent) would be associated with the fall in prices and the rise in the rate of profit. The latter may also rise without a fall in wages, through a cheapening of the elements of constant capital.

c) If the additional investment of capital takes place with decreasing surplus profit, but in such manner that the yield from this investment still leaves a surplus above the yield from the same capital invested in A, a new formation of surplus profit takes place under all circumstances, unless the increased supply excludes soil A from cultivation. This may take place simultaneously upon D, C, B and A. But, on the other hand, if the worst soil A is squeezed out of cultivation, then the regulating price of production falls and it will depend upon the relation between the reduced price of 1 qr and the increased number of quarters forming surplus profit whether the surplus profit expressed in money, and consequently the differential rent, rises or falls. But at any rate, it is noteworthy here that with decreasing surplus profit from successive investments of capital the price of production may fall, instead of rising, which it seemingly should do at first sight.

These additional investments of capital with decreasing surplus yields correspond entirely to the case in which, e.g., four new independent capitals of £2 1/2 each would be invested in soils with fertility between A and B, B and C, C and D, and yielding 1 1/2, 2 1/3, 2 2/3, and 3 qrs respectively. Surplus profit (potential rent) would take shape on all these soils for all four additional capitals, although the rate of surplus profit, compared with that for the same investment of capital on the correspondingly better soil, would have decreased. And it would
be quite immaterial whether these four capitals were invested in D, etc., or distributed between D and A.

We now come to an essential difference between the two forms of differential rent.

Under differential rent I, with constant price of production and constant differences, the average rent per acre, or the average rate of rent on capital, may increase together with the rental. But the average is a mere abstraction. The actual amount of rent, calculated per acre or with respect to capital, remains the same here.

On the other hand, under the same conditions, the amount of rent calculated per acre may increase although the rate of rent, measured relative to invested capital, remains the same.

Let us assume that production is doubled by the investment of £5 instead of £2½ in each of the soils A, B, C and D, i.e., a total of £20 instead of £10, and that the relative fertility remains unchanged. This would be tantamount to cultivating 2 instead of 1 acre of each of these kinds of soil at the same cost. The rate of profit would remain the same; also its relation to surplus profit or rent. But if A were now to yield 2 qrs, B—4, C—6, and D—8, the price of production would nevertheless remain £3 per quarter because this increase is not due to doubled fertility with the same capital, but to the same proportional fertility with a doubled capital. The two quarters of A would now cost £6 just as 1 qr cost £3 before. The profit would have doubled on all four soils, but only because the invested capital was doubled. In the same proportion, however, the rent would also have been doubled; it would be 2 qrs for B instead of 1, 4 qrs for C instead of 2, and 6 for D instead of 3; and correspondingly, the money rent for B, C and D would now be £6, £12, and £18 respectively. Like the yield per acre, the rent in money per acre would be doubled, and, consequently, also the price of the land whereby this money rent is capitalised. Calculated in this manner, the amount of rent in grain and money increases, and thus the price of land, because the standard used in its computation, i.e., the acre, is an area of constant magnitude. On the other hand, calculated as rate of rent on invested capital, there is no change in the proportional amount of rent. The total rental of 36 is to the invested capital of 20 as the rental of 18 is to the invested capital of 10. The same holds true for the ratio of money rent from each type of soil to the capital invested in it; for instance, in C, £12 rent is to £5 capital as £6 rent was formerly to £2½ capital. No new differences arise here between the invested capitals, but new surplus prof-
its do, merely because the additional capital is invested in one of the rent-bearing soils, or in all of them, with the same proportional yield as previously. If this double investment took place, for example, only in C, the differential rent between C, B and D, calculated with respect to capital, would remain the same: for when the amount of rent obtained from C is doubled, so is the invested capital.

This shows that the amount of rent in produce and money per acre, and therefore the price of land, may rise, while the price of production, the rate of profit, and the differences remain unchanged (and therefore the rate of surplus profit or of rent, calculated with respect to capital, remains unchanged).

The same may take place with decreasing rates of surplus profit, and therefore of rent, that is, with decreasing productivity of the additional investments of capital that still yield rent. If the second investments of capital of £2\frac{1}{2} had not doubled the output, but B had yielded only 3\frac{1}{2} qrs, C—5 qrs, and D—7 qrs, then the differential rent for the second £2\frac{1}{2} of capital in B would be only \frac{1}{2} qr instead of 1, on C—1 qr instead of 2 and on D—2 qrs instead of 3. The proportions between rent and capital for the two successive investments would then be as follows:

<table>
<thead>
<tr>
<th>First Investment</th>
<th>Second Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>B: Rent £3, Capital £2\frac{1}{2}</td>
<td>Rent £1\frac{1}{2}, Capital £2\frac{1}{2}</td>
</tr>
<tr>
<td>C: &quot; £6, &quot; £2\frac{1}{2}</td>
<td>&quot; £3, &quot; £2\frac{1}{2}</td>
</tr>
<tr>
<td>D: &quot; £9, &quot; £2\frac{1}{2}</td>
<td>&quot; £6, &quot; £2\frac{1}{2}</td>
</tr>
</tbody>
</table>

In spite of this decreased rate of relative productivity of capital, and thus of the surplus profit calculated on capital, the rent in grain and money would have increased on B from 1 to 1\frac{1}{2} qrs (from £3 to £4\frac{1}{2}), on C—from 2 to 3 qrs (from £6 to £9), and on D—from 3 to 5 qrs (from £9 to £15). In this case, the differences for the additional capitals, compared with the capital invested in A, would have decreased, the price of production would have remained the same, but the rent per acre, and consequently the price of land per acre, would have risen.

The combinations of differential rent II, which presupposes differential rent I as its basis, will now be taken up.
Chapter XL I

DIFFERENTIAL RENT II.—FIRST CASE:
CONSTANT PRICE OF PRODUCTION

The assumption here implies that the market price is regulated as before by the capital invested in the worst soil A.

I. If the additional capital invested in any one of the rent-bearing soils—B, C, D—produces only as much as the same capital upon soil A, i.e., if it yields only the average profit at the regulating price of production, but no surplus profit, then the effect upon the rent is nil. Everything remains as before. It is the same as though an arbitrary number of acres of A quality, i.e., of the worst soil, has been added to the cultivated area.

II. The additional capitals yield additional produce proportional to their magnitude on every one of the various soils; in other words, the volume of production grows according to the specific fertility of each soil type—in proportion to the magnitude of the additional capital. In Chapter XXXIX, we started with the following Table I:

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Capital £</th>
<th>Profit £</th>
<th>Price of Prod. £</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Rent Rate of Type of Soil</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>2½</td>
<td>1½</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2½</td>
<td>1½</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>12</td>
<td>3 120%</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>2½</td>
<td>1½</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>9</td>
<td>2 6 240%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>2½</td>
<td>1½</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>12</td>
<td>3 9 360%</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>10</td>
<td>12</td>
<td>10</td>
<td>30</td>
<td>18</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This is now transformed into:

TABLE II

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Capital £</th>
<th>Profit £</th>
<th>Price of Prod. £</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Rent Rate of Surplus Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>2½ + 2½ = 5</td>
<td>1</td>
<td>6</td>
<td>2</td>
<td>3</td>
<td>6</td>
<td>0 0 0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2½ + 2½ = 5</td>
<td>1</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>12</td>
<td>2 6 120%</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>2½ + 2½ = 5</td>
<td>1</td>
<td>6</td>
<td>6</td>
<td>3</td>
<td>18</td>
<td>4 12 240%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>2½ + 2½ = 5</td>
<td>1</td>
<td>6</td>
<td>8</td>
<td>3</td>
<td>24</td>
<td>6 18 360%</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>20</td>
<td>20</td>
<td>60</td>
<td>12</td>
<td>36</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
It is not necessary in this case that the investment of capital be doubled in all soils, as in the table. The law is the same so long as additional capital is invested in one, or several, of the rent-bearing soils, no matter in what proportion. It is only necessary that production should increase upon every soil in the same ratio as the capital. The rent increases here merely in consequence of an increased investment of capital in the soil, and in proportion to this increase. This increase in produce and rent in consequence of, and proportionately to, the increased outlay of capital is just the same as regards the quantity of produce and rent, as when the cultivated area of the rent-bearing plots of land of the same quality had been increased and taken under cultivation with the same outlay of capital as that previously invested in the same types of soils. In the case of Table II, for instance, the result would remain the same, if the additional capital of £2 1/2 per acre were invested in an additional acre of B, C and D.

Furthermore, this assumption does not imply a more productive investment of capital, but only an outlay of more capital upon the same area with the same success as before.

All relative proportions remain the same here. Of course, if we do not consider the proportional differences, but consider the purely arithmetic ones, then the differential rent may change upon the various soils. Let us assume, for instance, that additional capital has been invested only in B and D. The difference between D and A is then = 7 qrs whereas previously it was = 3; the difference between B and A = 3 qrs, whereas previously it was = 1; that between C and B = −1, whereas previously it was = +1, etc. But this arithmetic difference, which is decisive in differential rent I in so far as it expresses the difference in productivity with equal investment of capital, is here quite immaterial, because it is merely a consequence of different additional investments of capital, or of no additional investments, while the difference for each equal portion of capital upon the various plots of land remains unchanged.

III. The additional capitals yield surplus produce and thus form surplus profit, but at a decreasing rate, not in proportion to their increase.

In the case of this third assumption, it is again immaterial whether the additional second investments of capital are uniformly distributed among the various soils or not; whether the decreasing production of surplus profit takes place proportionately or not; whether the additional investments of capital are all in the same rent-bearing type of
soil, or whether they are distributed equally or unequally among rent-bearing plots of land of varying quality. All these circumstances are immaterial for the law that is to be developed. The only assumption is that additional investments of capital yield surplus profit upon any one of the rent-bearing soils, but in decreasing proportion to the amount of the increase in capital. The limits of this decrease, in the table before us, are between 4 quarters = £12, the output from the first outlay of capital on the best soil D, and 1 quarter = £3, the output from the same outlay of capital in the worst soil A. The output from the best soil in case of the investment of capital I constitutes the top limit, and the output from the same outlay of capital in the worst soil A, which yields neither rent nor surplus profit, is the bottom limit of output, which successive investments of capital yield upon any of the soil types producing surplus profit with decreasing productivity of successive investments of capital. Just as assumption II corresponds to the case in which new plots of the same quality are added from the better soils to the cultivated area, in which the quantity of any one of the cultivated soils is increased, so assumption III corresponds to the case in which additional plots are cultivated whose various degrees of fertility are distributed among soils ranging from D to A, i.e., from the best to the worst soils. If the successive outlays of capital are made exclusively in soil D, they may include the existing differences between D and A, then differences between D and C, and likewise between D and B. If they are all made in soil C, then only differences between C and A, and C and B; if exclusively in B, then only differences between B and A.

But this is the law: the rent increases absolutely upon all these soils, even if not in proportion to the additional capital invested.
The rate of surplus profit, considering both the additional capital and the total capital invested in the soil, decreases; but the absolute magnitude of the surplus profit increases; just as the decreasing rate of profit on capital in general is, in the main, accompanied by an increase in the absolute amount of profit. Thus the average surplus profit of a capital invested in B = 90% on the capital, whereas it was = 120% for the first outlay of capital. But the total surplus profit increases from 1 qr to 1 ½ qrs, or from £3 to £4 ½. The total rent—considered by itself rather than in relation to the doubled magnitude of the advanced capital—has risen absolutely. The differences in rents from various soils and their relative proportions may vary here; but this variation in differences is a consequence, not cause, of the increase in rents in relation to one another.

IV. The case in which additional investments of capital in the better soils yield more produce than the original ones requires no further analysis. It goes without saying that under this assumption the rent per acre will increase, and proportionately more than the additional capital, no matter in which kind of soil the outlay has been made. In this case, the additional investment of capital is accompanied by improvements. This includes the cases in which an additional outlay of less capital produces the same or a greater effect than an additional outlay of more capital did formerly. This case is not quite identical with the former one, and the distinction is important in all investments of capital. For instance, if 100 yields a profit of 10, and 200 employed in a certain form yields a profit of 40, then the profit has risen from 10% to 20%, and to that extent it is the same as though 50 employed in a more effective form yields a profit of 10 instead of 5. We assume here that the profit is associated with a proportional increase in output. But the difference is that I must double the capital in the one case, whereas in the other, the effect I produce is doubled with the capital employed hitherto. It is by no means the same whether I produce: 1) the same output as before with half as much living and objectified labour, or 2) twice the output as before with the same labour, or 3) four times the former output with twice the labour. In the first case, labour—in a living or objectified form—is released, and may be employed otherwise: the power to dispose of capital and labour increases. The release of capital (and labour) is in itself an augmentation of wealth; it has exactly the same effect as though this additional capital has been obtained by accumulation, but it saves the labour of accumulation.
Assume that a capital of 100 has produced an output of ten metres. The 100 includes constant capital, living labour and profit. Thus a metre costs 10. Now, if I can produce 20 metres with the same capital of 100, then a metre costs 5. If, on the other hand, I can produce 10 metres with a capital of 50, then a metre likewise costs 5, and should the former supply of commodities suffice a capital of 50 is released. If I have to invest a capital of 200 in order to produce 40 metres, then a metre also costs 5. The determination of value, and also the price, does not permit any difference to be discerned here; no more than the amount of output proportional to the advance of capital. But in the first case, capital is released; in the second case additional capital is saved to be used perhaps to double production if necessary; in the third case, the increased output can only be obtained by augmenting the advanced capital, although not in the same proportion as when the increased output was to have been supplied by the old productive power. (This belongs in Part I.)

From the viewpoint of capitalist production, the employment of constant capital is always cheaper than that of variable capital, not as regards increasing the surplus value, but rather as regards reducing the cost price—and saving of costs even in the element creating surplus value, in labour, performs this service for the capitalist and makes profit for him so long as the regulating price of production remains the same. This presupposes, in fact, the development of credit and an abundance of loan capital corresponding to the capitalist mode of production. On the one hand, I employ £100 additional constant capital, if £100 is the output of five labourers during the year; on the other hand, £100 in variable capital. If the rate of surplus value = 100%, then the value created by the five labourers = £200; on the other hand, the value of £100 constant capital = £100 and as capital it is perhaps = £105, if the interest rate = 5%. The same sums of money express very different values, from the viewpoint of the output they produce, depending on whether they are advanced to production as magnitudes of value of constant or of variable capital. Furthermore, as regards the cost of the commodities from the viewpoint of the capitalist, there is also this difference, that of the £100 constant capital only the wear and tear enters into the value of the commodity in so far as this money is invested in fixed capital, whereas the £100 invested in wages must be completely reproduced in the commodity.

In the case of colonists, and independent small producers in gener-
al, who have no access to capital at all or only at high interest rates, that part of the output which represents wages is their revenue, whereas for the capitalist it constitutes an advance of capital. The former, therefore, regards this expenditure of labour as the indispensable prerequisite for the labour product, which is the thing that interests him above all. But, as regards his surplus labour, after deducting the necessary labour, it is evidently realised in the surplus product; and as soon as he can sell the latter, or use it for himself, he looks upon it as something that cost him nothing, because it cost him no objectified labour. It is only the expenditure of the latter which appears to him as alienation of wealth. Of course, he tries to sell as high as possible; but even a sale below value and below the capitalist price of production still appears to him as profit, unless this profit is anticipated by debts, mortgages, etc. For the capitalist, on the other hand, the investment of both variable and constant capital represents an advance of capital. The relatively larger advance of the latter reduces the cost price, and in fact the value of the commodities, everything else being equal. Hence, although profit arises only from surplus labour, consequently only from the employment of variable capital, it may still seem to the individual capitalist that living labour is the most expensive element in his price of production which should be reduced to a minimum before all else. This is but a capitalistically distorted form of the fact that the relatively greater use of congealed labour, as compared with living labour, signifies an increase in the productivity of social labour and a greater social wealth. From the viewpoint of competition, everything appears thus distorted and turned topsy-turvy.

Assuming prices of production to remain unchanged, the additional investments of capital in the better soils, that is, in all soils from B upward, may be made with unaltered, increasing, or decreasing productivity. For soil A this would only be possible under the conditions assumed by us, if productivity remains the same — whereby the land continues to yield no rent — and also if productivity increases; a portion of the capital invested in A would then yield rent, while the remainder would not. But it would be impossible if productivity on A were to decrease, for then the price of production would not remain unchanged, but would rise. Yet in all these cases, i.e., whether the surplus product yielded by the additional investments is proportional to the latter or is greater or smaller than this proportion — whether, therefore, the rate of surplus profit on the capital remains constant, rises or falls when this capital increases, the surplus product and the
corresponding surplus profit per acre increases, and hence also the potential rent in grain and money. The growth in the mere quantity of surplus profit or rent, calculated per acre, that is, an increasing quantity calculated on the basis of some constant unit — in the present case on a definite quantity of land such as an acre or a hectare — expresses itself as an increasing ratio. Hence the magnitude of the rent, calculated per acre, increases under such circumstances simply in consequence of the increase in the capital invested in the land. This takes place, to be sure, assuming the prices of production remain the same, and, on the other hand, regardless of whether the productivity of the additional capital remains unaltered, or whether it decreases or increases. The latter circumstances modify the range in which the magnitude of rent per acre increases but not the existence of this increase itself. This is a phenomenon peculiar to differential rent II, and distinguishing it from differential rent I. If the additional investments of capital were made successively in space, side by side in new additional soil of corresponding quality, rather than successively in time in the same soil, the quantity of the rental would have increased, and, as previously shown, so would the average rent from the total cultivated area, but not the magnitude of the rent per acre. Given the same result so far as quantity and value of total production and surplus product are concerned, the concentration of capital upon a smaller area of land increases the amount of rent per acre, whereas under the same conditions, its dispersion over a larger area, all other conditions being equal, does not produce this effect. But the more the capitalist mode of production develops, the more does the concentration of capital upon the same area of land develop, and, therefore, the more does the rent, calculated per acre, increase. Consequently, given two countries in which the prices of production are identical, the differences in soil type are identical, and the same amount of capital is invested — but in the one country more in the form of successive outlays upon a limited area of land, whereas in the other more in the form of co-ordinated outlays upon a larger area — then the rent per acre, and thereby the price of land, would be higher in the first country and lower in the second, although the total rent would be the same for both countries. The difference in magnitude of rent could thus not be explained here to be a result of a difference in the natural fertility of the various soils, nor a result of a difference in the quantity of employed labour, but solely a result of different ways in which the capital is invested.
When we refer to surplus product here, this should always be understood to mean that aliquot part of the output which represents surplus profit. Ordinarily, we mean by excess product or surplus product that portion of the output which represents the total surplus value, or in some cases that portion which represents the average profit. The specific meaning which this term assumes in the case of rent-bearing capital gives rise to misunderstanding, as previously pointed out.

Chapter XLII

DIFFERENTIAL RENT II.—SECOND CASE:
FALLING PRICE OF PRODUCTION

The price of production may fall when additional investments of capital take place with an unaltered, falling or rising rate of productivity.

I. Productivity of the additional investment of capital remains the same

In this case, the assumption, therefore, is that the output increases proportionally to the capital invested in the various soils and in accordance with their respective qualities. This means for constant differences in soils that the surplus product increases in proportion to the increased investment of capital. This case, then, excludes any additional investment of capital in soil A which might affect the differential rent. For this soil, the rate of surplus profit = 0; thus, it remains = 0 since we have assumed that the productiveness of the additional capital, and therefore the rate of surplus profit, remain the same.

But under these conditions the regulating price of production can only fall, because it is the price of production of the next best soil, of B, or any better soil than A, rather than that of A, which becomes the regulator; so that the capital is withdrawn from A, or perhaps from A and B if the price of production of C should become the regulating one, and thus all soil inferior to C would be eliminated from the competition among grain-producing soils. The prerequisite for this is, under the assumed conditions, that the additional yield from the

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a See this volume, pp. 627-33.
additional investments of capital satisfy the demand, so that the output from the inferior soil A, etc., become superfluous for the re-establishment of a full supply.

Thus, let us take, for instance, Table II, but in such a way that 18 qrs instead of 20 satisfy the demand. Soil A would drop out; B and its price of production of 30 shillings per quarter would become regulating. The differential rent then assumes the following form:

**TABLE IV**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Capital £</th>
<th>Profit £</th>
<th>Price of Production £</th>
<th>Output Qrs</th>
<th>Selling Price per qr £</th>
<th>Proceeds £</th>
<th>Rent in Grain Qrs</th>
<th>Rent in Money £</th>
<th>Rate of Surplus Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>4</td>
<td>1 1/2</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>6</td>
<td>1 1/2</td>
<td>9</td>
<td>2</td>
<td>3</td>
<td>60%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>8</td>
<td>12</td>
<td>1 1/2</td>
<td>4</td>
<td>6</td>
<td>6</td>
<td>120%</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>15</td>
<td>3</td>
<td>18</td>
<td>18</td>
<td>27</td>
<td>6</td>
<td>9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Compared with Table II, the total rent would hence have fallen from £36 to £9, and in grain from 12 qrs to 6 qrs; total output would have fallen only by 2 qrs, from 20 to 18. The rate of surplus profit calculated on the capital would have fallen to one-third, i.e., from 180% to 60%. Thus, the fall in the price of production is accompanied here by a decrease of the rent in grain and money.

Compared with Table I, there is merely a decrease in money rent; the rent in grain is in both cases 6 qrs; but in the one case it = £18, and in the other £9. For soil C, the rent in grain, compared with Table I, has remained the same. In fact, it is owing to the additional production resulting from the uniformly acting additional capital that the yield from A has been excluded from the market, and thereby soil A has been eliminated as a competing producing agent, and it is owing to this fact that a new differential rent I has been formed in which the better soil B plays the same role as did formerly the inferior soil A. Consequently, on the one hand, the rent from B has disappeared; on the other hand, nothing has been altered in the differences

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a In the 1894 German edition “one-half, from 180% to 90%.”
between B, C and D by the investment of additional capital—in accordance with our assumption. For this reason, that part of the output which is transformed into rent is reduced.

If the above result—the satisfaction of the demand with A excluded—had been accomplished, perchance, by the investment of more than double the capital in C or D, or in both, then the matter would assume a different aspect. For example, if the third investment of capital were made in C:

In this case, compared with Table IV, the output from C has risen from 6 to 9 qrs, the surplus product from 2 to 3 qrs, and the money rent from £3 to £4½. Compared with Table II, where the latter was £12, and Table I, where it was £6, the money rent has, on the other hand, decreased. The total rental in grain = 7 qrs and has fallen compared with Table II (12 qrs) and risen compared with Table I (6 qrs); in money (£10½) it has fallen compared with both (£18 and £36).

If the third investment of capital of £2½ had been employed on soil B, it would indeed have altered the quantity of production, but would not have affected the rent, since, according to our assumption, the successive investments do not produce any differences upon the same soil and soil B does not yield any rent.

If we assume, on the other hand, that the third investment of capital takes place upon D instead of C, we have the following:

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Capital L</th>
<th>Profit L</th>
<th>Price of Production L</th>
<th>Output Qrs</th>
<th>Selling Price L</th>
<th>Proceeds L</th>
<th>Rent in Grain Qrs</th>
<th>Rent in Money L</th>
<th>Rate of Surplus Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>4</td>
<td>1½</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>7½</td>
<td>1½</td>
<td>9</td>
<td>9</td>
<td>1½</td>
<td>13½</td>
<td>3</td>
<td>4½</td>
<td>60%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>8</td>
<td>1½</td>
<td>12</td>
<td>4</td>
<td>6</td>
<td>120%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3</strong></td>
<td><strong>17½</strong></td>
<td><strong>3½</strong></td>
<td><strong>21</strong></td>
<td><strong>21</strong></td>
<td><strong>31½</strong></td>
<td><strong>7</strong></td>
<td><strong>10½</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Here the total product = 22 qrs, more than double that of Table I, although the invested capital = only £17½ as against £10, that is, not twice the amount. The total product is also larger by 2 qrs than that of Table II, although the advanced capital in the latter is larger—namely, £20.

Compared with Table I, the rent in grain from soil D has increased from 3 to 6 qrs, whereas the money rent, £9, has remained the same. Compared with Table II, the grain rent from D is the same, namely, 6 qrs, but the money rent has fallen from £18 to £9.

Comparing the total rents, the grain rent from Table IVb = 8 qrs is larger than that from Table I = 6 qrs and than that from Table IVa = 7 qrs; but it is smaller than that from Table II = 12 qrs. The money rent from Table IVb = £12 is larger than that from Table IVa = £10½, and smaller than that from Table I = £18 and that from Table II = £36.

In order that the total rental may, under the conditions of Table IVb (with the elimination of rent from B), be equal to that of Table I, we need £6 more of surplus product, that is, 4 qrs at £1½, which is the new price of production. We then have a total rental of £18 again as in Table I. The magnitude of the required additional capital will vary according to whether we invest it in C or D, or divide it between the two.

On C, £5 capital yields 2 qrs of surplus product; consequently, £10 additional capital yields 4 qrs of additional surplus product. On D, £5 additional capital would suffice to produce 4 qrs of additional grain rent under the conditions assumed here, namely that the productivity of the additional investments of capital remains the same. We should then obtain the following results:

\[
\begin{array}{|c|c|c|c|c|c|c|c|}
\hline
\text{Type of Soil} & \text{Acres} & \text{Capital } £ & \text{Profit } £ & \text{Price of Production } £ & \text{Output Qrs} & \text{Selling Price } £ & \text{Proceeds } £ & \text{Rent} \\
\hline
B & 1 & 5 & 1 & 6 & 4 & 1½ & 6 & 0 & 0 & 0 \\
C & 1 & 5 & 1 & 6 & 6 & 1½ & 9 & 2 & 3 & 60% \\
D & 1 & 7½ & 1½ & 9 & 12 & 1½ & 18 & 6 & 9 & 120% \\
\hline
\text{Total} & 3 & 17½ & 3½ & 21 & 22 & 33 & 8 & 12 & & \\
\hline
\end{array}
\]
The total money rental would be exactly one-half of what it was in Table II, where the additional capitals were invested at constant prices of production.

The most important thing is to compare the above tables with Table I.

We find that while the price of production has fallen by one-half, i.e., from 60 shillings to 30 shillings per quarter, the total money rental has remained the same, namely = £18, and the grain rent has correspondingly doubled from 6 to 12 qrs. Upon B the rent has disappeared; upon C the money rent has risen by one-half in IVc, but has fallen by one-half in IVd; upon D in IVc, it has remained the same, = £9, and has risen from £9 to £15 in IVd. The production has risen from 10 to 34 qrs in IVc, and to 30 qrs in IVd; the profit from £2 to £5½ in IVc and to £4½ in IVd. The total investment of capital has risen in the one case from £10 to £27½, and in the other from £10 to £22½;
i.e., in both cases it has more than doubled. The rate of rent, that is, the rent calculated on the advanced capital, is in all tables from IV to IVd everywhere the same for each kind of soil — which was already implied in the assumption that the rate of productivity for the two successive investments of capital remains the same for each soil type. But compared with Table I this rate has fallen, both for the average of all kinds of soil and for each one of them individually. In Table I it was $180\%$ on an average, whereas in IVc it is $\frac{18}{27^{1/2}} \times 100 = 65^{9/11}\%$ and in IVd it is $\frac{18}{22^{1/2}} \times 100 = 80\%$. The average money rent per acre has risen. Formerly, in Table I, its average was £4½ per acre from all four acres, whereas in IVc and IVd it is £6 per acre upon the 3 acres. Its average upon the rent-bearing land was formerly £6, whereas now it is £9 per acre. Hence the money value of the rent per acre has risen and now represents twice as much grain as it did formerly; but the 12 qrs of grain rent are now less than one-half of the total output of 34 and 30⁴ qrs respectively, whereas in Table I the 6 qrs represent $\frac{3}{5}$ the total output of 10 qrs. Consequently, although the rent as an aliquot part of the total output has fallen, and has also fallen when calculated on the invested capital, its money value calculated per acre has risen, and still more its value as a product. If we take soil D in Table IVd, we find that the price of production corresponding to the capital outlay here = £15, of which £12½ is invested capital. The money rent = £15. In Table I, for the same soil D, the price of production was = £3, the invested capital = £2½ and the money rent = £9; that is, the latter was three times the price of production and almost four times the capital. In Table IVd, the money rent for D, £15, is exactly equal to the price of production and larger than the capital by only $\frac{1}{5}$. Nevertheless, the money rent per acre is $\frac{2}{3}$ larger, namely, £15 instead of £9. In Table I, the grain rent of 3 qrs = $\frac{3}{4}$ of the total product of 4 qrs; in Table IVd it is 10 qrs, or one-half the total product (20 qrs) per acre of D. This shows that the money value and grain value of the rent per acre may rise, although it constitutes a smaller aliquot part of the total yield and has fallen in proportion to the advanced capital.

The value of the total product in Table I = £30, the rent = £18, or more than one-half of it. The value of the total product in IVd = £45, of which the rent = £18, or less than one-half.

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*In the 1894 German edition "33 and 27".*
Now, the reason why in spite of the fall in price by £1 1/2 per quarter, i.e., a fall of 50%, and in spite of the reduction in competing soil from 4 to 3 acres, the total money rent remains the same and the total grain rent is doubled, while, calculated per acre, both the grain rent and money rent rise, is that more quarters of surplus product are produced. The price of grain falls by 50%, and the surplus product increases by 100%. But in order to obtain this result, the total production under the conditions assumed by us must be trebled, and the investment of capital in the superior soils must be more than doubled. At what rate the latter must increase depends in the first place upon the distribution of additional capital investments among the better and best soils, always assuming that the productivity of the capital invested in each soil type increases proportionately to its magnitude.

If the fall in price of production were smaller, less additional capital would be required to produce the same money rent. If the supply required to throw soil A out of cultivation—and this depends not merely upon the output per acre of A, but also upon the share held by A in the entire cultivated area—thus, if the supply required for this purpose were larger, and thereby also the amount of additional invested capital required in soils better than A, then, other circumstances remaining the same, the money and grain rents would have increased still more, although soil B would have ceased yielding money and grain rents.

If the capital eliminated from A had been = £5, the tables to be compared for this case would be tables II and IVd. The total product would have increased from 20 to 30 qrs. The money rent would be only half as large, or £18 instead of £36; the grain rent would be the same, namely = 12 qrs.

If a total product of 44 qrs = £66 could be produced upon D with a capital = £27 1/2—corresponding to the old rate for D, 4 qrs per £2 1/2 capital—then the total rental would once more reach the level attained in Table II, and the table would appear as follows:

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Capital £</th>
<th>Output Qrs</th>
<th>Grain Rent Qrs</th>
<th>Money Rent £</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>5</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>5</td>
<td>6</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>D</td>
<td>27 1/2</td>
<td>44</td>
<td>22</td>
<td>33</td>
</tr>
<tr>
<td>Total</td>
<td>37 1/2</td>
<td>54</td>
<td>24</td>
<td>36</td>
</tr>
</tbody>
</table>
The total production would be 54 qr s as against 20 qr s in Table II, and the money rent would be the same, = £36. But the total capital would be £37 1/2, whereas in Table II it was = 20. The total advanced capital would be double almost, while production would be nearly treble; the grain rent would be double and the money rent would remain the same. Hence, if the price falls — while productivity remains the same — as a result of the investment of additional money capital in the better soils which yield rent, that is, all soils better than A, then the total capital has a tendency not to increase at the same rate as production and grain rent; thus the increase in grain rent may compensate for the loss in money rent due to the falling price. The same law also manifests itself in that the advanced capital must be proportionately larger as more is invested in C than D, i.e., in soils yielding less rent rather than in soils yielding more rent. The point is simply this: in order that the money rent may remain the same or rise, a definite additional quantity of surplus product must be produced, and the greater the fertility of the soils yielding surplus product, the less capital this requires. If the difference between B and C, and C and D, were still greater, still less additional capital would be required. The specific proportion is determined by 1) the ratio of fall in price, in other words, by the difference between soil B, which does not yield rent now, and soil A, which formerly was the soil not yielding rent; 2) the ratio of the differences between the soils better than B upwards; 3) the amount of newly invested additional capital, and 4) its distribution among the soils of varying quality.

In fact, we see that this law merely expresses what was already ascertained in the first case: When the price of production is given, no matter what its magnitude, the rent may increase as a result of additional capital investment. For owing to the elimination of A, we now have a new differential rent I with B as the worst soil and £1 1/2 per quarter as the new price of production. This applies to Table IV as well as to Table II. It is the same law, except that our point of departure is soil B instead of A, and our price of production is taken as £1 1/2 instead of £3.

The important thing here is this: To the extent that so much and so much additional capital was necessary in order to withdraw the capital from soil A and create the supply without it, we find that this may be accompanied by an unaltered, rising, or falling rent per acre, if not from all plots of land then at least from some, and so far as the average of the cultivated plots is concerned. We have seen that grain rent
and money rent do not maintain a uniform relation to one another. It is merely due to tradition that grain rent is still of any importance in economics. One might demonstrate equally well that, e.g., a manufacturer can buy much more of his yarn with his profit of £5 than he could formerly with a profit of £10. It shows at any rate, that messieurs landlords, when they are simultaneously owners or shareholders in manufacturing establishments, sugar refineries, distilleries, etc., may in their capacity as producers of their own raw materials still make a considerable profit when the money rent is falling. 34)

II. Decreasing rate of productivity of the additional capital

This introduces nothing new into the problem, in so far as the price of production may also fall in this case, as in the case just considered, only when additional investments of capital in better soils than A render the output from A superfluous and the capital is therefore withdrawn from A, or A is employed for the production of other products. This case has been exhaustively discussed above. It was shown that the rent in grain and money per acre may increase, decrease, or remain unchanged.

For convenience in making comparisons we reproduce the following table:

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Capital £</th>
<th>Profit £</th>
<th>Price of Production per Qr</th>
<th>Output Qrs</th>
<th>Grain Rent Qrs</th>
<th>Money Rent Qrs</th>
<th>Rate of Surplus Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>2 1/2</td>
<td>5/2</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2 1/2</td>
<td>5/2</td>
<td>1 1/2</td>
<td>2</td>
<td>1</td>
<td>3</td>
<td>120%</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>2 1/2</td>
<td>5/2</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>6</td>
<td>240%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>2 1/2</td>
<td>5/2</td>
<td>3/4</td>
<td>4</td>
<td>3</td>
<td>9</td>
<td>360%</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>10</td>
<td></td>
<td></td>
<td>10</td>
<td>6</td>
<td>18</td>
<td>180% average</td>
</tr>
</tbody>
</table>

34: The above tables IVa to IVd had to be recalculated due to an error in computation which ran through all of them. While this did not affect the theoretical conclusions drawn from these tables, it introduced, in part, quite monstrous numerical values for production per acre. Even these are not objectionable in principle. For all relief and topographical maps it is customary to choose a much larger scale for the vertical than for the horizontal. Nevertheless, should anyone feel that his agrarian feelings have been injured thereby, he is at liberty to multiply the number of acres by any numerical value that will satisfy him. One might also choose 10, 12, 14, 16 bushels (8 bushels = 1 quarter)
Now let us assume that a quantity of 16 qrs supplied by B, C, and D at a decreasing rate of productivity suffices to exclude A from cultivation. In such case, Table III is transformed into the following:

**Table V**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Investment of Capital £</th>
<th>Profit £</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Grain Rent Qrs</th>
<th>Money Rent £</th>
<th>Rate of Surplus Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>1</td>
<td>21/2 + 21/2</td>
<td>1</td>
<td>2 + 11/2 = 31/2</td>
<td>11/2</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>21/2 + 21/2</td>
<td>1</td>
<td>3 + 2 = 5</td>
<td>11/2</td>
<td>81/2</td>
<td>11/2</td>
<td>21/2</td>
<td>51%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>21/2 + 21/2</td>
<td>1</td>
<td>4 + 31/2 = 71/2</td>
<td>11/2</td>
<td>121/2</td>
<td>4</td>
<td>61/2</td>
<td>137%</td>
</tr>
<tr>
<td>Total</td>
<td>3</td>
<td>15</td>
<td></td>
<td>16</td>
<td></td>
<td>271/2</td>
<td>51/2</td>
<td>91/2</td>
<td>94%</td>
</tr>
</tbody>
</table>

Here, at a decreasing rate of productivity of the additional capital, and a varying decrease for the various soil types, the regulating price of production has fallen from £3 to £15/7. The investment of capital has risen by one-half—from £10 to £15. The money rent has fallen by almost one-half—from 18 to £93/7, but the grain rent has fallen by only 1/12—from 6 qrs to 5 1/2 qrs. The total output has risen from 10 to 16, or by 60%. The grain rent constitutes a little more than one-third of the total product. The advanced capital is to the money rent as 15:9 3/7, whereas formerly this ratio was 10:18.

**III. Rising rate of productivity of the additional capital**

This differs from Variant I at the beginning of this chapter, where the price of production falls while the rate of productivity remains the same, merely in that when a given amount of additional produce is required to exclude soil A this occurs here more quickly.

The effect may vary in accordance with the distribution of investments among the various soils for a falling, as well as an increasing, per acre in Table I instead of 1, 2, 3, 4 quarters, and the derived numerical values in the other tables would remain within the limits of probability; it will be found that the result, i.e., the ratio of rent increase to capital increase, is exactly the same. This has been done in the tables included by the editor in the next chapter.—F. E.

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*a* In Table III. - *b* In the 1894 German edition "51 2/3". - *c* Ibid.: "137 1/3". - *d* Ibid.: "94 3/6%". Here, as well as in tables VI, VII, VIII, IX and X the land which yields no rent is left out of consideration.
productivity of the additional capital investments. In so far as this varying effect balances out the differences, or accentuates them, the differential rent of the better soils, and thereby the total rental too, will fall or rise, as was already the case in differential rent I. In other respects, everything depends upon the magnitude of the land area and capital excluded together with A, and upon the relative magnitude of advanced capital required with a rising productivity in order to produce the additional output to meet the demand.

The only point worth while analysing here, and which really takes us back to the investigation of the way in which this differential profit is transformed into differential rent, is the following:

In the first case, where the price of production remains the same the additional capital which may be invested in soil A does not affect the differential rent as such, since soil A, as before, does not yield any rent, the price of its produce remains the same, and it continues to regulate the market.

In the second case, Variant I, where the price of production falls while the rate of productivity remains the same, soil A will necessarily be excluded, and still more so in Variant II (falling price of production with falling rate of productivity), since otherwise the additional capital invested is soil A would have had to raise the price of production. But here, in Variant III of the second case, where the price of production falls because the productivity of the additional capital rises, this additional capital may under certain circumstances be invested in soil A as well as in the better soils.

Let us assume that when invested in soil A an additional capital of £2\frac{1}{12} produces 1\frac{1}{5} qr instead of 1 qr.

\begin{table}[h]
\centering
\begin{tabular}{|c|c|c|c|c|c|c|c|c|}
\hline
\textbf{Type of Soil} & \textbf{Capital £} & \textbf{Profit £} & \textbf{Price of Production £} & \textbf{Output Qrs} & \textbf{Selling Price £} & \textbf{Proceeds £} & \textbf{Rent Qrs} & \textbf{Rate of Surplus Profit} \\
\hline
A & 1 & 2\frac{1}{2} + 2\frac{1}{2} = 5 & 1 & 6 & 1 + 1\frac{1}{3} = 2\frac{1}{3} & 2\frac{1}{11} & 6 & 0 & 0 \\
B & 1 & 2\frac{1}{2} + 2\frac{1}{2} = 5 & 1 & 6 & 2 + 2\frac{1}{3} = 4\frac{1}{3} & 2\frac{1}{11} & 12 & 2\frac{1}{2} & 6 & 120% \\
C & 1 & 2\frac{1}{2} + 2\frac{1}{2} = 5 & 1 & 6 & 3 + 3\frac{1}{3} = 6\frac{1}{3} & 2\frac{1}{11} & 18 & 4\frac{1}{3} & 12 & 240% \\
D & 1 & 2\frac{1}{2} + 2\frac{1}{2} = 5 & 1 & 6 & 4 + 4\frac{1}{3} = 8\frac{1}{3} & 2\frac{1}{11} & 24 & 6\frac{1}{3} & 18 & 360% \\
\hline
\end{tabular}
\caption{TABLE VI}
\end{table}
Aside from being compared with the basic Table I, this table should be compared with Table II, where a two-fold investment of capital is associated with a constant productivity, proportional to the investment of capital.

In accordance with our assumption, the regulating price of production falls. If it were to remain constant, = £3, then the worst soil A, which used to yield no rent with an investment of only £2 1/2, would now yield rent without worse soil being brought under cultivation. This would have occurred due to an increase in the productivity of this soil, but only for a part of the capital, not for the original capital invested. The first £3 of production price yield 1 qr; the second yield 1 1/5 qrs; but the entire output of 2 1/5 qrs is now sold at its average price. Since the rate of productivity increases with the additional investment of capital, this presupposes an improvement. The latter may consist of a general increase in capital invested per acre (more fertiliser, more mechanised labour, etc.), or it may be that only through this additional capital it is at all possible to bring about a qualitatively different more productive investment of the capital. In both cases, the investment of £5 of capital per acre yields an output of 2 1/3 qrs, whereas the investment of one-half of this capital, i.e., £2 1/2, yields only 1 qr of produce. The produce from soil A could, regardless of transient market conditions, only continue to be sold at a higher price of production instead of at the new average price, as long as a considerable area of type A soil continued to be cultivated with a capital of only £2 1/2 per acre. But as soon as the new relation of £5 of capital per acre, and thereby the improved management, becomes universal, the regulating price of production would have to fall to £2 8/11. The difference between the two portions of capital would disappear, and then, in fact, the cultivation of an acre of soil A with a capital of only £2 1/2 would be abnormal, i.e., would not correspond to the new conditions of production. It would then no longer be a difference between the yields from different portions of capital invested in the same acre, but between a sufficient and an insufficient total investment of capital per acre. This shows, first of all, that insufficient capital in the hands of a large number of tenant farmers (it must be a large number, for a small number would simply be compelled to sell below their price of production) produces the same effect as a differentiation of the soils themselves in a descending line. The inferior cultivation of inferior soil increases the rent from superior soils; it may
even lead to rent being yielded from better cultivated soil of equally poor quality, which would otherwise not be yielded. It shows, secondly, that differential rent, in so far as it arises from successive investments of capital in the same total area, resolves itself in reality into an average, in which the effects of the various investments of capital are no longer recognisable and distinguishable, and therefore do not result in rent being yielded from the worst soil, but rather: 1) make the average price of the total yield for, say, an acre of A, the new regulating price and 2) appear as alteration in the total quantity of capital per acre required under the new conditions for the adequate cultivation of the soil; and in which the individual successive investments of capital, as well as their respective effects, will appear indistinguishably blended together. It is exactly the same with the individual differential rents from the superior soils. In each case, they are determined by the difference between the average output from the soil in question and the output from the worst soil at the increased capital investment—which has now become normal.

No soil yields any produce without an investment of capital. This is the case even for simple differential rent, differential rent I; when it is said that one acre of soil A, which regulates the price of production, yields so much and so much produce at such and such a price, and that superior soils B, C and D yield so much differential produce, and therefore so much and so much money rent at the regulating price of production, it is always assumed that a definite amount of capital is invested which, under the prevailing conditions of production, is considered normal. In the same way, a certain minimum capital is required for every individual branch of industry in order that the commodities may be produced at their price of production.

If this minimum is altered as a result of successive investments of capital associated with improvements on the same soil, it occurs gradually. So long as certain number of acres, say, of A, do not receive this additional working capital, a rent is produced upon the better cultivated acres of A due to the unaltered price of production, and the rent from all superior soils, B, C and D, is increased. But as soon as the new method of cultivation has become general enough to be the normal one, the price of production falls; the rent from the superior plots declines again, and that portion of soil A that does not possess the working capital, which has now become the average, must sell its
produce below its individual price of production, i.e., below the average profit.

In the case of a falling price of production, this also occurs even with decreasing productivity of the additional capital—as soon as the required total product is supplied, in consequence of increased investment of capital, by the superior soils, and thus, e.g., the working capital is withdrawn from A, i.e., A no longer competes in the production of this particular product, e.g., wheat. The quantity of capital which is now required, on an average, to be invested in the better soil B, the new regulator, now becomes normal: and when one speaks of the varying fertility of plots of land, it is assumed that this new normal quantity of capital per acre is employed.

On the other hand, it is evident that this average investment of capital, say, in England, of £8 per acre prior to 1848, and £12 subsequent to that year, will constitute the standard in concluding leases. For the farmer expending more than this, the surplus profit is not transformed into rent for the duration of the contract. Whether this takes place after expiration of the contract or not will depend upon the competition among the farmers who are in a position to make the same extra capital advance. We are not referring here to such permanent soil improvements that continue to provide the increased output with the same or even with a decreasing outlay of capital. Such improvements, although products of capital, have the same effect as natural differences in the quality of the land.

We see, then, that a factor comes into consideration in the case of differential rent II which does not appear in the case of differential rent I as such, since the latter can continue to exist independently of any change in the normal investment of capital per acre. It is, on the one hand, the blurring of results from various investments, of capital in regulating soil A, whose output now simply appears as a normal average output per acre. It is, on the other hand, the change in the normal minimum, or in the average magnitude of invested capital per acre, so that this change appears as a property of the soil. It is, finally, the difference in the manner of transforming surplus profit into the form of rent.

Table VI shows, furthermore, compared with tables I and II, that the grain rent has more than doubled in relation to I, and has increased by 1 $^{1 \over 3}$ qrs in relation to II; while the money rent has doubled in relation to I, but has not changed in relation to II. It would have increased considerably if (other conditions remaining the same) more of
the additional capital had been allocated to the superior soils, or if on the other hand the effect of the additional capital on A had been less appreciable, and thus the regulating average price per quarter from A had been higher.

If the increase in fertility by means of additional capital should produce varying results for the various soils, this would produce a change in their differential rents.

In any case, it has been shown that the rent per acre, for instance with a doubled investment of capital, may not only double, but may more than double — while the price of production falls in consequence of an increased rate of productivity of the additional capital invested, i.e., when this productivity grows at a higher rate than the advanced capital. But it may also fall if the price of production should fall much lower as a result of a more rapid increase in productiveness of soil A.

Let us assume that the additional investments of capital, for instance in B and C, do not increase the productivity at the same rate as they do for A, so that the proportional differences decrease for B and C and the increase in output does not make up for the fall in price. Then, compared with Table II, the rent from D would remain unchanged, and that from B and C would fall.

TABLE VIa

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Capital £</th>
<th>Profit £</th>
<th>Output per Acre Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Grain Rent Qrs</th>
<th>Money Rent £</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>2'/2 + 2'/2 = 5</td>
<td>1</td>
<td>1 + 3 = 4</td>
<td>1'/2</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2'/3 + 2'/3 = 5</td>
<td>1</td>
<td>2 + 2'/3 = 4'/3</td>
<td>1'/3</td>
<td>6'/4</td>
<td>1'/4</td>
<td>1'/4</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>2'/3 + 2'/3 = 5</td>
<td>1</td>
<td>3 + 5 = 8</td>
<td>1'/3</td>
<td>12</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>2'/2 + 2'/2 = 5</td>
<td>1</td>
<td>4 + 12 = 16</td>
<td>1'/2</td>
<td>24</td>
<td>12</td>
<td>18</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>20</td>
<td></td>
<td>30'/2</td>
<td>16'/2</td>
<td>24'/2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Finally, the money rent would rise if more additional capital were invested in the superior soils with the same proportional increase in fertility than in A, or if the additional investments of capital in the superior soils were effective at an increasing rate of productivity. In both cases the differences would increase.

The money rent falls when the improvement due to additional in-
vestment of capital reduces the differences completely or in part, and affects A more than B and C. The smaller the increase in productivity of the superior soils, the more it falls. It depends upon the extent of inequality produced, whether the grain rent shall rise, fall or remain stationary.

The money rent rises, and similarly the grain rent, either when — the proportional difference in additional fertility of the various soils remaining unaltered — more capital is invested in the rent-bearing soils than in rentless soil A, and more in soils yielding higher rent than in those yielding lower rents; or when the fertility — the additional capital remaining equal — increases more on the better and best soils than on A, i.e., the money and grain rents rise in proportion to this increase in fertility of the better soils above that of the poorer ones.

But under all circumstances, there is a relative rise in rent when increased productive power is the result of an addition of capital, and not merely the result of increased fertility with unaltered investment of capital. This is the absolute point of view, which shows that here, as in all former cases, the rent and increased rent per acre (as in the case of differential rent I on the entire cultivated area — the magnitude of the average rental) are the result of an increased investment of capital in land, no matter whether this capital functions with a constant rate of productivity at constant or decreasing prices or with a decreasing rate of productivity at constant or falling prices, or with an increasing rate of productivity at falling prices. For our assumption: constant prices with a constant, falling, or rising rate of productivity of the additional capital, and falling prices with a constant, falling, or rising rate of productivity, resolves itself into: a constant rate of productivity of the additional capital at constant or falling prices, a falling rate of productivity at constant or falling prices, and a rising rate of productivity at constant and falling prices. Although the rent may remain stationary, or may fall, in all these cases, it would fall more if the additional investment of capital, other circumstances remaining the same, were not a prerequisite for the increased fertility. The additional capital, then, is always the cause for the relatively high rent, although absolutely it may have decreased.
DIFFERENTIAL RENT II.—THIRD CASE: RISING PRICE OF PRODUCTION

A rising price of production presupposes that the productivity of the poorest quality land yielding no rent decreases. The assumed regulating price of production cannot rise above £3 per quarter unless the £2 1/2 invested in soil A produce less than 1 qr, or the £5—less than 2 qrs, or unless an even poorer soil than A has to be taken under cultivation.

For constant, or even increasing, productivity of the second investment of capital this would only be possible if the productivity of the first investment of capital of £2 1/2 had decreased. This case occurs often enough. For instance, when with superficial ploughing the exhausted top soil yields ever smaller crops, under the old method of cultivation, and then the subsoil, turned up through deeper ploughing, produces better crops than before with more rational cultivation. But, strictly speaking, this special case does not apply here. The decrease in productivity of the first £2 1/2 of invested capital signifies for the superior soils, even when the conditions are assumed to be analogous there, a decrease in differential rent I; yet here we are considering only differential rent II. But since this special case cannot occur without presupposing the existence of differential rent II, and represents in fact the reaction of a modification of differential rent I upon II, we shall give an illustration of it.

The money rent and proceeds are the same as in Table II. The increased regulating price of production makes good what has been lost in quantity of produce; since this price and the quantity of produce are inversely proportional, it is evident that their mathematical product will remain the same.

| Table VII |
|---|---|---|---|---|---|---|---|---|
| Type of Soil | Acres | Invested Capital £ | Profit £ | Price of Production £ | Output Qrs | Selling Price £ | Proceeds £ | Grain Rent Qrs | Money Rent £ | Rate of Rent |
| A | 1 | 2 1/2 + 2 1/2 | 1 | 6 | 1/2 + 1/4 = 1 3/4 | 3 1/2 | 6 | 0 | 0 | 0 |
| B | 1 | 2 1/2 + 2 1/2 | 1 | 6 | 1 + 2 1/2 = 3 1/2 | 3 1/2 | 12 | 3 1/2 | 6 | 120% |
| C | 1 | 2 1/2 + 2 1/2 | 1 | 6 | 1/2 + 3 1/2 = 5 1/2 | 3 1/2 | 18 | 3 1/2 | 12 | 240% |
| D | 1 | 2 1/2 + 2 1/2 | 1 | 6 | 2 + 5 = 7 | 3 1/2 | 24 | 5 1/2 | 18 | 360% |
| | 20 | | | 17 1/2 | | 60 | 10 1/2 | 36 | 240% |
In the above case, it was assumed that the productive power of the second investment of capital was greater than the original productivity of the first investment. Nothing changes if we assume the second investment to have only the same productivity as the first, as shown in the following table:

**TABLE VIII**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Invested Capital £</th>
<th>Profit £</th>
<th>Selling Price £</th>
<th>and</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Rent £</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£1/2 + 1 = 1 1/2</td>
<td>4</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£1 + 2 = 3</td>
<td>4</td>
<td>12</td>
<td>£1 1/2</td>
<td>6</td>
<td>120%</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£1/2 + 3 = 4 1/2</td>
<td>4</td>
<td>18</td>
<td>3</td>
<td>12</td>
<td>240%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£2 + 4 = 6</td>
<td>4</td>
<td>24</td>
<td>£4 1/2</td>
<td>18</td>
<td>360%</td>
</tr>
</tbody>
</table>

Here, too, the price of production rising at the same rate compensates in full for the decrease in productivity in the case of yield as well as money rent.

The third case appears in its pure form only when the productivity of the second investment of capital declines, while that of the first remains constant—which was always assumed in the first and second cases. Here differential rent I is not affected, i.e., the change affects only that part which arises from differential rent II. We shall give two illustrations: in the first we assume that the productivity of the second investment of capital has been reduced to $\frac{1}{2}$, in the second to $\frac{3}{4}$.

**TABLE IX**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Invested Capital £</th>
<th>Profit £</th>
<th>Selling Price £</th>
<th>and</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Rent £</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£1 + 1/2 = 1 1/2</td>
<td>4</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£2 + 1 = 3</td>
<td>4</td>
<td>12</td>
<td>£1 1/2</td>
<td>6</td>
<td>120%</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£3 + 11/2 = 4 1/2</td>
<td>4</td>
<td>18</td>
<td>3</td>
<td>12</td>
<td>240%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£4 + 2 = 6</td>
<td>4</td>
<td>24</td>
<td>£4 1/2</td>
<td>18</td>
<td>360%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Invested Capital £</th>
<th>Profit £</th>
<th>Selling Price £</th>
<th>and</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Rent £</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£1 + 1/2 = 1 1/2</td>
<td>4</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£2 + 1 = 3</td>
<td>4</td>
<td>12</td>
<td>£1 1/2</td>
<td>6</td>
<td>120%</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£3 + 11/2 = 4 1/2</td>
<td>4</td>
<td>18</td>
<td>3</td>
<td>12</td>
<td>240%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>£2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>£4 + 2 = 6</td>
<td>4</td>
<td>24</td>
<td>£4 1/2</td>
<td>18</td>
<td>360%</td>
</tr>
</tbody>
</table>
Table IX is the same as Table VIII, except for the fact that the decrease in productivity in VIII occurs for the first, and in IX for the second investment of capital.

**TABLE X**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Invested Capital £</th>
<th>Profit £</th>
<th>Price of Prod. £</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Rent £</th>
<th>Rate of Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>6</td>
<td>1 + 2/3 = 1 1/3</td>
<td>4 1/5</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>6</td>
<td>2 + 2/3 = 2 1/3</td>
<td>4 1/3</td>
<td>12</td>
<td>1 1/4</td>
<td>6 120%</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>6</td>
<td>3 + 1/3 = 3 1/5</td>
<td>4 1/3</td>
<td>18</td>
<td>2 1/2</td>
<td>12 240%</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>2 1/2 + 2 1/2 = 5</td>
<td>1</td>
<td>6</td>
<td>4 + 1 = 5</td>
<td>4 1/3</td>
<td>24</td>
<td>3 1/4</td>
<td>18 360%</td>
</tr>
</tbody>
</table>

In this table, too, the total proceeds, the money rent and rate of rent remain the same as in tables II, VII and VIII, because produce and selling price are again inversely proportional, while the invested capital remains the same.

But how do matters stand in the other possible case when the price of production rises, namely, in the case of a poor quality soil not worth cultivating until then that is taken under cultivation?

Let us suppose that a soil of this sort, which we shall designate by a, enters into competition. Then the hitherto rentless soil A would yield rent, and the foregoing tables VII, VIII and X would assume the following forms:

**TABLE VIIa**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Capital £</th>
<th>Profit £</th>
<th>Price of Prod. £</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds Qs £</th>
<th>Rent Qs £</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>1 1/2</td>
<td>4</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A</td>
<td>1</td>
<td>2 1/2 + 2 1/2</td>
<td>1</td>
<td>6</td>
<td>1/2 + 1 1/5 = 1 1/5</td>
<td>4</td>
<td>7</td>
<td>1 1/5 = 1</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2 1/2 + 2 1/2</td>
<td>1</td>
<td>6</td>
<td>1 + 2 1/3 = 3 1/3</td>
<td>4</td>
<td>14</td>
<td>2 1/3 = 8</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>2 1/2 + 2 1/2</td>
<td>1</td>
<td>6</td>
<td>1 1/2 + 3 1/5 = 5 1/5</td>
<td>4</td>
<td>21</td>
<td>3 1/5 = 15</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>2 1/2 + 2 1/2</td>
<td>1</td>
<td>6</td>
<td>2 + 5 = 7</td>
<td>4</td>
<td>28</td>
<td>5 1/2 = 22</td>
</tr>
</tbody>
</table>

| 30           | 19        | 76       | 11 1/2     | 46        |
By interpolating soil a there arises a new differential rent I; upon this new basis, differential rent II likewise develops in an altered form. Soil a has different fertility in each of the above three tables; the sequence of proportionally increasing fertilities begins only with soil A. The sequence of rising rents also behaves similarly. The rent of the worst rent-bearing soil, previously rentless, is a constant which is simply added to all higher rents; only after deducting this constant does the sequence of differences clearly become evident for the higher rents, and similarly its parallel in the fertility sequence of the different soils. In all the tables, the fertilities from A to D are related as 1:2:3:4, and correspondingly the rents:
in VIIa, as 1:(1 + 7):(1 + 2 × 7):(1 + 3 × 7),

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Capital £</th>
<th>Profit £</th>
<th>Price of Prod. £</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>6</td>
<td>1¹/₅</td>
<td>4¹/₅</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>A</td>
<td>1</td>
<td>2¹/₂ + 2¹/₂</td>
<td>1</td>
<td>6</td>
<td>'²/₃ + 1 = 1²/₃</td>
<td>4²/₅</td>
<td>7²/₅</td>
<td>1²/₅</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>2¹/₂ + 2¹/₂</td>
<td>1</td>
<td>6</td>
<td>1 + 2 = 3</td>
<td>4²/₅</td>
<td>14²/₅</td>
<td>8²/₅</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>2¹/₂ + 2¹/₂</td>
<td>1</td>
<td>6</td>
<td>1²/₃ + 3 = 4²/₃</td>
<td>4²/₅</td>
<td>21²/₅</td>
<td>15²/₅</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>2¹/₂ + 2¹/₂</td>
<td>1</td>
<td>6</td>
<td>2 + 4 = 6</td>
<td>4²/₅</td>
<td>28²/₅</td>
<td>4²/₅</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>30</td>
<td>16¹/₄</td>
<td>78</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>TABLE Xa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of Soil</td>
</tr>
<tr>
<td>a</td>
</tr>
<tr>
<td>A</td>
</tr>
<tr>
<td>B</td>
</tr>
<tr>
<td>C</td>
</tr>
<tr>
<td>D</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
in VIIIa, as $\frac{1}{5} : (\frac{1}{5} + \frac{7}{5}) : (\frac{1}{5} + 2 \times \frac{7}{5}) : (\frac{1}{5} + 3 \times \frac{7}{5})$,
and in Xa, as $\frac{2}{3} : (\frac{2}{3} + \frac{6}{3}) : (\frac{2}{3} + 2 \times \frac{6}{3}) : (\frac{2}{3} + 3 \times \frac{6}{3})$.

In brief, if the rent from A = n, and the rent from the soil of next higher fertility = n + m, then the sequence is as follows: n : (n + m) : (n + 2m) : (n + 3m), etc.—F. E.//

//Since the foregoing third case had not been elaborated in the manuscript — only the title is there — it was the task of the editor to fill in the gap, as above, to the best of his ability. However, in addition, it still remains for him to draw the general conclusions from the entire foregoing analysis of differential rent II, consisting of three principal cases and nine subcases. The illustrations presented in the manuscript, however, do not suit this purpose very well. In the first place, they compare plots of land whose yields for equal areas are related as 1:2:3:4; i.e., differences, which exaggerate greatly from the very first, and which lead to utterly monstrous numerical values in the further development of the assumptions and calculations made upon this basis. Secondly, they create a completely erroneous impression. If for degrees of fertility related as 1 : 2 : 3 : 4, etc., rents are obtained in the sequence 0 : 1 : 2 : 3, etc., one feels tempted to derive the second sequence from the first, and to explain the doubling, tripling, etc., of rents by the doubling, tripling, etc., of the total yields. But this would be wholly incorrect. The rents are related as 0 : 1 : 2 : 3 : 4 even when the degrees of fertility are related as n : (n + 1) : (n + 2) : (n + 3) : (n + 4). The rents are not related as the degrees of fertility, but as the differences of fertility — beginning with the rentless soil as the zero point.

The original tables had to be offered to illustrate the text. But in order to obtain a perceptual basis for the following results of the investigation, I present below a new series of tables in which the yields are indicated in bushels ($\frac{1}{8}$ quarter, or 36.35 litres) and shillings (= marks).

The first of these, Table XI, corresponds to the former Table I. It shows the yields and rents for soils of five different qualities, A to E, with a first capital investment of 50 shillings, which added to 10 shillings profit = 60 shillings total price of production per acre. The yields in grain are made low: 10, 12, 14, 16, 18 bushels per acre. The resulting regulating price of production is 6 shillings per bushel.

The following 13 tables correspond to the three cases of differential rent II treated in this and the two preceding chapters with an addi-
tional invested capital of 50 shillings per acre in the same soil with constant, falling and rising prices of production. Each of these cases, in turn, is presented as it takes shape for: 1) constant, 2) falling, and 3) rising productivity of the second investment of capital in relation to the first. This yields a few other variants, which are especially useful for illustration purposes.

For case I: Constant price of production — we have:

Variant 1: Productivity of the second investment of capital remains the same (Table XII).

2: Productivity declines. This can take place only when no second investment of capital is made in soil A, i.e., in such a way that

a) soil B likewise yields no rent (Table XIII) or
b) soil B does not become completely rentless (Table XIV).

Variant 3: Productivity increases (Table XV). This case likewise excludes a second investment of capital in soil A.

For case II. Falling price of production — we have:

Variant 1: Productivity of the second investment of capital remains the same (Table XVI).

2: Productivity declines (Table XVII). These two variants require that soil A be eliminated from competition, and that soil B become rentless and regulate the price of production.

3: Productivity increases (Table XVIII). Here soil A remains the regulator.

For case III: Rising price of production — two eventualities are possible: soil A may remain rentless and continue to regulate the price, or poorer soil than A enters into competition and regulates the price, in which case A yields rent.

First eventuality: Soil A remains the regulator.

Variant 1: Productivity of the second investment remains the same (Table XIX). This is admissible under the conditions assumed by us, provided the productivity of the first investment decreases.

2: Productivity of the second investment decreases (Table XX). This does not exclude the possibility that the first investment may retain the same productivity.

3: Productivity of the second investment increases (Table XXI). This, again, presupposes falling productivity of the first investment.
Second eventuality: An inferior quality soil (designated as a) enters into competition; soil A yields rent.

Variant 1: Productivity of the second investment remains the same (Table XXII).

Variant 2: Productivity declines (Table XXIII).

3: Productivity increases (Table XXIV).

These three variants conform to the general conditions of the problem and require no further comment.

The tables now follow:

\[\text{TABLE XI}\]

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>60</td>
<td>10</td>
<td>6</td>
<td>60</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>60</td>
<td>12</td>
<td>6</td>
<td>72</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>C</td>
<td>60</td>
<td>14</td>
<td>6</td>
<td>84</td>
<td>24</td>
<td>2 x 12</td>
</tr>
<tr>
<td>D</td>
<td>60</td>
<td>16</td>
<td>6</td>
<td>96</td>
<td>36</td>
<td>3 x 12</td>
</tr>
<tr>
<td>E</td>
<td>60</td>
<td>18</td>
<td>6</td>
<td>108</td>
<td>48</td>
<td>4 x 12</td>
</tr>
</tbody>
</table>

For second capital invested in the same soil.

First Case: Price of production remains unaltered.

Variant 1: Productivity of the second investment of capital remains the same.

\[\text{TABLE XII}\]

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>60 + 60 = 120</td>
<td>10 + 10 = 20</td>
<td>6</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>60 + 60 = 120</td>
<td>12 + 12 = 24</td>
<td>6</td>
<td>144</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>C</td>
<td>60 + 60 = 120</td>
<td>14 + 14 = 28</td>
<td>6</td>
<td>168</td>
<td>48</td>
<td>2 x 24</td>
</tr>
<tr>
<td>D</td>
<td>60 + 60 = 120</td>
<td>16 + 16 = 32</td>
<td>6</td>
<td>192</td>
<td>72</td>
<td>3 x 24</td>
</tr>
<tr>
<td>E</td>
<td>60 + 60 = 120</td>
<td>18 + 18 = 36</td>
<td>6</td>
<td>216</td>
<td>96</td>
<td>4 x 24</td>
</tr>
</tbody>
</table>

Variant 2: Productivity of the second investment of capital declines; no second investment in soil A.
1) Soil B ceases to yield rent.

**TABLE XIII**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>60</td>
<td>10</td>
<td>6</td>
<td>60</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>60 + 60 = 120</td>
<td>12 + 8 = 20</td>
<td>6</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>60 + 60 = 120</td>
<td>14 + 9/3 = 23/3</td>
<td>6</td>
<td>140</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>D</td>
<td>60 + 60 = 120</td>
<td>16 + 10/3 = 26/3</td>
<td>6</td>
<td>160</td>
<td>40</td>
<td>2 × 20</td>
</tr>
<tr>
<td>E</td>
<td>60 + 60 = 120</td>
<td>18 + 12 = 30</td>
<td>6</td>
<td>180</td>
<td>60</td>
<td>3 × 20</td>
</tr>
</tbody>
</table>

2) Soil B does not become completely rentless.

**TABLE XIV**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>60</td>
<td>10</td>
<td>6</td>
<td>60</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>60 + 60 = 120</td>
<td>12 + 9 = 21</td>
<td>6</td>
<td>126</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>C</td>
<td>60 + 60 = 120</td>
<td>14 + 10/3 = 24/3</td>
<td>6</td>
<td>147</td>
<td>27</td>
<td>6 + 21</td>
</tr>
<tr>
<td>D</td>
<td>60 + 60 = 120</td>
<td>16 + 12 = 28</td>
<td>6</td>
<td>168</td>
<td>48</td>
<td>6 + 2 × 21</td>
</tr>
<tr>
<td>E</td>
<td>60 + 60 = 120</td>
<td>18 + 13/3 = 31/3</td>
<td>6</td>
<td>189</td>
<td>69</td>
<td>6 + 3 × 21</td>
</tr>
</tbody>
</table>

Variant 3: Productivity of the second investment of capital increases; here, too, no second investment in soil A.

**TABLE XV**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>60</td>
<td>10</td>
<td>6</td>
<td>60</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>60 + 60 = 120</td>
<td>12 + 15 = 27</td>
<td>6</td>
<td>162</td>
<td>42</td>
<td>42</td>
</tr>
<tr>
<td>C</td>
<td>60 + 60 = 120</td>
<td>14 + 17/3 = 31/3</td>
<td>6</td>
<td>189</td>
<td>69</td>
<td>42 + 27</td>
</tr>
<tr>
<td>D</td>
<td>60 + 60 = 120</td>
<td>16 + 20 = 36</td>
<td>6</td>
<td>216</td>
<td>96</td>
<td>42 + 2 × 27</td>
</tr>
<tr>
<td>E</td>
<td>60 + 60 = 120</td>
<td>18 + 22/3 = 40/3</td>
<td>6</td>
<td>243</td>
<td>123</td>
<td>42 + 3 × 27</td>
</tr>
</tbody>
</table>

|                      |                       |                |                  |              |          |              |
|                      | 330                    |                |                  |              | 4 × 42 + 6 × 27 |              |
Second Case: Price of production declines.

Variant 1: Productivity of the second investment of capital remains the same. Soil A is excluded from competition and soil B becomes rentless.

**TABLE XVI**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>60 + 60 = 120</td>
<td>12 + 12 = 24</td>
<td>5</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>60 + 60 = 120</td>
<td>14 + 14 = 28</td>
<td>5</td>
<td>140</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>D</td>
<td>60 + 60 = 120</td>
<td>16 + 16 = 32</td>
<td>5</td>
<td>160</td>
<td>40</td>
<td>2 × 20</td>
</tr>
<tr>
<td>E</td>
<td>60 + 60 = 120</td>
<td>18 + 18 = 36</td>
<td>5</td>
<td>180</td>
<td>60</td>
<td>3 × 20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>120</td>
<td>6 × 20</td>
</tr>
</tbody>
</table>

Variant 2: Productivity of the second investment of capital declines; soil A is excluded from competition and soil B becomes rentless.

**TABLE XVII**

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>60 + 60 = 120</td>
<td>12 + 9 = 21</td>
<td>5½/₇</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>C</td>
<td>60 + 60 = 120</td>
<td>14 + 10½/₁₂ = 24½/₁₂</td>
<td>5½/₇</td>
<td>140</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>D</td>
<td>60 + 60 = 120</td>
<td>16 + 12 = 28</td>
<td>5½/₇</td>
<td>160</td>
<td>40</td>
<td>2 × 20</td>
</tr>
<tr>
<td>E</td>
<td>60 + 60 = 120</td>
<td>18 + 13½/₁₂ = 31½/₁₂</td>
<td>5½/₇</td>
<td>180</td>
<td>60</td>
<td>3 × 20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>120</td>
<td>6 × 20</td>
</tr>
</tbody>
</table>

Variant 3: Productivity of the second investment of capital increases; soil A remains in competition; soil B yields rent. [See Table XVIII on p. 709.]

Third Case: Price of production rises.

A) Soil A remains rentless and continues to regulate the price.

Variant 1: Productivity of the second investment of capital remains the same: this requires decreasing productivity of the first investment of capital.
### Table XVIII

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$60 + 60 = 120$</td>
<td>$10 + 15 = 25$</td>
<td>$4\frac{1}{5}$</td>
<td>$120$</td>
<td>$0$</td>
<td>$0$</td>
</tr>
<tr>
<td>B</td>
<td>$60 + 60 = 120$</td>
<td>$12 + 18 = 30$</td>
<td>$4\frac{1}{5}$</td>
<td>$144$</td>
<td>$24$</td>
<td>$24$</td>
</tr>
<tr>
<td>C</td>
<td>$60 + 60 = 120$</td>
<td>$14 + 21 = 35$</td>
<td>$4\frac{1}{5}$</td>
<td>$168$</td>
<td>$48$</td>
<td>$2 \times 24$</td>
</tr>
<tr>
<td>D</td>
<td>$60 + 60 = 120$</td>
<td>$16 + 24 = 40$</td>
<td>$4\frac{1}{5}$</td>
<td>$192$</td>
<td>$72$</td>
<td>$3 \times 24$</td>
</tr>
<tr>
<td>E</td>
<td>$60 + 60 = 120$</td>
<td>$18 + 27 = 45$</td>
<td>$4\frac{1}{5}$</td>
<td>$216$</td>
<td>$96$</td>
<td>$4 \times 24$</td>
</tr>
</tbody>
</table>

240 $10 \times 24$

### Table XIX

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$60 + 60 = 120$</td>
<td>$7\frac{1}{2} + 10 = 17\frac{1}{2}$</td>
<td>$6\frac{2}{3}$</td>
<td>$120$</td>
<td>$0$</td>
<td>$0$</td>
</tr>
<tr>
<td>B</td>
<td>$60 + 60 = 120$</td>
<td>$9 + 12 = 21$</td>
<td>$6\frac{2}{3}$</td>
<td>$144$</td>
<td>$24$</td>
<td>$24$</td>
</tr>
<tr>
<td>C</td>
<td>$60 + 60 = 120$</td>
<td>$10\frac{1}{2} + 14 = 24\frac{1}{2}$</td>
<td>$6\frac{2}{3}$</td>
<td>$168$</td>
<td>$48$</td>
<td>$2 \times 24$</td>
</tr>
<tr>
<td>D</td>
<td>$60 + 60 = 120$</td>
<td>$12 + 16 = 28$</td>
<td>$6\frac{2}{3}$</td>
<td>$192$</td>
<td>$72$</td>
<td>$3 \times 24$</td>
</tr>
<tr>
<td>E</td>
<td>$60 + 60 = 120$</td>
<td>$13\frac{1}{2} + 18 = 31\frac{1}{2}$</td>
<td>$6\frac{2}{3}$</td>
<td>$216$</td>
<td>$96$</td>
<td>$4 \times 24$</td>
</tr>
</tbody>
</table>

240 $10 \times 24$

Variant 2: Productivity of the second investment of capital decreases; which does not exclude constant productivity of the first investment.

### Table XX

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$60 + 60 = 120$</td>
<td>$10 + 5 = 15$</td>
<td>$8$</td>
<td>$120$</td>
<td>$0$</td>
<td>$0$</td>
</tr>
<tr>
<td>B</td>
<td>$60 + 60 = 120$</td>
<td>$12 + 6 = 18$</td>
<td>$8$</td>
<td>$144$</td>
<td>$24$</td>
<td>$24$</td>
</tr>
<tr>
<td>C</td>
<td>$60 + 60 = 120$</td>
<td>$14 + 7 = 21$</td>
<td>$8$</td>
<td>$168$</td>
<td>$48$</td>
<td>$2 \times 24$</td>
</tr>
<tr>
<td>D</td>
<td>$60 + 60 = 120$</td>
<td>$16 + 8 = 24$</td>
<td>$8$</td>
<td>$192$</td>
<td>$72$</td>
<td>$3 \times 24$</td>
</tr>
<tr>
<td>E</td>
<td>$60 + 60 = 120$</td>
<td>$18 + 9 = 27$</td>
<td>$8$</td>
<td>$216$</td>
<td>$96$</td>
<td>$4 \times 24$</td>
</tr>
</tbody>
</table>

240 $10 \times 24$

---

a In the 1894 German edition figures from Table XXI were erroneously inserted under this head.
Variant 3: Productivity of the second investment of capital rises; under the assumed conditions this presupposes declining productivity of the first investment.

\[\text{TABLE XXI}\]

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>60 + 60 = 120</td>
<td>5 + 12'/2 = 17'/2</td>
<td>6'/2</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>60 + 60 = 120</td>
<td>6 + 15 = 21</td>
<td>6'/2</td>
<td>144</td>
<td>24</td>
<td>24</td>
</tr>
<tr>
<td>C</td>
<td>60 + 60 = 120</td>
<td>7 + 17'/2 = 24'/2</td>
<td>6'/2</td>
<td>168</td>
<td>48</td>
<td>2 \times 24</td>
</tr>
<tr>
<td>D</td>
<td>60 + 60 = 120</td>
<td>8 + 20 = 28</td>
<td>6'/2</td>
<td>192</td>
<td>72</td>
<td>3 \times 24</td>
</tr>
<tr>
<td>E</td>
<td>60 + 60 = 120</td>
<td>9 + 22'/2 = 31'/2</td>
<td>6'/2</td>
<td>216</td>
<td>96</td>
<td>4 \times 24</td>
</tr>
</tbody>
</table>

240 \times 10 \times 24

B) An inferior soil (designated as a) becomes the price regulator and soil A thus yields rent. This makes admissible for all variants constant productivity of the second investment.

Variant 1: Productivity of the second investment of capital remains the same.

\[\text{TABLE XXII}\]

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>120</td>
<td>16</td>
<td>7'/2</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A</td>
<td>60 + 60 = 120</td>
<td>10 + 10 = 20</td>
<td>7'/2</td>
<td>150</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>B</td>
<td>60 + 60 = 120</td>
<td>12 + 12 = 24</td>
<td>7'/2</td>
<td>180</td>
<td>60</td>
<td>2 \times 30</td>
</tr>
<tr>
<td>C</td>
<td>60 + 60 = 120</td>
<td>14 + 14 = 28</td>
<td>7'/2</td>
<td>210</td>
<td>90</td>
<td>3 \times 30</td>
</tr>
<tr>
<td>D</td>
<td>60 + 60 = 120</td>
<td>16 + 16 = 32</td>
<td>7'/2</td>
<td>240</td>
<td>120</td>
<td>4 \times 30</td>
</tr>
<tr>
<td>E</td>
<td>60 + 60 = 120</td>
<td>18 + 18 = 36</td>
<td>7'/2</td>
<td>270</td>
<td>150</td>
<td>5 \times 30</td>
</tr>
</tbody>
</table>

450 \times 15 \times 30

Variant 2: Productivity of the second investment of capital declines. [See Table XXIII on p. 711.]

Variant 3: Productivity of the second investment increases. [See Table XXIV on p. 711.]

These tables lead to the following conclusions:

In the first place, the sequence of rents behaves exactly as the sequence of fertility differences—taking the rentless regulating soil as
the zero point. It is not the absolute yield, but only the differences in yield which are the factors determining rent. Whether the various soils yield 1, 2, 3, 4, 5 bushels, or whether they yield 11, 12, 13, 14, 15 bushels per acre, the rents in both cases form the sequence 0, 1, 2, 3, 4 bushels, or their equivalent in money.

But far more important is the result with respect to the total rent yields for repeated investment of capital in the same land.

In five out of the thirteen analysed cases, the total rent doubles when the investment of capital is doubled; instead of $10 \times 12$ shillings it becomes $10 \times 24$ shillings = 240 shillings. These cases are:

Case I, constant price, variant 1: corresponding production rise (Table XII).

---

### TABLE XXIII

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>120</td>
<td>15</td>
<td>8</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A</td>
<td>$60 + 60 = 120$</td>
<td>$10 + 7\frac{1}{2} = 17\frac{1}{2}$</td>
<td>8</td>
<td>140</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>B</td>
<td>$60 + 60 = 120$</td>
<td>$12 + 9 = 21$</td>
<td>8</td>
<td>168</td>
<td>48</td>
<td>$20 + 28$</td>
</tr>
<tr>
<td>C</td>
<td>$60 + 60 = 120$</td>
<td>$14 + 10\frac{1}{2} = 24\frac{1}{2}$</td>
<td>8</td>
<td>196</td>
<td>76</td>
<td>$20 + 2 \times 28$</td>
</tr>
<tr>
<td>D</td>
<td>$60 + 60 = 120$</td>
<td>$16 + 12 = 28$</td>
<td>8</td>
<td>224</td>
<td>104</td>
<td>$20 + 3 \times 28$</td>
</tr>
<tr>
<td>E</td>
<td>$60 + 60 = 120$</td>
<td>$18 + 13\frac{1}{2} = 31\frac{1}{2}$</td>
<td>8</td>
<td>252</td>
<td>132</td>
<td>$20 + 4 \times 28$</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>380 $5 \times 20 + 10 \times 28$</td>
</tr>
</tbody>
</table>

### TABLE XXIV

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Price of Production Sh.</th>
<th>Output Bushels</th>
<th>Selling Price Sh.</th>
<th>Proceeds Sh.</th>
<th>Rent Sh.</th>
<th>Rent Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>a</td>
<td>120</td>
<td>16</td>
<td>$7\frac{1}{2}$</td>
<td>120</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>A</td>
<td>$60 + 60 = 120$</td>
<td>$10 + 12\frac{1}{2} = 22\frac{1}{2}$</td>
<td>$7\frac{1}{2}$</td>
<td>$168\frac{1}{4}$</td>
<td>$48\frac{1}{4}$</td>
<td>$15 + 33\frac{1}{4}$</td>
</tr>
<tr>
<td>B</td>
<td>$60 + 60 = 120$</td>
<td>$12 + 15 = 27$</td>
<td>$7\frac{1}{2}$</td>
<td>$202\frac{1}{2}$</td>
<td>$82\frac{1}{2}$</td>
<td>$15 + 2 \times 33\frac{1}{4}$</td>
</tr>
<tr>
<td>C</td>
<td>$60 + 60 = 120$</td>
<td>$14 + 17\frac{1}{2} = 31\frac{1}{2}$</td>
<td>$7\frac{1}{2}$</td>
<td>$236\frac{3}{4}$</td>
<td>$116\frac{3}{4}$</td>
<td>$15 + 3 \times 33\frac{1}{4}$</td>
</tr>
<tr>
<td>D</td>
<td>$60 + 60 = 120$</td>
<td>$16 + 20 = 36$</td>
<td>$7\frac{1}{2}$</td>
<td>$270$</td>
<td>$150$</td>
<td>$15 + 4 \times 33\frac{1}{4}$</td>
</tr>
<tr>
<td>E</td>
<td>$60 + 60 = 120$</td>
<td>$18 + 22\frac{1}{2} = 40\frac{1}{2}$</td>
<td>$7\frac{1}{2}$</td>
<td>$303\frac{3}{4}$</td>
<td>$183\frac{3}{4}$</td>
<td>$15 + 5 \times 33\frac{1}{4}$</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$581\frac{1}{4}$ $5 \times 15 + 15 + 5 \times 33\frac{1}{4}$</td>
</tr>
</tbody>
</table>
Case II, falling price, variant 3: increasing production rise (Table XVIII).

Case III, increasing price, first eventuality (where soil A remains the regulator), in all three variants (tables XIX, XX and XXI).

In four cases the rent more than doubles, namely:

- Case I, variant 3, constant price, but increasing production rise (Table XV). The total rent climbs to 330 shillings.
- Case III, second eventuality (where soil A yields rent), in all three variants (Table XXII, rent = $15 \times 30 = 450$ shillings; Table XXIII, rent = $5 \times 20 + 10 \times 28 = 380$ shillings; Table XXIV, rent = $5 \times 15 + 15 \times 33\frac{3}{4} = 581\frac{1}{4}$ shillings).

In one case the rent rises, but not to twice the amount yielded by the first investment of capital.

Case I, constant price, variant 2: falling productivity of the second investment, under conditions whereby B does not become completely rentless (Table XIV, rent = $4 \times 6 + 6 \times 21 = 150$ shillings).

Finally, only in three cases does the total rent remain at the same level with a second investment — for all soils taken together — as with the first investment (Table XI); these are the cases in which soil A is excluded from competition and B becomes the regulator and thereby rentless soil. Thus, the rent for B not only vanishes but is also deducted from every succeeding term of the rent sequence; the result is thus determined. These cases are:

- Case I, variant 2, when the conditions are such that soil A is excluded (Table XIII). The total rent is $6 \times 20$, or $10 \times 12 = 120$, as in Table XI.

- Case II, variants 1 and 2. Here soil A is necessarily excluded in accordance with the assumptions (tables XVI and XVII) and the total rent is again $6 \times 20 = 10 \times 12 = 120$ shillings.

Thus, this means: In the great majority of all possible cases the rent rises — per acre of rent-bearing land as well as particularly in its total amount — as a result of an increased investment of capital in the land. Only in three out of the thirteen analysed cases does its total remain unaltered. These are the cases in which the lowest quality soil — hitherto the regulator and rentless — is eliminated from competition and the next quality soil takes its place, i.e., becomes rentless. But even in these cases, the rents upon the superior soils rise in comparison with the rents due to the first capital investment; when the rent for C falls from 24 to 20, then those for D and E rise from 36 and 48 to 40 and 60 shillings respectively.
A fall in the total rents below the level for the first investment of capital (Table XI) would be possible only if soil B as well as soil A were to be excluded from competition and soil C were to become regulating and rentless.

Thus, the more capital is invested in the land, and the higher the development of agriculture and civilisation in general in a given country, the more rents rise per acre as well as in total amount, and the more immense becomes the tribute paid by society to the big landowners in the form of surplus profits—so long as the various soils, once taken under cultivation, are all able to continue competing.

This law accounts for the amazing vitality of the class of big landlords. No social class lives so sumptuously, no other class claims the right it does to traditional luxury in keeping with its “estate,” regardless of where the money for this purpose may be derived, and no other class piles debt upon debt so light-heartedly. And yet it always lands again on its feet—thanks to the capital invested by other people in the land, which yields it a rent, completely out of proportion to the profits reaped therefrom by the capitalist.

However, the same law also explains why the vitality of the big landlord is gradually being exhausted.

When the English corn duties were abolished in 1846, the English manufacturers believed that they had thereby turned the landowning aristocracy into paupers. Instead, they became richer than ever. How did this occur? Very simply. In the first place, the farmers were now compelled by contract to invest £12 per acre annually instead of £8. And secondly, the landlords, being strongly represented in the Lower House too, granted themselves a large government subsidy for drainage projects and other permanent improvements on their land. Since no total displacement of the poorest soil took place, but rather, at worst, it became employed for other purposes—and mostly only temporarily—rents rose in proportion to the increased investment of capital, and the landed aristocracy consequently was better off than ever before.

But everything is transitory. Transoceanic steamships and the railways of North and South America and India enabled some very singular tracts of land to compete in European grain markets. These were, on the one hand, the North American prairies and the Argentine pampas—plains cleared for the plough by Nature itself, and virgin soil which offered rich harvests for years to come even with primitive cultivation and without fertilisers. And, on the other hand, there
were the land holdings of Russian and Indian communist communities which had to sell a portion of their produce, and a constantly increasing one at that, for the purpose of obtaining money for taxes wrung from them — frequently by means of torture — by a ruthless and despotic state. These products were sold without regard to price of production, they were sold at the price which the dealer offered, because the peasant perforce needed money without fail when taxes became due. And in face of this competition — coming from virgin plains as well as from Russian and Indian peasants ground down by taxation — the European tenant farmer and peasant could not prevail at the old rents. A portion of the land in Europe fell decisively out of competition as regards grain cultivation, and rents fell everywhere; our second case, variant 2 — falling prices and falling productivity of the additional investment of capital — became the rule for Europe; and therefore the lament of farmers from Scotland to Italy and from southern France to East Prussia. Fortunately, the plains are far from being entirely brought under cultivation; there are enough left to ruin all the big landlords of Europe and the small ones into the bargain.— F. E.//

The headings under which rent should be analysed are:
A. Differential rent.
   1) Conception of differential rent. Water-power as an illustration.
   Transition to agricultural rent proper.
   2) Differential rent I, arising from the varying fertility of various plots of land.
   3) Differential rent II, arising from successive investments of capital in the same land. Differential rent II should be analysed:
      a) with a stationary,
      b) falling,
      c) and rising price of production.
      And also
d) transformation of surplus profit into rent.
   4) Influence of this rent upon the rate of profit.
B. Absolute rent.
C. The price of land.
D. Final remarks concerning ground rent.
Overall conclusions to be drawn from the consideration of differential rent in general are the following:

First, the formation of surplus profit may take place in various ways. On the one hand, based on differential rent I, that is, on the investment of the entire agricultural capital in land consisting of soils of varying fertility. Or, in the form of differential rent II, based on the varying differential productivity of successive investments of capital in the same land, i.e., a greater productivity — expressed, e.g., in quarters of wheat — than is secured with the same investment of capital in the worst land — rentless, but which regulates the price of production. But no matter how this surplus profit may arise, its transformation into rent, i.e., its transfer from farmer to landlord, always presupposes that the various actual individual production prices of the partial outputs of the individual successive investments of capital (i.e., independent of the general price of production by which the market is regulated) have previously been reduced to an individual average price of production. The excess of the general regulating production price of the output per acre over this individual average production price constitutes and is a measure of the rent per acre. In the case of differential rent I, the differential results are in themselves distinguishable because they take place upon different portions of land — distinct from one another and existing side by side — given an investment of capital per acre and a degree of cultivation considered normal. In the case of differential rent II, they must first be made distinguishable; they must in fact be transformed back into differential rent I, and this can only take place in the indicated way. For example, let us take Table III, S. 226.a

Soil B yields for the first invested capital of £2 1/2 —2 quarters per acre, and for the second investment of equal magnitude — 1 1/2 quarters; together — 3 1/2 quarters from the same acre. It is not possible to distinguish which part of these 3 1/2 quarters is a product of invested capital I and which part a product of invested capital II, for it is all grown upon the same soil. In fact, the 3 1/2 quarters is the yield from the total capital of £5; and the actual fact of the matter is simply this: a capital of £2 1/2 yielded 2 quarters, and a capital of £5 yielded 3 1/2 quarters rather than 4 quarters. The situation would be just the same

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*a* See this volume, p. 679.
if the £5 yielded 4 quarters, i.e., if the yield from both investments of capital were equal; similarly, if the yield were even 5 quarters, i.e., if the second investment of capital were to yield a surplus of 1 quarter. The price of production of the first 2 quarters is £1\frac{1}{2} per quarter, and that of the second 1\frac{1}{2} quarters is £2 per quarter. Consequently the 3\frac{1}{2} quarters together cost £6. This is the individual price of production of the total product, and, on the average, amounts to £1 14\frac{7}{8} sh. per quarter, i.e., approximately £1\frac{3}{4}. With the general price of production determined by soil A, namely £3, this results in a surplus profit of £1\frac{1}{4} per quarter, and thus for the 3\frac{1}{2} quarters, a total of £4\frac{3}{8}. At the average price of production of B this corresponds to about 1\frac{1}{2} quarters. In other words, the surplus profit from B is represented by an aliquot portion of the output from B, i.e., by the 1\frac{1}{2} quarters, which express the rent in terms of grain, and which sell—in accordance with the general price of production—for £4\frac{1}{2}. But on the other hand, the excess product from an acre of B over that from an acre of A does not automatically represent surplus profit, and thereby surplus product. According to our assumption, an acre of B yields 3\frac{1}{2} quarters, whereas an acre of A yields only 1 quarter. Excess product from B is, therefore, 2\frac{1}{2} quarters but the surplus product is only 1\frac{1}{2} quarters; for the capital invested in B is twice that invested in A, and thus its price of production is double. If an investment of £5 were also to take place in A, and the rate of productivity were to remain the same, then the output would be 2 quarters instead of 1 quarter, and it would then be seen that the actual surplus product is determined by comparing 3\frac{1}{2} with 2, not 3\frac{1}{2} with 1; i.e., it is only 1\frac{1}{2} quarters, not 2\frac{1}{2} quarters. Furthermore, if a third investment of capital, amounting to £2\frac{1}{2}, were made in B, and this were to yield only 1 quarter—this quarter would then cost £3 as in A—its selling price of £3 would only cover the price of production, would provide only the average profit, but no surplus profit, and would thus yield nothing that could be transformed into rent. The comparison of the output per acre from any given soil type with the output per acre from soil A does not show whether it is the output from an equal or from a larger investment of capital, nor whether the additional output only covers the price of production or is due to greater productivity of the additional capital.
Secondly, assuming a decreasing rate of productivity for the additional investments of capital whose limit, so far as the new formation of surplus profit is concerned, is that investment of capital which just covers the price of production, i.e., which produces a quarter as dearly as the same investment of capital in an acre of soil A, namely, at £3, according to our assumption—it follows from what has just been said: that the limit, where the total investment of capital in an acre of B would no longer yield any rent, is reached when the individual average production price of output per acre of B would rise to the price of production per acre of A.

If only investments of capital are made in B that yield the price of production, i.e., yield no surplus profit nor new rent, then this indeed raises the individual average price of production per quarter, but does not affect the surplus profit, and eventually the rent, formed by previous investments of capital. For the average price of production always remains below that of A, and when the price excess per quarter decreases, the number of quarters increases proportionately, so that the total excess in price remains unaltered.

In the case assumed, the first two investments of capital in B amounting to £5 yield \(3\frac{1}{2}\) quarters, thus according to our assumption \(1\frac{1}{2}\) quarters of rent = £4\(\frac{1}{2}\). Now, if a third investment of £2\(\frac{1}{2}\) is made, but one which yields only an additional quarter, then the total price of production (including 20% profit) of the \(4\frac{1}{2}\) quarters = £9; thus the average price per quarter = £2. The average price of production per quarter upon B has thus risen from £1\(\frac{5}{7}\) to £2, and the surplus profit per quarter, compared with the regulating price of A, has fallen from £1\(\frac{2}{7}\) to £1. But \(1 \times 4\frac{1}{2} = \£4\frac{1}{2}\) just as formerly \(1\frac{2}{7} \times 3\frac{1}{2} = \£4\frac{1}{2}\).

Let us assume that a fourth and fifth additional investment of capital, amounting to £2\(\frac{1}{2}\) each, are made in B, which do no more than produce a quarter at its general price of production. The total product per acre would then be \(6\frac{1}{2}\) quarters and their price of production £15. The average price of production per quarter for B would have risen again—from £2 to £2\(\frac{4}{13}\)—and the surplus profit per quarter, compared with the regulating price of production of A, would have dropped again—from £1 to £1\(\frac{9}{13}\). But these £1\(\frac{9}{13}\) would now have to be calculated upon the basis of \(6\frac{1}{2}\) quarters instead of \(4\frac{1}{2}\) quarters. And \(\frac{9}{13} \times 6\frac{1}{2} = 1 \times 4\frac{1}{2} = \£4\frac{1}{2}\).
It follows from this, firstly, that no increase in the regulating price of production is necessary under these circumstances, in order to make possible additional investments of capital in the rent-bearing soil—even to the point where the additional capital completely ceases to produce surplus profit and continues to yield only the average profit. It follows furthermore that the total surplus profit per acre remains the same here, no matter how much surplus profit per quarter may decrease; this decrease is always balanced by a corresponding increase in the number of quarters produced per acre. In order that the average price of production might reach the level of the general price of production (hence £3 for soil B), it is necessary that supplementary investments be made whose output has a higher price of production than the regulating one of £3. But we shall see that this alone does not suffice without further ado to raise the average price of production per quarter of B to the general price of production of £3.

Let us assume that soil B produced:

1) $3\frac{1}{2}$ quarters whose price of production is, as before, £6, i.e., two investments of capital amounting to £2$\frac{1}{2}$ each both yielding surplus profit, but of decreasing amount.

2) 1 quarter at £3; an investment of capital in which the individual price of production is equal to the regulating price of production.

3) 1 quarter at £4; an investment of capital in which the individual price of production is higher by $33\%$ than the regulating price.

We should then have $5\frac{1}{2}$ quarters per acre for £13 with an investment of a capital of £10$\frac{7}{10}$, this is four times the original invested capital, but not quite three times the output of the first investment of capital.

$5\frac{1}{2}$ quarters at £13 gives an average price of production of £2$\frac{4}{11}$ per quarter, i.e., an excess of £$\frac{7}{11}$ per quarter, assuming the regulating price of production of £3. This excess may be transformed into rent. $5\frac{1}{2}$ quarters sold at the regulating price of production of £3 yield £16$\frac{1}{2}$. After deducting the production price of £13, a surplus profit, or rent, of £$3\frac{1}{2}$ remains, which, calculated at the present average price of production per quarter of B, that is, at £$2\frac{4}{11}$ per quarter, represents $1\frac{25}{32}$ quarters. The money rent would be lower by £1

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a In the 1894 German edition “25%”.
- b Ibid., “10”.
- c Ibid., “1\%”.
and the grain rent by about $\frac{1}{2}$ quarter, but in spite of the fact that
the fourth additional investment of capital in B not only fails to yield
surplus profit, but yields less than the average profit, surplus profit,
and rent still continue to exist. Let us assume that, in addition to in-
vestment 3), investment 2) also produces at a price exceeding the re-
gulating price of production. Then the total production is: 3$\frac{1}{2}$ quar-
ters for £6 + 2 quarters for £8; total $5\frac{1}{2}$ quarters for £14 production
price. The average price of production per quarter would be £2$\frac{5}{11}$
and would leave an excess of £$\frac{5}{11}$. The 5$\frac{1}{2}$ quarters, sold at £3, give
£16$\frac{1}{2}$; deducting the £14 production price leaves £2$\frac{1}{2}$ for rent. At
the present average price of production upon B, this would be equiva-
 lent to $\frac{55}{56}$ of a quarter. In other words, rent is still yielded although
less than before.

This shows, at any rate, that with additional investments of capital
in the better soils whose output costs more than the regulating price
of production the rent does not disappear — at least not within the
bounds of admissible practice — although it must decrease. It will de-
crease in proportion, on the one hand, to the aliquot part formed by
this less productive capital in the total investment of capital, and on
the other hand, in proportion to the decrease in its productiveness.
The average price of its produce would still lie below the regulating
price and would thus still permit surplus profit to be formed that
could be transformed into rent.

Let us now assume that, as a result of four successive investments of
capital (£2$\frac{1}{2}$, £2$\frac{1}{2}$, £5 and £5) with decreasing productivity, the
average price per quarter of B coincides with the general price of pro-
duction.

<table>
<thead>
<tr>
<th>Capital</th>
<th>Profit</th>
<th>Output</th>
<th>Price of Production</th>
<th>Selling Price</th>
<th>Proceeds</th>
<th>Surplus for Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
<td>Qrs</td>
<td>per Qr £</td>
<td>Total £</td>
<td>£</td>
<td>Qrs £</td>
</tr>
<tr>
<td>1)</td>
<td>2$\frac{1}{2}$</td>
<td>$\frac{1}{2}$</td>
<td>2</td>
<td>1$\frac{1}{2}$</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>2)</td>
<td>2$\frac{1}{2}$</td>
<td>$\frac{1}{2}$</td>
<td>1$\frac{1}{2}$</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>3)</td>
<td>5</td>
<td>1</td>
<td>1$\frac{1}{2}$</td>
<td>4</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>4)</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>15</td>
<td>3</td>
<td>6</td>
<td>18</td>
<td>18</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
The farmer, in this case, sells every quarter at its individual price of production, and consequently the total number of quarters at their average price of production per quarter, which coincides with the regulating price of £3. Hence he still makes a profit of $20\% = £3$ upon his capital of £15. But the rent is gone. What has become of the excess in this equalisation of the individual prices of production per quarter with the general price of production?

The surplus profit from the first £2 $\frac{1}{2}$ was £3, from the second £2 $\frac{1}{2}$ it was £1 $\frac{1}{2}$; total surplus profit from $\frac{1}{3}$ of the invested capital, that is, from £5 = £4 $\frac{1}{2}$ = 90%.

In the case of investment 3), the £5 not only fails to yield surplus profit, but its output of 1 $\frac{1}{2}$ quarters, sold at the general price of production, gives a deficit of £1 $\frac{1}{2}$. Finally, in the case of investment 4), which likewise amounts to £5, its output of 1 quarter, sold at the general price of production, gives a deficit of £3. Both investments of capital together thus give a deficit of £4 $\frac{1}{2}$, which is equal to the surplus profit of £4 $\frac{1}{2}$, realised from investments 1) and 2).

The surplus profit and deficit balance out. Therefore the rent disappears. In fact, this is possible only because the elements of surplus value, which formed surplus profit or rent, now enter into the formation of the average profit. The farmer makes this average profit of £3 on £15, or 20%, at the expense of the rent.

The equalisation of the individual average price of production of B to the general price of production of A, which regulates the market price, presupposes that the difference of the individual price of the produce from the first investments of capital below the regulating price is more and more compensated and finally balanced out by the difference of the price of the produce from the subsequent investments of capital above the regulating price. What appears as surplus profit, so long as the produce from the first investments of capital is sold by itself, thus gradually becomes part of its average price of production, and thereby enters into the formation of the average profit, until it is finally completely absorbed by it.

If only £5 are invested in B instead of £15 and the additional 2 $\frac{1}{2}$ quarters of the last table are produced by taking 2 $\frac{1}{2}$ new acres of A under cultivation with an investment of £2 $\frac{1}{2}$ per acre, then the additional invested capital would amount to only £6 $\frac{1}{4}$, i.e., the total investment in A and B for the production of these 6 quarters would be
only £11 1/4, instead of £15, and their total price of production, including profit, £13 1/2. The 6 quarters would still be sold for £18, but the investment of capital would have decreased by £3 3/4, and the rent from B would be £4 1/2 per acre, as before. It would be different if the production of the additional 2 1/2 quarters required that a soil inferior to A, for instance, A., and A., be taken under cultivation, so that the price of production per quarter would be: for 1 1/2 quarters on soil A., = £4, and for the last quarter on soil A. = £6. In this case, £6 would be the regulating price of production per quarter. The 3 1/2 quarters from B would then be sold for £21 instead of £10 1/2, which would mean a rent of £15 instead of £4 1/2, or, a rent in grain of 2 1/2 quarters instead of 1 1/2 quarters. Similarly, a quarter on A would now yield a rent of £3 = 1/2 quarter.

Before discussing this point further, another observation:
The average price of a quarter from B is equalised, i.e., coincides with the general production price of £3 per quarter, regulated by A, as soon as that portion of the total capital which produces the excess of 1 1/2 quarters is balanced by that portion of the total capital which produces the deficit of 1 1/2 quarters. How soon this equalisation is effected, or how much capital with underproductiveness must be invested in B for this purpose, will depend, assuming the surplus productivity of the first investments of capital to be given, upon the relative underproductiveness of the later investments compared with an investment of the same amount in the worst, regulating soil A, or upon the individual price of production of their produce, compared with the regulating price.

The following conclusions can now be drawn from the foregoing:
First: So long as the additional capitals are invested in the same land with surplus productivity, even if the surplus productivity is decreasing, the absolute rent per acre in grain and money increases, although it decreases relatively, in proportion to the advanced capital (in other words, the rate of surplus profit or rent). The limit is established here by that additional capital which yields only the average profit, or for whose produce the individual price of production coincides with the general price of production. The price of production
remains the same under these circumstances, unless the production from the poorer soils becomes superfluous as a result of increased supply. Even when the price is falling, these additional capitals may within certain limits still produce surplus profit, though less of it.

Secondly: The investment of additional capital yielding only the average profit, whose surplus productivity therefore = 0, does not alter in any way the amount of the existing surplus profit, and consequently of rent. The individual average price per quarter increases thereby upon the superior soils; the excess per quarter decreases, but the number of quarters which contain this decreased excess increases, so that the mathematical product remains the same.

Thirdly: Additional investments of capital, the produce of which has an individual price of production exceeding the regulating price—the surplus productivity is therefore not merely = 0, but less than zero, or a negative quantity, that is, less than the productivity of an equal investment of capital in the regulating soil A—bring the individual average price of production of the total output from the superior soil closer and closer to the general price of production, i.e., reduce more and more the difference between them which constitutes the surplus profit, or rent. An increasingly greater part of what constituted surplus profit or rent enters into the formation of the average profit. But nevertheless, the total capital invested in an acre of B continues to yield surplus profit, although the latter decreases as the amount of capital with underproductiveness increases and to the extent of this underproductiveness. The rent, with increasing capital and increasing production, in this case decreases absolutely per acre, not merely relatively with reference to the increasing magnitude of the invested capital, as in the second case.

The rent can be eliminated only when the individual average price of production of the total output from the better soil B coincides with the regulating price, so that the entire surplus profit from the first more productive investments of capital is consumed in the formation of average profit.

The minimum limit of the drop in rent per acre is that point at which it disappears. But this point does not occur as soon as the additional investments of capital are underproductive, but rather as soon as the additional investment of underproductive capital becomes so large in magnitude that its effect is to cancel the overproductiveness of the first investments of capital, so that the productiveness of the total invested capital becomes the same as that of the capital invested in
A, and the individual average price per quarter of B becomes therefore the same as that per quarter of A.

In this case too, the regulating price of production, £3 per quarter, would remain the same, although the rent had disappeared. Only beyond this point would the price of production have to rise in consequence of an increase either in the extent of underproductiveness of the additional capital or in the magnitude of the additional capital of equal underproductiveness. For instance, if in the above table (S. 265*) 2¼ quarters were produced instead of 1½ quarters upon the same soil at £4 per quarter, we would have had a total of 7 quarters for £22 price of production; a quarter would have cost £3 1/7; it would thus be £1 1/7 above the general price of production, and the latter would therefore have to rise.

For a long time, then, additional capital with underproductiveness, or even increasing underproductiveness, might be invested until the individual average price per quarter from the best soils became equal to the general price of production, until the excess of the latter over the former—and thereby the surplus profit and the rent—entirely disappeared.

And even then, the disappearance of rent from the better soils would only signify that the individual average price of their produce coincides with the general price of production, so that an increase in the latter would not yet be required.

In the above illustration, upon better soil B—which is however the lowest in the sequence of better or rent-bearing soils—3 1/2 quarters were produced by a capital of £5 with surplus productiveness and 2 1/2 quarters by a capital of £10 with underproductiveness, i.e., a total of 6 quarters; 5/12 of this total is thus produced by the latter portions of capital with underproductiveness. And it is only at this point that the individual average price of production of the 6 quarters rises to £3 per quarter and thus coincides with the general price of production.

Under the law of landed property, however, the latter 2 1/2 quarters could not have been produced in this way at £3 per quarter, except when they could be produced upon 2 1/2 new acres of soil A. The case

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a See this volume, p. 719.
in which the additional capital produces only at the general price of production, would have constituted the limit. Beyond this point, the additional investment of capital in the same land would have had to cease.

Indeed, if the farmer once pays £4\textsubscript{1/2} rent for the first two investments of capital, he must continue to pay it, and every investment of capital which produced a quarter for more than £3\textsuperscript{a} would result in a deduction from his profit. The equalisation of the individual average price, in the case of underproductiveness, is thereby prevented.

Let us take this case in the previous illustration, where the price of production for soil A, £3 per quarter, regulates the price for B.

<table>
<thead>
<tr>
<th>Capital £</th>
<th>Profit £</th>
<th>Price of Production £</th>
<th>Output Qrs</th>
<th>Price of Production per Qt £</th>
<th>Selling Price</th>
<th>Surplus Profit £</th>
<th>Loss £</th>
</tr>
</thead>
<tbody>
<tr>
<td>2\textsubscript{1/2}</td>
<td>1\textsubscript{1/2}</td>
<td>3</td>
<td>2</td>
<td>1\textsubscript{1/2}</td>
<td>3</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>2\textsubscript{1/2}</td>
<td>1\textsubscript{1/2}</td>
<td>3</td>
<td>1\textsubscript{1/2}</td>
<td>2</td>
<td>3</td>
<td>4\textsubscript{1/2}</td>
<td>1\textsubscript{1/2}</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>6</td>
<td>1\textsubscript{1/2}</td>
<td>4\textsuperscript{b}</td>
<td>3</td>
<td>4\textsubscript{1/2}</td>
<td>—</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>6</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>3</td>
<td>—</td>
</tr>
<tr>
<td>15</td>
<td>3</td>
<td>18</td>
<td></td>
<td>18</td>
<td>4\textsubscript{1/2}</td>
<td>4\textsubscript{1/2}</td>
<td></td>
</tr>
</tbody>
</table>

The price of production for the 3\textsubscript{1/2} quarters in the first two investments of capital is likewise £3 per quarter for the farmer, since he has to pay a rent of £4\textsubscript{1/2}; thus the difference between his individual price of production and the general price of production is not pocketed by him. For him, then, the excess in produce price for the first two investments of capital cannot serve to balance out the deficit incurred by the produce in the third and fourth investments of capital.

The 1\textsubscript{1/2} quarters from investment 3) cost the farmer £6, profit included; but at the regulating price of £3 per quarter, he can sell them for only £4\textsubscript{1/2}. In other words, he would not only lose his whole profit, but £1\textsubscript{1/2}, or 10% of his invested capital of £5, over and above it. The loss of profit and capital in the case of investment 3) would amount to £1\textsubscript{1/2}, and in the case of investment 4) to £3, i.e., a total of £4\textsubscript{1/2}, or just as much as the rent from the better investments of cap-

\textsuperscript{a} In the 1894 German edition: "for less than £3". - \textsuperscript{b} In the 1894 German edition: "3".
capital; the individual price of production for the latter, however, cannot take part in equalising the individual average price of production of the total product from B, because the excess is paid out as rent to a third party.

If it were necessary, to meet the demand, to produce the additional 1½ quarters by the third investment of capital the regulating market price would have to rise to £4 per quarter. In consequence of this rise in the regulating market price, the rent from B would rise for the first and second investments, and rent would be formed upon A.

Thus although differential rent is but a formal transformation of surplus profit into rent, and property in land merely enables the owner in this case to transfer the surplus profit of the farmer to himself, we find nevertheless that successive investment of capital in the same land, or, what amounts to the same thing, the increase in capital invested in the same land, reaches its limit far more rapidly when the rate of productivity of the capital decreases and the regulating price remains the same; in fact a more or less artificial barrier is reached as a consequence of the mere formal transformation of surplus profit into ground rent, which is the result of landed property. The rise in the general price of production, which becomes necessary here within more narrow limits than otherwise, is in this case not merely the cause of the increase in differential rent, but the existence of differential rent as rent is at the same time the reason for the earlier and more rapid rise in the general price of production—in order to ensure thereby the increased supply of produce that has become necessary.

The following should furthermore be noted:

By an additional investment of capital in soil B, the regulating price could not, as above, rise to £4 if soil A were to supply the additional produce below £4 by a second investment of capital, or if new and worse soil than A, whose price of production were indeed higher than £3 but lower than £4, were to enter into competition. We see, then, that differential rent I and differential rent II, while the first is the basis of the second, serve simultaneously as limits for one another, whereby now a successive investment of capital in the same land, now an investment of capital side by side in new additional land, is made. In like manner they limit each other in other cases; for instance, when better soil is taken up.
Let us assume the demand for grain is rising, and the supply can only result from successive investments of capital under conditions of underproductiveness in the rent-bearing soils, or by additional investment of capital, also with decreasing productivity, in soil A, or by the investment of capital in new lands of inferior quality than A.

Let us take soil B as representative of the rent-bearing soils.

The additional investment of capital demands an increase in the market price above the hitherto regulating price of production of £3 per quarter, in order to make possible the increased production upon B of one quarter (which may here stand for one million quarters, just as every acre may stand for one million acres). Increased output may also be yielded by soils C and D, etc., the soils bearing the highest rent, but only with decreasing surplus productiveness; but it is assumed that the quarter from B is necessary in order to meet the demand. If this quarter is more cheaply produced by investing more capital in B than with the same addition of capital to A, or by descending to soil A₁, which may, e.g., require £4 to produce a quarter, whereas the addition to capital A might do so for £3 ³⁄₄, then the additional capital on B will regulate the market price.

A produces a quarter for £3, as heretofore. Similarly B, as before, produces a total of 3¹⁄₂ quarters at an individual price of production of £6 for its total output. Now, if an additional £4 of production price (including profit) becomes necessary on B in order to produce an additional quarter, whereas it could have been produced on A for £3 ³⁄₄, then it would naturally be produced on A, rather than on B. Let us assume, then, that it can be produced on B with the additional price of production of £3 ¹⁄₂. In this case, £3 ¹⁄₂ would become the regulating price for the entire output. B would now sell its present output of 4¹⁄₂ quarters for £15 ³⁄₄. Of this £6 is the price of production for the first 3¹⁄₂ quarters and the £3 ¹⁄₂ for the last quarter, i.e., a total of £9 ¹⁄₂. This leaves a surplus profit for rent = £6¹⁄₂ as against the former £4 ¹⁄₂. In this case, an acre of A would also yield a rent of £1; but it would not be the worst soil A, but rather the better soil B that would regulate the price of production of £3 ¹⁄₂. Of course, we assume
here that new soil of quality A and equally favourable location as that hitherto cultivated is not available, but that either a second investment of capital in the already cultivated plot A at a higher price of production, or the cultivation of an even poorer soil A., is required. As soon as differential rent II comes into force through successive investments of capital, the limits of the rising price of production may be regulated by better soil; and the worst soil, the basis of differential rent I, may also yield rent. Thus, even barely with a differential rent, all cultivated land would yield rent. We would then have the following two tables, where by price of production we mean the sum of the invested capital plus 20% profit; in other words, on every £2 1/2 of capital £1/2 of profit or a total of £3.

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Price of Production £</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Grain Rent Qrs</th>
<th>Money Rent £</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>6</td>
<td>3 1/2</td>
<td>3</td>
<td>10 1/2</td>
<td>1 1/2</td>
<td>4 1/2</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>6</td>
<td>5 1/2</td>
<td>3</td>
<td>16 1/2</td>
<td>3 1/2</td>
<td>10 1/2</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>6</td>
<td>7 1/2</td>
<td>3</td>
<td>22 1/2</td>
<td>5 1/2</td>
<td>16 1/2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4</td>
<td>21</td>
<td>17 1/2</td>
<td>52 1/2</td>
<td>10 1/2</td>
<td>31 1/2</td>
<td></td>
</tr>
</tbody>
</table>

This is the state of affairs before the new capital of £3 1/2, which yields only one quarter, is invested in B. After this investment, the situation looks as follows:

<table>
<thead>
<tr>
<th>Type of Soil</th>
<th>Acres</th>
<th>Price of Production £</th>
<th>Output Qrs</th>
<th>Selling Price £</th>
<th>Proceeds £</th>
<th>Grain Rent Qrs</th>
<th>Money Rent £</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1</td>
<td>3</td>
<td>1</td>
<td>3 1/2</td>
<td>3 1/2</td>
<td>1/2</td>
<td>1/2</td>
</tr>
<tr>
<td>B</td>
<td>1</td>
<td>9 1/2</td>
<td>4 1/2</td>
<td>3 1/2</td>
<td>15 1/2</td>
<td>1 1/2</td>
<td>6 1/2</td>
</tr>
<tr>
<td>C</td>
<td>1</td>
<td>6</td>
<td>5 1/2</td>
<td>3 1/2</td>
<td>19 1/2</td>
<td>3 1/2</td>
<td>13 1/2</td>
</tr>
<tr>
<td>D</td>
<td>1</td>
<td>6</td>
<td>7 1/2</td>
<td>3 1/2</td>
<td>26 1/2</td>
<td>5 1/2</td>
<td>20 1/2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4</td>
<td>24 1/2</td>
<td>18 1/2</td>
<td>64 1/2</td>
<td>11 1/2</td>
<td>40 1/2</td>
<td></td>
</tr>
</tbody>
</table>

This, again, is not quite correctly calculated. First of all, the cost of the 4 1/2 qrs for farmer B is £9 1/2 in price of production and, secondly, £4 1/2 in rent, i.e., a total of £14; average per quarter = = £3 3/4. This average price of his total production thus becomes the
regulating market price. Thus, the rent on A would amount to £\( \frac{1}{9} \) instead of £\( \frac{1}{2} \), and that on B would remain £\( 4\frac{1}{2} \) as heretofore; 4\( \frac{1}{2} \) qrs at £\( 3\frac{1}{2} = £14 \) and, if we deduct £\( 9\frac{1}{2} \) in price of production, £\( 4\frac{1}{2} \) remain for surplus profit. We see, then, that in spite of the required change in numerical values this illustration shows how, by means of differential rent II, better soil, already yielding rent, may regulate the price and thus transform all soil, even hitherto rentless, into rent-bearing soil.—F. E.//

The grain rent must rise as soon as the regulating price of production of the grain rises, i.e., as soon as the price of production of a quarter of grain from the regulating soil, or the regulating invested capital in one of the various soil types, rises. It is the same as though all soils had become less productive and produced, e.g., only \( \frac{5}{7} \) quarter instead of 1 quarter with every new investment of £\( 2\frac{1}{2} \). Whatever else they produce in grain with the same investment of capital is transformed into surplus product, which represents the surplus profit and therefore the rent. Assuming the rate of profit remains the same, the farmer can buy less grain with his profit. The rate of profit may remain the same if wages do not rise—either because they are depressed to the physical minimum i.e., below the normal value of labour power; or because the other articles of consumption needed by the labourer and supplied by manufacture have become relatively cheaper; or because the working day has become longer or more intensive, so that the rate of profit in nonagricultural lines of production, which, however, regulates the agricultural profit, has remained the same or has risen; or, finally, because more constant and less variable capital is employed in agriculture, even though the amount of capital invested is the same.

We have thus considered the first method by which rent may arise on the hitherto worst soil A without taking still worse soil under cultivation; that is, rent may arise from the difference between its individual, hitherto regulating, price of production and the new, higher price of production, whereby the last additional capital employed under conditions of underproductiveness upon the better soil supplies the necessary additional produce.

If the additional produce had to be supplied by soil A\(_{-1}\), which cannot produce a quarter for less than £\( 4 \), then the rent per acre of A would have risen to £\( 1 \). But, in this case, soil A\(_{-1}\) would have taken the place of A as the worst cultivated soil, and the latter would have
moved into the lowest position in the sequence of rent-bearing soils. Differential rent I would have changed. This case, then, is not included in the consideration of differential rent II, which arises from the varying productiveness of successive investments of capital in the same piece of land.

But aside from this, differential rent may arise on soil A in two other ways.

With the price unchanged—any given price, even a lower one compared to former ones—when the additional investment of capital results in surplus productiveness, which *prima facie*, and up to a certain point must always be the case precisely on the worst soil.

Secondly, however, when the productiveness of successive investments of capital in soil A decreases.

It is assumed in both cases that the increased production is required to meet demand.

But from the point of view of differential rent, a peculiar difficulty arises here owing to the previously developed law—according to which it is always the individual average price of production per quarter for the total production (or the total outlay of capital) which acts as the determining factor. In the case of soil A, however, there is not, as in the cases of the better soils, another price of production which limits for new investments of capital the equalisation of the individual with the general price of production. For the individual price of production of A is precisely the general price of production regulating the market price.

Let us assume:

1) *When the productive power of successive investments of capital is increasing*, 1 acre of A will produce 3 qrs instead of 2 qrs given an investment of £5—corresponding to a price of production of £6. The first investment of £2 1/2 yielded 1 qr, the second—2 qrs. In this case, a price of production of £6 will yield 3 qrs, so that the average cost of a quarter will be £2; i.e., if the 3 qrs are sold at £2 per quarter, then A, as heretofore, does not yield any rent, but only the basis of differential rent II has been altered; the regulating price of production is now £2 instead of £3; a capital of £2 3/2 now produces an average of 1 1/2 qrs on the worst soil, instead of 1 qr, and now this is the official productivity for all better soils given an investment of £2 3/2. From now on, a portion of their former surplus product enters into the formation of their necessary output, just as a portion of their surplus profit enters into forming the average profit.
On the other hand, if the calculation is made upon the basis of better soils, where the average calculation does not alter the absolute surplus at all, because for them the general price of production is the limit for the investment of capital, then a quarter from the first investment of capital costs £3 and the 2 qrs from the second investment cost only £1 1/2 each. This would thereby give rise to a grain rent of 1 qr and a money rent of £3 on A, but the 3 qrs would be sold for the old price of £9. If a third investment of £2 1/2 were made under conditions of the same productiveness as the second investment, then the total would be 5 qrs for a price of production of £9. If the individual average price of production of A should remain the regulating price, then a quarter would now be sold at £1 4/5. The average price would have fallen once more—not through a new rise in productiveness of the third investment of capital, but merely through the addition of a new investment of capital having the same additional productiveness as the second. Instead of raising the rent as on the rent-bearing soils, the successive investments of capital in soil A of higher, but constant productiveness would proportionally lower the price of production and thereby, everything else being equal, the differential rent on all other soils. On the other hand, if the first investment of capital which produces 1 qr at a price of production of £3 should in itself remain regulating, then 5 qrs would be sold for £15, and the differential rent of the later investments of capital in soil A would amount to £6. The additional capital per acre of soil A, however it is applied, would be an improvement in this case, and would make the original portion of capital more productive. It would be ridiculous to say that 1/3 of the capital had produced 1 qr and the other 2/3 — 4 qrs. For £9 per acre would always produce 5 qrs, while £3 would produce only 1 qr. Whether or not a rent would arise here, whether or not a surplus profit would be derived, would depend wholly upon the circumstances. Normally the regulating price of production would have to fall. This would be the case, if this improved but more expensive cultivation of soil A should occur only because it also takes place on the better soils, in other words, if a general revolution in agriculture should occur; so that when we now refer to the natural fertility of soil A, it is assumed that it is worked with £6 or £9 instead of £3. This would particularly apply if the bulk of cultivated acres of soil A, which furnish the main supply of a given country, should employ this new method. But if the improvement should at first extend only to a small area of A, then this better cultivated portion would yield a surplus
profit, which the landlord would be quick to transform wholly or in part into rent, and to fix in the form of rent. In this way—if the demand kept pace with the increasing supply—as more and more of soil A began to employ the new method of cultivation, rent might be gradually formed on all soil of quality A, and the surplus productivity might be eliminated wholly or in part, depending on market conditions. The equalisation of the price of production of A to the average price of its produce obtained under conditions of increased outlay of capital might thus be prevented by fixing the surplus profit of this increased investment of capital in the form of rent. Thus, as was previously seen to be the case for the better soils when the productive power of the additional capital decreased, it would again be the transformation of surplus profit into ground rent, i.e., the intervention of property in land, which would raise the price of production, instead of the differential rent merely being the result of the difference between the individual and the general price of production. It would prevent, in the case of soil A, the coincidence of both prices because it would interfere with the regulation of the price of production by the average price of production on A; it would thus maintain a higher price of production than necessary and thereby create rent. Even if grain were freely imported from abroad, the same result could be brought about or perpetuated by compelling farmers to use soil capable of competing in grain cultivation without yielding rent, at the price of production regulated from abroad, for other purposes, e.g., pasturage, so that only rent-bearing soils would be used for grain cultivation, i.e., only soils whose individual average price of production per quarter were below that determined from abroad. On the whole, it is to be assumed that in the given case, the price of production will fall, but not to the level of its average; it will be higher than the average, but below the price of production of the worst cultivated soil A, so that the competition from new soil A is limited.

2) \textit{When the productive power of additional capitals is decreasing.}

Let us assume that soil A requires £4 to produce the additional quarter, whereas soil A produces it for £3\(\frac{3}{4}\), i.e., more cheaply, but still £\(\frac{3}{4}\) more dearly than the quarter produced by its first investment of capital. In this case, the total price of the two quarters produced upon A would = £6\(\frac{3}{4}\); thus the average price per quarter = £3\(\frac{3}{8}\). The price of production would rise, but only by £\(\frac{3}{8}\), whereas it would rise by another £\(\frac{5}{8}\), or to £3\(\frac{3}{4}\), if the additional capital were invested in new land which produced at £3\(\frac{3}{4}\), and it
would thus bring about a proportional increase in all other differential rents.

The price of production of £3 3/8 per quarter for A would thus be equalised to its average price of production with an increased investment of capital, and would be the regulating price; thus, it would not yield any rent, since it would not produce any surplus profit.

However, if this quarter, produced by the second investment of capital, were sold for £3 3/4, soil A would now yield a rent of £3 3/4, and indeed, on all acres of A in which no additional investment of capital had taken place and which thus would still produce at £3 per quarter. So long as any uncultivated field of A remain, the price could rise only temporarily to £3 3/4. Competition from new fields of A would hold the price of production at £3 until all land of type A, whose favourable location enables it to produce a quarter at less than £3 3/4, would be exhausted. This is then what we would assume, although the landlord, so long as an acre of land yields rent, will not let a tenant farmer have another acre rent-free.

It would again depend to what extent a second investment of capital in the available soil A had become general, whether the price of production is equalised at the average price or whether the individual price of production of the second investment of capital becomes regulating at £3 3/4. The latter occurs only when the landowner has sufficient time until demand is satisfied to fix as rent the surplus profit derived at the price of £3 3/4 per qr.

Concerning decreasing productiveness of the soil with successive investments of capital, see Liebig. We have observed that the successive decrease in surplus productive power of invested capital invariably increases the rent per acre, so long as the price of production remains constant, and that this may occur even with a falling price of production.

But, in general, the following is to be noted.

From the standpoint of the capitalist mode of production, a relative increase in the price of products always takes place when these products cannot be secured unless an expenditure or payment not previously made is incurred. For by the replacement of capital consumed in production we mean only the replacement of values represented by certain means of production. Natural elements entering as agents into production, and which cost nothing, no matter what role
they play in production, do not enter as components of capital, but as a free gift of Nature to capital, that is, as a free gift of Nature's productive power to labour, which, however, appears as the productive power of capital, as all other productivity under the capitalist mode of production. Therefore, if such a natural power, which originally costs nothing, takes part in production, it does not enter into the determination of price, so long as the product which it helped to produce suffices to meet the demand. But if in the course of development, a larger output is demanded than that which can be supplied with the help of this natural power, i.e., if this additional output must be created without the help of this natural power, or by assisting it with human labour power, then a new additional element enters into capital. A relatively larger investment of capital is thus required in order to secure the same output. All other circumstances remaining the same, a rise in the price of production takes place.

(From a notebook "begun in mid-February 1876". a)

Differential rent and rent as mere interest on capital incorporated in the soil.

The so-called permanent improvements— which change the physical, and, in part, also the chemical conditions of the soil by means of operations requiring an expenditure of capital, and which may be regarded as an incorporation of capital in the soil— nearly all amount to giving a particular piece of land in a certain limited locality such properties as are naturally possessed by some other piece of land elsewhere, sometimes quite near by. One piece of land is naturally level; another has to be levelled; one possesses natural drainage, another requires artificial drainage; one is endowed by Nature with a deep layer of top soil, another needs artificial deepening; one clay soil is naturally mixed with the proper amount of sand, another has to be treated to obtain this proportion; one meadow is naturally irrigated or covered with layers of silt, another requires labour to obtain this condition, or, in the language of bourgeois economics, it requires capital.

It is indeed a truly amusing theory, whereby here, in the case of one piece of land whose comparative advantages have been acquired, rent is interest, whereas in the case of another piece of land which possesses these advantages naturally, it is not interest. b (In fact, this is so

a Inserted by Engels. - b See this volume, p. 616.
distorted in practice that since rent really coincides in the one case with interest, in the other cases, where this is positively not the case, it must be called interest, it is falsely also called interest.) However, land yields rent after capital is invested not because capital is invested, but because the invested capital makes this land more productive than it formerly was. Assuming that all the land of a given country requires this investment of capital, every piece of land which has not received it must first pass through this stage, and the rent (interest yielded in the given case) borne by land already provided with investment of capital constitutes differential rent just as though it naturally possessed this advantage and the other land had first to acquire it artificially.

This rent too, which may be resolved into interest, becomes pure differential rent as soon as the invested capital is redeemed. Otherwise, one and the same capital would have to exist twice as capital.

A most amusing phenomenon is that all opponents of Ricardo who oppose the idea that value determination is based exclusively on labour rather than regarding differential rent as arising from differences in soil, point out that here Nature rather than labour determines value; but at the same time they credit this determination to the location of the land, or — and to an even greater extent — the interest on capital put into the land during its cultivation. The same labour produces the same value in a product created during a given period of time; but the magnitude or quantum of this product, and consequently also the portion of value associated with some aliquot part of this product, depends for a given quantity of labour solely upon the quantum of product, and the latter, in turn, depends upon the productivity of the given quantum of labour rather than the absolute magnitude of this quantum. It is immaterial whether this productivity is due to Nature or to society. Only in the case when the productivity itself costs labour, and consequently capital, does it increase the price of production by a new element — which Nature by itself does not do.

Chapter XLV

ABSOLUTE GROUND RENT

In the analysis of differential rent we proceeded from the assump-
tion that the worst soil does not pay any ground rent; or, to put it more generally, only such land pays ground rent whose product has an individual price of production below the price of production regulating the market, so that in this manner a surplus profit arises which is transformed into rent. It is to be noted, to begin with, that the law of differential rent as such is entirely independent of the correctness or incorrectness of this assumption.

Let us call the general price of production, by which the market is regulated, \( P \). Then, \( P \) coincides with the individual price of production of the output of the worst soil \( A \); i.e., its price pays for the constant and variable capital consumed in production plus the average profit (\( = \) profit of enterprise plus interest).

The rent in this case is equal to zero. The individual price of production of the next better soil \( B \) is \( = P' \), and \( P > P' \); that is, \( P \) pays for more than the actual price of production of the product of soil \( B \). Let us now assume that \( P - P' = d \); \( d \), the excess of \( P \) over \( P' \), is therefore the surplus profit which the farmer of soil type \( B \) realises. This \( d \) is converted into rent, which must be paid to the landlord. Let \( P'' \) be the actual price of production of the third type of soil \( C \), and \( P - P'' = 2d \); then this \( 2d \) is converted into rent; similarly, let \( P''' \) be the individual price of production of the fourth type of soil \( D \), and \( P - P''' = 3d \), which is converted into ground rent, etc. Now let us assume the premiss for soil \( A \), that rent \( = 0 \) and therefore the price of its product \( = P + 0 \), is erroneous. Assume rather that it, too, yields rent \( = r \). In that case, two different conclusions follow.

First: The price of the product of soil \( A \) would not be regulated by the price of production on the latter, but would include an excess above this price, i.e., would be \( = P + r \). Because assuming the capitalist mode of production to be functioning normally, that is, assuming that the excess \( r \) which the farmer pays to the landlord represents neither a deduction from wages nor from the average profit of capital, the farmer can only pay it by selling the product above its price of production, thus, yielding him surplus profit if he did not have to turn over this excess to the landlord in the form of rent. The regulating market price of the total output on the market derived from all soils would then not be the price of production which capital generally yields in all spheres of production, i.e., a price equal to costs plus average profit, but rather the price of production plus the rent, \( P + r \), and not \( P \). For the price of the product of soil \( A \) represents generally the limit of the regulating general market price, i.e., the price at
which the total product can be supplied, and to that extent it regulates the price of this total product.

But secondly: Although the general price of agricultural products would in this case be significantly modified, the law of differential rent would nevertheless in no way lose its force. For if the price of the product of soil A, and thereby the general market price $= P + r$, the price for soils B, C, D, etc., would likewise $= P + r$. But since $P - P' = d$ for soil B, then $(P + r) - (P' + r)$ would likewise $= d$, and $P - P'' = (P + r) - (P'' + r) = 2d$ for soil C; and finally $P - P''' = (P + r) - (P''' + r) = 3d$ for soil D, etc. Thus the differential rent would be the same as before and would be regulated by the same law, although the rent would include an element independent of this law and would show a general increase together with the price of the agricultural product. It follows, then, that no matter what the case may be as regards the rent of the least fertile soils, the law of differential rent is not only independent of it, but that the only manner of grasping differential rent in keeping with its character is to let the rent on soil A $= 0$. Whether this actually $= 0$ or $> 0$ is immaterial so far as the differential rent is concerned, and, in fact, does not come into consideration.

The law of differential rent, then, is independent of the results of the following study.

If we were now to inquire more deeply into the basis of the assumption that the product of the worst soil A does not yield any rent, the answer would of necessity be as follows: If the market price of the agricultural product, say grain, attains that level where an additional investment of capital in soil A results in the usual price of production, i.e., the usual average profit on the capital is yielded, then this condition suffices for investing the additional capital in soil A. In other words, this condition is sufficient for the capitalist to invest new capital yielding the usual profit and to employ it in the normal manner.

It should be noted here that in this case, too, the market price must be higher than the price of production of A. For as soon as the additional supply is created, it is evident that the relation between supply and demand becomes altered. Formerly the supply was insufficient. Now it is sufficient. Hence the price must fall. In order to fall, it must have been higher than the price of production of A. But due to the fact that soil A newly taken under cultivation is less fertile, the price does not fall again as low as when the price of production of soil B regulated the market. The price of production of A constitutes the limit,
not for the temporary but for the relatively permanent rise of the market price. On the other hand, if the new soil taken under cultivation is more fertile than the hitherto regulating soil A, and yet only suffices to meet the increased demand, then the market price remains unchanged. The investigation of the question whether the poorest type of soil yields rent, however, coincides in this case too with our present inquiry, for here too the assumption that soil A does not yield any rent would be explained by the fact that the market price is sufficient for the capitalist farmer to exactly cover, with this price, the invested capital plus the average profit; in brief, it would be explained by the fact that the market price yields him the price of production of his commodities.

At any rate, the capitalist farmer can cultivate soil A under these conditions, inasmuch as he, as capitalist, has such power of decision. The prerequisite for the normal expansion of capital in soil A is now present. But from the premiss that the farmer can now invest capital in soil A under average conditions for the expansion of capital, even if he did not have to pay any rent, it nowise follows that this land, belonging to category A, is now at the disposal of the farmer without further ado. The fact that the tenant farmer could realise the usual profit on his capital did he not have to pay any rent, is by no means a basis for the landlord to lend his land gratis to the farmer and to become so philanthropic as to grant crédit gratuit for the sake of a business friendship. Such an assumption would mean the abstraction of landed property, the elimination of landownership, and it is precisely the existence of the latter that constitutes a limitation to the investment of capital and the free expansion of capital in the land. This limitation does not at all disappear before the simple reflection of the farmer that the level of grain prices would enable him to realise the usual profit from the investment of his capital in the exploitation of soil A did he not have to pay any rent; in other words, if he could proceed in effect as though landed property did not exist. But differential rent presupposes the existence of a monopoly in landownership, landed property as a limitation to capital, for without it surplus profit would not be transformed into ground rent nor fall to the share of the landlord instead of the farmer. And landed property as a limitation continues to exist even when rent in the form of differential rent disappears, i.e., on soil A. If we consider the cases in a country with capitalist production, where the investment of capital in the land can take place without payment of rent, we shall find that they are all
based on a *de facto* abolition of landed property, if not also the legal abolition; this, however, can only take place under very specific circumstances which are by their very nature accidental.

*First:* When the landlord is himself a capitalist, or the capitalist is himself a landlord. In this case he may *himself manage* his land as soon as market price has risen sufficiently to enable him to get, from what is now soil A, the price of production, that is, replacement of capital plus average profit. But why? Because for him landed property does not constitute an obstacle to the investment of his capital. He can treat his land simply as an element of Nature and therefore be guided solely by considerations of expansion of his capital, by capitalist considerations. Such cases occur in practice, but only as exceptions. Just as capitalist cultivation of the soil presupposes the separation of functioning capital from landed property, so does it as a rule exclude self-management of landed property. It is immediately evident that this case is a purely accidental one. If the increased demand for grain requires the cultivation of a larger area of soil type A than is in the hands of self-managing proprietors, in other words, if a part of it must be rented to be at all cultivated, then this hypothetical lifting of the limitation created by landed property to the investment of capital at once collapses. It is an absurd contradiction to start out with the differentiation under the capitalist mode of production between capital and land, farmers and landlords, and then to turn round and assume that landlords, as a rule, manage their own land wherever and whenever capital would not draw rent from the cultivation of the soil if landed property were not separate and distinct from it. (See the passage by Adam Smith concerning mining rent, quoted below.)*b* This abolition of landed property is fortuitous. It may or may not occur.

*Secondly:* In the total area of a leasehold there may be certain pieces which do not yield any rent at the existing level of market prices, so that they are in fact loaned gratis; but the landlord does not look upon it in that light, because he sees the total rental of the leased land, not the specific rent of the individual component plots. In this case, as regards the rentless component plots of the leasehold, landed property as a limitation to the investment of capital is eliminated for the farmer; and this, indeed, by contract with the landlord himself. But he does not pay rent for these plots merely because he pays rent

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*a* In the 1894 German edition "Auffassung"; corrected after Marx's manuscript.  
*b* See this volume, p. 761.
for the land associated with them. A combination is here presupposed whereby poorer soil A does not have to be resorted to as a distinctly new field of production in order to produce the deficit supply, but rather whereby it merely constitutes an inseparable part of the better land. But the case to be investigated is precisely that in which certain pieces of land of soil type A must be independently managed, i.e., for the conditions generally prevailing under the capitalist mode of production, they must be independently leased.

**Thirdly:** A farmer may invest additional capital in the same leasehold even if the additional product secured in this manner yields him only the price of production at the prevailing market prices, i.e., provides him with the usual profit but does not enable him to pay any additional rent. He thus pays ground rent with one portion of the capital invested in the land, but not with the other. How little this assumption helps to solve the problem, however, is seen from the following: If the market price (and the fertility of the soil) enables him to obtain an additional yield with his additional capital, which, as in the case of the old capital, yields a surplus profit in addition to the price of production, he is able to pocket this surplus profit so long as his lease does not expire. But why? Because the limitation placed by landed property on the investment of his capital in land has been eliminated for the duration of the lease. But the simple fact that additional soil of poorer quality must be independently cleared and independently leased in order for him to secure this surplus profit proves irrefutably that the investment of additional capital in the old soil no longer suffices to produce the required increased supply. One assumption excludes the other. It is true that now one might say: The rent on the worst soil A is itself differential rent — whether the comparison is made with respect to the land cultivated by the owner himself (this occurs, however, as a purely chance exception) or with respect to the additional investment of capital in the old leaseholds which do not yield any rent. However, this would be 1) a differential rent which does not arise from the difference in fertility of the various categories of soil, and which therefore would not presuppose that soil A does not yield any rent and its produce sells at the price of production; and 2) the circumstance whether additional investments of capital in the same leasehold yield rent or not is just as irrelevant to the question as to whether the new soil of class A to be taken under cultivation pays rent or not, as it is irrelevant to, say, the establishment of a new and independent manufacturing business whether another man-
ufacturer in the same line invests a portion of his capital in interest-bearing papers because he cannot use all of it in his business, or whether he makes certain improvements which do not yield him the full profit, but nevertheless do yield more than interest. This is of secondary importance to him. The additional new establishments, on the other hand, must yield the average profit and are organised in the hope of obtaining this average profit. It is true, to be sure, that the additional investments of capital in the old leaseholds and the additional cultivation of new land of soil type A mutually restrict one another. The limit, up to which additional capital may be invested in the same leasehold under less favourable conditions of production, is determined by the competing new investments in soil A; on the other hand, the rent which this category of soil can yield is limited by the competing additional investments of capital in the old leaseholds.

But all this dubious subterfuge does not solve the problem, which, simply stated, is this: Assume the market price of grain (which in this inquiry stands for products of the soil in general) to be sufficient to permit taking portions of soil A under cultivation and that the capital invested in these new fields could return the price of production of the produce, i.e., replace capital plus average profit. Thus assume that conditions exist for the normal expansion of capital on soil A. Is this sufficient? Can this capital then really be invested? Or must the market price rise to the point where even the worst soil A yields rent? In other words, does the landowner's monopoly hinder the investment of capital which would not be the case from the purely capitalist standpoint in the absence of this monopoly? It follows from the way in which the question itself is posed that if, e.g., additional capitals are invested in the old leaseholds, yielding the average profit at the given market price, but no rent, this circumstance in no way answers the question whether capital may now really be invested in soil A, which also yields the average profits but no rent. But this is precisely the question before us. The fact that additional investments of capital not yielding any rent do not satisfy the demand is proved by the necessity of taking new land of soil type A under cultivation. Just two alternatives are possible if the additional cultivation of soil A takes place only in so far as it yields rent, that is, yields more than the price of production. Either the market price must be such that even the last additional investments of capital in the old leaseholds yield surplus profit, whether pocketed by the farmer or by the landlord. This rise in price and this surplus profit from the last additional investments of capital
would then result from the fact that soil A cannot be cultivated without yielding rent. For if the price of production were sufficient for cultivation to take place, merely yielding average profit, the price would not have risen so high, and competition from new plots would have been felt as soon as they just yielded this price of production. Competing with the additional investments in old leaseholds not yielding any rent would then be investments in soil A, which likewise do not yield any rent.—Or, the last investments in the old leaseholds do not yield any rent, but nevertheless the market price has risen sufficiently to make it possible for soil A to be taken under cultivation and to yield rent. In this case, the additional investment of capital not yielding any rent was only possible because soil A cannot be cultivated until the market price permits it to pay rent. Without this condition, its cultivation would have already begun at a lower price level; and those later investments of capital in the old leaseholds, which require the high market price in order to yield the usual profit without rent, could not have taken place. At the high market price, it is true, they yield only the average profit. At a lower market price, which would have become the regulating price of production from the time soil A came under cultivation, they would thus not have yielded this average profit, i.e., the investments would thus not have taken place at all under such conditions. In this way, the rent from soil A would indeed constitute differential rent compared with the investments in the old leaseholds not yielding any rent. But that such differential rent is formed on the land areas of A is but a consequence of the fact that the latter are not at all available to cultivation, unless they yield rent; i.e., that the necessity for this rent exists, which, in itself, is not determined by any differences in soil types, and which constitutes the barrier to possible investment of additional capitals in the old leaseholds. In either case, the rent from soil A would not be simply a consequence of the rise in grain prices, but, conversely, the fact that the worst soil must yield rent in order to make its cultivation at all possible, would be the cause for the rise in the grain price to the point where this condition may be fulfilled.

Differential rent has the peculiarity that landed property here merely intercepts the surplus profit which would otherwise flow into the pocket of the farmer, and which the latter may actually pocket under certain circumstances during the period of his lease. Landed property is here merely the cause for transferring a portion of the commodity price which arises without the property having anything to do with it.
(indeed, in consequence of the fact that the price of production which regulates the market price is determined by competition) and which resolves itself into surplus profit — the cause for transferring this portion of the price from one person to another, from the capitalist to the landlord. But landed property is not the cause which creates this portion of the price, or the rise in price upon which this portion of the price is premised. On the other hand, if the worst soil A cannot be cultivated — although its cultivation would yield the price of production — until it produces something in excess of the price of production, rent, then landed property is the creative cause of this rise in price. Landed property itself has created rent. This fact is not altered, if, as in the second case mentioned, the rent now paid on soil A constitutes differential rent compared with the last additional investment of capital in old leaseholds, which pay only the price of production. For the circumstance that soil A cannot be cultivated until the regulating market price has risen high enough to permit rent to be yielded from soil A — only this circumstance is the basis here for the fact that the market price rises to a point which enables the last investments in the old leaseholds to yield, indeed, only their price of production, but a price of production which, at the same time, yields rent on soil A. The fact that the latter has to pay rent at all is, in this case, the cause for the differential rent between soil A and the last investments in the old leaseholds.

When stating, in general, that soil A does not pay any rent — assuming the price of grain is regulated by the price of production — we mean rent in the categorical sense of the word. If the farmer pays "lease money" which constitutes a deduction from the normal wages of his labourers, or from his own normal average profit, he does not pay rent, i. e., an independent component of the price of his commodities distinct from wages and profit. We have already indicated that this continually takes place in practice. In so far as the wages of the agricultural labourers in a given country are, in general, depressed below the normal average level of wages, so that a deduction from wages, a part of the wages, as a general rule enters into rent, this does not constitute an exceptional case for the farmer cultivating the worst soil. In the same price of production which makes cultivation of the worst soil possible these low wages already form a constituent element, and the sale of the product at the price of production does not therefore enable the farmer cultivating this soil to pay any rent. The landlord can also lease his land to some labourer, who may be satisfied
to pay to the former in the form of rent, all or the largest part of that which he realises in the selling price over and above the wages. In all these cases, however, no real rent is paid in spite of the fact that lease money is paid. But wherever conditions correspond to those under the capitalist mode of production, rent and lease money must coincide. Yet it is precisely this normal condition which must be analysed here.

Since even the cases considered above — where, under the capitalist mode of production, investments of capital in the land may actually take place without yielding rent — do not contribute to the solution of our problem, so much less does reference to colonial conditions. The criterion establishing a colony as a colony — we are referring here only to true agricultural colonies — is not merely the prevailing vast area of fertile land in a natural state. It is rather the circumstance that this land has not been appropriated, has not been subjected to private ownership. Herein lies the enormous difference, as regards the land, between old countries and colonies: the legal or actual nonexistence of landed property, as Wakefield correctly remarks, and as Mirabeau père, the physiocrat, and other elder economists, had discovered long before him. It is quite immaterial here whether the colonists simply appropriate the land, or whether they actually pay to the state, in the form of a nominal land price, a fee for a valid legal title to the land. It is also immaterial that the colonists already settled there may be the legal owners of the land. In fact, landed property constitutes no limitation here to the investment of capital — and also of labour without capital; the appropriation of some of the land by the colonists already established there does not prevent the newcomers from employing their capital or their labour upon new land. Therefore, when it is necessary to investigate the influence of landed property upon the prices of products of the land and upon rent — in those cases where landed property restricts land as an investment sphere of capital — it is highly absurd to speak of free bourgeois colonies where, in agriculture, neither the capitalist mode of production exists, nor the form of landed property corresponding to it — which, in fact, does not exist at all. Ricardo, e.g., does so in his

\[35\] Wakefield, England and America, London, 1833. Compare also Das Kapital, Buch I, Kap. XXV.\[a\]

chapter on ground rent. In the preface he states that he intends to investigate the effect of the appropriation of land upon the value of the products of the soil, and directly thereafter he takes the colonies as an illustration, whereby he assumes that the land exists in a relatively elementary form and that its exploitation is not limited by the monopoly of landed property.

The mere legal ownership of land does not create any ground rent for the owner. But it does, indeed, give him the power to withdraw his land from exploitation until economic conditions permit him to utilize it in such a manner as to yield him an excess, be it used for actual agricultural or other production purposes, such as buildings, etc. He cannot increase or decrease the absolute magnitude of this sphere, but he can change the quantity of land placed on the market. Hence, as Fourier already observed, it is a characteristic fact that in all civilized countries a comparatively appreciable portion of land always remains uncultivated.

Thus, assuming the demand requires that new land be taken under cultivation, whose soil, let us say, is less fertile than that hitherto cultivated — will the landlord lease it for nothing, just because the market price of the product of the land has risen sufficiently to return to the farmer the price of production, and thereby the usual profit, on his investment in this land? By no means. The investment of capital must yield him rent. He does not lease his land until he can be paid lease money for it. Therefore, the market price must rise to a point above the price of production, i.e., to $P + r$, so that rent can be paid to the landlord. Since according to our assumption, landed property does not yield anything until it is leased, is economically valueless until then, a small rise in the market price above the price of production suffices to bring the new land of poorest quality on the market.

The following question now arises: Does it follow from the fact that the worst soil yields ground rent which cannot be derived from any difference in fertility that the price of the product of the land is necessarily a monopoly price in the usual sense, or a price into which the rent enters like a tax, with the sole distinction that the landlord levies the tax instead of the state? It goes without saying that this tax has its specific economic limits. It is limited by additional investments of capital in the old leaseholds, by competition from products of the land coming from abroad — assuming their import is unrestricted — by

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\[ a \quad D. \] Ricardo, *On the Principles of Political Economy, and Taxation*, Ch. II.
competition among the landlords themselves, and finally by the needs of the consumers and their ability to pay. But this is not the question here. The point is whether the rent paid on the worst soil enters into the price of the products of this soil — which price regulates the general market price according to our assumption — in the same way as a tax placed on a commodity enters into its price, i.e., as an element that is independent of the value of the commodity.

This, by no means, necessarily follows, and the contention that it does has been made only because the distinction between the value of commodities and their price of production has heretofore not been understood. We have seen that the price of production of a commodity is not at all identical with its value, although the prices of production of commodities, considered in their totality, are regulated only by their total value, and although the movement of production prices of various kinds of commodities, all other circumstances being equal, is determined exclusively by the movement of their values. It has been shown that the price of production of a commodity may lie above or below its value, and coincides with its value only by way of exception. Hence, the fact that products of the land are sold above their price of production does not at all prove that they are sold above their value; just as the fact that products of industry, on the average, are sold at their price of production does not prove that they are sold at their value. It is possible for agricultural products to be sold above their price of production and below their value, while, on the other hand, many industrial products yield the price of production only because they are sold above their value.

The relation of the price of production of a commodity to its value is determined solely by the ratio of the variable part of the capital with which the commodity is produced to its constant part, or by the organic composition of the capital producing it. If the composition of the capital in a given sphere of production is lower than that of the average social capital, i.e., if its variable portion, which is used for wages, is larger in its relation to the constant portion, used for the material conditions of labour, than is the case in the average social capital, then the value of its product must lie above the price of production. In other words, because such capital employs more living labour, it produces more surplus value, and therefore more profit, assuming equal exploitation of labour, than an equally large aliquot portion of the social average capital. The value of its product, therefore, is above the price of production, since this price of production is
equal to capital replacement plus average profit, and the average profit is lower than the profit produced in this commodity. The surplus value produced by the average social capital is less than the surplus value produced by a capital of this lower composition. The opposite is the case when the capital invested in a certain sphere of production is of a higher composition than the social average capital. The value of commodities produced by it lies below their price of production, which is generally the case with products of the most developed industries.

If the capital in a certain sphere of production is of a lower composition than the average social capital, then this is, in the first place, merely another way of saying that the productive power of the social labour in this particular sphere of production is below the average; for the level of productive power attained is manifested in the relative preponderance of constant over variable capital, or in the continual decrease — for the given capital — of the portion used for wages. On the other hand, if the capital in a certain sphere of production is of a higher composition, then this reflects a development of productive power that is above the average.

Leaving aside actual works of art, whose consideration by their very nature is excluded from our discussion, it is self-evident, moreover, that different spheres of production require different proportions of constant and variable capital in accordance with their specific technical features, and that living labour must play a bigger role in some, and smaller in others. For instance, in the extractive industries, which must be clearly distinguished from agriculture, raw material as an element of constant capital is wholly absent, and even auxiliary material rarely plays an important role. In the mining industry, however, the other part of constant capital, i.e., fixed capital, plays an important role. Nevertheless, here too, progress may be measured by the relative increase of constant capital in relation to variable capital.

If the composition of capital in agriculture proper is lower than that of the average social capital, then, *prima facie*, this expresses the fact that in countries with developed production agriculture has not progressed to the same extent as the processing industries. Such a fact could be explained — aside from all other circumstances, including in part decisive economic ones — by the earlier and more rapid development of the mechanical sciences, and in particular their application compared with the later and in part quite recent development of chemistry, geology and physiology, and again, in particular, their appli-
cation to agriculture. Incidentally, it is an indubitable and long-known fact\(^{36}\) that the progress of agriculture itself is constantly expressed by a relative growth of constant capital as compared with variable capital. Whether the composition of agricultural capital is lower than that of the average social capital in a specific country where capitalist production prevails, for instance England, is a question which can only be decided statistically, and for our purposes it is superfluous to go into it in detail. In any case, it is theoretically established that the value of agricultural products can be higher than their price of production only on this assumption. In other words, a capital of a certain size in agriculture produces more surplus value, or what amounts to the same, sets in motion and commands more surplus labour (and with it employs more living labour generally) than a capital of the same size of average social composition.

This assumption, then, suffices for that form of rent which we are analysing here, and which can obtain only so long as this assumption holds good. Wherever this assumption no longer holds, the corresponding form of rent likewise no longer holds.

However, the mere existence of an excess in the value of agricultural products over their price of production would not in itself suffice to explain the existence of a ground rent which is independent of differences in fertility of various soil types and in successive investments of capital on the same land — a rent, in short, which is to be clearly distinguished in concept from differential rent and which we may therefore call absolute rent. Quite a number of manufactured products are characterised by the fact that their value is higher than their price of production, without thereby yielding any excess above the average profit, or a surplus profit, which could be converted into rent. Conversely, the existence and concept of price of production and general rate of profit, which it implies, rest upon the fact that individual commodities are not sold at their value. Prices of production arise from an equalisation of the values of commodities. After replacing the respective capital values used up in the various spheres of production, this distributes the entire surplus value, not in proportion to the amount produced in the individual spheres of production and thus incorporat-

\(^{36}\) See Dombasle\(^{a}\) and R. Jones.\(^{b}\)

ed in their commodities, but in proportion to the magnitude of advanced capitals. Only in this manner do average profit and price of production arise, whose characteristic element the former is. It is the perpetual tendency of capitals to bring about through competition this equalisation in the distribution of surplus value produced by the total capital, and to overcome all obstacles to this equalisation. Hence it is their tendency to tolerate only such surplus profits as arise, under all circumstances, not from the difference between the values and prices of production of commodities but rather from the difference between the general price of production governing the market and the individual prices of production differing from it; surplus profits which obtain within a certain sphere of production, therefore, and not between two different spheres, and thus do not affect the general prices of production of the various spheres, i.e., the general rate of profit, but rather presuppose the transformation of values into prices of production and a general rate of profit. This supposition rests, however, as previously discussed, upon the constantly changing proportional distribution of the total social capital among the various spheres of production, upon the perpetual inflow and outflow of capitals, upon their transferability from one sphere to another, in short, upon their free movement between the various spheres of production, which represent so many available fields of investment for the independent components of the total social capital. The premiss in this case is that no barrier, or just an accidental and temporary barrier, interferes with the competition of capitals—for instance, in a sphere of production, in which the commodity values are higher than the prices of production or where the surplus value produced exceeds the average profit—to reduce the value to the price of production and thereby proportionally distribute the excess surplus value of this sphere of production among all spheres exploited by capital. But if the reverse occurs, if capital meets an alien force which it can but partially, or not at all, overcome, and which limits its investment in certain spheres, admitting it only under conditions which wholly or partly exclude that general equalisation of surplus value to an average profit, then it is evident that the excess of the value of commodities in such spheres of production over their price of production would give rise to a surplus profit, which could be converted into rent and as such made independent with respect to profit. Such an alien force

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a See this volume, pp. 194-95.
and barrier are presented by landed property, when confronting capital in its endeavour to invest in land; such a force is the landlord vis-à-vis the capitalist.

Landed property is here the barrier which does not permit any new investment of capital in hitherto uncultivated or unrented land without levying a tax, or in other words, without demanding a rent, although the land to be newly brought under cultivation may belong to a category which does not yield any differential rent and which, were it not for landed property, could have been cultivated even at a small increase in market price, so that the regulating market price would have netted to the cultivator of this worst soil solely his price of production. But owing to the barrier raised by landed property, the market price must rise to a level at which the land can yield an excess over the price of production, i.e., yield a rent. However, since the value of the commodities produced by agricultural capital is higher than their price of production, according to our assumption, this rent (save for one case which we shall discuss forthwith) forms the excess of value over the price of production, or a part of it. Whether the rent equals the entire difference between the value and price of production, or only a greater or lesser part of it, will depend wholly on the relation between supply and demand and on the area of land newly taken under cultivation. So long as the rent does not equal the excess of the value of agricultural products over their price of production, a portion of this excess will always enter into the general equalisation and proportional distribution of all surplus value among the various individual capitals. As soon as the rent does equal the excess of the value over the price of production, this entire portion of surplus value over and above the average profit will be withdrawn from this equalisation. But whether this absolute rent equals the whole excess of value over the price of production, or just a part of it, the agricultural products will always be sold at a monopoly price, not because their price exceeds their value, but because it equals their value, or because their price is lower than their value but higher than their price of production. Their monopoly would consist in the fact that, unlike other products of industry whose value is higher than the general price of production, they are not levelled out to the price of production. Since one portion of the value, as well as of price of production, is an actually given constant, namely the cost price, representing the capital = k used up in production, their difference consists in the other, the variable portion, the surplus value, which equals p, the profit, in
the price of production, i.e., equals the total surplus value calculated on the social capital and on every individual capital as an aliquot part of the social capital; but which in the value of commodities equals the actual surplus value created by this particular capital, and forms an integral part of the commodity values produced by this capital. If the value of commodities is higher than their price of production, then the price of production = k + p, and the value = k + p + d, so that p + d = the surplus value contained therein. The difference between the value and the price of production, therefore, = d, the excess of surplus value created by this capital over the surplus value allocated to it through the general rate of profit. It follows from this that the price of agricultural products may lie higher than their price of production, without reaching their value. It follows, furthermore, that a permanent increase in the price of agricultural products may take place up to a certain point, before their price reaches their value. It follows likewise that the excess in the value of agricultural products over their price of production can become a determining element of their general market price solely as a consequence of the monopoly in landed property. It follows, finally, that in this case the increase in the price of the product is not the cause of rent, but rather that rent is the cause of the increase in the price of the product. If the price of the product from a unit area of the worst soil = P + r, then all differential rents will rise by corresponding multiples of r, since the assumption is that P + r becomes the regulating market price.

If the average composition of the nonagricultural social capital were = 85c + 15v, and the rate of surplus value = 100%, then the price of production would = 115. If the composition of the agricultural capital were = 75c + 25v, and the rate of surplus value were the same, then the value of the product and the regulating market price would = 125. If the agricultural and the nonagricultural product should be equalised to the same average price (we assume for the sake of brevity the total capital in both lines of production to be equal), then the total surplus value would = 40, or 20%, on the 200 of capital. The product of the one as well as the other would be sold at 120. In an equalisation into prices of production, the average market prices of the nonagricultural product would thus lie above, and those of the agricultural product below, their value. If the agricultural products were sold at their full value, they would be higher by 5, and the industrial products lower by 5, then they are in the equalisation. If market conditions do not permit the sale of the agricultural products
at their full value, to the full surplus above the price of production, then the effect lies between the two extremes; the industrial products are sold somewhat above their value, and the agricultural products somewhat above their price of production.

Although landed property may drive the price of agricultural produce above its price of production, it does not depend on this, but rather on the general state of the market, to what degree market price exceeds the price of production and approaches the value, and to what extent therefore the surplus value created in agriculture over and above the given average profit shall either be transformed into rent or enter into the general equalisation of the surplus value to average profit. At any rate this absolute rent arising out of the excess of value over the price of production is but a portion of the agricultural surplus value, a conversion of this surplus value into rent, its being filched by the landlord; just as the differential rent arises out of the conversion of surplus profit into rent, its being filched by the landlord under a generally regulating price of production. These two forms of rent are the only normal ones. Apart from them the rent can be based only upon an actual monopoly price, which is determined neither by price of production nor by value of commodities, but by the buyers’ needs and ability to pay. Its analysis belongs under the theory of competition, where the actual movement of market prices is considered.

If all the land suitable for agriculture in a certain country were leased — assuming the capitalist mode of production and normal conditions to be general — there would not be any land not paying rent; but there might be some capitals, certain parts of capitals invested in land, that might not yield any rent. For as soon as the land has been rented, landed property ceases to act as an absolute barrier against the investment of necessary capital. Still, it continues to act as a relative barrier even after that, in so far as the reversion to the landlord of the capital incorporated in the land circumscribes the activity of the tenant within very definite limits. Only in this case all rent would be transformed into differential rent, although this would not be a differential rent determined by any difference in soil fertility, but rather by the difference between the surplus profits arising from the last investments of capital in a particular soil type and the rent paid for the lease of the worst quality land. Landed property acts as an absolute barrier only to the extent that the landlord exacts a tribute for making land at all accessible to the investment of capital. When such access has been gained, he can no longer set any absolute limits to the
size of any investment of capital in a given plot of land. In general, housing construction meets a barrier in the ownership by a third party of the land upon which the houses are to be built. But, once this land has been leased for the purpose of housing construction, it depends upon the tenant whether he will build a large or a small house.

If the average composition of agricultural capital were equal to, or higher than, that of the average social capital, then absolute rent—again in the sense just described—would disappear; i.e., rent which differs equally from differential rent as well as that based upon an actual monopoly price. The value of agricultural produce, then, would not lie above its price of production, and the agricultural capital would not set any more labour in motion, and therefore would also not realise any more surplus labour than the nonagricultural capital. The same would take place, were the composition of agricultural capital to become equal to that of the average social capital with the progress of cultivation.

It seems to be a contradiction, at first glance, to assume that, on the one hand, the composition of agricultural capital rises, in other words, that its constant component increases with respect to its variable, and, on the other hand, that the price of the agricultural product should rise high enough to permit rent to be yielded by new and worse soil than that previously cultivated, a rent which in this case could originate only from an excess of market price over the value and price of production, in short, a rent derived solely from a monopoly price of the product.

It is necessary to make a distinction here.

In the first place, it was noted in considering the manner in which rate of profit is formed, that capitals, which have the same composition technologically speaking, i.e., which set equivalent amounts of labour in motion relative to machinery and raw materials, may nonetheless have different compositions owing to different values of the constant portions of these capitals. The raw materials or machinery may be dearer in one case than in another. For the same quantity of labour to be set in motion (and this would be required, according to our assumption, to work up the same mass of raw materials), a larger capital would have to be advanced in the one case than in the other, since the same amount of labour cannot be set in motion with, say, a capital of 100 if the cost of raw material, which must be covered out of the 100, is 40 in one case and 20 in another. But it would become immediately evident that these two capitals are of the same technical
composition, as soon as the price of the dearer raw material fell to the level of the cheaper one. The value ratio between variable and constant capital would have become the same in that case, although no change had taken place in the technical proportions between the living labour and the mass and nature of the conditions of labour employed by this capital. On the other hand, a capital of lower organic composition could assume the appearance of being in the same class with one of a higher organic composition, merely from a rise in the value of its constant portions, solely from the viewpoint of its value composition. Suppose one capital = 60c + 40v, because it employs much machinery and raw material compared to living labour power, and another capital = 40c + 60v, because it employs much living labour (60%), little machinery (e.g., 10%) and compared to labour power less and cheaper raw material (e.g., 30%). Then a simple rise in the value of raw and auxiliary materials from 30 to 80 could equalise the composition, so that now the second capital would consist of 80 raw material and 60 labour power for 10 in machines, or 90c + 60v, which, in percentages, would also = 60c + 40v, with no change having taken place in the technical composition. In other words, capitals of equal organic composition may be of different value composition, and capitals with identical percentages of value composition may show varying degrees of organic composition and thus express different stages in the development of the social productive power of labour. The mere circumstance, then, that agricultural capital might be on the general level of value composition, would not prove that the social productivity of labour is equally developed in it. It would merely show that its own product, which again forms a part of its conditions of production, is dearer, or that auxiliary materials, such as fertiliser, which used to be close by, must now be brought from afar, etc.

But aside from this, the peculiar nature of agriculture must be taken into account.

Suppose labour-saving machinery, chemical aids, etc., are more extensively used in agriculture, and that therefore constant capital increases technically, not merely in value, but also in mass, as compared with the mass of employed labour power, then in agriculture (as in mining) it is not only a matter of the social, but also of the natural, productivity of labour which depends on the natural conditions of labour. It is possible for the increase of social productive power in agriculture to barely compensate, or not even compensate, for the de-
crease in natural power — this compensation will nevertheless be effective only for a short time — so that despite technical development there, no cheapening of the product occurs, but only a still greater increase in price is averted. It is also possible that the absolute mass of products decreases with rising grain prices, while the relative surplus product increases; namely, in the case of a relative increase in constant capital which consists chiefly of machinery or animals requiring only replacement of wear and tear, and with a corresponding decrease in variable capital which is expended in wages requiring constant replacement in full out of the product.

Moreover, it is also possible that with progress in agriculture only a moderate rise in market price above the average is necessary, in order to cultivate and draw a rent from poorer soil, which would have required a greater rise in market price if technical aids were less developed.

The fact that in larger-scale cattle-raising, for example, the mass of employed labour power is very small compared with constant capital as represented in cattle itself, could be taken to refute the assertion that more labour power, on a percentage basis, is set in motion by agricultural capital than by the average social capital outside of agriculture. But it should be noted here that we have taken as determining for rent analysis that portion of agricultural capital which produces the principal plant foodstuffs providing the chief means of subsistence among civilised nations. Adam Smith — and this is one of his merits — has already demonstrated that a quite different determination of prices is to be observed in cattle-raising, and, for that matter, generally for capitals invested in land which are not engaged in raising the principal means of subsistence, e.g., grain. Namely in that case the price is determined in such a way that the price of the product of the land — which is used for cattle-raising, say as an artificial pasture, but which could just as easily have been transformed into cornfields of a certain quality — must rise high enough to produce the same rent as on arable land of the same quality. In other words, the rent of cornfields becomes a determining element in the price of cattle, and for this reason Ramsay has justly remarked that the price of cattle is in this manner artificially raised by the rent, by the economic expression of landed property, in short, through landed property. 

"By the extension of cultivation the unimproved wilds become insufficient to sup-

ply the demand for butcher's meat. A great part of the cultivated lands must be employed in rearing and fattening cattle, of which the price, therefore, must be sufficient to pay, not only the labour necessary for tending them, but the rent which the landlord and the profit which the farmer could have drawn from such land, employed in tillage. The cattle bred upon the most uncultivated moors, when brought to the same market, are, in proportion to their weight or goodness, sold at the same price as those which are reared upon the most improved land. The proprietors of those moors profit by it, and raise the rent of their land in proportion to the price of their cattle" (Adam Smith, Book I, Ch. XI, Part 1.)

In this case, likewise, as distinct from grain rent, the differential rent is in favour of the worst soil.

Absolute rent explains some phenomena, which, at first sight, seem to make merely a monopoly price responsible for the rent. To go on with Adam Smith's example, take the owner of some Norwegian forest, for instance, which exists independent of human activity, i.e., it is not a product of silviculture. If the proprietor of this forest receives a rent from a capitalist who has the timber felled, perhaps in consequence of a demand from England, or if this owner has the timber felled himself acting in the capacity of capitalist, then a greater or smaller amount of rent will accrue to him in timber, apart from the profit on invested capital. This appears to be a pure monopoly charge derived from a pure product of Nature. But, as a matter of fact, the capital here consists almost exclusively of a variable component expended in labour, and thus sets more surplus labour in motion than another capital of the same size. The value of the timber, then, contains a greater surplus of unpaid labour, or surplus value, than that of a product of a capital of a higher organic composition. For this reason the average profit can be derived from this timber, and a considerable surplus in the form of rent can fall to the share of the owner of the forest. Conversely, it may be assumed that, owing to the ease with which timber-felling may be extended, in other words, its production rapidly increased, the demand must rise very considerably for the price of timber to equal its value, and thereby for the entire surplus of unpaid labour (over and above that portion which falls to the capitalist as average profit) to accrue to the owner in the form of rent.

We have assumed that the land newly brought under cultivation is of still inferior quality than the worst previously cultivated. If it is better, it yields a differential rent. But here we are analysing precisely the case wherein rent does not appear as a differential rent. There are

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only two cases possible: The newly cultivated soil is either inferior to, or just as good as the previously cultivated soil. If inferior, then the matter has already been analysed. It remains only to analyse the case in which it is just as good.

As already developed in our analysis of differential rent, the progress of cultivation may just as well bring equally good, or even better soils under the plough as worse soil.

First. Because in differential rent (or any rent in general, since even in the case of nondifferential rent the question always arises whether, on the one hand, the soil fertility in general, and, on the other hand, its location, admit of its cultivation at the regulating market price so as to yield a profit and rent) two conditions work in opposing directions, now cancelling one another, now alternately exerting the determining influence. The rise in market price — provided the cost price of cultivation has not fallen, i.e., no technical progress has given a new impetus to further cultivation — may bring under cultivation more fertile soil formerly excluded from competition by virtue of its location. Or it may so enhance the advantage of the location of the inferior soil that its lesser fertility is counterbalanced by it. Or, without any rise in market price the location may bring better soils into competition through improvement in means of communication, as can be observed on a large scale in the prairie States of North America. In countries of older civilisation the same also takes place constantly if not to the same extent as in the colonies, where, as Wakefield correctly observes, location is decisive. To sum up, then, the contradictory influences of location and fertility, and the variableness of the location factor, which is continually counterbalanced and perpetually passes through progressive changes tending towards equalisation, alternately carry equally good, better or worse land areas into new competition with the older ones under cultivation.

Secondly. With the development of natural science and agronomy the soil fertility is also changed by changing the means through which the soil constituents may be rendered immediately serviceable. In this way, light soil types in France and in the eastern counties of England, which were regarded as inferior at one time, have recently risen to first place. (See Passy.) On the other hand, soil considered inferior

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not for bad chemical composition but for certain mechanical and physical obstacles that hindered its cultivation, is converted into good land as soon as means to overcome these obstacles have been discovered.

Thirdly. In all ancient civilisations, old historical and traditional relations, for instance, in the form of state-owned lands, communal lands, etc., have purely arbitrarily withheld from cultivation large tracts of land, which only return to it little by little. The succession in which they are brought under cultivation depends neither upon their good quality nor siting, but upon wholly external circumstances. In tracing the history of English communal lands turned successively into private property through the Enclosure Bills and brought under the plough, nothing would be more ridiculous than the fantastic idea that a modern agricultural chemist, such as Liebig, had indicated the selection of land in this succession, designating certain fields for cultivation owing to chemical properties and excluding others. What was more decisive in this case was the opportunity which makes the thief; the more or less plausible legalistic subterfuges of the big landlords to justify their appropriation.

Fourthly. Apart from the fact that the stage of development reached at any time by the population and capital increase sets certain limits, even though elastic, to the extension of cultivation, and apart from chance effects which temporarily influence the market price—such as a series of good or bad seasons—the extension of agriculture over a larger area depends on the overall state of the capital market and business conditions in a country. In periods of stringency it will not suffice for uncultivated soil to yield the tenant an average profit—no matter whether he pays any rent or not—in order that additional capital be invested in agriculture. In other periods when there is a plethora of capital, it will pour into agriculture even without a rise in market price if only other normal conditions are present. Better soil than hitherto cultivated would in fact be excluded from competition solely on the basis of unfavourable location, or if hitherto insurmountable obstacles to its employment existed, or through chance. For this reason we should only concern ourselves with soils which are just as good as those last cultivated. However, there still exists the difference in cost of clearing for cultivation between the new soil and the one last cultivated. And it depends upon the level of market prices and credit conditions whether this will be undertaken or not. As soon as this soil then actually enters into competition, the market price will
fall once more to its former level, assuming other conditions to be equal, and the new soil will then yield the same rent as the corresponding old soil. The assumption that it does not yield any rent is proved by its advocates by assuming precisely what they are called upon to prove, namely that the last soil did not yield any rent. One might prove in the same manner that houses which were the last built do not yield any rent for the building outside of house rent proper, even though they are leased. In fact, however, they do yield rent even before yielding any house rent, when they frequently remain vacant for a long period. Just as successive investments of capital in a certain piece of land may bring a proportional surplus and thereby the same rent as the first investment, so fields of the same quality as those last cultivated may bring the same proceeds for the same cost. Otherwise it would be altogether inexplicable how fields of the same quality are ever brought successively under cultivation; it seems that either it would be necessary to take all together, or rather not a single one of them, in order not to bring all the remaining ones into competition. The landlord is always ready to draw a rent, i.e., to receive something for nothing. But capital requires certain conditions to fulfil his wish. Competition between pieces of land does not, therefore, depend upon the landlord desiring them to compete, but upon the capital existing which seeks to compete with other capitals in the new fields.

To the extent that the agricultural rent proper is purely a monopoly price, the latter can only be small, just as the absolute rent can only be small here under normal conditions whatever the excess of the product's value over its price of production. The essence of absolute rent, therefore, consists in this: Given the same rate of surplus value, or degree of labour exploitation, equally large capitals in various spheres of production produce different amounts of surplus value, in accordance with their varying average composition. In industry these various masses of surplus value are equalised into an average profit and distributed uniformly among the individual capitals as aliquot parts of the social capital. Landed property hinders such an equalisation among capitals invested in land, whenever production requires land for either agriculture or extraction of raw materials, and takes hold of a portion of the surplus value, which would otherwise take part in equalising to the general rate of profit. The rent, then, forms a portion of the value, or, more specifically, surplus value, of commodities, and instead of falling into the lap of the capitalists, who have
extracted it from their labourers, it falls to the share of the landlords, who extract it from the capitalists. It is hereby assumed that the agricultural capital sets more labour in motion than an equally large portion of non-agricultural capital. How far the discrepancy goes, or whether it exists at all, depends upon the relative development of agriculture as compared with industry. It is in the nature of the case that this difference must decrease with the progress of agriculture, unless the proportionate decrease of variable as compared with constant capital is still greater in the case of industrial than in the case of agricultural capital.

This absolute rent plays an even more important role in the extractive industry proper, where one element of constant capital, raw material, is wholly lacking and where, excluding those lines in which capital consisting of machinery and other fixed capital is very considerable, by far the lowest composition of capital prevails. Precisely here, where the rent appears entirely attributable to a monopoly price, unusually favourable market conditions are necessary for commodities to be sold at their value, or for rent to equal the entire excess of a commodity's surplus value over its price of production. This applies, for instance, to rent from fisheries, stone quarries, natural forests, etc. 37)

Chapter XLVI

BUILDING SITE RENT. RENT IN MINING.
PRICE OF LAND

Wherever rent exists at all, differential rent appears at all times, and is governed by the same laws, as agricultural differential rent. Wherever natural forces can be monopolised and guarantee a surplus profit to the industrial capitalist using them, be it waterfalls, rich mines, waters teeming with fish, or a favourably located building site, there the person who by virtue of title to a portion of the globe has become the proprietor of these natural objects will wrest this surplus profit from functioning capital in the form of rent. Adam Smith has

37) Ricardo deals with this very superficially. See the passage directed against Adam Smith concerning forest rent in Norway, at the very beginning of Chapter II, in Principles.a

a See On the Principles of Political Economy and Taxation, pp. 53-54.
set forth, as concerns land for building purposes, that the basis of its rent, like that of all nonagricultural land, is regulated by agricultural rent proper (Book I, Ch. XI, 2 and 3). This rent is distinguished, in the first place, by the preponderant influence exerted here by location upon differential rent (very significant, e.g., in vineyards and building sites in large cities); secondly, by the palpable and complete passiveness of the owner, whose sole activity consists (especially in mines) in exploiting the progress of social development, toward which he contributes nothing and for which he risks nothing, unlike the industrial capitalist; and finally by the prevalence of monopoly prices in many cases, particularly through the most shameless exploitation of poverty (for poverty is more lucrative for house rent than the mines of Potosi \(^{38}\) ever were for Spain \(^{38a}\)), and the monstrous power wielded by landed property, when united hand in hand with industrial capital, enables it to be used against labourers engaged in their wage struggle as a means of practically expelling them from the earth as a dwelling place. \(^{39}\) One part of society thus exacts tribute from another for the permission to inhabit the earth, as landed property in general assigns the landlord the privilege of exploiting the terrestrial body, the bowels of the earth, the air, and thereby the maintenance and development of life. Not only the population increase and with it the growing demand for shelter, but also the development of fixed capital, which is either incorporated in land, or takes root in it and is based upon it, such as all industrial buildings, railways, warehouses, factory buildings, docks, etc., necessarily increase the building rent.

A confusion of house-rent, in so far as it constitutes interest and amortisation on capital invested in a house, and rent for the mere land, is not possible in this case, even with all the goodwill of a person like Carey, particularly when landlord and building speculator are different persons, as is true in England. Two elements should be considered here: on the one hand, the exploitation of the earth for the purpose of reproduction or extraction; on the other hand, the space required as an element of all production and all human activity. And

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property in land demands its tribute in both senses. The demand for building sites raises the value of land as space and foundation, while thereby the demand for elements of the terrestrial body serving as building material grows simultaneously. 40)

That it is the ground rent, and not the house, which forms the actual object of building speculation in rapidly growing cities, especially where construction is carried on as an industry, e.g., in London, has already been illustrated in Book II, Chapter XII, S. 215, 216, in the testimony of a big building speculator in London, Edward Capps, given before the Select Committee on Bank Acts of 1857. He stated there, No. 5435:

"I think a man who wishes to rise in the world can hardly expect to rise by following out a fair trade ... it is necessary for him to add speculative building to it, and that must be done not on a small scale; ... for the builder makes very little profit out of the buildings themselves; he makes the principal part of the profit out of the improved ground rents. Perhaps he takes a piece of ground, and agrees to give £300 a year for it; by laying it out with care, and putting certain descriptions of buildings upon it, he may succeed in making £400 or £450 a year out of it, and his profit would be the increased ground rent of £100 or £150 a year, rather than the profit of the buildings which ..., in many instances, he scarcely looks at at all."

And parenthetically it should not be forgotten that after the lapse of the lease, generally at the end of 99 years, the land with all its buildings and its ground rent — usually increased in the interim twice or three times, reverts from the building speculator or his legal successor to the original last landlord.

Mining rent proper is determined in the same way as agricultural rent.

"There are some mines, of which the produce is barely sufficient to pay the labour and replace, together with its ordinary profits, the stock employed in working them. They afford some profit to the undertaker of the work, but no rent to the landlord. They can be wrought advantageously by nobody but the landlord, who, being himself the undertaker of the work, gets the ordinary profit of the capital which he employs in it. Many coal mines in Scotland are wrought in this manner, and can be wrought in no other. The landlord will allow nobody else to work them without paying some rent, and nobody can afford to pay any" (Adam Smith, Book I, Ch. XI, 2). 40

40: "The paving of the streets of London has enabled the owners of some barren rocks on the coast of Scotland to draw a rent from what never afforded any before." Adam Smith, Book I, Chapter XI, 2. 40

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It must be distinguished, whether the rent springs from a monopoly price, because a monopoly price of the product or the land exists independently of it, or whether the products are sold at a monopoly price, because a rent exists. When we refer to a monopoly price, we mean in general a price determined only by the purchasers' eagerness to buy and ability to pay, independent of the price determined by the general price of production, as well as by the value of the products. A vineyard producing wine of very extraordinary quality which can be produced only in relatively small quantities yields a monopoly price. The wine-grower would realise a considerable surplus profit from this monopoly price, whose excess over the value of the product would be wholly determined by the means and fondness of the discriminating wine-drinker. This surplus profit, which accrues from a monopoly price, is converted into rent and in this form falls into the lap of the landlord, thanks to his title to this piece of the globe endowed with singular properties. Here, then, the monopoly price creates the rent. On the other hand, the rent would create a monopoly price if grain were sold not merely above its price of production, but also above its value, owing to the limits set by landed property to the investment of capital in uncultivated land without payment of rent. That it is only the title of a number of persons to the possession of the globe enabling them to appropriate to themselves as tribute a portion of the surplus labour of society and furthermore to a constantly increasing extent with the development of production, is concealed by the fact that the capitalised rent, i.e., precisely this capitalised tribute, appears as the price of land, which may therefore be sold like any other article of commerce. The buyer, therefore, does not feel that his title to the rent is obtained gratis, and without the labour, risk, and spirit of enterprise of the capitalist, but rather that he has paid for it with an equivalent. To the buyer, as previously indicated, the rent appears merely as interest on the capital with which he has purchased the land and consequently his title to the rent. In the same way, the slaveholder considers a Negro, whom he has purchased, as his property, not because the institution of slavery as such entitles him to that Negro, but because he has acquired him like any other commodity, through sale and purchase. But the title itself is simply transferred, and not created by the sale. The title must exist before it can be sold, and a series of sales can no more create this title through continued repetition than a single sale can. What created it in the first place were the production relations. As soon as these have reached
a point where they must shed their skin, the material source of the title, justified economically and historically and arising from the process which creates social life, falls by the wayside, along with all transactions based upon it. From the standpoint of a higher economic form of society, private ownership of the globe by single individuals will appear quite as absurd as private ownership of one man by another. Even a whole society, a nation, or even all simultaneously existing societies taken together, are not the owners of the globe. They are only its possessors, its usufructuaries, and, like *boni patres familias*, they must hand it down to succeeding generations in an improved condition.

In the following analysis of the price of land we leave out of consideration all fluctuations of competition, all land speculation, and also small landed property, in which land forms the principal instrument of producers and must, therefore, be bought by them at any price.

I. The price of land may rise without the rent rising, namely:

1) by a mere fall in interest rate, which causes the rent to be sold more dearly, and thereby the capitalised rent, or price of land, rises;

2) because the interest on capital incorporated in the land rises.

II. The price of land may rise, because the rent increases.

The rent may increase, because the price of the product of the land rises, in which case the rate of differential rent always rises, whether the rent on the worst cultivated soil be large, small or nonexistent. By rate we mean the ratio of that portion of surplus value converted into rent to the invested capital which produces the agricultural product. This differs from the ratio of surplus product to total product, for the total product does not comprise the entire invested capital, namely, the fixed capital, which continues to exist alongside the product. On the other hand, it covers the fact that on soils yielding differential rent an increasing portion of the product is transformed into an excess of surplus product. The increase in price of agricultural product of the worst soil first creates rent and thereby the price of land.

The rent, however, may also increase without a rise in price of the agricultural product. This price may remain constant, or even decrease.

If the price remains constant, the rent can grow only (apart from monopoly prices) because, on the one hand, given the same amount of capital invested in the old lands, new lands of better quality are
cultivated, which merely suffice, however, to cover the increased demand, so that the regulating market price remains unchanged. In this case, the price of the old lands does not rise, but the price of the newly cultivated lands rises above that of the old ones.

Or, on the other hand, the rent rises because the mass of capital exploiting the land increases, assuming that the relative productivity and market price remain the same. Although the rent thus remains the same compared with the invested capital, still its mass, for instance, may be doubled, because the capital itself has doubled. Since no fall in price has occurred, the second investment of capital yields a surplus profit just as well as the first, and it likewise is transformed into rent after the expiration of the lease. The mass of rent rises here, because the mass of capital producing a rent increases. The contention that various successive investments of capital in the same piece of land can produce rent only in so far as their yield is unequal, so that a differential rent thus arises, is reduced to the contention that when two capitals of £1,000 each are invested in two fields of equal productivity, only one of them can produce a rent, although both fields belong to a better soil type, which produces differential rent. (The mass of rental, the total rent of a country, grows therefore with the mass of capital invested, without the price of the individual pieces of land, or the rate of rent, or even the mass of rent on individual pieces of land, necessarily increasing; the amount of rental grows in this case with the extension of cultivation over a wider area. This may even be combined with a decrease in rent on individual holdings.) Otherwise, this contention would lead to the other, namely, that the investment of capital in two different pieces of land existing side by side follows different laws than the successive investment of capital in the same plot, whereas differential rent is derived precisely from the identity of the law in both cases, from the increased productiveness of capital invested either in the same field or in different fields. The only modification which exists here and is overlooked is that successive investments of capital, when applied to different pieces of land, meet the barrier of landed property, which is not the case with successive investments of capital in the same piece of land. This accounts for the opposing tendencies by which these two different forms of investment curb each other in practice. No difference in capital ever appears here. If the composition of the capital remains the same, and similarly the rate of surplus value, the rate of profit remains unaltered, so that the mass of profit is doubled when the capital is doubled. In like manner the rate
of rent remains the same under the assumed conditions. If a capital of £1,000 produces a rent of x, then a capital of £2,000, under the assumed conditions, produces a rent of 2X. But calculated with reference to the area of land, which has remained unaltered, since, according to our assumption, the doubled capital operates in the same field, the level of rent has also risen as a consequence of its increase in mass. The same acre which yielded a rent of £2, now yields £4. 41)

The relation of a portion of the surplus value, of money rent—for money is the independent expression of value—to the land is itself absurd and irrational; for the magnitudes which are here measured by one another are incommensurable—a particular use value, a piece of land of so many and so many square feet, on the one hand, and value, especially surplus value, on the other. This expresses in fact nothing more than that, under the given conditions, the ownership of so many square feet of land enables the landowner to wrest a certain quantity of unpaid labour, which the capital wallowing in these square feet like a hog in potatoes has realised. //Written in the manuscript here in brackets, but crossed out, is the name “Liebig”./\ But prima facie the expression is the same as if one desired to speak of the relation of a five-pound note to the diameter of the earth. However, the reconciliation of irrational forms in which certain economic relations appear and assert themselves in practice does not concern the active agents of these relations in their everyday life. And since they are accustomed to move about in such relations, they find noth-

41) It is one of the merits of Rodbertus whose important work on rent a we shall discuss in Book IV 7 to have developed this point. He commits the one error, however, of assuming, in the first place, that as regards capital an increase in profit is always expressed by an increase in capital, so that the ratio remains the same when the mass of profit increases. But this is erroneous, since the rate of profit may increase, given a changed composition of capital, even if the exploitation of labour remains the same, precisely because the proportional value of the constant portion of capital compared with its variable portion falls. Secondly, he commits the mistake of dealing with the ratio of money rent to a quantitatively definite piece of land, e. g., an acre, as though it had been the general premiss of classical economics in its analysis of the rise or fall of rent. This, again, is erroneous. Classical economics always treats the rate of rent, in so far as it considers rent in its natural form, with reference to the product, and in so far as it considers rent as money rent, with reference to the advanced capital, because these are in fact the rational expressions.

ing strange therein. A complete contradiction offers not the least mys-
tery to them. They feel as much at home as a fish in water among
manifestations which are separated from their internal connections
and absurd when isolated by themselves. What Hegel says with refer-
ence to certain mathematical formulas applies here: that which seems
irrational to ordinary common sense is rational, and that which seems
rational to it is itself irrational.a

When considered in connection with the land area itself, a rise in
the mass of rent is thus expressed in the same way as a rise in the rate
of rent, and hence the embarrassment experienced when the condi-
tions which would explain the one case are lacking in the other.

The price of land, however, may also rise even when the price of
the agricultural product decreases.

In this case, the differential rent, and with it the price of the better
lands, may have risen, owing to further differentiations. Or, if this is
not the case, the price of the agricultural product may have fallen by
virtue of greater labour productive power but in such a manner that
the increased production more than counterbalances this. Let us as-
sume that one quarter cost 60 shillings. Now, if the same acre, with
the same capital, should produce two quarters instead of one, and the
price of one quarter should fall to 40 shillings, then two quarters
would cost 80 shillings, so that the value of the product of the same
capital invested in the same acre would have risen by one-third, de-
spite the fall in price per quarter by one-third. How this is possible
without selling the product above its price of production or above its
value, has been developed in the analysis of differential rent. As a mat-
ter of fact it is possible only in two ways. Either bad soil is excluded
from competition, but the price of the better soil increases with the in-
crease in differential rent, i. e., the general improvement affects the
various soil types differently. Or, the same price of production (and
the same value, if absolute rent is paid) expresses itself on the worst
soil through a larger mass of products, when labour productivity has
become greater. The product represents the same value as before, but
the price of its aliquot parts has fallen, while their number has in-
creased. This is impossible when the same capital has been employed;
for in this case the same value always expresses itself through any portion
of the product. It is possible, however, when additional capital has

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a Hegel, Encyclopädie der philosophischen Wissenschaften im Grundrisse, 1. Teil, Die Logik.
been expended for gypsum, guano, etc., in short, for improvements the effects of which extend over several years. The stipulation is that the price of an individual quarter falls, but not to the same extent as the number of quarters increases.

III. These different conditions under which rent may rise, and with it the price of land in general, or of particular kinds of land, may partly compete, or partly exclude one another, and can only act alternately. But it follows from the foregoing that the consequence of a rise in the price of land does not necessarily signify also a rise in rent, or that a rise in rent, which always brings with it a rise in the price of land, is not necessarily contingent upon an increase in the agricultural product. 42)

Rather than tracing to their origin the real natural causes leading to an exhaustion of the soil, which, incidentally, were unknown to all economists writing on differential rent owing to the level of agricultural chemistry in their day, the shallow conception was seized upon that any amount of capital cannot be invested in a limited area of land; as the Edinburgh Review, for instance, argued against Richard Jones that all of England cannot be fed through the cultivation of Soho Square. If this be considered a special disadvantage of agriculture, precisely the opposite is true. It is possible to invest capital here successively with fruitful results, because the soil itself serves as an instrument of production, which is not the case with a factory, or holds only to a limited extent, since it serves only as a foundation, as a place and a space providing a basis of operations. It is true that, compared with scattered handicrafts, large-scale industry may concentrate much production in a small area. Nevertheless a definite amount of space is always required at any given level of productivity, and the construction of tall buildings also has its practical limitations. Beyond this any expansion of production also demands an extension of land area. The fixed capital invested in machinery, etc., does not improve through use, but on the contrary, wears out. New inventions may indeed permit some improvement in this respect, but with any given

42 Concerning the actual fall in the price of land when rent rises, see Passy.

development in productive power, machines will always deteriorate. If productive power is rapidly developed, all of the old machinery must be replaced by the more advantageous; in other words, it is lost. The soil, however, if properly treated, improves all the time. The advantage of the soil, permitting successive investments of capital to bring gains without loss of previous investments, implies the possibility of differences in yield from these successive investments of capital.

Chapter XLVII
GENESIS OF CAPITALIST GROUND RENT

1. INTRODUCTORY REMARKS

We must clarify in our minds wherein lies the real difficulty in analysing ground rent from the viewpoint of modern economics, as the theoretical expression of the capitalist mode of production. Even many of the more modern writers have not as yet grasped this, as evidenced by each renewed attempt to "newly" explain ground rent. The novelty almost invariably consists in a relapse into long out-of-date views. The difficulty is not to explain the surplus product produced by agricultural capital and its corresponding surplus value in general. This question is solved in the analysis of the surplus value produced by all productive capital, in whatever sphere it may be invested. The difficulty consists rather in showing the source of the excess of surplus value paid the landlord by capital invested in land in the form of ground rent, after equalisation of the surplus value to the average profit among the various capitals, after the various capitals have shared in the total surplus value produced by the social capital in all spheres of production in proportion to their relative size; in other words, the source subsequent to this equalisation and the apparently already completed distribution of all surplus value which, in general, is to be distributed. Quite apart from the practical motives, which prodded modern economists as spokesmen of industrial capital against landed property to investigate this question—m motives which we shall point out more clearly in the chapter on history of ground rent—the question was of paramount interest to them as theorists. To admit that the appearance of rent for capital invested in agriculture is due to some particular effect produced by the sphere of investment itself, due to singular qualities of the earth's crust itself, is tanta-
mount to giving up the conception of value as such, thus tantamount to abandoning all attempts at a scientific understanding of this field. Even the simple observation that rent is paid out of the price of agricultural produce—which takes place even where rent is paid in kind if the farmer is to recover his price of production—showed the absurdity of attempting to explain the excess of this price over the ordinary price of production; in other words, to explain the relative dearness of agricultural products on the basis of the excess of natural productivity of agricultural production over the productivity of other lines of production. For the reverse is true: the more productive labour is, the cheaper is every aliquot part of its product, because so much greater is the mass of use values incorporating the same quantity of labour, i.e., the same value.

The whole difficulty in analysing rent, therefore, consists in explaining the excess of agricultural profit over the average profit, not the surplus value, but the excess of surplus value characteristic of this sphere of production; in other words, not the "net product", but the excess of this net product over the net product of other branches of industry. The average profit itself is a product formed under very definite historical production relations by the movement of social processes, a product which, as we have seen, requires very complex adjustment. To be able to speak at all of an excess over the average profit, this average profit itself must already be established as a standard and as a regulator of production in general as is the case under capitalist production. For this reason in social formations where it is not capital which performs the function of enforcing all surplus labour and appropriating directly all surplus value and where therefore capital has not yet completely, or only sporadically, brought social labour under its control there can be no talk of rent in the modern sense, a rent consisting of a surplus over the average profit, i.e., over and above the proportional share of each individual capital in the surplus value produced by the total social capital. It reflects naïveté, e.g., of a person like Passy (see below), when he speaks of rent in primitive society as an excess over profit—a historically defined social form of surplus value, but which, according to Passy, might almost as well exist without any society.

For the older economists, who in general merely begin analysing the capitalist mode of production, still undeveloped in their day, the

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analysis of rent offers either no difficulty at all, or only a difficulty of a completely different kind. Petty, Cantillon, and in general those writers who are closer to feudal times, assume ground rent to be the normal form of surplus value in general, whereas profit to them is still amorphously combined with wages, or at best appears to be a portion of surplus value extorted by the capitalist from the landlord. These writers thus take as their point of departure a situation where, in the first place, the agricultural population still constitutes the overwhelming majority of the nation, and, secondly, the landlord still appears as the person appropriating at first hand the surplus labour of the direct producers by virtue of his monopoly of landed property, where landed property, therefore, still appears as the main condition of production. For these writers the question could not yet be posed, which, inversely, seeks to investigate from the viewpoint of capitalist production how landed property manages to wrest back again from capital a portion of the surplus value produced by it (that is, filched by it from the direct producers) and already appropriated directly.

The physiocrats are troubled by difficulties of another nature. As the actually first systematic spokesmen of capital, they attempt to analyse the nature of surplus value in general. For them, this analysis coincides with the analysis of rent, the only form of surplus value which they recognise. Therefore, they consider rent-yielding, or agricultural, capital to be the only capital producing surplus value, and the agricultural labour set in motion by it, the only labour producing surplus value, which from a capitalist viewpoint is quite properly considered the only productive labour. They are quite right in considering the creation of surplus value as decisive. Apart from other merits to be set forth in Book IV, they deserve credit primarily for going back from merchant's capital, which functions solely in the sphere of circulation, to productive capital, in opposition to the mercantile system, which, with its crude realism, constitutes the actual vulgar economy of that period, pushing into the background in favour of its own practical interests the beginnings of scientific analysis made by Petty and his successors. In this critique of the mercantile system, incidentally, only its conceptions of capital and surplus value are dealt with. It has already been indicated previously that the monetary system correctly pro-

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claims production for the world market and the transformation of the output into commodities, and thus into money, as the prerequisite and condition of capitalist production. In this system's further development into the mercantile system, it is no longer the transformation of commodity value into money, but the creation of surplus value which is decisive — but from the meaningless viewpoint of the circulation sphere and, at the same time, in such manner that this surplus value is represented as surplus money, as the balance of trade surplus. At the same time, however, the characteristic feature of the interested merchants and manufacturers of that period, which is in keeping with the stage of capitalist development represented by them, is that the transformation of feudal agricultural societies into industrial ones and the corresponding industrial struggle of nations on the world market depends on an accelerated development of capital, which is not to be arrived at along the so-called natural path, but rather by means of coercive measures. It makes a tremendous difference whether national capital is gradually and slowly transformed into industrial capital, or whether this development is accelerated by means of a tax which they impose through protective duties mainly upon landowners, middle and small peasants, and handicraftsmen, by way of accelerated expropriation of the independent direct producers, and through the violently accelerated accumulation and concentration of capital, in short by means of the accelerated establishment of conditions of capitalist production. It simultaneously makes an enormous difference in the capitalist and industrial exploitation of the natural national productive power. Hence the national character of the mercantile system is not merely a phrase on the lips of its spokesmen. Under the pretext of concern solely for the wealth of the nation and the resources of the state, they, in fact, pronounce the interests of the capitalist class and the amassing of riches in general to be the ultimate aim of the state, and thus proclaim bourgeois society in place of the old divine state. But at the same time they are consciously aware that the development of the interests of capital and of the capitalist class, of capitalist production, forms the foundation of national power and national ascendancy in modern society.

The physiocrats, furthermore, are correct in stating that in fact all production of surplus value, and thus all development of capital, has for its natural basis the productivity of agricultural labour. If man

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were not capable of producing in one working day more means of subsistence, which signifies in the strictest sense more agricultural products than every labourer needs for his own reproduction, if the daily expenditure of his entire labour power sufficed merely to produce the means of subsistence indispensable for his own individual requirements, then one could not speak at all either of surplus product or surplus value. An agricultural labour productivity exceeding the individual requirements of the labourer is the basis of all societies, and is above all the basis of capitalist production, which disengages a constantly increasing portion of society from the production of basic foodstuffs and transforms them into "free hands", as Steuart\(^a\) has it, making them available for exploitation in other spheres.

But what can be said of more recent writers on economics, such as Daire, Passy, etc., who parrot the most primitive conceptions concerning the natural conditions of surplus labour and thereby surplus value in general, in the twilight of classical economy, indeed on its very death-bed, and who imagine that they are thus propounding something new and striking on ground rent\(^b\) long after this ground rent has been investigated as a special form and become a specific portion of surplus value? It is particularly characteristic of vulgar economy that it echoes what was new, original, profound and justified during a specific outgrown stage of development, in a period when it has turned platitudinous, stale, and false. It thus confesses its complete ignorance of the problems which concerned classical economy. It confounds them with questions that could only have been posed on a lower level of development of bourgeois society. The same holds true of its incessant and self-complacent rumination of the physiocratic phrases concerning free trade. These phrases have long since lost all theoretical interest, no matter how much they may engage the practical attention of this or that state.

In natural economy proper, when no part of the agricultural product, or but a very insignificant portion, enters into the process of circulation, and then only a relatively small portion of that part of the product which represents the landlord's revenue, as, e.g., in many Roman latifundia, or upon the villas of Charlemagne,\(^8\)\(^9\) or more or

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less during the entire Middle Ages (see Vinçard, *Histoire du travail*), the product and surplus product of the large estates consists by no means purely of products of agricultural labour. It encompasses equally well the products of industrial labour. Domestic handicrafts and manufacturing labour, as secondary occupations of agriculture, which forms the basis, are the prerequisite of that mode of production upon which natural economy rests—in European antiquity and the Middle Ages as well as in the present-day Indian community, in which the traditional organisation has not yet been destroyed. The capitalist mode of production completely abolishes this relationship; a process which may be studied on a large scale particularly in England during the last third of the 18th century. Thinkers like Herrenschwand, who had grown up in more or less semi-feudal societies, still consider, e. g., as late as the close of the 18th century, this separation of manufacture from agriculture as a foolhardy social adventure, as an unthinkably risky mode of existence. And even in the agricultural economies of antiquity showing the greatest analogy to capitalist agriculture, namely Carthage and Rome, the similarity to a plantation economy is greater than to a form corresponding to the really capitalist mode of exploitation. 42a) A formal analogy, which, simultaneously, however, turns out to be completely illusory in all essential points to a person familiar with the capitalist mode of production, who does not, like Herr Mommsen, 43) discover a capitalist mode of production in every monetary economy, is not to be found at all in continental Italy during antiquity, but at best only in Sicily, since this island served Rome as an agricultural tributary so that its agriculture was aimed chiefly at export. Farmers in the modern sense existed there.

42a Adam Smith emphasises how, in his time (and this applies also to the plantations in tropical and subtropical countries in our own day), rent and profit were not yet divorced from one another, a for the landlord was simultaneously a capitalist, just as Cato, for instance, was on his estates. But this separation is precisely the prerequisite for the capitalist mode of production, to whose conception the basis of slavery moreover stands in direct contradiction.

43 Herr Mommsen, in his "Römische Geschichte", by no means uses the term capitalist in the sense employed by modern economics and modern society, but rather in the manner of popular conception, such as still continues to thrive, though not in England or America, but nevertheless on the European continent, as an ancient tradition reflecting bygone conditions.

An erroneous conception of the nature of rent is based upon the fact that rent in kind, partly as tithes to the church and partly as a curiosity perpetuated by long-established contracts, has been dragged over into modern times from the natural economy of the Middle Ages, completely in contradiction to the conditions of the capitalist mode of production. It thereby creates the impression that rent does not arise from the price of the agricultural product, but from its mass, thus not from social conditions, but from the earth. We have previously shown that although surplus value is manifested in a surplus product the converse does not hold that a surplus product, representing a mere increase in the mass of product, constitutes surplus value. It may represent a minus quantity in value. Otherwise the cotton industry of 1860, compared with that of 1840, would show an enormous surplus value, whereas on the contrary the price of the yarn has fallen. Rent may increase enormously as a result of a succession of crop failures, because the price of grain rises, although this surplus value appears as an absolutely decreasing mass of dearer wheat. Conversely, the rent may fall in consequence of a succession of bountiful years, because the price falls although the reduced rent appears as a greater mass of cheaper wheat. As regards rent in kind, it should be noted now that, in the first place, it is a mere tradition carried over from an obsolete mode of production and managing to prolong its existence as a survival. Its contradiction to the capitalist mode of production is shown by its disappearance of itself from private contracts, and its being forcibly shaken off as an anachronism, wherever legislation was able to intervene as in the case of church tithes in England. Secondly, however, where rent in kind persisted on the basis of capitalist production, it was no more, and could be no more, than an expression of money rent in medieval garb. Wheat, for instance, is quoted at 40 shillings per quarter. One portion of this wheat must replace the wages contained therein, and must be sold to become available for renewed expenditure. Another portion must be sold to pay its proportionate share of taxes. Seed and even a portion of fertiliser enter as commodities into the process of reproduction, wherever the capitalist mode of production and with it division of social labour are developed, i.e., they must be purchased for replacement purposes; and therefore another portion of this quarter must be sold to obtain money for this. In so far as they need not be bought as actual commodities, but are taken out of the product itself in kind, in order to enter into its reproduction anew as conditions of production—as occurs not only
in agriculture, but in many other lines of production producing constant capital — they figure in the books as money of account and are deducted as elements of the cost price. The wear and tear of machinery, and of fixed capital in general, must be made good in money. And finally comes profit, which is calculated on this sum, expressed as costs either in actual money or in money of account. This profit is represented by a definite portion of the gross product, which is determined by its price. And the excess portion which then remains forms rent. If the rent in kind stipulated by contract is greater than this remainder determined by the price, then it does not constitute rent, but a deduction from profit. Owing to this possibility alone, rent in kind is an obsolete form, in so far as it does not reflect the price of the product, but may be greater or smaller than the real rent, and thus may comprise not only a deduction from profit, but also from those elements required for capital replacement. In fact, this rent in kind, so far as it is rent not merely in name but also in essence, is exclusively determined by the excess of the price of the product over its price of production. Only it presupposes that this variable is a constant magnitude. But it is such a comforting reflection that the product in natura should suffice, first, to maintain the labourer, secondly, to leave the capitalist tenant farmer more food than he needs, and finally, that the remainder should constitute the natural rent. Quite like a manufacturer producing 200,000 yards of cotton goods. These yards of goods not only suffice to clothe his labourers; to clothe his wife, all his offspring and himself abundantly; but also leave over enough cotton for sale, in addition to paying an enormous rent in terms of cotton goods. It is all so simple! Deduct the price of production from 200,000 yards of cotton goods, and an excess of cotton goods must remain for rent. But it is indeed a naive conception to deduct the price of production of, say, £10,000 from 200,000 yards of cotton goods, without knowing the selling price, to deduct money from cotton goods, to deduct an exchange value from a use value as such, and thus to determine the excess of yards of cotton goods over pounds sterling. It is worse than squaring the circle, which is at least based upon the conception that there is a limit at which straight lines and curves imperceptibly flow together. But such is the prescription of M. Passy. Deduct money from cotton goods, before the cotton goods have been converted into money, either in one's mind or in reality! What remains is the rent, which, however, is to be grasped naturaliter (see, for instance,
Karl Arnd\textsuperscript{a}) and not by devitrations of sophistry. The entire restoration of natural rent is finally reduced to this foolishness, the deduction of the price of production from so many and so many bushels of wheat, and the subtraction of a sum of money from a cubic measure.

\textbf{II. LABOUR RENT}

If we consider ground rent in its simplest form, that of \textit{labour rent}, where the direct producer, using instruments of labour (plough, cattle, etc.) which actually or legally belong to him, cultivates soil actually owned by him during part of the week, and works during the remaining days upon the estate of the feudal lord without any compensation from the feudal lord, the situation here is still quite clear, for in this case rent and surplus value are identical. Rent, not profit, is the form here through which unpaid surplus labour expresses itself. To what extent the labourer (a \textit{self-sustaining serf}) can secure in this case an excess above his indispensable necessities of life, i. e., an excess above that which we would call wages under the capitalist mode of production, depends, other circumstances remaining unchanged, upon the proportion in which his labour time is divided into labour time for himself and enforced labour time for his feudal lord. This excess above the indispensable requirements of life, the germ of what appears as profit under the capitalist mode of production, is therefore wholly determined by the amount of ground rent, which in this case is not only directly unpaid surplus labour, but also appears as such. It is unpaid surplus labour for the "owner" of the means of production, which here coincide with the land, and so far as they differ from it, are mere accessories to it. That the product of the serf must here suffice to reproduce his conditions of labour, in addition to his subsistence, is a circumstance which remains the same under all modes of production. For it is not the result of their specific form, but a natural requisite of all continuous and reproductive labour in general, of any continuing production, which is always simultaneously reproduction, i. e., including reproduction of its own operating conditions. It is furthermore evident that in all forms in which the direct labourer remains the "possessor" of the means of production and labour condi-

\textsuperscript{a} K. Arnd, \textit{Die naturgemässe Volkswirtschaft, gegenüber dem Monopolengeist und dem Communismus}, S. 461-62.
tions necessary for the production of his own means of subsistence, the property relationship must simultaneously appear as a direct relation of lordship and servitude, so that the direct producer is not free; a lack of freedom which may be reduced from servitude with enforced labour to a mere tributary relationship. The direct producer, according to our assumption, is to be found here in possession of his own means of production, the necessary material labour conditions required for the realisation of his labour and the production of his means of subsistence. He conducts his agricultural activity and the rural home industries connected with it independently. This independence is not undermined by the circumstance that the small peasants may form among themselves a more or less natural production community, as they do in India, since it is here merely a question of independence from the nominal lord of the manor. Under such conditions the surplus labour for the nominal owner of the land can only be extorted from them by other than economic pressure, whatever the form assumed may be. This differs from slave or plantation economy in that the slave works under alien conditions of production and not independently. Thus, conditions of personal dependence are requisite, a lack of personal freedom, no matter to what extent, and being tied to the soil as its accessory, bondage in the true sense of the word. Should the direct producers not be confronted by a private landowner, but rather, as in Asia, under direct subordination to a state which stands over them as their landlord and simultaneously as sovereign, then rent and taxes coincide, or rather, there exists no tax which differs from this form of ground rent. Under such circumstances, there need exist no stronger political or economic pressure than that common to all subjects to that state. The state is then the supreme lord. Sovereignty here consists in the ownership of land concentrated on a national scale. But, on the other hand, no private ownership of land exists, although there is both private and common possession and use of land.

The specific economic form, in which unpaid surplus labour is pumped out of direct producers, determines the relationship of rulers

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44 Following the conquest of a country, the immediate aim of a conqueror was also to convert its people to his own use. Cf. Linguet. See also Möser.

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and ruled, as it grows directly out of production itself and, in turn, reacts upon it as a determining element. Upon this, however, is founded the entire formation of the economic community which grows up out of the production relations themselves, thereby simultaneously its specific political form. It is always the direct relationship of the owners of the conditions of production to the direct producers—a relation always naturally corresponding to a definite stage in the development of the methods of labour and thereby its social productivity—which reveals the innermost secret, the hidden basis of the entire social structure, and with it the political form of the relation of sovereignty and dependence, in short, the corresponding specific form of the state. This does not prevent the same economic basis—the same from the standpoint of its main conditions—due to innumerable different empirical circumstances, natural environment, racial relations, external historical influences, etc., from showing infinite variations and gradations in appearance, which can be ascertained only by analysis of the empirically given circumstances.

So much is evident with respect to labour rent, the simplest and most primitive form of rent: Rent is here the primeval form of surplus value and coincides with it. But this identity of surplus value with unpaid labour of others need not be analysed here, because it still exists in its visible, palpable form, since the labour of the direct producer for himself is still separated in space and time from his labour for the landlord, and the latter appears directly in the brutal form of enforced labour for a third person. In the same way the "attribute" possessed by the soil to produce rent is here reduced to a tangibly open secret, for the disposition to furnish rent here also includes human labour power bound to the soil, and the property relation which compels the owner of labour power to drive it on and activate it beyond such measure as is required to satisfy his own indispensable needs. Rent consists directly in the appropriation of this surplus expenditure of labour power by the landlord; for the direct producer pays him no additional rent. Here, where surplus value and rent are not only identical but where surplus value has the tangible form of surplus labour, the natural conditions or limits of rent, being those of surplus value in general, are plainly clear. The direct producer must 1) possess enough labour power, and 2) the natural conditions of his labour, above all the soil cultivated by him, must be productive enough, in a word, the natural productivity of his labour must be big enough to give him the possibility of retaining some surplus labour
over and above that required for the satisfaction of his own indispensable needs. It is not this possibility which creates the rent, but rather compulsion which turns this possibility into reality. But the possibility itself is conditioned by subjective and objective natural circumstances. And here too lies nothing at all mysterious. Should labour power be minute, and the natural conditions of labour scanty, then the surplus labour is small, but in such a case so are the wants of the producers on the one hand and the relative number of exploiters of surplus labour on the other, and finally so is the surplus product, whereby this barely productive surplus labour is realised for those few exploiting landowners.

Finally, labour rent in itself implies that, all other circumstances remaining equal, it will depend wholly upon the relative amount of surplus labour, or enforced labour, to what extent the direct producer shall be enabled to improve his own condition, to acquire wealth, to produce an excess over and above his indispensable means of subsistence, or, if we wish to anticipate the capitalist mode of expression, whether he shall be able to produce a profit for himself, and how much of a profit, i.e., an excess over his wages which have been produced by himself. Rent here is the normal, all-absorbing, so to say legitimate form of surplus labour, and far from being excess over profit, which means in this case being above any other excess over wages, it is rather that the amount of such profit, and even its very existence, depends, other circumstances being equal, upon the amount of rent, i.e., the enforced surplus labour to be surrendered to the landowners.

Since the direct producer is not the owner, but only a possessor, and since all his surplus labour de jure actually belongs to the landlord, some historians have expressed astonishment that it should be at all possible for those subject to enforced labour, or serfs, to acquire any independent property, or relatively speaking, wealth, under such circumstances. However, it is evident that tradition must play a dominant role in the primitive and undeveloped circumstances on which these social production relations and the corresponding mode of production are based. It is furthermore clear that here as always it is in the interest of the ruling section of society to sanction the existing order as law and to legally establish its limits given through usage and tradition. Apart from all else, this, by the way, comes about of itself as soon as the constant reproduction of the basis of the existing order and its fundamental relations assumes a regulated and orderly form in the course of time. And such regulation and order are themselves
indispensable elements of any mode of production, if it is to assume social stability and independence from mere chance and arbitrariness. These are precisely the form of its social stability and therefore its relative freedom from mere arbitrariness and mere chance. Under backward conditions of the production process as well as the corresponding social relations, it achieves this form by mere repetition of their very reproduction. If this has continued on for some time, it entrenches itself as custom and tradition and is finally sanctioned as an explicit law. However, since the form of this surplus labour, enforced labour, is based upon the imperfect development of all social productive powers and thecrudeness of the methods of labour itself, it will naturally absorb a relatively much smaller portion of the direct producer's total labour than under developed modes of production, particularly the capitalist mode of production. Take it, for instance, that the enforced labour for the landlord originally amounted to two days per week. These two days of enforced labour per week are thereby fixed, are a constant magnitude, legally regulated by prescriptive or written law. But the productivity of the remaining days of the week, which are at the disposal of the direct producer himself, is a variable magnitude, which must develop in the course of his experience, just as the new wants he acquires, and just as the expansion of the market for his product and the increasing assurance with which he disposes of this portion of his labour power will spur him on to a greater exertion of his labour power, whereby it should not be forgotten that the employment of his labour power is by no means confined to agriculture, but includes rural home industry. The possibility is here presented for definite economic development taking place, depending, of course, upon favourable circumstances, inborn racial characteristics, etc.

III. RENT IN KIND

The transformation of labour rent into rent in kind changes nothing from the economic standpoint in the nature of ground rent. The latter consists, in the forms considered here, in that rent is the sole prevailing and normal form of surplus value, or surplus labour. This is further expressed in the fact that it is the only surplus labour, or the only surplus product, which the direct producer, who is in possession of the labour conditions needed for his own reproduction, must give up to the owner of the land, which in this situation is the all-embracing
condition of labour. And, furthermore, that land is the only condition of labour which confronts the direct producer as alien property, independent of him, and personified by the landlord. To whatever extent rent in kind is the prevailing and dominant form of ground rent, it is furthermore always more or less accompanied by survivals of the earlier form, i.e., of rent paid directly in labour, corvée labour, no matter whether the landlord be a private person or the state. Rent in kind presupposes a higher stage of civilisation for the direct producer, i.e., a higher level of development of his labour and of society in general. And it is distinct from the preceding form in that surplus labour needs no longer be performed in its natural form, thus no longer under the direct supervision and compulsion of the landlord or his representatives: the direct producer is driven rather by force of circumstances than by direct coercion, through legal enactment rather than the whip, to perform it on his own responsibility. Surplus production, in the sense of production beyond the indispensable needs of the direct producer, and within the field of production actually belonging to him, upon the land exploited by himself instead of, as earlier, upon the nearby lord’s estate beyond his own land, has already become a self-understood rule here. In this relation the direct producer more or less disposes of his entire labour time, although, as previously, a part of this labour time, at first practically the entire surplus portion of it, belongs to the landlord without compensation; except that the landlord no longer directly receives this surplus labour in its natural form, but rather in the products’ natural form in which it is realised. The burdensome, and according to the way in which enforced labour is regulated, more or less disturbing interruption by work for the landlord (see Buch I, Kap. VIII, 2, “Manufacturer and Boyard”\(^a\)) stops wherever rent in kind appears in pure form, or at least it is reduced to a few short intervals during the year, when a continuation of some corvée labour side by side with rent in kind takes place. The labour of the producer for himself and his labour for the landlord are no longer palpably separated by time and space. This rent in kind, in its pure form, while it may drag fragments along into more highly developed modes of production and production relations, still presupposes for its existence a natural economy, i.e., that the conditions of the economy are either wholly or for the overwhelming part produced by the

economy itself, directly replaced and reproduced out of its gross product. It furthermore presupposes the combination of rural home industry with agriculture. The surplus product, which forms the rent, is the product of this combined agricultural and industrial family labour, no matter whether rent in kind contains more or less of the industrial product, as is often the case in the Middle Ages, or whether it is paid only in the form of actual products of the land. In this form of rent it is by no means necessary for rent in kind, which represents the surplus labour, to fully exhaust the entire surplus labour of the rural family. Compared with labour rent, the producer rather has more room for action to gain time for surplus labour whose product shall belong to himself, as well as the product of his labour which satisfies his indispensable needs. Similarly, this form will give rise to greater differences in the economic position of the individual direct producers. At least the possibility for such a differentiation exists, and the possibility for the direct producer to have in turn acquired the means to exploit other labourers directly. This, however, does not concern us here, since we are dealing with rent in kind in its pure form; just as in general we cannot enter into the endless variety of combinations wherein the various forms of rent may be united, adulterated and amalgamated. The form of rent in kind, by being bound to a definite type of product and production itself and through its indispensable combination of agriculture and domestic industry, through its almost complete self-sufficiency whereby the peasant family supports itself through its independence from the market and the movement of production and history of that section of society lying outside of its sphere, in short owing to the character of natural economy in general, this form is quite adapted to furnishing the basis for stationary social conditions as we see, e.g., in Asia. Here, as in the earlier form of labour rent, ground rent is the normal form of surplus value, and thus of surplus labour, i.e., of the entire excess labour which the direct producer must perform gratis, hence actually under compulsion although this compulsion no longer confronts him in the old brutal form—for the benefit of the owner of his essential condition of labour, the land. The profit, if by erroneously anticipating we may thus call that portion of the direct producer's labour excess over his necessary labour, which he retains for himself, has so little to do with determining rent in kind, that this profit, on the contrary, grows up behind the back of rent and finds its natural limit in the size of rent in kind. The latter may assume dimensions which seriously imperil
reproduction of the conditions of labour, the means of production themselves, rendering the expansion of production more or less impossible and reducing the direct producers to the physical minimum of means of subsistence. This is particularly the case, when this form is met with and exploited by a conquering commercial nation, e.g., the English in India.

IV. MONEY RENT

By money rent—as distinct from industrial and commercial ground rent based upon the capitalist mode of production, which is but an excess over average profit—we here mean the ground rent which arises from a mere change in form of rent in kind, just as the latter in turn is but a modification of labour rent. The direct producer here turns over instead of the product, its price to the landlord (who may be either the state or a private individual). An excess of products in their natural form no longer suffices; it must be converted from its natural form into money form. Although the direct producer still continues to produce at least the greater part of his means of subsistence himself, a certain portion of this product must now be converted into commodities, must be produced as commodities. The character of the entire mode of production is thus more or less changed. It loses its independence, its detachment from social connection. The ratio of cost of production, which now comprises greater or lesser expenditures of money, becomes decisive; at any rate, the excess of that portion of gross product to be converted into money over that portion which must serve, on the one hand, as means of reproduction again, and, on the other, as means of direct subsistence, assumes a determining role. However, the basis of this type of rent, although approaching its dissolution, remains the same as that of rent in kind, which constitutes its point of departure. The direct producer as before is still possessor of the land, either through inheritance or some other traditional right, and must perform for his lord, as owner of his most essential condition of production, excess corvée labour, that is, unpaid labour for which no equivalent is returned, in the form of a surplus product transformed into money. Ownership of the conditions of labour as distinct from land, such as agricultural implements and other goods and chattels, is transformed into the property of the direct producer even under the earlier forms of rent, first in fact, and then also legally, and even more so is this the precondition for the
form of money rent. The transformation of rent in kind into money rent, taking place first sporadically and then on a more or less national scale, presupposes a considerable development of commerce, of urban industry, of commodity production in general, and thereby of money circulation. It furthermore assumes a market price for products, and that they be sold at prices roughly approximating their values, which need not at all be the case under earlier forms. In Eastern Europe we may still partly observe this transformation taking place under our very eyes. How unfeasible it can be without a certain development of social labour productivity is proved by various unsuccessful attempts to carry it through under the Roman Empire, and by relapses into natural rent after seeking to convert at least the state tax portion of this rent into money rent. The same transitional difficulties are evidenced, e. g., in prerevolutionary France, when money rent was combined with and adulterated by, survivals of its earlier forms.

Money rent, as a transmuted form of rent in kind, and in antithesis to it, is, nevertheless, the final form, and simultaneously the form of dissolution of the type of ground rent which we have heretofore considered, namely ground rent as the normal form of surplus value and of the unpaid surplus labour to be performed for the owner of the conditions of production. In its pure form, this rent, like labour rent and rent in kind, represents no excess over profit. It absorbs the profit, as it is understood. In so far as profit arises beside it practically as a separate portion of excess labour, money rent like rent in its earlier forms still constitutes the normal limit of such embryonic profit, which can only develop in relation to the possibilities of exploitation, be it of one's own excess labour or that of another, which remains after the performance of the surplus labour represented by money rent. Should any profit actually arise along with this rent, then this profit does not constitute the limit of rent, but rather conversely, the rent is the limit of the profit. However, as already indicated, money rent is simultaneously the form of dissolution of the ground rent considered thus far, coinciding *prima facie* with surplus value and surplus labour, i. e., ground rent as the normal and dominant form of surplus value.

In its further development money rent must lead — aside from all intermediate forms, e. g., the small peasant tenant farmer — either to the transformation of land into peasants' freehold, or to the form corresponding to the capitalist mode of production, that is, to rent paid by the capitalist tenant farmer.

With money rent prevailing, the traditional and customary legal
relationship between landlord and subjects who possess and cultivate a part of the land, is necessarily turned into a pure money relationship fixed contractually in accordance with the rules of positive law. The possessor engaged in cultivation thus becomes virtually a mere tenant. This transformation serves on the one hand, provided other general production relations permit, to expropriate more and more the old peasant possessors and to substitute capitalist tenants in their stead. On the other hand, it leads to the former possessor buying himself free from his rent obligation and to his transformation into an independent peasant with complete ownership of the land he tills. The transformation of rent in kind into money rent is furthermore not only inevitably accompanied, but even anticipated, by the formation of a class of propertyless day labourers, who hire themselves out for money. During their genesis, when this new class appears but sporadically, the custom necessarily develops among the more prosperous peasants subject to rent payments of exploiting agricultural wage labourers for their own account, much as in feudal times, when the more well-to-do peasant serfs themselves also held serfs. In this way, they gradually acquire the possibility of accumulating a certain amount of wealth and themselves becoming transformed into future capitalists. The old self-employed possessors of land themselves thus give rise to a nursery school for capitalist tenants, whose development is conditioned by the general development of capitalist production beyond the bounds of the countryside. This class shoots up very rapidly when particularly favourable circumstances come to its aid, as in England in the 16th century, where the then progressive depreciation of money enriched them under the customary long leases at the expense of the landlords.

Furthermore: as soon as rent assumes the form of money rent, and thereby the relationship between rent-paying peasant and landlord becomes a relationship fixed by contract—a development which is only possible generally when the world market, commerce and manufacture have reached a certain relatively high level—the leasing of land to capitalists inevitably also makes its appearance. The latter hitherto stood beyond the rural limits and now carry over to the countryside and agriculture the capital acquired in the cities and with it the capitalist mode of operation developed—i.e., creating a product as a mere commodity and solely as a means of appropriating surplus value. This form can become the general rule only in those countries which dominate the world market in the period of
transition from the feudal to the capitalist mode of production. When the capitalist tenant farmer steps in between landlord and actual tiller of the soil, all relations which arose out of the old rural mode of production are torn asunder. The farmer becomes the actual commander of these agricultural labourers and the actual exploiter of their surplus labour, whereas the landlord maintains a direct relationship, and indeed simply a money and contractual relationship, solely with this capitalist tenant. Thus, the nature of rent is also transformed, not merely in fact and by chance, as occurred in part even under earlier forms, but normally, in its recognised and prevailing form. From the normal form of surplus value and surplus labour, it descends to a mere excess of this surplus labour over that portion of it appropriated by the exploiting capitalist in the form of profit; just as the total surplus labour, profit and excess over profit, is extracted directly by him, collected in the form of the total surplus product, and turned into cash. It is only the excess portion of this surplus value which is extracted by him from the agricultural labourer by direct exploitation, by means of his capital, which he turns over to the landlord as rent. How much or how little he turns over to the latter depends, on the average, upon the limits set by the average profit which is realised by capital in the nonagricultural spheres of production, and by the prices of nonagricultural production regulated by this average profit. From a normal form of surplus value and surplus labour, rent has now become transformed into an excess over that portion of the surplus labour claimed in advance by capital as its legitimate and normal share, and characteristic of this particular sphere of production, the agricultural sphere of production. Profit, instead of rent, has now become the normal form of surplus value and rent still exists solely as a form, not of surplus value in general, but of one of its offshoots, surplus profit, which assumes an independent form under particular circumstances. It is not necessary to elaborate the manner in which a gradual transformation in the mode of production itself corresponds to this transformation. This already follows from the fact that it is normal for the capitalist tenant farmer to produce agricultural products as commodities, and that, while formerly only the excess over his means of subsistence was converted into commodities, now but a relatively insignificant part of these commodities is directly used by him as means of subsistence. It is no longer the land, but rather capital, which has now brought even agricultural labour under its direct sway and productiveness.
The average profit and the price of production regulated thereby are formed outside of relations in the countryside and within the sphere of urban trade and manufacture. The profit of the rent-paying peasant does not enter into it as an equalising factor, for his relation to the landlord is not a capitalist one. In so far as he makes profit, i.e., realises an excess above his necessary means of subsistence, either by his own labour or through exploiting other people’s labour, it is done behind the back of the normal relationship, and other circumstances being equal, the size of this profit does not determine rent, but on the contrary, it is determined by the rent as its limit. The high rate of profit in the Middle Ages is not entirely due to the low composition of capital, in which the variable component invested in wages predominates. It is due to swindling on the land, the appropriation of a portion of the landlord’s rent and of the income of his vassals. If the countryside exploits the town politically in the Middle Ages, wherever feudalism has not been broken down by exceptional urban development—as in Italy, the town, on the other hand, exploits the land economically everywhere and without exception, through its monopoly prices, its system of taxation, its guild organisation, its direct commercial fraudulence and its usury.

One might imagine that the mere appearance of the capitalist farmer in agricultural production would prove that the price of agricultural products, which from time immemorial have paid rent in one form or another, must be higher, at least at the time of this appearance, than the prices of production of manufacture whether it be because the price of such agricultural products has reached a monopoly price level, or has risen as high as the value of the agricultural products, and their value actually is above the price of production regulated by the average profit. For were this not so, the capitalist farmer could not at all realise, at the existing prices of agricultural produce, first the average profit out of the price of these products, and then pay out of the same price an excess above this profit in the form of rent. One might conclude from this that the general rate of profit, which guides the capitalist farmer in his contract with the landlord, has been formed without including rent, and, therefore, as soon as it assumes a regulating role in agricultural production, it finds this excess at hand and pays it to the landlord. It is in this traditional manner that, for instance, Herr Rodbertus explains the matter. But:
First. This appearance of capital as an independent and leading force in agriculture does not take place all at once and generally, but gradually and in particular lines of production. It encompasses at first, not agriculture proper, but such branches of production as cattle-breeding, especially sheep-raising, whose principal product, wool, offers at the early stages a constant excess of market price over price of production during the rise of industry, and this does not level out until later. Thus in England during the 16th century.

Secondly. Since this capitalist production appears at first but sporadically, the assumption cannot be disputed that it first extends only to such land categories as are able, through their particular fertility, or their exceptionally favourable location, to generally pay a differential rent.

Thirdly. Let us even assume that at the time this mode of production appeared — and this indeed presupposes an increasing preponderance of urban demand — the prices of agricultural products were higher than the price of production, as was doubtless the case in England during the last third of the 17th century. Nevertheless, as soon as this mode of production has somewhat extricated itself from the mere subordination of agriculture to capital, and as soon as agricultural improvement and the reduction of production costs, which necessarily accompany its development, have taken place, the balance will be restored by a reaction, a fall in the price of agricultural produce, as happened in England in the first half of the 18th century.

Rent, thus, as an excess over the average profit cannot be explained in this traditional way. Whatever may be the existing historical circumstances at the time rent first appears, once it has struck root it cannot exist except under the modern conditions earlier described.

Finally, it should be noted in the transformation of rent in kind into money rent that along with it capitalised rent, or the price of land, and thus its alienability and alienation become essential factors, and that thereby not only can the former peasant subject to payment of rent be transformed into an independent peasant proprietor, but also urban and other moneyed people can buy real estate in order to lease it either to peasants or capitalists and thus enjoy rent as a form of interest on their capital so invested; that, therefore, this circumstance likewise facilitates the transformation of the former mode of exploitation, the relation between owner and actual cultivator of the land, and of rent itself.
We have now arrived at the end of our elaboration of ground rent.

In all these forms of ground rent, whether labour rent, rent in kind, or money rent (as merely a changed form of rent in kind), the one paying rent is always supposed to be the actual cultivator and possessor of the land, whose unpaid surplus labour passes directly into the hands of the landlord. Even in the last form, money rent in so far as it is "pure", i.e., merely a changed form of rent in kind — this is not only possible, but actually takes place.

As a transitory form from the original form of rent to capitalist rent, we may consider the metayer system, or share-cropping, under which the manager (farmer) furnishes labour (his own or another's), and also a portion of working capital, and the landlord furnishes, aside from land, another portion of working capital (e.g., cattle), and the product is divided between sharecropper and landlord in definite proportions which vary from country to country. On the one hand, the farmer here lacks sufficient capital required for complete capitalist management. On the other hand, the share here appropriated by the landlord does not bear the pure form of rent. It may actually include interest on the capital advanced by him and an excess rent. It may also absorb practically the entire surplus labour of the farmer, or leave him a greater or smaller portion of this surplus labour. But, essentially, rent no longer appears here as the normal form of surplus value in general. On the one hand, the sharecropper, whether he employs his own or another's labour, is to lay claim to a portion of the product not in his capacity as labourer, but as possessor of part of the instruments of labour, as his own capitalist. On the other hand, the landlord claims his share not exclusively on the basis of his landownership, but also as lender of capital.  

A survival of the old communal ownership of land, which had endured after the transition to independent peasant farming, e.g., in Poland and Rumania, served there as a subterfuge for effecting a transition to the lower forms of ground rent. A portion of the land

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belongs to the individual peasant and is tilled independently by him. Another portion is tilled in common and creates a surplus product, which serves partly to cover community expenses, partly as a reserve in cases of crop failure, etc. These last two parts of the surplus product, and ultimately the entire surplus product including the land upon which it has been grown, are more and more usurped by state officials and private individuals, and thus the originally free peasant proprietors, whose obligation to till this land in common is maintained, are transformed into vassals subject either to corvée labour or rent in kind, while the usurpers of common land are transformed into owners, not only of the usurped common lands, but even the very lands of the peasants themselves.

We need not further investigate slave economy proper (which likewise passes through a metamorphosis from the patriarchal system mainly for home use to the plantation system for the world market) nor the management of estates under which the landlords themselves are independent cultivators, possessing all instruments of production, and exploiting the labour of free or unfree bondmen, who are paid either in kind or money. Landlord and owner of the instruments of production, and thus the direct exploiter of labourers included among these elements of production, are in this case one and the same person. Rent and profit likewise coincide then, there occurring no separation of the different forms of surplus value. The entire surplus labour of the labourers, which is manifested here in the surplus product, is extracted from them directly by the owner of all instruments of production, to which belong the land and, under the original form of slavery, the immediate producers themselves. Where the capitalist outlook prevails, as on American plantations, this entire surplus value is regarded as profit; where neither the capitalist mode of production itself exists, nor the corresponding outlook has been transferred from capitalist countries, it appears as rent. At any rate, this form presents no difficulties. The income of the landlord, whatever it may be called, the available surplus product appropriated by him, is here the normal and prevailing form, whereby the entire unpaid surplus labour is directly appropriated, and landed property forms the basis of such appropriation.

Further, proprietorship of land parcels. The peasant here is simultaneously the free owner of his land, which appears as his principal instrument of production, the indispensable field of employment for his labour and his capital. No lease money is paid under this form.
Rent, therefore, does not appear as a separate form of surplus value, although in countries in which otherwise the capitalist mode of production is developed, it appears as a surplus profit compared with other lines of production; but as surplus profit which, like all proceeds of his labour in general, accrues to the peasant.

This form of landed property presupposes, as in the earlier older forms, that the rural population greatly predominates numerically over the town population, so that, even if the capitalist mode of production otherwise prevails, it is but relatively little developed, and thus also in the other lines of production the concentration of capital is restricted to narrow limits and a fragmentation of capital predominates. In the nature of things, the greater portion of agricultural produce must be consumed as direct means of subsistence by the producers themselves, the peasants, and only the excess above that will find its way as commodities into urban commerce. No matter how the average market price of agricultural products may here be regulated, differential rent, an excess portion of commodity prices from superior or more favourably located land, must evidently exist here as much as under the capitalist mode of production. This differential rent exists, even where this form appears under social conditions, under which no general market price has as yet been developed; it appears then in the excess surplus product. Only then it flows into the pockets of the peasant whose labour is realised under more favourable natural conditions. The assumption here is generally to be made that no absolute rent exists, i.e., that the worst soil does not pay any rent—precisely under this form where the price of land enters as a factor in the peasant’s actual cost of production whether because in the course of this form’s further development either the price of land has been computed at a certain money value, in dividing up an inheritance, or, during the constant change in ownership of an entire estate, or of its component parts, the land has been bought by the cultivator himself, largely by raising money on mortgage; and, therefore, where the price of land, representing nothing more than capitalised rent, is a factor assumed in advance, and where rent thus seems to exist independently of any differentiation in fertility and location of the land. For, absolute rent presupposes either realised excess in product value above its price of production, or a monopoly price exceeding the value of the product. But since agriculture here is carried on largely as cultivation for direct subsistence, and the land exists as an indispensable field of employment for the labour and capital of the majority of the popula-
tion, the regulating market price of the product will reach its value only under extraordinary circumstances. But this value will, generally, be higher than its price of production owing to the preponderant element of living labour, although this excess of value over price of production will in turn be limited by the low composition even of non-agricultural capital in countries with an economy composed predominantly of land parcels. For the peasant owning a parcel, the limit of exploitation is not set by the average profit of capital, in so far as he is a small capitalist; nor, on the other hand, by the necessity of rent, in so far as he is a landowner. The absolute limit for him as a small capitalist is no more than the wages he pays to himself, after deducting his actual costs. So long as the price of the product covers these wages, he will cultivate his land, and often at wages down to a physical minimum. As for his capacity as land proprietor, the barrier of ownership is eliminated for him, since it can make itself felt only vis-à-vis a capital (including labour) separated from landownership, by erecting an obstacle to the investment of capital. It is true, to be sure, that interest on the price of land—which generally has to be paid to still another individual, the mortgage creditor—is a barrier. But this interest can be paid precisely out of that portion of surplus labour which would constitute profit under capitalist conditions. The rent anticipated in the price of land and in the interest paid for it can therefore be nothing but a portion of the peasant's capitalised surplus labour over and above the labour indispensable for his subsistence, without this surplus labour being realised in a part of the commodity value equal to the entire average profit, and still less in an excess above the surplus labour realised in the average profit, i.e., in a surplus profit. The rent may be a deduction from the average profit, or even the only portion of it which is realised. For the peasant parcel holder to cultivate his land, or to buy land for cultivation, it is therefore not necessary, as under the normal capitalist mode of production, that the market price of the agricultural products rise high enough to afford him the average profit, and still less a fixed excess above this average profit in the form of rent. It is not necessary, therefore, that the market price rise either up to the value or the price of production of his product. This is one of the reasons why grain prices are lower in countries with predominant small peasant land proprietorship than in countries with a capitalist mode of production. One portion of the surplus labour of the peasants, who work under the least favourable conditions, is bestowed gratis upon society and does
not at all enter into the regulation of price of production or into the creation of value in general. This lower price is consequently a result of the producers’ poverty and by no means of their labour productivity.

This form of free self-managing peasant proprietorship of land parcels as the prevailing, normal form constitutes, on the one hand, the economic foundation of society during the best periods of classical antiquity, and on the other hand, it is found among modern nations as one of the forms arising from the dissolution of feudal landownership. Thus, the yeomanry in England, the peasantry in Sweden, the French and West German peasants. We do not include colonies here, since the independent peasant there develops under different conditions.

The free ownership of the self-managing peasant is evidently the most normal form of landed property for small-scale operation, i.e., for a mode of production, in which possession of the land is a prerequisite for the labourer’s ownership of the product of his own labour, and in which the cultivator, be he free owner or vassal, always must produce his own means of subsistence independently, as an isolated labourer with his family. Ownership of the land is as necessary for full development of his mode of production as ownership of tools is for free development of handicraft production. Here is the basis for the development of personal independence. It is a necessary transitional stage for the development of agriculture itself. The causes which bring about its downfall show its limitations. These are: Destruction of rural domestic industry, which forms its normal supplement as a result of the development of large-scale industry; a gradual impoverishment and exhaustion of the soil subjected to this cultivation; usurpation by big landowners of the common lands, which constitute the second supplement of the management of land parcels everywhere and which alone enable it to raise cattle; competition, either of the plantation system or large-scale capitalist agriculture. Improvements in agriculture, which on the one hand cause a fall in agricultural prices and, on the other, require greater outlays and more extensive material conditions of production, also contribute towards this, as in England during the first half of the 18th century.

Proprietorship of land parcels by its very nature excludes the development of social productive forces of labour, social forms of labour, social concentration of capital, large-scale cattle-raising, and the progressive application of science.
Usury and a taxation system must impoverish it everywhere. The expenditure of capital in the price of the land withdraws this capital from cultivation. An infinite fragmentation of means of production, and isolation of the producers themselves. Monstrous waste of human energy. Progressive deterioration of conditions of production and increased prices of means of production — an inevitable law of proprietorship of parcels. Calamity of seasonal abundance for this mode of production. 45"

One of the specific evils of small-scale agriculture where it is combined with free landownership arises from the cultivator’s investing capital in the purchase of land. (The same applies also to the transitory form, in which the big landowner invests capital, first, to buy land, and second, to manage it as his own tenant farmer.) Owing to the changeable nature which the land here assumes as a mere commodity, the changes of ownership increase, 46 so that the land, from the peasant’s viewpoint, enters anew as an investment of capital with each successive generation and division of estates, i. e., it becomes land purchased by him. The price of land here forms a weighty element of the individual unproductive costs of production or cost price of the product for the individual producer.

The price of land is nothing but capitalised and therefore anticipated rent. If capitalist methods are employed by agriculture, so that the landlord receives only rent, and the farmer pays nothing for land except this annual rent, then it is evident that the capital invested by the landowner himself in purchasing the land constitutes indeed an interest-bearing investment of capital for him, but has absolutely nothing to do with capital invested in agriculture itself. It forms neither a part of the fixed, nor of the circulating, capital employed here 47; it

45: See the speech from the throne of the King of France in Tooke. a
46: See Mounier and Rubichon. b
47: Dr. H. Maron (Extensiv oder Intensiv?) // no further information given about this pamphlet. // starts from the false assumption of the adversaries he opposes. He assumes that capital invested in the purchase of land is “investment capital”, and then engages in a controversy about the respective definitions of investment capital and working capital, that is, fixed and circulating capital. His wholly amateurish conceptions of capital in general, which may be excused incidentally in one who is not an economist in

merely secures for the buyer a claim to receive annual rent, but has absolutely nothing to do with the production of the rent itself. The buyer of land just pays his capital out to the one who sells the land, and the seller in return relinquishes his ownership of the land. Thus this capital no longer exists as the capital of the purchaser; he no longer has it; therefore it does not belong to the capital which he can invest in any way in the land itself. Whether he bought the land dear or cheap, or whether he received it for nothing, alters nothing in the capital invested by the farmer in his establishment, and changes nothing in the rent, but merely alters the question whether it appears to him as interest or not, or as higher or lower interest respectively.

Take, for instance, the slave economy. The price paid for a slave is nothing but the anticipated and capitalised surplus value or profit to be wrung out of the slave. But the capital paid for the purchase of a slave does not belong to the capital by means of which profit, surplus labour, is extracted from him. On the contrary. It is capital which the slaveholder has parted with, it is a deduction from the capital which he has available for actual production. It has ceased to exist for him, just as capital invested in purchasing land has ceased to exist for agriculture. The best proof of this is that it does not reappear for the slaveholder or the landowner except when he, in turn, sells his slaves or land. But then the same situation prevails for the buyer. The fact that he has bought the slave does not enable him to exploit the slave without further ado. He is only able to do so when he invests some additional capital in the slave economy itself.

The same capital does not exist twice, once in the hands of the seller, and a second time in the hands of the buyer of the land. It passes from the hands of the buyer to those of the seller, and there the matter ends. The buyer now no longer has capital, but in its stead a piece of land. The circumstance that the rent produced by a real investment of capital in this land is calculated by the new landowner as interest on capital which he has not invested in the land, but given away to acquire the land, does not in the least alter the economic nature of the land factor, any more than the circumstance that someone has paid £1,000 for 3% consols has anything to do with the capital out of whose revenue the interest on the national debt is paid.

view of the state of German political economy, conceal from him that this capital is neither investment nor working capital, any more than the capital which someone invests at the Stock Exchange in purchasing stocks or government securities, and which, for him, represents a personal investment of capital, is "invested" in any branch of production.
In fact, the money expended in purchasing land, like that in purchasing government bonds, is merely capital *in itself*, just as any value sum is capital in itself, potential capital, on the basis of the capitalist mode of production. What is paid for land, like that for government bonds or any other purchased commodity, is a sum of money. This is capital in itself, because it can be converted into capital. It depends upon the use put to it by the seller whether the money obtained by him is really transformed into capital or not. For the buyer, it can never again function as such, no more than any other money which he has definitely paid out. It figures in his accounts as interest-bearing capital, because he considers the income, received as rent from the land or as interest on state indebtedness, as interest on the money which the purchase of the claim to this revenue has cost him. He can only realise it as capital through resale. But then another, the new buyer, enters the same relationship maintained by the former, and the money thus expended cannot be transformed into actual capital for the expender through any change of hands.

In the case of small landed property the illusion is fostered still more that land itself possesses value and thus enters as capital into the price of production of the product, much as machines or raw materials. But we have seen that rent, and therefore capitalised rent, the price of land, can enter as a determining factor into the price of agricultural products in only two cases. First, when as a consequence of the composition of agricultural capital—the capital which has nothing to do with the capital invested in purchasing land—the value of the products of the soil is higher than their price of production, and market conditions enable the landlord to realise this difference. Second, when there is a monopoly price. And both are least of all the case under the management of land parcels and small landownership because precisely here production to a large extent satisfies the producers' own wants and is carried on independently of regulation by the average rate of profit. Even where cultivation of land parcels is conducted upon leased land, the lease money comprises, far more so than under any other conditions, a portion of the profit and even a deduction from wages; this money is then only a nominal rent, not rent as an independent category as opposed to wages and profit.

The expenditure of money capital for the purchase of land, then, is not an investment of agricultural capital. It is a decrease *pro tanto* in the capital which small peasants can employ in their own sphere of production. It reduces *pro tanto* the size of their means of production
and thereby narrows the economic basis of reproduction. It subjects
the small peasant to the money-lender, since credit proper occurs but
rarely in this sphere in general. It is a hindrance to agriculture, even
where such purchase takes place in the case of large estates. It contra-
dicts in fact the capitalist mode of production, which is on the whole
indifferent to whether the landowner is in debt, no matter whether he
has inherited or purchased his estate. The nature of management of
the leased estate itself is not altered whether the landowner pockets
the rent himself or whether he must pay it out to the holder of his
mortgage.

We have seen that, in the case of a given ground rent, the price of
land is regulated by the interest rate. If the rate is low, then the price
of land is high, and vice versa. Normally, then, a high price of land
and a low interest rate should go hand in hand, so that if the peasant
paid a high price for the land in consequence of a low interest rate,
the same low rate of interest should also secure his working capital for
him on easy credit terms. But in reality, things turn out differently
when peasant proprietorship of land parcels is the prevailing form. In
the first place, the general laws of credit are not adapted to the farmer,
since these laws presuppose a capitalist as the producer. Secondly,
where proprietorship of land parcels predominates—we are not re-
ferring to colonies here—and the small peasant constitutes the back-
bone of the nation, the formation of capital, i.e., social reproduction,
is relatively weak, and still weaker is the formation of loanable money
capital, in the sense previously elaborated. This presupposes the con-
centration and existence of a class of idle rich capitalists (Massie).4
Thirdly, here where the ownership of the land is a necessary con-
dition for the existence of most producers, and an indispensable field of
investment for their capital, the price of land is raised independently
of the interest rate, and often in inverse ratio to it, through the pre-
pponderance of the demand for landed property over its supply. Land
sold in parcels brings a far higher price in such a case than when sold
in large tracts, because here the number of small buyers is large and
that of large buyers is small (Bandes Noires,8 Rubichonb; Newmanc).
For all these reasons, the price of land rises here with a relatively high
rate of interest. The relatively low interest, which the peasant derives

a J. Massie, An Essay on the Governing Causes of the Natural Rate of Interest, London, 1750,
pp. 23-24. - b See this volume, p. 794. - c F. W. Newman, Lectures on Political Economy,
here from the outlay of capital for the purchase of land (Mounier,\textsuperscript{a}) corresponds here, on the other side, to the high usurious interest rate which he himself has to pay to his mortgage creditors. The Irish system bears out the same thing, only in another form.

The price of land, this element foreign to production in itself, may therefore rise here to such a point that it makes production impossible (Dombasle\textsuperscript{b}).

The fact that the price of land plays such a role, that purchase and sale, the circulation of land as a commodity, develops to this degree, is practically a result of the development of the capitalist mode of production in so far as a commodity is here the general form of all products and all instruments of production. On the other hand, this development takes place only where the capitalist mode of production has a limited development and does not unfold all of its peculiarities, because this rests precisely upon the fact that agriculture is no longer, or not yet, subject to the capitalist mode of production, but rather to one handed down from extinct forms of society. The disadvantages of the capitalist mode of production, with its dependence of the producer upon the money price of his product, coincide here therefore with the disadvantage occasioned by the imperfect development of the capitalist mode of production. The peasant turns merchant and industrialist without the conditions enabling him to produce his products as commodities.

The conflict between the price of land as an element in the producers’ cost price and no element in the price of production of the product (even though the rent enters as a determining factor into the price of the agricultural product, the capitalised rent, which is advanced for 20 years or more, by no means enters as a determinant) is but one of the forms manifesting the general contradiction between private landownership and a rational agriculture, the normal social utilisation of the soil. But on the other hand, private landownership, and thereby expropriation of the direct producers from the land—private landownership by the one, which implies lack of ownership by others—is the basis of the capitalist mode of production.

Here, in small-scale agriculture, the price of land, a form and result of private landownership, appears as a barrier to production itself.

\textsuperscript{a} L. Mounier, \textit{De l'agriculture en France}, Paris, 1846. - \textsuperscript{b} C.J. Dombasle de, \textit{Annales agricoles de Roville ou mélanges d'agriculture, d'économie rurale et de législation agricole}, Paris, 1824-37.
In large-scale agriculture, and large estates operating on a capitalist basis, ownership likewise acts as a barrier, because it limits the tenant farmer in his productive investment of capital, which in the final analysis benefits not him, but the landlord. In both forms, exploitation and squandering of the vitality of the soil (apart from making exploitation dependent upon the accidental and unequal circumstances of individual producers rather than the attained level of social development) takes the place of conscious rational cultivation of the soil as eternal communal property, an inalienable condition for the existence and reproduction of a chain of successive generations of the human race. In the case of small property, this results from the lack of means and knowledge of applying the social labour productive power. In the case of large property, it results from the exploitation of such means for the most rapid enrichment of farmer and proprietor. In the case of both through dependence on the market price.

All critique of small landed property resolves itself in the final analysis into a criticism of private ownership as a barrier and hindrance to agriculture. And similarly all countercriticism of large landed property. In either case, of course, we leave aside all secondary political considerations. This barrier and hindrance, which are erected by all private landed property vis-à-vis agricultural production and the rational cultivation, maintenance and improvement of the soil itself, develop on both sides merely in different forms, and in wrangling over the specific forms of this evil its ultimate cause is forgotten.

Small landed property presupposes that the overwhelming majority of the population is rural, and that not social, but isolated labour predominates; and that, therefore, under such conditions wealth and development of reproduction, both of its material and spiritual prerequisites, are out of the question, and thereby also the prerequisites for rational cultivation. On the other hand, large landed property reduces the agricultural population to a constantly falling minimum, and confronts it with a constantly growing industrial population crowded together in large cities. It thereby creates conditions which cause an irreparable break in the coherence of social interchange prescribed by the natural laws of life. As a result, the vitality of the soil is squandered, and this prodigality is carried by commerce far beyond the borders of a particular state (Liebig).\footnote{Liebig, \textit{Die Chemie in ihrer Anwendung auf Agricultur und Physiologie}.}
While small landed property creates a class of barbarians standing halfway outside of society, a class combining all the crudeness of primitive forms of society with all the anguish and misery of civilised countries, large landed property undermines labour power in the last region, where its prime energy seeks refuge and stores up its strength as a reserve fund for the regeneration of the vital force of nations—on the land itself. Large-scale industry and large-scale mechanised agriculture work together. If originally distinguished by the fact that the former lays waste and destroys principally labour power, hence the natural force of human beings, whereas the latter more directly exhausts and ruins the natural vitality of the soil, they join hands in the further course of development in that the industrial system in the countryside also enervates the labourers, and industry and commerce on their part supply agriculture with the means for exhausting the soil.
Part VII
REVENUES AND THEIR SOURCES

Chapter XLVIII
THE TRINITY FORMULA

Capital — profit (profit of enterprise plus interest), land — ground rent, labour — wages, this is the trinity formula which comprises all the secrets of the social production process.

Furthermore, since as previously\(^a\) demonstrated interest appears as the specific characteristic product of capital and profit of enterprise on the contrary appears as wages independent of capital, the above trinity formula reduces itself more specifically to the following:

Capital — interest, land — ground rent, labour — wages, where profit, the specific characteristic form of surplus value belonging to the capitalist mode of production, is fortunately eliminated.

On closer examination of this economic trinity, we find the following:

First, the alleged sources of the annually available wealth belong to widely dissimilar spheres and are not at all analogous with one another. They have about the same relation to each other as lawyer's fees, red beets and music.

Capital, land, labour! However, capital is not a thing, but rather a definite social production relation, belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character. Capital is not the sum of the material and produced means of production. Capital is rather the means of

\(^{48}\) The following three fragments were found in different parts of the manuscript for Part VI.— F. E.

\(^a\) See this volume, Part 1, Ch. XXIII.
production transformed into capital, which in themselves are no more capital than gold or silver in itself is money. It is the means of production monopolised by a certain section of society, confronting living labour power as products and working conditions rendered independent of this very labour power, which are personified through this antithesis in capital. It is not merely the products of labourers turned into independent powers, products as rulers and buyers of their producers, but rather also the social forces and the future ... //? illegible// a form of this labour, which confront the labourers as properties of their products. Here, then, we have a definite and, at first glance, very mystical, social form of one of the factors in a historically produced social production process.

And now alongside of this we have the land, inorganic nature as such, *rudis indigestaque moles*,\(^b\) in all its primeval wildness. Value is labour. Therefore surplus value cannot be earth. Absolute fertility of the soil effects nothing more than the following: a certain quantity of labour produces a certain product — in accordance with the natural fertility of the soil. The difference in soil fertility causes the same quantities of labour and capital, hence the same value, to be manifested in different quantities of agricultural products; that is, causes these products to have different individual values. The equalisation of these individual values into market values is responsible for the fact that the

“ADVANTAGES OF FERTILE OVER INFERIOR SOIL ... ARE TRANSFERRED FROM THE CULTIVATOR OR CONSUMER TO THE LANDLORD” (Ricardo, *Principles*, p. 62).

And finally, as third party in this union, a mere ghost — “the” Labour, which is no more than an abstraction and taken by itself does not exist at all, or, if we take ..., //illegible//,\(^d\) the productive activity of human beings in general, by which they promote the interchange with Nature, divested not only of every social form and well-defined character, but even in its bare natural existence, independent of society, removed from all societies, and as an expression and confirmation of life which the still nonsocial man in general has in common with the one who is in any way social.

\(^a\) A later collation with the manuscript showed that the text reads as follows: “die Gesellschaftlichen Kräfte und Zusammenhängende Form dieser Arbeit” (the social forces of their labour and socialised form of this labour). - \(^b\) Ovid, *Metamorphoses*, Book I, 7. - \(^c\) F. Schiller, “Die Bürgschaft”. - \(^d\) As has been established by later reading of the manuscript, it reads here: “wenn wir das Gemeinte nehmen” (if we take that which is behind it).
II

Capital—interest; landed property, private ownership of the Earth, and, to be sure, modern and corresponding to the capitalist mode of production—rent; wage labour—wages. The connection between the sources of revenue is supposed to be represented in this form. Wage labour and landed property, like capital, are historically determined social forms; one of labour, the other of monopolised terrestrial globe, and indeed both forms corresponding to capital and belonging to the same economic formation of society.

The first striking thing about this formula is that side by side with capital, with this form of an element of production belonging to a definite mode of production, to a definite historical form of social process of production, side by side with an element of production amalgamated with and represented by a definite social form are indiscriminately placed: the land on the one hand and labour on the other, two elements of the real labour process, which in this material form are common to all modes of production, which are the material elements of every process of production and have nothing to do with its social form.

Secondly. In the formula: capital—interest, land—ground rent, labour—wages, capital, land and labour appear respectively as sources of interest (instead of profit), ground rent and wages, as their products, or fruits; the former are the basis, the latter the consequence, the former are the cause, the latter the effect; and indeed, in such a manner that each individual source is related to its product as to that which is ejected and produced by it. All the proceeds, interest (instead of profit), rent, and wages, are three components of the value of the products, i.e., generally speaking, components of value or expressed in money, certain money components, price components. The formula: capital—interest is now indeed the most meaningless formula of capital, but still one of its formulas. But how should land create value, i.e., a socially defined quantity of labour, and moreover that particular portion of the value of its own products which forms the rent? Land, e.g., takes part as an agent of production in creating a use value, a material product, wheat. But it has nothing to do with the production of the value of wheat. In so far as value is represented by wheat, the latter is merely considered as a definite quantity of objectified social labour, regardless of the particular substance in which this labour is manifested or of the particular use value of this sub-
Vulgar economy actually does no more than interpret, systematise and defend in doctrinaire fashion the conception of the agents of bourgeois production who are entrapped in bourgeois production relations. It should not astonish us, then, that vulgar economy feels particularly at home in the estranged outward appearances of economic relations in which these *prima facie* absurd and perfect contradictions appear and that these relations seem the more self-evident the more their internal relationships are concealed from it, although they are understandable to the popular mind. But all science would be superfluous if the outward appearance and the essence of things directly coincided. Thus, vulgar economy has not the slightest suspicion that the trinity which it takes as its point of departure, namely, land—rent, capital—interest, labour—wages or the price of labour, are *prima facie* three impossible combinations. First we have the use value *land*, which has no value, and the exchange value *rent*: so that a social relation conceived as a thing is made proportional to Nature, i. e., two incommensurable magnitudes are supposed to stand in a given ratio to one another. Then *capital—interest*. If capital is conceived as a certain sum of values represented independently by money, then it is *prima facie* nonsense to say that a certain value should be worth more than it is worth. It is precisely in the form: capital—interest that all intermediate links are eliminated, and capital is reduced to its
most general formula, which therefore in itself is also inexplicable and absurd. The vulgar economist prefers the formula capital—interest, with its occult quality of making a value unequal to itself, to the formula capital—profit, precisely for the reason that this already more nearly approaches actual capitalist relations. Then again, driven by the disturbing thought that 4 is not 5 and that 100 taler cannot possibly be 110 taler, he flees from capital as value to the material substance of capital; to its use value as a condition of production of labour, to machinery, raw materials, etc. Thus, he is able once more to substitute in place of the first incomprehensible relation, whereby 4 = 5, a wholly incommensurable one between a use value, a thing on one side, and a definite social production relation, surplus value, on the other, as in the case of landed property. As soon as the vulgar economist arrives at this incommensurable relation, everything becomes clear to him, and he no longer feels the need for further thought. For he has arrived precisely at the "rational" in bourgeois conception. Finally, labour—wages, or price of labour, is an expression, as shown in Book I, which prima facie contradicts the conception of value as well as of price — the latter generally being but a definite expression of value. And "price of labour" is just as irrational as a yellow logarithm. But here the vulgar economist is all the more satisfied, because he has gained the profound insight of the bourgeois, namely, that he pays money for labour, and since precisely the contradiction between the formula and the conception of value relieves him from all obligation to understand the latter.

We have seen that the capitalist process of production is a historically determined form of the social process of production in general. The latter is as much a production process of material conditions of human life as a process taking place under specific historical and economic production relations, producing and reproducing these production relations themselves, and thereby also the bearers of this process, their material conditions of existence and their mutual relations, i.e., their particular socio-economic form. For the aggregate of these relations, in which the agents of this production stand with respect to Nature and to one another, and in which they produce, is precisely society, considered from the standpoint of its economic

49 Beginning of Chapter XLVIII according to the manuscript.—F. E.
structure. Like all its predecessors, the capitalist process of production proceeds under definite material conditions, which are, however, simultaneously the bearers of definite social relations entered into by individuals in the process of reproducing their life. Those conditions, like these relations, are on the one hand prerequisites, on the other hand results and creations of the capitalist process of production; they are produced and reproduced by it. We saw also that capital—and the capitalist is merely capital personified and functions in the process of production solely as the agent of capital—in its corresponding social process of production, pumps a definite quantity of surplus labour out of the direct producers, or labourers; capital obtains this surplus labour without an equivalent, and in essence it always remains forced labour—no matter how much it may seem to result from free contractual agreement. This surplus labour appears as surplus value, and this surplus value exists as a surplus product. Surplus labour in general, as labour performed over and above the given requirements, must always remain. In the capitalist as well as in the slave system, etc., it merely assumes an antagonistic form and is supplemented by complete idleness of a stratum of society. A definite quantity of surplus labour is required as insurance against accidents, and by the necessary and progressive expansion of the process of reproduction in keeping with the development of the needs and the growth of population, which is called accumulation from the viewpoint of the capitalist. It is one of the civilising aspects of capital that it enforces this surplus labour in a manner and under conditions which are more advantageous to the development of the productive forces, social relations, and the creation of the elements for a new and higher form than under the preceding forms of slavery, serfdom, etc. Thus it gives rise to a stage, on the one hand, in which coercion and monopolisation of social development (including its material and intellectual advantages) by one portion of society at the expense of the other are eliminated; on the other hand, it creates the material means and embryonic conditions, making it possible in a higher form of society to combine this surplus labour with a greater reduction of time devoted to material labour in general. For, depending on the development of labour productivity, surplus labour may be large in a small total working day, and relatively small in a large total working day. If the necessary labour time = 3 and the surplus labour = 3, then the total working day = 6 and the rate of surplus labour = 100%. If the necessary labour = 9 and the surplus labour = 3, then the total working
day = 12 and the rate of surplus labour only = \(33\frac{1}{3}\)%. In that case, it depends upon the labour productivity how much use value shall be produced in a definite time, hence also in a definite surplus labour time. The actual wealth of society, and the possibility of constantly expanding its reproduction process, therefore, do not depend upon the duration of surplus labour, but upon its productivity and the more or less copious conditions of production under which it is performed. In fact, the realm of freedom actually begins only where labour which is determined by necessity and mundane considerations ceases; thus in the very nature of things it lies beyond the sphere of actual material production. Just as the savage must wrestle with Nature to satisfy his wants, to maintain and reproduce life, so must civilised man, and he must do so in all social formations and under all possible modes of production. With his development this realm of physical necessity expands as a result of his wants; but, at the same time, the forces of production which satisfy these wants also increase. Freedom in this field can only consist in socialised man, the associated producers, rationally regulating their interchange with Nature, bringing it under their common control, instead of being ruled by it as by the blind forces of Nature; and achieving this with the least expenditure of energy and under conditions most favourable to, and worthy of, their human nature. But it nonetheless still remains a realm of necessity. Beyond it begins that development of human energy which is an end in itself, the true realm of freedom, which, however, can blossom forth only with this realm of necessity as its basis. The shortening of the working day is its basic prerequisite.

In a capitalist society, this surplus value, or this surplus product (leaving aside chance fluctuations in its distribution and considering only its regulating law, its standardising limits), is divided among capitalists as dividends proportionate to the share of the social capital each holds. In this form surplus value appears as average profit which falls to the share of capital, an average profit which in turn divides into profit of enterprise and interest, and which under these two categories may fall into the laps of different kinds of capitalists. This appropriation and distribution of surplus value, or surplus product, on the part of capital, however, has its barrier in landed property. Just as the operating capitalist pumps surplus labour, and thereby surplus value and surplus product in the form of profit, out of the labourer, so the landlord in turn pumps a portion of this surplus value, or surplus
product, out of the capitalist in the form of rent in accordance with
the laws already elaborated.

Hence, when speaking here of profit as that portion of surplus
value falling to the share of capital, we mean average profit (equal
to profit of enterprise plus interest) which is already limited by the
deduction of rent from the aggregate profit (identical in mass with
aggregate surplus value); the deduction of rent is assumed. Profit of
capital (profit of enterprise plus interest) and ground rent are thus
no more than particular components of surplus value, categories by
which surplus value is differentiated depending on whether it falls to
the share of capital or landed property, headings which in no whit
however alter its nature. Added together, these form the sum of
social surplus value. Capital pumps the surplus labour, which is
represented by surplus value and surplus product, directly out of the
labourers. Thus, in this sense, it may be regarded as the producer of
surplus value. Landed property has nothing to do with the actual
process of production. Its role is confined to transferring a portion of
the produced surplus value from the pockets of capital to its own.
However, the landlord plays a role in the capitalist process of produc-
tion not merely through the pressure he exerts upon capital, nor
merely because large landed property is a prerequisite and condition
of capitalist production since it is a prerequisite and condition of the
expropriation of the labourer from the conditions of labour, but par-
ticularly because he appears as the personification of one of the most
essential conditions of production.

Finally, the labourer in the capacity of owner and seller of his indi-
vidual labour power receives a portion of the product under the label
of wages, in which that portion of his labour appears which we
call necessary labour, i.e., that required for the maintenance and
reproduction of this labour power, be the conditions of this
maintenance and reproduction scanty or bountiful, favourable or
unfavourable.

Whatever may be the disparity of these relations in other respects,
they all have this in common: Capital yields a profit year after year to
the capitalist, land a ground rent to the landlord, and labour power,
under normal conditions and so long as it remains useful labour
power, a wage to the labourer. These three portions of total value an-
nually produced, and the corresponding portions of the annually
created total product (leaving aside for the present any considera-
tion of accumulation), may be annually consumed by their respective
owners, without exhausting the source of their reproduction. They are like the annually consumable fruits of a perennial tree, or rather three trees; they form the annual incomes of three classes, capitalist, landowner and labourer, revenues distributed by the functioning capitalist in his capacity as direct extorter of surplus labour and employer of labour in general. Thus, capital appears to the capitalist, land to the landlord, and labour power, or rather labour itself, to the labourer (since he actually sells labour power only as it is manifested, and since the price of labour power, as previously shown, inevitably appears as the prices of labour under the capitalist mode of production), as three different sources of their specific revenues, namely, profit, ground rent and wages. They are really so in the sense that capital is a perennial pumping-machine of surplus labour for the capitalist, land a perennial magnet for the landlord, attracting a portion of the surplus value pumped out by capital, and finally, labour the constantly self-renewing condition and ever self-renewing means of acquiring under the title of wages a portion of the value created by the labourer and thus a part of the social product measured by this portion of value, i.e., the necessities of life. They are so, furthermore, in the sense that capital fixes a portion of the value and thereby of the product of the annual labour in the form of profit; landed property fixes another portion in the form of rent; and wage labour fixes a third portion in the form of wages, and precisely by this transformation converts them into revenues of the capitalist, landowner, and labourer, without, however, creating the substance itself which is transformed into these various categories. The distribution rather presupposes the existence of this substance, namely, the total value of the annual product which is nothing but objectified social labour. Nevertheless, it is not in this form that the matter appears to the agents of production, the bearers of the various functions in the production process, but rather in a distorted form. Why this takes place will be developed in the further course of our analysis. Capital, landed property and labour appear to those agents of production as three different, independent sources, from which as such there arise three different components of the annually produced value — and thereby the product in which it exists; thus, from which there arise not merely the different forms of this value as revenues falling to the share of particular factors in the social process of production, but from which this value itself arises, and thereby the substance of these forms of revenue.

//Here one folio sheet of the manuscript is missing.//
... Differential rent is bound up with the relative soil fertility, in other words, with properties arising from the soil as such. But, in the first place, in so far as it is based upon the different individual values of the products of different soil types, it is but the determination just mentioned; secondly, in so far as it is based upon the regulating general market value, which differs from these individual values, it is a social law carried through by means of competition, which has to do neither with the soil nor the different degrees of its fertility.

It might seem as if a rational relation were expressed at least in "labour — wages". But this is no more the case than with "land — ground rent". In so far as labour is value-creating, and is manifested in the value of commodities, it has nothing to do with the distribution of this value among various categories. In so far as it has the specifically social character of wage labour, it is not value-creating. It has already been shown in general that wages of labour, or price of labour, is but an irrational expression for the value, or price of labour power; and the specific social conditions, under which this labour power is sold, have nothing to do with labour as a general agent in production. Labour is also objectified in that value component of a commodity which as wages forms the price of labour power; it creates this portion just as much as the other portions of the product; but it is objectified in this portion no more and no differently than in the portions forming rent or profit. And, in general, when we establish labour as value-creating, we do not consider it in its concrete form as a condition of production, but in its social delimitation which differs from that of wage labour.

Even the expression "capital — profit" is incorrect here. If capital is viewed in the only relation in which it produces surplus value, namely, its relation to the labourer whereby it extorts surplus labour by compulsion exerted upon labour power, i.e., the wage labourer, then this surplus value comprises, outside of profit (profit of enterprise plus interest), also rent, in short, the entire undivided surplus value. Here, on the other hand, as a source of revenue, it is placed only in relation to that portion falling to the share of the capitalist. This is not the surplus value which it extracts generally but only that portion which it extracts for the capitalist. Still more does all connection vanish no sooner the formula is transformed into "capital — interest".

If we at first considered the disparity of the above three sources, we now note that their products, their offshoots, or revenues, on the
other hand, all belong to the same sphere, that of value. However, this is compensated for (this relation not only between incommensurable magnitudes, but also between wholly unlike, mutually unrelated, and noncomparable things) in that capital, like land and labour, is simply considered as a material substance, that is, simply as a produced means of production, and thus is abstracted both as a relation to the labourer and as value.

Thirdly, if understood in this way, the formula, capital — interest (profit), land — rent, labour — wages, presents a uniform and symmetrical incongruity. In fact, since wage labour does not appear as a socially determined form of labour, but rather all labour appears by its nature as wage labour (thus appearing to those in the grip of capitalist production relations), the definite specific social forms assumed by the objective conditions of labour — the produced means of production and the land — with respect to wage labour (just as they, in turn, conversely presuppose wage labour), directly coincide with the material existence of these conditions of labour or with the form possessed by them generally in the actual labour process, independent of its concrete historically determined social form, or indeed independent of any social form. The changed form of the conditions of labour, i.e., alienated from labour and confronting it independently, whereby the produced means of production are thus transformed into capital, and the land into monopolised land, or landed property — this form belonging to a definite historical period thereby coincides with the existence and function of the produced means of production and of the land in the process of production in general. These means of production are in themselves capital by nature; capital is merely an "economic appellation" for these means of production; and so, in itself land is by nature the earth monopolised by a certain number of landowners. Just as products confront the producer as an independent force in capital and capitalists — who actually are but the personification of capital — so land becomes personified in the landlord and likewise gets on its hind legs to demand, as an independent force, its share of the product created with its help. Thus, not the land receives its due portion of the product for the restoration and improvement of its productivity, but instead the landlord takes a share of this product to chaffer away or squander. It is clear that capital presupposes labour as wage labour. But it is just as clear that if labour as wage labour is taken as the point of departure, so that the identity of labour in general with wage labour appears to be self-evident, then
capital and monopolised land must also appear as the natural form of the conditions of labour in relation to labour in general. To be capital, then, appears as the natural form of the means of labour and thereby as the purely real character arising from their function in the labour process in general. Capital and produced means of production thus become identical terms. Similarly, land and land monopolised through private ownership become identical. The means of labour as such, which are by nature capital, thus become the source of profit, much as the land as such becomes the source of rent.

Labour as such, in its simple capacity as purposive productive activity, relates to the means of production, not in their social determinate form, but rather in their concrete substance, as material and means of labour; the latter likewise are distinguished from one another merely materially, as use values, i.e., the land as unproduced, the others as produced, means of labour. If, then, labour coincides with wage labour, so does the particular social form in which the conditions of labour confront labour coincide with their material existence. The means of labour as such are then capital, and the land as such is landed property. The formal independence of these conditions of labour in relation to labour, the unique form of this independence with respect to wage labour, is then a property inseparable from them as things, as material conditions of production, an inherent, immanent, intrinsic character of them as elements of production. Their definite social character in the process of capitalist production bearing the stamp of a definite historical epoch is a natural, and intrinsic substantive character belonging to them, as it were, from time immemorial, as elements of the production process. Therefore, the respective part played by the earth as the original field of activity of labour, as the realm of forces of Nature, as the pre-existing arsenal of all objects of labour, and the other respective part played by the produced means of production (instruments, raw materials, etc.) in the general process of production, must seem to be expressed in the respective shares claimed by them as capital and landed property, i.e., which fall to the share of their social representatives in the form of profit (interest) and rent, like to the labourer — the part his labour plays in the process of production is expressed in wages. Rent, profit and wages thus seem to grow out of the role played by the land, produced means of production, and labour in the simple labour process, even when we consider this labour process as one carried on merely between man and Nature, leaving aside any historical determination. It is merely the same
thing again, in another form, when it is argued: the product in which a wage labourer’s labour for himself is manifested, his proceeds or revenue, is simply wages, the portion of value (and thereby the social product measured by this value) which his wages represent. Thus, if wage labour coincides with labour generally, then so do wages with the produce of labour, and the value portion representing wages with the value created by labour generally. But in this way the other portions of value, profit and rent, also appear independent with respect to wages, and must arise from sources of their own, which are specifically different and independent of labour; they must arise from the participating elements of production, to the share of whose owners they fall; i.e., profit arises from the means of production, the material elements of capital, and rent arises from the land, or Nature, as represented by the landlord (Roscher).a

Landed property, capital and wage labour are thus transformed from sources of revenue — in the sense that capital attracts to the capitalist, in the form of profit, a portion of the surplus value extracted by him from labour, that monopoly in land attracts for the landlord another portion in the form of rent; and that labour grants the labourer the remaining portion of value in the form of wages — from sources by means of which one portion of value is transformed into the form of profit, another into the form of rent, and a third into the form of wages — into actual sources from which these value portions and respective portions of the product in which they exist, or for which they are exchangeable, arise themselves, and from which, therefore, in the final analysis, the value of the product itself arises.501

In the case of the simplest categories of the capitalist mode of production, and even of commodity production, in the case of commodities and money, we have already pointed out the mystifying character that transforms the social relations, for which the material elements of wealth serve as bearers in production, into properties of these things themselves (commodities) and still more pronouncedly transforms

501 Wages, profit, and rent are the three original sources of all revenue, as well as of all exchangeable value (A. Smith).b90 — It is thus that the causes of material production are at the same time the sources of the original revenues which exist (Storch, I, p. 259).c

a W. Roscher, System der Volkswirtschaft, Band I, Stuttgart und Augsburg, 1858. -
c See Cours d’économie politique etc. Quoted in French.
the production relation itself into a thing (money). All forms of society, in so far as they reach the stage of commodity production and money circulation, take part in this perversion. But under the capitalist mode of production and in the case of capital, which forms its dominant category, its determining production relation, this enchanted and perverted world develops still more. If one considers capital, to begin with, in the actual process of production as a means of extracting surplus labour, then this relationship is still very simple, and the actual connection impresses itself upon the bearers of this process, the capitalists themselves, and remains in their consciousness. The violent struggle over the limits of the working day demonstrates this strikingly. But even within this nonmediated sphere, the sphere of direct action between labour and capital, matters do not rest in this simplicity. With the development of relative surplus value in the actual specifically capitalist mode of production, whereby the productive powers of social labour are developed, these productive powers and the social interrelations of labour in the direct labour process seem transferred from labour to capital. Capital thus becomes a very mystic being since all of labour's social productive forces appear to be due to capital, rather than labour as such, and seem to issue from the womb of capital itself. Then the process of circulation intervenes, with its changes of substance and form, on which all parts of capital, even agricultural capital, devolve to the same degree that the specifically capitalist mode of production develops. This is a sphere where the relations under which value is originally produced are pushed completely into the background. In the direct process of production the capitalist already acts simultaneously as producer of commodities and manager of commodity production. Hence this process of production appears to him by no means simply as a process of producing surplus value. But whatever may be the surplus value extorted by capital in the actual production process and appearing in commodities, the value and surplus value contained in the commodities must first be realised in the circulation process. And both the restitution of the values advanced in production and, particularly, the surplus value contained in the commodities seem not merely to be realised in the circulation, but actually to arise from it; an appearance which is especially reinforced by two circumstances: first, the profit made in selling depends on cheating, deceit, inside knowledge, skill and a thousand favourable market opportunities; and then by the circumstance that added here to labour time is a second determining
element—time of circulation. This acts, in fact, only as a negative barrier against the formation of value and surplus value, but it has the appearance of being as positive a basis as labour itself and of introducing a determining element that is independent of labour and resulting from the nature of capital. In Book II we naturally had to present this sphere of circulation merely with reference to the form determinations which it created and to demonstrate the further development of the structure of capital taking place in this sphere. But in reality this sphere is the sphere of competition, which, considered in each individual case, is dominated by chance; where, then, the inner law, which prevails in these accidents and regulates them, is only visible when these accidents are grouped together in large numbers, where it remains, therefore, invisible and unintelligible to the individual agents in production. But furthermore: the actual process of production, as a unity of the direct production process and the circulation process, gives rise to new formations, in which the vein of internal connections is increasingly lost, the production relations are rendered independent of one another, and the component values become ossified into forms independent of one another.

The conversion of surplus value into profit, as we have seen, is determined as much by the process of circulation as by the process of production. Surplus value, in the form of profit, is no longer related back to that portion of capital invested in labour from which it arises, but to the total capital. The rate of profit is regulated by laws of its own, which permit, or even require, it to change while the rate of surplus value remains unaltered. All this obscures more and more the true nature of surplus value and thus the actual mechanism of capital. Still more is this achieved through the transformation of profit into average profit and of values into prices of production, into the regulating averages of market prices. A complicated social process intervenes here, the equalisation process of capitals, which divorces the relative average prices of the commodities from their values, as well as the average profits in the various spheres of production (quite aside from the individual investments of capital in each particular sphere of production) from the actual exploitation of labour by the particular capitals. Not only does it appear so, but it is true in fact that the average price of commodities differs from their value, thus from the labour realised in them, and the average profit of a particular capital differs from the surplus value which this capital has extracted from the labourers employed by it. The value of commodities appears, di-
rectly, solely in the influence of fluctuating productivity of labour upon the fall and rise of the prices of production, upon their movement and not upon their ultimate limits. Profit seems to be determined only secondarily by direct exploitation of labour, in so far as the latter permits the capitalist to realise a profit deviating from the average profit at the regulating market prices, which apparently prevail independent of such exploitation. Normal average profits themselves seem immanent in capital and independent of exploitation; abnormal exploitation, or even average exploitation under favourable, exceptional conditions, seems to determine only the deviations from average profit, not this profit itself. The division of profit into profit of enterprise and interest (not to mention the intervention of commercial profit and profit from money dealing, which are founded upon circulation and appear to arise completely from it, and not from the process of production itself) consummates the individualisation of the form of surplus value, the ossification of its form as opposed to its substance, its essence. One portion of profit, as opposed to the other, separates itself entirely from the relationship of capital as such and appears as arising not out of the function of exploiting wage labour, but out of the wage labour of the capitalist himself. In contrast thereto, interest then seems to be independent both of the labourer’s wage labour and the capitalist’s own labour, and to arise from capital as its own independent source. If capital originally appeared on the surface of circulation as a fetishism of capital, as a value-creating value, so it now appears again in the form of interest-bearing capital, as in its most estranged and characteristic form. Wherefore also the formula capital — interest, as the third to land — rent and labour — wages, is much more consistent than capital — profit, since in profit there still remains a recollection of its origin, which is not only extinguished in interest, but is also placed in a form thoroughly antithetical to this origin.

Finally, capital as an independent source of surplus value is joined by landed property, which acts as a barrier to average profit and transfers a portion of surplus value to a class that neither works itself, nor directly exploits labour, nor can find morally edifying rationalisations, as in the case of interest-bearing capital, e.g., risk and sacrifice of lending capital to others. Since here a part of the surplus value seems to be bound up directly with a natural element, the land, rather than with social relations, the form of mutual estrangement and ossification of the various parts of surplus value is completed, the
inner connection completely disrupted, and its source entirely buried, precisely because the relations of production, which are bound to the various material elements of the production process, have been rendered mutually independent.

In capital—profit, or still better capital—interest, land—rent, labour—wages, in this economic trinity represented as the connection between the component parts of value and wealth in general and its sources, we have the complete mystification of the capitalist mode of production, the conversion of social relations into things, the direct coalescence of the material production relations with their historical and social determination. It is an enchanted, perverted, topsy-turvy world, in which Monsieur le Capital and Madame la Terre do their ghost-walking as social characters and at the same time directly as mere things. It is the great merit of classical economy to have destroyed this false appearance and illusion, this mutual independence and ossification of the various social elements of wealth, this personification of things and conversion of production relations into entities, this religion of everyday life. It did so by reducing interest to a portion of profit, and rent to the surplus above average profit, so that both of them converge in surplus value; and by representing the process of circulation as a mere metamorphosis of forms, and finally reducing value and surplus value of commodities to labour in the direct production process. Nevertheless even the best spokesmen of classical economy remain more or less in the grip of the world of illusion which their criticism had dissolved, as cannot be otherwise from a bourgeois standpoint, and thus they all fall more or less into inconsistencies, half-truths and unsolved contradictions. On the other hand, it is just as natural for the actual agents of production to feel completely at home in these estranged and irrational forms of capital—interest, land—rent, labour—wages, since these are precisely the forms of illusion in which they move about and find their daily occupation. It is therefore just as natural that vulgar economy, which is no more than a didactic, more or less dogmatic, translation of everyday conceptions of the actual agents of production, and which arranges them in a certain rational order, should see precisely in this trinity, which is devoid of all inner connection, the natural and indubitable lofty basis for its shallow pompousness. This formula simultaneously corresponds to the interests of the ruling classes by proclaiming the physical necessity and eternal justification of their sources of revenue and elevating them to a dogma.
In our description of how production relations are converted into entities and rendered independent in relation to the agents of production, we leave aside the manner in which the interrelations, due to the world market, its conjunctures, movements of market prices, periods of credit, industrial and commercial cycles, alternations of prosperity and crisis, appear to them as overwhelming natural laws that irresistibly enforce their will over them, and confront them as blind necessity. We leave this aside because the actual movement of competition belongs beyond our scope, and we need present only the inner organisation of the capitalist mode of production, in its ideal average, as it were.

In preceding forms of society this economic mystification arose principally with respect to money and interest-bearing capital. In the nature of things it is excluded, in the first place, where production for the use value, for immediate personal requirements, predominates; and secondly, where slavery or serfdom form the broad foundation of social production, as in antiquity and during the Middle Ages. Here, the domination of the producers by the conditions of production is concealed by the relations of dominion and servitude, which appear and are evident as the direct motive power of the process of production. In early communal societies in which primitive communism prevailed, and even in the ancient communal towns, it was this communal society itself with its conditions which appeared as the basis of production, and its reproduction appeared as its ultimate purpose. Even in the medieval guild system neither capital nor labour appear untrammelled, but their relations are rather defined by the corporate rules, and by the same associated relations, and corresponding conceptions of professional duty, craftsmanship, etc. Only when the capitalist mode of production—a—

Chapter XLIX

Concerning the Analysis
Of the Process of Production

For the purposes of the following analysis we may leave out of consideration the distinction between price of production and value, since this distinction disappears altogether when, as here, the value of

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a The manuscript breaks off here.
the total annual product of labour is considered, i.e., the product of the total social capital.

Profit (profit of enterprise plus interest) and rent are nothing but peculiar forms assumed by particular parts of the surplus value of commodities. The magnitude of surplus value is the limit of the total size of the parts into which it may be divided. Average profit plus rent are, therefore, equal to the surplus value. It is possible for part of the surplus labour, and thus surplus value, contained in the commodities, not to take part directly in the equalisation of an average profit, so that part of the commodity value is not expressed at all in its price. But first, this is balanced either by the fact that the rate of profit increases, when the commodities sold below their value form an element of the constant capital, or by profit and rent being represented by a larger product, when commodities sold below their value enter into the portion of value consumed as revenue in the form of articles for individual consumption. Secondly, this is eliminated in the average movement. At any rate, even if a portion of surplus value not expressed in the price of the commodity is lost for the price formation, the sum of average profit plus rent in its normal form can never be larger than the total surplus value, although it may be smaller. Its normal form presupposes wages corresponding to the value of labour power. Even monopoly rent, in so far as it is not a deduction from wages, i.e., does not constitute a special category, must always indirectly be a part of the surplus value. If it is not part of the price excess above the price of production of the commodity itself, of which it is a constituent part (as in differential rent), or an excess portion of the surplus value of the commodity itself, of which it is a constituent part, above that portion of its own surplus value measured by the average profit (as in absolute rent), it is at least part of the surplus value of other commodities, i.e., of commodities which are exchanged for this commodity having a monopoly price. The sum of average profit plus ground rent can never be greater than the magnitude of which they are components and which exists before this division. It is therefore immaterial for our discussion whether the entire surplus value of the commodities, i.e., all the surplus labour contained in the commodities, is realised in their price or not. The surplus labour is not entirely realised if only for the reason that due to a continual change in the amount of labour socially necessary to produce a certain commodity, resulting from the constant change in the productiveness of labour, some commodities are always produced under abnormal conditions
and must, therefore, be sold below their individual value. At any rate, profit plus rent equal the total realised surplus value (surplus labour), and for purposes of this discussion the realised surplus value may be equated to all surplus value; for profit and rent are realised surplus value, or, generally speaking, the surplus value which passes into the prices of commodities, thus in practice all the surplus value forming a constituent part of this price.

On the other hand, wages, which form the third specific form of revenue, are always equal to the variable component part of capital, i.e., the component part which is laid out in purchasing living labour power, paying labourers rather than in means of labour. (The labour which is paid in the expenditure of revenue is itself paid in wages, profit, or rent, and therefore does not form any value portion of commodities by which it is paid. Hence it is not considered in the analysis of commodity value and of the component parts into which it is divided.) It is the objectification of that portion of the total working day of the labourer in which the value of variable capital and thus the price of labour is reproduced; that portion of commodity value in which the labourer reproduces the value of his own labour power, or the price of his labour. The total working day of the labourer is divided into two parts. One portion in which he performs the amount of labour necessary to reproduce the value of his own means of subsistence; the paid portion of his total labour, the portion necessary for his own maintenance and reproduction. The entire remaining portion of the working day, the entire excess quantity of labour performed above the value of the labour realised in his wages, is surplus labour, unpaid labour, represented in the surplus value of his total commodity production (and thus in an excess quantity of commodities), surplus value which in turn is divided into differently named parts, into profit (profit of enterprise plus interest) and rent.

The entire value portion of commodities, then, in which the total labour of the labourers added during one day, or one year, is realised, the total value of the annual product, created by this labour, is divided into the value of wages, into profit and into rent. For this total labour is divided into necessary labour, by which the labourer creates that value portion of the product with which he is himself paid, that is, his wages, and into unpaid surplus labour, by which he creates that value portion of the product which represents surplus value and which is later divided into profit and rent. Aside from this labour, the labourer performs no labour, and aside from the total value of
the product, which assumes the forms of wages, profit and rent, he creates no value. The value of the annual product, in which the new labour added by the labourer during the year is incorporated, is equal to the wage, or the value of the variable capital plus the surplus value, which in turn is divided into the forms of profit and rent.

The entire value portion of the annual product, then, which the labourer creates in the course of the year, is expressed in the annual value sum of the three revenues, the value of wages, profit, and rent. Evidently, therefore, the value of the constant portion of capital is not reproduced in the annually created value of product, for the wages are only equal to the value of the variable portion of capital advanced in production, and rent and profit are only equal to the surplus value, the excess of value produced above the total value of advanced capital, which equals the value of the constant capital plus the value of the variable capital.

It is completely irrelevant to the problem to be solved here that a portion of the surplus value converted into the form of profit and rent is not consumed as revenue, but is accumulated. That portion which is saved up as an accumulation fund serves to create new, additional capital, but not to replace the old capital, be it the component part of old capital laid out for labour power or for means of labour. We may therefore assume here, for the sake of simplicity, that the revenue passes wholly into individual consumption. The difficulty is twofold. On the one hand, the value of the annual product, in which the revenues, wages, profit and rent, are consumed, contains a portion of value equal to the portion of value of constant capital used up in it. It contains this portion of value in addition to that portion which resolves itself into wages and that which resolves itself into profit and rent. Its value is therefore = wages + profit + rent + C (its constant portion of value). How can an annually produced value, which only = wages + profit + rent, buy a product the value of which = (wages + profit + rent) + C? How can the annually produced value buy a product which has a higher value than its own?

On the other hand, if we leave aside that portion of constant capital which did not pass over into the product, and which therefore continues to exist, although with reduced value, as before the annual production of commodities; in other words, temporarily leaving out of consideration the employed, but not consumed, fixed capital, then
the constant portion of advanced capital is seen to have been wholly transferred to the new product in the form of raw and auxiliary materials, whereas a part of the means of labour has been wholly consumed and another part only partially, and thus only a part of its value has been consumed in production. This entire portion of constant capital consumed in production must be replaced in kind. Assuming all other circumstances, particularly the productive power of labour, to remain unchanged, this portion requires the same amount of labour for its replacement as before, i. e., it must be replaced by an equivalent value. If not, then reproduction itself cannot take place on the former scale. But who is obliged to perform this labour, and who does perform it?

As to the first difficulty: Who is obliged to pay for the constant portion of value contained in the product, and with what? — It is assumed that the value of constant capital consumed in production reappears as a part of the value of the product. This does not contradict the assumptions of the second difficulty. For it has already been demonstrated in Book I (Kap. V) ("The Labour Process and the Process of Producing Surplus Value") how the old value remains simultaneously preserved in the product through the mere addition of new labour, although this does not reproduce the old value and does no more than add to it, creates merely additional value; but that this results from labour, not in so far as it is value-creating, i. e., labour in general, but in its function as definite productive labour. Therefore, no additional labour was necessary to preserve the value of the constant portion in the product in which the revenue, i. e., the entire value created during the year, is expended. But to be sure, new additional labour is required to replace the value and use value of constant capital consumed during the preceding year, without the replacement of which no reproduction at all is possible.

All newly added labour is represented in the value newly created during the year, and this in turn is divided into the three revenues: wages, profit and rent. — Thus, on the one hand, no excess social labour remains for the replacement of the consumed constant capital, which must be replaced partially in kind and according to its value, and partially merely according to its value (for pure wear and tear of fixed capital). On the other hand, the value annually created by labour, divided into wages, profit and rent, and to be expended in this form, appears not to suffice to pay for, or buy, the constant por-
tion of capital, which must be contained, outside their own value, in the annual product.

It is seen that the problem presented here has already been solved in the consideration of reproduction of the total social capital — Book II, Part III. We return to it here, in the first place, because surplus value had not been developed there in its revenue forms: profit (profit of enterprise plus interest) and rent, and could not, therefore, be treated in these forms; and then, also because precisely in the form of wages, profit and rent there is contained an incredible blunder in analysis, which pervades all political economy since Adam Smith.

We divided all capital there into two big classes: Class I, producing means of production, and Class II, producing articles of individual consumption. The fact that certain products may serve equally well both for personal consumption and as means of production (a horse, grain, etc.) does not invalidate the absolute correctness of this division in any way. It is actually no hypothesis, but merely an expression of fact. Take the annual product of a country. One portion of the product, whatever its ability to serve as means of production, passes over into individual consumption. It is the product for which wages, profit and rent are expended. This product is the product of a definite department of the social capital. It is possible that this same capital may also produce products belonging to Class I. In so far as it does so, it is not the portion of this capital consumed in the products of Class II, products belonging actually to individual consumption, which supplies the productively consumed products belonging to Class I. This entire product II, which passes into individual consumption, and for which therefore the revenue is spent, is the existent form of the capital consumed in it plus the produced surplus. It is thus the product of a capital invested solely in the production of articles of consumption. And in the same way Department I of the annual product, which serves as means of reproduction — raw materials and instruments of labour — whatever capacity this product may otherwise possess naturaliter to serve as means of consumption, is the product of a capital invested solely in the production of means of production. By far the greater part of products forming constant capital exists also materially in a form in which it cannot pass into individual consumption. In so far as this could be done, e. g., in so far as a farmer could eat his seed-corn, butcher his draught animals, etc., the economic barrier works the same for him as if this portion did not exist in consumable form.
As already indicated, we leave out of consideration in both classes the fixed portion of constant capital, which continues to exist in kind and, so far as its value is concerned, independently of the annual product of both classes.

In Class II, for the products of which wages, profit and rent are expended, in short, the revenues consumed, the product itself consists of three components so far as its value is concerned. One component is equal to the value of the constant portion of capital consumed in production; a second component is equal to the value of the variable advanced capital laid out in wages; finally, a third component is equal to the produced surplus value, thus = profit + rent. The first component of the product of Class II, the value of the constant portion of capital, can be consumed neither by the capitalist of Class II, nor by the labourers of this class, nor by the landowners. It forms no part of their revenues, but must be replaced in kind and must be sold for this to occur. On the other hand, the other two components of this product are equal to the value of the revenues created in this class, = wages + profit + rent.

In Class I the product consists of the same constituents, as regards form. But that part which here forms revenue, wages + profit + rent, in short, the variable portion of capital + surplus value, is not consumed here in the natural form of products of this Class I, but in products of Class II. The value of the revenues of Class I must, therefore, be consumed in that portion of products of Class II which forms the constant capital of II to be replaced. The portion of the product of Class II which must replace its constant capital is consumed in its natural form by the labourers, capitalists and landlords of Class I. They spend their revenue for this product of II. On the other hand, the product of I, to the extent that it represents a revenue of Class I, is productively consumed in its natural form by Class II, whose constant capital it replaces in kind. Finally, the used-up constant portion of capital of Class I is replaced out of the very products of this class, which consist precisely of means of labour, raw and auxiliary materials, etc., partly through exchange by capitalists of I among themselves, partly so that some of these capitalists can directly use their own product once more as means of production.

Let us take the previous scheme (Book II, Chapter XX, II) for simple reproduction:
I. \(4,000_c + 1,000_v + 1,000_s = 6,000\)
II. \(2,000_c + 500_v + 500_s = 3,000\) = 9,000.

According to this, the producers and landlords of II consume 500\(v\) + 500\(s\) = 1,000 as revenue; 2,000\(c\) remains to be replaced. This is consumed by the labourers, capitalists and those who draw rent from I, whose income = 1,000\(v\) + 1,000\(s\) = 2,000. The consumed product of II is consumed as revenue by I, and the portion of the revenue of I representing an unconsumable product is consumed as constant capital by II. It remains then to account for the 4,000\(c\) of I. This is replaced out of the product of I itself, which = 6,000, or rather = 6,000 - 2,000; for these 2,000 have already been converted into constant capital for II. It should be noted, of course, that these numbers have been chosen arbitrarily, and so the relation between the value of the revenues of I and the value of the constant capital of II appears arbitrary. It is evident, however, that so far as the process of reproduction is normal and takes place under otherwise equal circumstances, i.e., leaving aside the accumulation, the sum of the values of wages, profit and rent in Class I must equal the value of the constant portion of capital of Class II. Otherwise either Class II will not be able to replace its constant capital, or Class I will not be able to convert its revenue from unconsumable into consumable form.

Thus, the value of the annual commodity product, just like the value of the commodity product produced by some particular investment of capital, and like the value of any individual commodity, resolves itself into two component parts: A, which replaces the value of the advanced constant capital, and B, which is represented in the form of revenue — wages, profit and rent. The latter component part of value, B, is counterposed to the former A, in so far as A, under otherwise equal circumstances: 1) never assumes the form of revenue and 2) always flows back in the form of capital, and indeed constant capital. The other component, B, however, carries within itself, in turn, an antithesis. Profit and rent have this in common with wages: all three are forms of revenue. Nevertheless they differ essentially in that profit and rent represent surplus value, i.e., unpaid labour, whereas wages represent paid labour. The portion of the value of the product which represents wages expended thus replaces wages, and, under the conditions assumed by us, where reproduction takes place on the same scale and under the same conditions, is again reconver-
ed into wages, flows back first as variable capital, as a component of the capital that must be advanced anew for reproduction. This portion has a two-fold function. It exists first in the form of capital and is exchanged as such for labour power. In the hands of the labourer, it is transformed into revenue which he draws out of the sale of his labour power, is converted as revenue into means of subsistence and consumed. This double process is revealed through the mediation of money circulation. The variable capital is advanced in money, paid out as wages. This is its first function as capital. It is exchanged for labour power and transformed into the manifestation of this labour power, into labour. This is the process as regards the capitalist. Secondly, however: with this money the labourers buy a part of the commodities produced by them, which is measured by this money, and is consumed by them as revenue. If we imagine the circulation of money to be eliminated, then a part of the labourer’s product is in the hands of the capitalist in the form of available capital. He advances this part as capital, gives it to the labourer for new labour power, while the labourer consumes it as revenue directly or indirectly through exchange for other commodities. That portion of the value of the product, then, which is destined in the course of reproduction to be converted into wages, into revenue for the labourers, first flows back into the hands of the capitalist in the form of capital, or more accurately variable capital. It is an essential requirement that it should flow back in this form in order for labour as wage labour, the means of production as capital, and the process of production itself as a capitalist process, to be continually reproduced anew.

In order to avoid unnecessary difficulty, one should distinguish gross output and net output from gross income and net income.

The gross output, or gross product, is the total reproduced product. With the exception of the employed but not consumed portion of fixed capital, the value of the gross output, or gross product, equals the value of capital advanced and consumed in production, that is, constant and variable capital plus surplus value, which resolves itself into profit and rent. Or, if we consider the product of the total social capital instead of that of an individual capital, the gross output equals the material elements forming the constant and variable capital, plus the material elements of the surplus product in which profit and rent are represented.

The gross income is that portion of value and that portion of the gross product measured by it which remains after deducting that
portion of value and that portion of the product of total production measured by it which replaces the constant capital advanced and consumed in production. The gross income, then, is equal to wages (or the portion of the product destined to again become the income of the labourer) + profit + rent. The net income, on the other hand, is the surplus value, and thus the surplus product, which remains after deducting wages, and which, in fact, thus represents the surplus value realised by capital and to be divided with the landlord, and the surplus product measured by it.

Thus, we saw that the value of each individual commodity and the value of the total commodity product of each individual capital is divided into two parts: one replaces only constant capital, and the other, although a fraction of it flows back as variable capital — thus also flows back in the form of capital — nevertheless is destined to be wholly transformed into gross income, and to assume the form of wages, profit and rent, the sum of which makes up the gross income. Furthermore, we saw that the same is true of the value of the annual total product of a society. A difference between the product of the individual capitalist and that of society exists only in so far as: from the standpoint of the individual capitalist the net income differs from the gross income, for the latter includes the wages, whereas the former excludes them. Viewing the income of the whole society, national income consists of wages plus profit plus rent, thus, of the gross income. But even this is an abstraction to the extent that the entire society, on the basis of capitalist production, bases itself on the capitalist standpoint and thereby considers only the income resolved into profit and rent as net income.

On the other hand, the fantasy of men like Say, to the effect that the entire yield, the entire gross output, resolves itself into the net income of the nation or cannot be distinguished from it, that this distinction therefore disappears from the national viewpoint, is but the inevitable and ultimate expression of the absurd dogma pervading political economy since Adam Smith, that in the final analysis the value of commodities resolves itself completely into income, into wages, profit and rent.51

51 Ricardo makes the following very apt comment on thoughtless Say: "Of net produce and gross produce, M. Say speaks as follows: 'The whole value produced is the gross produce; this value, after deducting from it the cost of production, is the net produce' (Vol. II, p. 491). There can, then, be no net produce, because the cost of

a J. B. Say, Traité d'économie politique, Paris, 1819.
To comprehend, in the case of each individual capitalist, that a portion of his product must be transformed again into capital (even aside from the expansion of reproduction, or accumulation), indeed not only into variable capital, which is destined to again become in its turn income for the labourers, thus a form of revenue, but also into constant capital, which can never be transformed into revenue—such discernment is naturally extraordinarily easy. The simplest observation of the process of production shows this clearly. The difficulty first begins as soon as the process of production is viewed as a whole. The value of the entire portion of the product which is consumed as revenue in the form of wages, profit and rent (it is entirely immaterial whether the consumption is individual or productive), indeed, completely resolves itself under analysis into the sum of values consisting of wages plus profit plus rent, that is, into the total value of the three revenues, although the value of this portion of the product, just like that which does not enter into revenue, contains a value portion = C, equal to the value of the constant capital contained in these portions, and thus prima facie cannot be limited by the value of the revenue. This circumstance which, on the one hand, is a practically irrefutable fact, on the other hand, an equally undeniable theoretical contradiction, presents a difficulty which is most easily circumvented by the assertion that commodity value contains another portion of value, merely appearing to differ, from the standpoint of the individual capitalist, from the portion existing in the form of revenue. The phrase: that which appears as revenue for one constitutes capital for another, relieves one of the necessity for any further reflection. But how, then, the old capital can be replaced when the value of the entire product is consumable in the form of revenue; and how the value of the product of each individual capital can be equal to the value sum of the three revenues plus C, constant capital, whereas the sum of the values of the products of all capitals is equal to the value sum of production, according to M. Say, consists of rent, wages and profits. On page 508 he says: 'The value of a product, the value of a productive service, the value of the cost of production, are all, then, similar values, whenever things are left to their natural course.' Take a whole from a whole, and nothing remains' (Ricardo, *Principles*, Chapter XXXII, p. 512, Note). — By the way we shall see later that Ricardo nowhere refuted Smith’s false analysis of commodity price, its reduction to the sum of the values of the revenues. He does not bother with it, and accepts its correctness so far in his analysis that he “abstracts” from the constant portion of the value of commodities. He also falls back into the same way of looking at things from time to time.
the three revenues plus 0 — this appears, of course, as an insoluble riddle and must be solved by declaring that the analysis is completely incapable of unravelling the simple elements of price, and must be content to go around in a vicious circle making a spurious advance *ad infinitum*. Thus, that which appears as constant capital may be resolved into wages, profit and rent, but the commodity values in which wages, profit and rent appear, are determined in their turn by wages, profit and rent, and so forth *ad infinitum*.52)

The fundamentally erroneous dogma to the effect that the value of commodities in the last analysis may be resolved into wages + profit + rent also expresses itself in the proposition that the consumer must ultimately pay for the total value of the total product; or also that money circulation between producers and consumers must ultimately be equal to the money circulation between the producers themselves (Tooke); all these propositions are as false as the axiom upon which they are based.

The difficulties, which lead to this erroneous and *prima facie* absurd analysis, are briefly these:

1) The fundamental relationship of constant and variable capital, hence also the nature of surplus value, and thereby the entire basis of the capitalist mode of production, are not understood. The value of each partial product of capital, each individual commodity, contains

52: "In every society the price of every commodity finally resolves itself into some one or other, or all of those three parts" viz., wages, profits, rent ... "A fourth part, it may perhaps be thought, is necessary for replacing the stock of the farmer or for compensating the wear and tear of his labouring cattle, and other instruments of husbandry. But it must be considered that the price of any instrument of husbandry, such as a labouring horse, is itself made up of the same three parts: the rent of the land upon which he is reared, the labour of tending and rearing him, and the profits of the farmer, who advances both the rent of his land and the wages of his labour. Though the price of the corn, therefore, may pay the price as well as the maintenance of the horse, the whole price still resolves itself either immediately or ultimately into the same three parts of rent, labour” meaning wages “and profit.” (Adam Smith.) a We shall show later on how Adam Smith himself feels the inconsistency and insufficiency of this subterfuge, for it is nothing but a subterfuge on his part to send us from Pontius to Pilate while nowhere does he indicate the real investment of capital, in which case the price of the product resolves itself ULTIMATELY into these three parts, without any further progressus.

b Th. Tooke, An Inquiry into the Currency Principle p. 36.
a portion of value = constant capital, a portion of value = variable capital (transformed into wages for labourers), and a portion of value = surplus value (later split into profit and rent). Thus, how is it possible for the labourer with his wages, the capitalist with his profit, the landlord with his rent, to be able to buy commodities, each of which contains not only one of these constituent elements, but all three of them; and how is it possible for the sum of the values of wages, profit and rent, that is, the three sources of revenue together, to be able to buy the commodities which go to make up the total consumption of the recipients of these incomes—commodities containing an additional component of value, namely constant capital, outside these three components of value? How should they buy a value of four with a value of three? 

Proudhon exposes his inability to grasp this in the ignorant formulation: l'ouvrier ne peut pas racheter son propre produit, a because the interest which is added to the prix-de-reventeb is contained in the product.c But how does M. Eugène Forcade teach him to know better? “If Proudhon’s objection were correct, it would strike not only the profits of capital, but would eliminate the possibility even of industry. If the labourer is compelled to pay 100 for each article for which he has received only 80, if his wages can buy back only the value which he has put into a product, it could be said that the labourer cannot buy back anything, that wages cannot pay for anything. In fact, there is always something more than the wages of the labourer contained in the cost price, and always more than the profits of enterprise in the selling price, for instance, the price of raw materials, often paid to foreign countries. ... Proudhon has forgotten about the continual growth of national capital; he has forgotten that this growth refers to all labourers, whether in an enterprise or in handicrafts.” (Revue des deux Mondes, 1848, Tome 24, p. 998-99.) d Here we have the optimism of bourgeois thoughtlessness in the form of sagacity that most corresponds to it. M. Forcade first believes that the labourer could not live did he not receive a higher value than that which he produces, whereas conversely the capitalist mode of production could not exist were he really to receive all the value which he produces. Secondly, he correctly generalises the difficulty, which Proudhon expressed only from a narrow viewpoint. The price of commodities contains not only an excess over wages, but also over profit, namely, the constant portion of value. According to Proudhon’s reasoning, then, the capitalist too could not buy back the commodities with his profit. And how does Forcade solve this riddle? By means of a meaningless phrase: the growth of capital. Thus the continual growth of capital is also supposed to be substantiated, among other things, in that the analysis of commodity prices, which is impossible for the political economist as regards a capital of 100, becomes superfluous in the case of a capital of 10,000. What would be said of a chemist,

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a the labourer cannot buy back his own product - b cost price - c P.J. Proudhon, Qu'est-ce que la propriété? ou Recherches sur le principe du droit et du gouvernement, pp. 201-02. - d E. Forcade, La Guerre du socialisme. II. L'économie politique révolutionnaire et sociale, pp. 998-99. Quoted partly in French, partly in German.
We presented our analysis in Book II, Part III.

2) The method is not grasped whereby labour, in adding a new value, preserves the old value in a new form without producing this old value anew.

3) The pattern of the process of reproduction is not understood—how it appears not from the standpoint of individual capital, but rather from that of the total capital; the difficulty is not understood how it is that the product in which wages and surplus value, in short, the entire value produced by all the labour newly added during the year, is realised, replaces the constant part of its value and yet at the same time resolves itself into value limited solely by the revenues; and furthermore how it is that the constant capital consumed in production can be replaced in substance and value by new capital, although the total sum of newly added labour is realised only in wages and surplus value, and is fully represented in the sum of the values of both. It is precisely here that the main difficulty lies, in the analysis of reproduction and the relations of its various component parts, both as concerns their material character and their value relationships.

4) To these difficulties is added still another, which increases even more as soon as the various component parts of surplus value appear in the form of mutually independent revenues. This difficulty consists in the definite designations of revenue and capital interchanging, and altering their position, so that they seem to be merely relative determinations from the point of view of the individual capitalist and to disappear when the total process of production is viewed as a whole. For instance, the revenue of the labourers and capitalists of Class I, which produces constant capital, replaces in value and substance the constant capital of the capitalists of Class II, which produces articles of consumption. One may, therefore, squeeze out of the dilemma by remonstrating that what is revenue for one is capital for another and that these designations thus have nothing to do with the actual peculiarities of the value components of commodities. Furthermore: com-

who, on being asked How is it that the product of the soil contains more carbon than the soil? would answer: It comes from the continual increase in agricultural production. The well-meaning desire to discover in the bourgeois world the best of all possible worlds replaces in vulgar economy all need for love of truth and inclination for scientific investigation.a

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a See also present edition, Vol. 30, pp. 345-46.
modities which are ultimately destined to form the substantive elements of revenue expenditure, that is, articles of consumption, pass through various stages during the year, e. g., woollen yarn, cloth. In one stage they form a portion of constant capital, in the other they are consumed individually, and thus pass wholly into the revenue. One may therefore imagine along with Adam Smith that constant capital is but an apparent element of commodity value, which disappears in the total pattern. Thus, a further exchange takes place of variable capital for revenue. The labourer buys with his wages that portion of commodities which form his revenue. In this way he simultaneously replaces for the capitalist the money form of variable capital. Finally: one portion of products which form constant capital is replaced in kind or through exchange by the producers of constant capital themselves; a process with which the consumers have nothing to do. When this is overlooked the impression is created that the revenue of consumers replaces the entire product, i. e., including the constant portion of value.

5) Aside from the confusion which the transformation of values into prices of production brings about, another arises due to the transformation of surplus value into different, special, mutually independent forms of revenue applying to the various elements of production, i. e., into profit and rent. It is forgotten that the fact that the values of commodities are the basis, and that the division of these commodity values into distinct constituent parts, and the further development of these constituents of value into forms of revenue, their conversion into relations of various owners of different factors of production to these individual components of value, their distribution among these owners according to definite categories and titles, itself alters nothing in value determination and its law. Just as little is the law of value changed by the circumstance that the equalisation of profit, i. e., the distribution of the total surplus value among the various capitals, and the obstacles which landed property partially (in absolute rent) puts in the way of this equalisation, bring about a divergence between the regulating average prices and the individual values of commodities. This again affects merely the addition of surplus value to the various commodity prices, but does not abolish surplus value itself, nor the total value of commodities as the source of these various component parts of price.

This is the quid pro quo which we shall consider in the next chapter, and which is inevitably linked with the illusion that value arises out of
its own component parts. And namely, the various component values of the commodity acquire independent forms as revenues, and as such revenues they are related back to the particular material elements of production as their sources of origin instead of to the value of the commodity as their source. They are actually related back to those sources—however, not as components of value, but rather as revenues, as components of value falling to the share of these particular categories of agents in production: the labourer, the capitalist and the landlord. But then one might fancy that these constituents of value, rather than arising out of the division of commodity value, conversely form it instead only through their combination, which leads to the pretty and vicious circle, whereby the value of commodities arises out of the sum of the values of wages, profit and rent, and the value of wages, profit and rent, in its turn, is determined by the value of commodities, etc.\textsuperscript{54)

\textsuperscript{54}) “The circulating capital invested in materials, raw materials and finished goods is itself composed of goods, the necessary price of which is formed of the same elements; so that, viewing the total goods in one country, it would mean duplication to count this portion of circulating capital among the elements of the necessary price.” (Storch, \textit{Cours d'économie politique}, II, p. 140.)—By these elements of circulating capital Storch means the constant portion of the value (fixed capital is merely circulating in a different form). “It is true that the wages of the labourer, like that portion of profit of enterprise which consists of wages, if we consider them as a part of the means of subsistence, also consist of goods bought at current prices and which likewise comprise wages, interest on capital, ground rent and profit of enterprise.... This observation merely serves to prove that it is impossible to resolve the necessary price into its simplest elements.” (Ibid., Note.) \textsuperscript{a}—In his \textit{Considérations sur la nature du revenu national} (Paris, 1824), Storch indeed realises in his controversy with Say to what absurdity the erroneous analysis of commodity value leads—when it resolves value into mere revenues. He correctly points out the folly of such results—not from the viewpoint of the individual capitalist, but from that of a nation—but himself goes no step further in his analysis of the \textit{prix nécessaire} from that presented in his \textit{Cours}, that it is impossible to resolve it into its actual elements, without resolving it into a spurious advance \textit{ad infinitum}. “It is evident that the value of the annual product is divided partly into capitals and partly into profits, and that each one of these portions of value of the annual product regularly goes to buy the products needed by the nation, as much to preserve its capital as to renew its consumption fund (pp. 134, 135).... Can it” (a self-employed peasant family) “live in its barns or stables, eat its seed and forage, clothe itself with its draught cattle, dispense with its agricultural implements? According to the thesis of M. Say one must answer all these questions in the affirmative (pp. 135, 136).... If it is admitted that the revenue of a nation is equal to its gross product, i. e., if no capital has to be deducted from it, then it must also be admitted that a nation can spend the entire value of its

\textsuperscript{a} Here and below cited in French.
Considering reproduction in its normal state, only a part of newly added labour is employed for production, and thus for replacement of constant capital; precisely that part which replaces the constant capital used up in the production of articles of consumption, of material elements of revenue. This is balanced by the fact that this constant portion of Class II costs no additional labour. But, now, this constant capital (looking upon the total process of reproduction, in which then the above-mentioned equalisation of Classes I and II is included), not representing a product of newly added labour, although this product could not be created without it—this constant capital, in the process of reproduction, considered from the standpoint of substance, is exposed to certain accidents and dangers which could decimate it. (Furthermore, however, considered from the point of view of value as well, it may be depreciated through a change in the productive power of labour; but this refers only to the individual capitalist.) Accordingly, a portion of the profit, therefore of surplus value and thereby also surplus product, in which (as concerns value) only newly added labour is represented, serves as an insurance fund. And it matters not whether this insurance fund is managed by insurance companies as a separate business or not. This is the sole portion of revenue which is neither consumed as such nor serves necessarily as a fund for accumulation. Whether it actually serves as such, or covers merely a loss in reproduction, depends upon chance. This is also the only portion of surplus value and surplus product, and thus of surplus labour, which would continue to exist, outside of that portion serving for accumulation, and hence expansion of the process of reproduction, even after the abolition of the capitalist mode of production. This, of course, presupposes that the portion regularly consumed by direct producers does not remain limited to its present minimum. Apart from surplus labour for those who on account of age are not yet, or no longer, able to take part in production, all labour to support those who do not work would cease. If we think back to the beginnings of society, we find no produced means of production, hence no constant capital, the value of which could pass into the product, and which, in reproduction on the same scale, would have to be replaced in kind out of the product and to a degree measured by its value. But Nature there directly provides the means of subsistence, which need not first be pro-

annual product unproductively without impairing its future income in the least (147). The products which constitute the capital of a nation are not consumable” (p. 150).
duced. Nature thereby also gives to the savage who has but few wants to satisfy the time, not to use the as yet non-existent means of production in new production, but to transform, alongside the labour required to appropriate naturally existing means of subsistence, other products of Nature into means of production: bows, stone knives, boats, etc. This process among savages, considered merely from the substantive side, corresponds to the reconversion of surplus labour into new capital. In the process of accumulation, the conversion of such products of excess labour into capital obtains continually; and the circumstance that all new capital arises out of profit, rent, or other forms of revenue, i.e., out of surplus labour, leads to the mistaken idea that all value of commodities arises from some revenue. This reconversion of profit into capital shows rather upon closer analysis that, conversely, the additional labour—which is always represented in the form of revenue—does not serve for the maintenance, or reproduction respectively, of the old capital value, but for the creation of new excess capital so far as it is not consumed as revenue.

The whole difficulty arises from the fact that all newly added labour, in so far as the value created by it is not resolved into wages, appears as profit—interpreted here as a form of surplus value in general—i.e., as a value which costs the capitalist nothing and which, of course, therefore does not have to replace for him anything advanced, any capital whatever. This value thus exists in the form of available additional wealth, in short, from the viewpoint of the individual capitalist, in the form of his revenue. But this newly created value can just as well be consumed productively as individually, equally well as capital or revenue. As a consequence of its natural form, some of it must be productively consumed. It is, therefore, evident that the annually added labour creates capital as well as revenue; as becomes evident in the process of accumulation. However, the portion of labour power employed in the creation of new capital (thus analogous to that portion of the working day employed by a savage, not for acquiring subsistence, but to fashion tools with which to acquire his subsistence) becomes invisible in that the entire product of surplus labour first appears in the form of profit; a designation which indeed has nothing to do with this surplus product itself, but refers merely to the individual relation of the capitalist to the surplus value pocketed by him. In fact, the surplus value created by the labourer is divided into revenue and capital; i.e., into articles of consumption and additional means of production. But former constant capital taken over from the previous
year (leaving aside the portion impaired and thus pro tanto destroyed, thus so far as it does not have to be reproduced — and such disturbances in the process of reproduction fall under insurance) is not reproduced as concerns value by the newly added labour.

We see, furthermore, that a portion of the newly added labour is continually absorbed in the reproduction and replacement of consumed constant capital, although this newly added labour resolves itself solely into revenue, into wages, profit and rent. But it is thereby overlooked 1) that one value portion of the product of this labour is no product of this new additional labour, but rather pre-existing and consumed constant capital; that the portion of the product in which this part of value appears is thus also not transformed into revenue, but replaces the means of production of this constant capital in kind; 2) that the portion of value in which this newly added labour actually appears is not consumed as revenue in kind, but replaces the constant capital in another sphere, where it is transformed into a natural form, in which it may be consumed as revenue, but which in its turn is again not entirely a product of newly added labour.

In so far as reproduction obtains on the same scale, every consumed element of constant capital must be replaced in kind by a new specimen of the same kind, if not in quantity and form, then at least in effectiveness. If the productive power of labour remains the same, then this replacement in kind implies replacing the same value which the constant capital had in its old form. But should the productive power of labour increase, so that the same material elements may be reproduced with less labour, then a smaller portion of the value of the product can completely replace the constant part in kind. The excess may then be employed to form new additional capital or a larger portion of the product may be given the form of articles of consumption, or the surplus labour may be reduced. On the other hand, should the productive power of labour decrease, then a larger portion of the product must be used for the replacement of the former capital, and the surplus product decreases.

The reconversion of profit, or generally of any form of surplus value, into capital shows — leaving aside the historically defined economic form and considering it merely as the simple formation of new means of production — that the situation still prevails whereby the labourer performs labour to produce means of production beyond the labour for acquiring his immediate means of subsistence. Transformation of profit into capital is no more than employing a portion of
excess labour to form new, additional means of production. That this takes place in the shape of a transformation of profit into capital signifies merely that it is the capitalist rather than the labourer who disposes of excess labour. That this excess labour must first pass through a stage in which it appears as revenue (whereas, e.g., in the case of a savage it appears as excess labour directly destined for the production of means of production) means simply that this labour, or its product, is appropriated by the nonworker. However, what is actually transformed into capital is not profit as such. Transformation of surplus value into capital signifies merely that the surplus value and surplus product are not consumed individually as revenue by the capitalist. But, what is actually so transformed is value, objectified labour, or the product in which this value is directly manifested, or for which it is exchanged after having been previously transformed into money. And when the profit is transformed back into capital, this definite form of surplus value, or profit, does not form the source of the new capital. The surplus value is thereby merely changed from one form into another. But it is not this change of form which turns it into capital. It is the commodity and its value which now function as capital. However, that the value of the commodity is not paid for—and only by this means does it become surplus value—is quite irrelevant for the objectification of labour, the value itself.

The misunderstanding is expressed in various forms. For instance, that the commodities which compose the constant capital also contain elements of wages, profit and rent. Or, on the other hand, that what is revenue for the one is capital for another, and that therefore these are but subjective relations. Thus the yarn of the spinner contains a portion of value representing profit for him. Should the weaver buy the yarn, he realises the profit of the spinner, but for himself this yarn is merely a part of his constant capital.

Aside from the previous remarks made concerning the relations between revenue and capital, the following is to be noted: That which, as regards value, passes along with the yarn as a constituent element into the capital of the weaver, is the value of the yarn. In what manner the parts of this value have been resolved for the spinner himself into capital and revenue, or, in other words, into paid and unpaid labour, is completely irrelevant for the value determination of the commodity itself (aside from modifications through the average profit). Back of this still lurks the idea that the profit, or surplus value in general, is an excess above the value of the commodity, which can
only be made by an extra charge, mutual cheating, or gain through selling. When the price of production is paid, or even the value of the commodity, the component values of the commodity which appear to the seller in the form of revenue are naturally also paid. Monopoly prices, of course, are not referred to here.

Secondly, it is quite correct to say that the component parts of commodities which make up the constant capital, like any other commodity value, may be reduced to portions of value which resolve themselves for the producers and the owners of the means of production into wages, profit and rent. This is merely a capitalist form of expression for the fact that all commodity value is but the measure of the socially necessary labour contained in a commodity. But it has already been shown in Book I that this nowise prevents the commodity product of any capital from being split into separate parts, of which one represents exclusively the constant portion of capital, another the variable portion of capital, and a third solely surplus value.

Storch expresses the opinion of many others when he says:

"The saleable products which make up the national revenue must be considered in political economy in two different ways: relative to individuals as values, and relative to the nation as goods; for the revenue of a nation is not appraised, like that of an individual, by its value, but by its utility or by the wants which it can satisfy." (Consid. sur le revenu national, p. 19.)

In the first place, it is a false abstraction to regard a nation whose mode of production is based upon value, and furthermore is capitalistically organised, as an aggregate body working merely for the satisfaction of the national wants.

Secondly, after the abolition of the capitalist mode of production, but still retaining social production, the determination of value continues to prevail in the sense that the regulation of labour time and the distribution of social labour among the various production groups, ultimately the bookkeeping encompassing all this, become more essential than ever.

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a The reference is to Considérations sur la nature du revenu national. Cited in French.
Chapter L

ILLUSIONS CREATED BY COMPETITION

It has been shown that the value of commodities, or the price of production regulated by their total value, resolves itself into:

1) A portion of value replacing constant capital, or representing past labour, which was used up in the form of means of production in making the commodity; in a word, the value, or price, which these means of production carried into the production process of the commodities. We are not referring at all here to individual commodities, but to commodity capital, that is, the form in which the product of the capital during a definite period of time, say a year, manifests itself; the individual commodity forms one element of commodity capital, which, moreover, so far as its value is concerned, resolves itself into the same analogous constituents.

2) The portion of value representing variable capital, which measures the income of the labourer and is transformed into wages for him; i.e., the labourer has reproduced these wages in this variable portion of value; in short, the portion of value which represents the paid portion of new labour added to the above constant portion in the production of the commodities.

3) Surplus value, i.e., the portion of value of the commodity product in which the unpaid labour, or surplus labour, is incorporated. This last portion of value, in its turn, assumes the independent forms which are at the same time forms of revenue: the forms of profit on capital (interest on capital as such and profit of enterprise on capital as functioning capital) and ground rent, which is claimed by the owner of the land participating in the production process. The components 2) and 3), that is, the portion of value which always assumes the revenue forms of wages (of course only after the latter have first gone through the form of variable capital), profit and rent, is distinguished from the constant component 1) by the fact that in it is embodied that entire value in which the new additional labour added to the constant part, to the means of production of the commodities, is objectified.

Now, apart from the constant portion, it is correct to say that the value of a commodity, i.e., to the extent that it represents newly added labour, continually resolves itself into three parts, which constitute three forms of revenue, namely, wages, profit and rent, the res-

55) In breaking down the value added to the constant portion of capital into wages,
pective magnitudes of whose value, that is, the aliquot portions which they constitute in the total value, are determined by various specific laws developed above. But, it would be a mistake to state the converse, namely, that the value of wages, rate of profit and rate of rent form independent constituent elements of value, whose synthesis gives rise to the value of commodities, apart from the constant component; in other words, it would be a mistake to say that they are constituent components of the value of commodities, or of the price of production.\(^{56}\)

The difference is easily seen.

Let us assume that the value of the product of a capital of 500 is equal to \(400c + 100v + 150s = 650\); let the 150\(s\) in turn, be divided into 75 profit + 75 rent. We will also assume, in order to forestall useless difficulties, that this is a capital of average composition, so that its price of production and its value coincide; this coincidence always takes place whenever the product of such an individual capital may be considered as the product of some portion—corresponding to its magnitude—of the total capital.

Here wages, measured by variable capital, form 20\% of the advanced capital; surplus value, calculated on the total capital, forms 30\%, namely 15\% profit and 15\% rent. The entire value component of the commodity representing the newly added labour is equal to profit and ground rent, it goes without saying that these are portions of value. One may, indeed, conceive of them as existing in the direct product in which this value appears, i.e., in the direct product produced by labourers and capitalists in some particular sphere of production—for instance, yarn produced in the spinning industry. But in fact they do not materialise in this product any more or any less than in any other commodity, in any other component of the material wealth having the same value. And in practice wages are indeed paid in money, that is, in the pure expression of value, likewise interest and rent. For the capitalist, the transformation of his product into the pure expression of value is indeed very important; in the distribution itself this transformation is already assumed. Whether these values are reconverted into the same product, the same commodity, out of whose production they arose, whether the labourer buys back a part of the product directly produced by himself or buys the product of some other labour of a different kind, has nothing to do with the matter itself. **Herr Rodbertus quite unnecessarily flies into a passion about this.**\(^{a}\)

\(^{56}\)\(^*\) "It will be sufficient to remark that the same general rule which regulates the value of raw produce and manufactured commodities is applicable also to the metals; their value depending not on the rate of profits, nor on the rate of wages, nor on the rent paid for mines, but on the total quantity of labour necessary to obtain the metal and to bring it to market." \(^*\) (Ricardo, *Principles*, Ch. III, p. 77.)

\(^{a}\) Cf. also criticism of Rodbertus on this question given in the Economic Manuscripts of 1861-63 (present edition, Vol. 31, pp. 376-86).
100\(_v\) + 150\(_s\) = 250. Its magnitude does not depend upon its division into wages, profit and rent. We see from the relation of these parts to each other that labour power, which is paid with 100 in money, say £100, has supplied a quantity of labour represented by money to the amount of £250. We see from this that the labourer performed 1 \(\frac{1}{2}\) times as much surplus labour as he did labour for himself. If the working day = 10 hours, then he worked 4 hours for himself and 6 hours for the capitalist. Therefore, the labour of the labourers paid with £100 is expressed in a money value of £250. Apart from this value of £250, there is nothing to divide between labourer and capitalist, between capitalist and landlord. It is the total value newly added to the value of the means of production, i.e., 400. The specific commodity value of 250 thus produced and determined by the quantity of labour objectified in it constitutes the limit, therefore, for the dividends which the labourer, capitalist and landlord will be able to draw from this value in the form of revenue—wages, profit and rent.

Let us assume that a capital of the same organic composition, that is, the same proportion between employed living labour power and constant capital set in motion, is compelled to pay £150 instead of £100 for the same labour power which sets in motion the constant capital of 400. And let us further assume that profit and rent share in the surplus value in different proportions. Since we have assumed that the variable capital of £150 sets the same quantity of labour in motion as did the variable capital of £100, the newly produced value would = 250, as before, and the value of the total product would be 650, also as before, but we would then have 400\(_c\) + 150\(_v\) + 100\(_s\); and these 100\(_s\) would divide, say, into 45 profit and 55 rent. The proportion in which the newly produced total value would be distributed as wages, profit and rent would now be very different; similarly, the magnitude of the advanced total capital would be different, although it only sets the same total quantity of labour in motion. Wages would amount to 27 \(\frac{3}{11}\) %, profit—\(8\ \frac{2}{11}\)% and rent—10% of the advanced capital; thus, the total surplus value would be somewhat over 18%.

As a result of the increase in wages, the unpaid portion of total labour would be different and thereby the surplus value too. If the working day contained 10 hours, the labourer would have worked 6 hours for himself and only 4 hours for the capitalist. The proportions of profit and rent would also be different; the reduced surplus value would be divided in a different proportion between the capitalist and the landlord. Finally, since the value of the constant capital would
have remained the same and the value of the advanced variable capital would have risen, the reduced surplus value would express itself in a still more reduced rate of gross profit, by which we mean in this case the ratio of the total surplus value to the total advanced capital.

The change in the value of wages, in the rate of profit, and in the rate of rent, whatever the effect of the laws regulating the proportions of these parts to each other, could only move within the limits set by the newly produced commodity value of 250. An exception could only take place if rent should be based on a monopoly price. This would nowise alter the law, but merely complicate the analysis. For if we consider only the product itself in this case, then only the division of surplus value would be different. But if we consider its relative value as compared with other commodities, then we should find solely this difference — that a portion of the surplus value had been transferred from them to this particular commodity.

To recapitulate:

<table>
<thead>
<tr>
<th>Value of the Product</th>
<th>New Value</th>
<th>Rate of Surplus Value</th>
<th>Rate of Gross Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Case: 400(_c) + 100(_v) + 150(_s) = 650</td>
<td>250</td>
<td>150%</td>
<td>30%</td>
</tr>
<tr>
<td>Second Case: 400(_c) + 150(_v) + 100(_s) = 650</td>
<td>250</td>
<td>66(\frac{2}{3})%</td>
<td>18(\frac{2}{11})%</td>
</tr>
</tbody>
</table>

In the first place, the surplus value falls one-third of what it was, i. e., from 150 to 100. The rate of profit falls by a little more than one-third, i. e., from 30% to 18%, because the reduced surplus value must be calculated on an increased total advanced capital. But it by no means falls in the same proportion as the rate of surplus value. The latter falls from \(\frac{150}{100}\) to \(\frac{100}{150}\), that is, from 150% to 66\(\frac{2}{3}\)%, whereas the rate of profit only falls from \(\frac{150}{500}\) to \(\frac{100}{550}\), or from 30% to 18\(\frac{2}{11}\)%. The rate of profit, then, falls proportionately more than the mass of surplus value, but less than the rate of surplus value. We find, furthermore, that value, as well as mass of products, remains the same, so long as the same quantity of labour is employed, although the advanced capital has increased due to the augmentation of its variable component. This increase in advanced capital would indeed be very much felt by a capitalist undertaking a new enterprise. But considering reproduction as a whole, augmentation of the variable capital merely means that a larger portion of the value newly created by newly added labour is converted into wages, and thus, in the first
place, into variable capital instead of into surplus value and surplus product. The value of the product thus remains the same, because it is limited on the one hand by the value of the constant capital = 400, and on the other by the number 250, in which the newly added labour is represented. Both, however, remain unaltered. This product would, as before, represent the same amount of use value in the same magnitude of value, to the extent that it would itself again enter into the constant capital; thus, the same mass of elements of constant capital would retain the same value. The matter would be different if wages were to rise not because the labourer received a larger share of his own labour, but if he received a larger portion of his own labour because the labour productivity had decreased. In this case, the total value in which the same labour, paid and unpaid, would be incorporated, would remain the same. But the mass of products in which this quantity of labour would be incorporated would have decreased so that the price of each aliquot portion of this product would rise, because each portion would contain more labour. The increased wages of 150 would not represent any more product than the wages of 100 did before; the reduced surplus value of 100 would represent merely \( \frac{2}{3} \) of the former product, i.e., 66 \( \frac{2}{3} \)% of the mass of use values formerly represented by 100. In this case, the constant capital would also become dearer to the extent that this product would enter into it. However, this would not be the result of the increase in wages, but rather the increase in wages would be a result of the increase in the price of commodities and a result of the diminished productivity of the same quantity of labour. It appears here as though the increase in wages had made the product dearer; however, this increase is not the cause, but rather the result, of a change in the value of the commodities, due to the decreased productivity of labour.

On the other hand, all other circumstances remaining the same, i.e., if the same quantity of employed labour is still represented by 250, then, if the value of the means of production employed should rise or fall, the value of the same quantity of products would rise or fall by the same magnitude. 450\( _c \) + 100\( _v \) + 150\( _s \) gives a product value = = 700; but 350\( _c \) + 100\( _v \) + 150\( _s \) gives a value for the same quantity of products of only 600, as against a former 650. Hence if the advanced capital, set in motion by the same quantity of labour, increases or decreases, then the value of the product rises or falls, other circumstances remaining the same, if the increase or decrease in advanced capital is due to a change in the magnitude of the value of the con-
stant portion of capital. On the other hand, the value of the product remains unchanged if the increase or decrease in advanced capital is caused by a change in the magnitude of the value of the variable portion of capital, assuming the labour productivity remains the same. In the case of the constant capital, the increase or decrease in its value is not compensated for by any opposite movement. But in the case of the variable capital, assuming the labour productivity remains the same, an increase or decrease in its value is compensated for by the opposite movement on the part of the surplus value, so that the value of the variable capital plus the surplus value, i.e., the value newly added by labour to the means of production and newly incorporated in the product, remains the same.

But if the increase or decrease in the value of the variable capital or wages is due to a rise or fall in the price of commodities, i.e., a decrease or increase in the productive power of the labour employed by this investment of capital, then the value of the product is affected. But the rise or fall in wages in this case is not a cause, but merely an effect.

On the other hand, assuming the constant capital in the above illustration to remain = 400, if the change from 100 + 150 to 150 + 100, i.e., the increase in variable capital, should be due to a decrease in the productive power of labour, not in this particular branch of industry, say, cotton spinning, but perhaps in agriculture which provides the labourer’s foodstuffs, i.e., due to a rise in the price of these foodstuffs, then the value of the product would remain unchanged. The value of 650 would still be represented by the same quantity of cotton yarn.

It follows, furthermore, from the above: If the decrease in the expenditure of constant capital is due to economies, etc., in lines of production whose products enter into the labourer’s consumption, then this, just like the direct increase in the productivity of the employed labour itself, may lead to a decrease in wages due to a cheapening of the means of subsistence of the labourer, and may lead, therefore, to an increase in the surplus value; so that the rate of profit in this case would grow for two reasons, namely, on the one hand, because the value of the constant capital decreases, and on the other hand, because the surplus value increases. In our consideration of the transformation of surplus value into profit, we assumed that wages do not fall, but remain constant, because there we had to investigate the fluctuations in the rate of profit, independent of the changes in the
rate of surplus value. Moreover, the laws developed there are general ones, and also apply to investments of capital whose products do not enter into the labourer’s consumption, whereby changes in the value of the product, therefore, are without influence upon the wages.

Thus, the separation and resolution of new value annually added by new labour to the means of production, or to the constant part of capital, into the various forms of revenue, viz., wages, profit and rent, do not at all alter the limits of the value itself, the total value to be distributed among these various categories; any more than a change in the mutual relations of these individual parts can change their total, this given magnitude of value. The given number 100 always remains the same, whether it is divided into 50 + 50, or into 20 + 70 + 10, or into 40 + 30 + 30. The portion of the value of the product which is resolved into these revenues is determined just like the constant portion of the value of capital, by the value of the commodities, i.e., by the quantity of labour objectified in them in each case. Given first, then, is the quantity of value of commodities to be divided among wages, profit and rent; in other words, the absolute limit of the sum of the portions of value of these commodities. Secondly, as concerns the individual categories themselves, their average and regulating limits are likewise given. Wages form the basis in this limitation. They are regulated on the one hand by a natural law; their lower limit is determined by the physical minimum of means of subsistence required by the labourer for the conservation of his labour power and for its reproduction; i.e., by a definite quantity of commodities. The value of these commodities is determined by the labour time required for their reproduction; and thus by the portion of new labour added to the means of production, or by the portion of each working day required by the labourer for the production and reproduction of an equivalent for the value of these necessary means of subsistence. For instance, if his average daily means of subsistence have a value = 6 hours of average labour, then he must work on an average six hours per day for himself. The actual value of his labour power deviates from this physical minimum; it differs according to climate and level of social development; it depends not merely upon the physical, but also upon the historically developed social needs, which become second nature. But in every country, at a given time, this regulating average wage
is a given magnitude. The value of all other revenue thus has its limit. It is always equal to the value in which the total working day (which coincides in the present case with the average working day, since it comprises the total quantity of labour set in motion by the total social capital) is incorporated minus the portion of the working day incorporated in wages. Its limit is therefore determined by the limit of the value in which the unpaid labour is expressed, that is, by the quantity of this unpaid labour. While the portion of the working day which is required by the labourer for the reproduction of the value of his wages finds its ultimate limit in the physical minimum of wages, the other portion of the working day, in which surplus labour is incorporated, and thus the portion of value representing surplus value, finds its limit in the physical maximum of the working day, i.e., in the total quantity of daily labour time during which the labourer can, in general, be active and still preserve and reproduce his labour power. Since we are here concerned with the distribution of the value which represents the total labour newly added per year, the working day may be regarded here as a constant magnitude, and is assumed as such, no matter how much or how little it may deviate from its physical maximum. The absolute limit of the portion of value which forms surplus value, and which resolves itself into profit and ground rent, is thus given. It is determined by the excess of the unpaid portion of the working day over its paid portion, i.e., by the portion of the value of the total product in which this surplus labour exists. If we call the surplus value thus limited and calculated on the advanced total capital — the profit, as I have done, then this profit, so far as its absolute magnitude is concerned, is equal to the surplus value and, therefore, its limits are just as much determined by law as the latter. On the other hand, the level of the rate of profit is likewise a magnitude held within certain specific limits determined by the value of commodities. It is the ratio of the total surplus value to the total social capital advanced in production. If this capital = 500 (say millions) and the surplus value = 100, then 20% constitutes the absolute limit of the rate of profit. The distribution of the social profit according to this rate among the capitals invested in the various spheres of production creates prices of production which deviate from the values of commodities and which are the real regulating average market prices. But this deviation abolishes neither the determination of prices by values nor the regular limits of profit. Instead of the value of a commodity being equal to the capital consumed in its production plus the surplus
value contained in it, its price of production is now equal to the capital, c, consumed in its production plus the surplus value falling to its share as a result of the general rate of profit, for instance 20% on the capital advanced in its production, counting both the consumed and the merely employed capital. But this additional amount of 20% is itself determined by the surplus value created by the total social capital and its relation to the value of this capital; and for this reason it is 20% and not 10 or 100. The transformation of values into prices of production, then, does not remove the limits on profit, but merely alters its distribution among the various particular capitals which make up the social capital, i.e., it distributes it uniformly among them in the proportion in which they form parts of the value of this total capital. The market prices rise above and fall below these regulating prices of production, but these fluctuations mutually balance each other. If one examines price lists over a more or less long period of time, and if one disregards those cases in which the actual value of commodities is altered by a change in the productivity of labour, and likewise those cases in which the process of production has been disturbed by natural or social accidents, one will be surprised, in the first place, by the relatively narrow limits of the deviations, and, secondly, by the regularity of their mutual compensation. The same domination of the regulating averages will be found here that Quetelet pointed out in the case of social phenomena. If the equalisation of the values of commodities into prices of production does not meet any obstacles, then the rent resolves itself into differential rent, i.e., it is limited to the equalisation of the surplus profits which would be given to some capitalists by the regulating prices of production and which are now appropriated by the landlord. Here, then, rent has its definite limit of value in the deviations of the individual rates of profit, which are caused by the regulation of prices of production by the general rate of profit. If landed property obstructs equalisation of the values of commodities into prices of production, and appropriates absolute rent, then the latter is limited by the excess of the value of the agricultural products over their price of production, i.e., by the excess of the surplus value contained in them over the rate of profit assigned to the capitals by the general rate of profit. This difference, then, forms the limit of the rent, which, as before, is but a definite portion of the given surplus value contained in the commodities.

Finally, if equalisation of surplus value into average profit meets with obstacles in the various spheres of production in the form of arti-
ficial or natural monopolies, and particularly monopoly in landed property, so that a monopoly price becomes possible, which rises above the price of production and above the value of the commodities affected by such a monopoly, then the limits imposed by the value of the commodities would not thereby be removed. The monopoly price of certain commodities would merely transfer a portion of the profit of the other commodity producers to the commodities having the monopoly price. A local disturbance in the distribution of the surplus value among the various spheres of production would indirectly take place, but it would leave the limit of this surplus value itself unaltered. Should the commodity having the monopoly price enter into the necessary consumption of the labourer, it would increase the wage and thereby reduce the surplus value, assuming the labourer receives the value of his labour power as before. It could depress wages below the value of labour power, but only to the extent that the former exceed the limit of their physical minimum. In this case the monopoly price would be paid by a deduction from real wages (i.e., the quantity of use values received by the labourer for the same quantity of labour) and from the profit of the other capitalists. The limits within which the monopoly price would affect the normal regulation of the prices of commodities would be firmly fixed and accurately calculable.

Thus just as the division of the newly added value of commodities, and, in general, value resolvable into revenue, finds its given and regulating limits in the relation between necessary and surplus labour, wages and surplus value, so does the division of surplus value itself into profit and ground rent find its limits in the laws regulating the equalisation of the rate of profit. As regards the division into interest and profit of enterprise, the average profit itself forms the limit for both taken together. It furnishes the given magnitude of value which they may split among themselves and which alone can be so divided. The specific ratio of this division is here fortuitous, i.e., it is determined exclusively by conditions of competition. Whereas in other cases the balancing of supply and demand is equivalent to elimination of the deviations in market prices from their regulating average prices, i.e., elimination of the influence of competition, it is here the only determinant. But why? Because the same production factor, capital, has to divide its share of the surplus value between two owners of the same production factor. But the fact that there is no definite, regular limit here for the division of the average profit does not remove its limit as part of commodity value; just as the fact that two partners in
a certain business divide their profit unequally due to different external circumstances does not affect the limits of this profit in any way.

Hence, although the portion of the commodity value in which the new labour added to the value of the means of production is incorporated is divided into various parts, which in the form of revenue assume mutually independent forms, this is no reason for now considering wages, profit and ground rent as the constituent elements which, in combination or taken all together, are the source of the regulating price (natural price, prix nécessaire) of the commodities themselves; so that it is not the commodity value, after deducting the constant portion of value, which would be the original unit that divides into these three parts, but rather, conversely, the price of each of these three parts would be independently determined, and the price of the commodities would then be formed by adding these three independent magnitudes together. In reality, the commodity value is the magnitude which precedes the sum of the total values of wages, profit and rent, regardless of the relative magnitudes of the latter. In the above erroneous conception, wages, profit and rent are three independent magnitudes of value, whose total magnitude produces, limits and determines the magnitude of the commodity value.

In the first place it is evident that if wages, profit and rent were to form the price of commodities, this would apply as much to the constant portion of the commodity value as to the other portion, in which variable capital and surplus value are incorporated. Thus, this constant portion may here be left entirely out of consideration, since the value of the commodities of which it is composed would likewise resolve itself into the sum of the values of wages, profit and rent. As already noted, this conception, then, denies the very existence of such a constant portion of value.

It is furthermore evident that value loses all meaning here. Only the conception of price still remains, in the sense that a certain amount of money is paid to the owner of labour power, capital and land. But what is money? Money is not a thing, but a definite form of value, hence, value is again presupposed. Let us say, then, that a definite amount of gold or silver is paid for these elements of production, or that it is mentally equated to them. But gold and silver (and the enlightened economist is proud of this discovery) are themselves commodities like all other commodities. The price of gold and silver is therefore likewise determined by wages, profit and rent. Hence we cannot determine wages, profit and rent by equating them to a cer-
tain amount of gold and silver, for the value of this gold and silver, by
means of which they should be evaluated as in their equivalent,
should be first determined precisely by them, independently of gold
and silver, i.e., independently of the value of any commodity, which
value is precisely the product of the above three factors. Thus, to say
that the value of wages, profit and rent consists in their being equiva-
 lent to a certain quantity of gold and silver, would merely be saying
that they are equal to a certain quantity of wages, profit and rent.

Take wages first. For it is necessary to make labour the point of de-
parture, even in this view of the matter. How, then, is the regulating
price of wages determined, the price about which its market prices
oscillate?

Let us say that it is determined by the supply and demand of
labour power. But what sort of labour power demand is this? It is
a demand made by capital. The demand for labour is therefore tant-
amount to the supply of capital. In order to speak of a supply of capi-
tal, we should know above all what capital is. Of what does capital
consist? If we take its simplest aspect, it consists of money and com-
modities. But money is merely a commodity form. Capital, then,
consists of commodities. But the value of commodities, according to
our assumption, is determined, in the first instance, by the price of the
labour producing the commodities, by wages. Wages are here presup-
posed and are treated as a constituent element of the price of commod-
ities. This price then should be determined by the ratio of available
labour to capital. The price of the capital itself is equal to the price of
the commodities of which it is composed. The demand by capital for
labour is equal to the supply of capital. And the supply of capital is
equal to the supply of a quantity of commodities of given price, and
this price is regulated in the first place by the price of labour, and the
price of labour in turn is equal to that portion of the commodity price
constituting the variable capital, which is granted to the labourer in
exchange for his labour; and the price of the commodities constitut-
ing this variable capital is again determined, in turn, primarily by the
price of labour; for it is determined by the prices of wages, profit and
rent. In order to determine wages, we cannot, therefore, presuppose
capital, for the value of the capital is itself determined in part by
wages.

Moreover, dragging competition into this problem does not help
at all. Competition makes the market prices of labour rise or fall. But
suppose supply and demand of labour are balanced. How are wages
then determined? By competition. But we have just assumed that competition ceases to act as a determinant, that its influence is cancelled due to equilibrium between its two mutually opposing forces. Indeed, it is precisely the natural price of wages that we wish to find, i.e., the price of labour that is not regulated by competition, but which, on the contrary, regulates the latter.

Nothing remains but to determine the necessary price of labour by the necessary means of subsistence of the labourer. But these means of subsistence are commodities, which have a price. The price of labour is therefore determined by the price of the necessary means of subsistence and the price of the means of subsistence, like that of all other commodities, is determined primarily by the price of labour. Therefore, the price of labour determined by the price of the means of subsistence is determined by the price of labour. The price of labour is determined by itself. In other words, we do not know how the price of labour is determined. Labour in this case has a price in general, because it is considered as a commodity. In order, therefore, to speak of the price of labour, we must know what price in general is. But we do not learn at all in this way what price in general is.

Nevertheless, let us assume that the necessary price of labour is determined in this agreeable manner. Then how is the average profit determined, the profit of every capital under normal conditions, which constitutes the second element in the price of commodities? The average profit must be determined by an average rate of profit; how is this rate determined? By competition among the capitalists? But the competition already presupposes the existence of profit. It presupposes various rates of profit, and thus various profits — either in the same or in different branches of production. Competition can influence the rate of profit only to the extent that it affects the prices of commodities. Competition can only make the producers within the same sphere of production sell their commodities at the same prices, and make them sell their commodities in different spheres of production at prices which will give them the same profit, the same proportional addition to the price of commodities which has already been partially determined by wages. Hence competition can only equalise inequalities in the rate of profit. In order to equalise unequal rates of profit, profit must exist as an element in the price of commodities. Competition does not create it. It lowers or raises its level, but does not create the level which is established when equalisation has been achieved. And when we speak of a necessary rate of profit, what we wish
to know is precisely the rate of profit independent of the movements of competition, which in turn regulates competition itself. The average rate of profit sets in when there is an equilibrium of forces among the competing capitalists. Competition may establish this equilibrium but not the rate of profit which makes its appearance with this equilibrium. When this equilibrium is established, why is the general rate of profit now 10, or 20, or 100%? Because of competition? No, on the contrary, competition has eliminated the causes producing deviations from 10, 20, or 100%. It has brought about a commodity price whereby every capital yields the same profit in proportion to its magnitude. The magnitude of this profit itself, however, is independent of competition. The latter merely reduces, again and again, all deviations to this magnitude. One person competes with another, and competition compels him to sell his commodities at the same price as the other. But why is this price 10 or 20 or 100?

Thus, nothing remains but to declare rate of profit, and therefore profit, to be in some unaccountable manner a definite extra charge added to the price of commodities, which up to this point was determined by wages. The only thing that competition tells us is that this rate of profit must be a given magnitude. But we knew this before — when we dealt with general rate of profit and "necessary price" of profit.

It is quite unnecessary to wade through this absurd process anew in the case of ground rent. One can see without doing this that, when carried out more or less consistently, it makes profit and rent merely appear as definite extra charges added by unaccountable laws to the price of commodities, a price primarily determined by wages. In short, competition has to shoulder the responsibility of explaining all the meaningless ideas of the economists, whereas it should rather be the economists who explain competition.

Now, disregarding here the illusion of a profit and rent being created by circulation, i. e., price components arising through sale — and circulation can never give what it did not first receive — the matter simply amounts to this:

Let the price of a commodity determined by wages = 100; let the rate of profit be 10% of wages, and the rent 15% of wages. Then the price of the commodity determined by the sum of wages, profit and rent = 125. This additional 25 cannot arise from the sale of the commodity. For all who sell one another commodities sell at 125 that which costs 100 in wages; which is the same as if they had all sold at
Thus, the operation must be considered independently of the circulation process.

If the three share the commodity itself, which now costs 125 — and it does not alter matters any if the capitalist first sells at 125, and then pays 100 to the labourer, 10 to himself, and 15 to the landlord — the labourer receives \(\frac{4}{5}\) = 100 of the value and of the product. The capitalist receives \(\frac{2}{25}\) of the value and of the product, and the landlord \(\frac{3}{25}\). Since the capitalist sells at 125 instead of 100, he gives the labourer only \(\frac{4}{5}\) of the product incorporating the latter's labour. Thus, it would be just the same as if he had given 80 to the labourer and retained 20 — of which 8 would fall to his share and 12 to the landlord. In this case he would have sold the commodity at its value, since in fact the additions to the price represent increases that are independent of the value of the commodity, which under the assumption made above is determined by the value of wages. This, in a roundabout way, amounts to saying that according to this conception the term "wages," here 100, means the value of the product, i.e., the sum of money in which this definite quantity of labour is represented; but that this value in turn differs from the real wage and therefore leaves a surplus. But here the surplus is realised by a nominal addition to the price. Hence, if wages were equal to 110 instead of 100, the profit would have to be = 11 and the ground rent = 16 \(\frac{1}{2}\), so that the price of the commodity would = 137 \(\frac{1}{2}\). This would leave the proportions unaltered. But since the division would always be obtained by way of a nominal addition of definite percentages to wages, the price would rise and fall with the wages. Wages are here first set equal to the value of the commodity, and then divorced from it again. In fact, however, this amounts to saying in a roundabout and irrational way that the value of the commodity is determined by the quantity of labour contained in it, whereas the value of wages is determined by the price of the necessary means of subsistence, and the excess of value above the wages forms profit and rent.

The splitting of the value of commodities after subtracting the value of the means of production consumed in their creation; the splitting of this given quantity of value, determined by the quantity of labour objectified in the produced commodities, into three component parts, which assume, as wages, profit and rent, independent and mutually unrelated forms of revenue — this splitting appears in a perverted form on the surface of capitalist production, and consequently in the minds of those captivated by the latter.
Let the total value of a certain commodity = 300, of which 200 is the value of the means of production, or elements of constant capital, consumed in its production. This leaves 100 as the amount of new value added to the commodity during its process of production. This new value of 100 is all that is available for division among the three forms of revenue. If we let wages = x, profit = y and ground rent = z, then the sum of x + y + z will always = 100 in our case. But to the industrialists, merchants and bankers, and to the vulgar economists, this appears quite different. For them, the value of the commodity, after subtracting the value of the means of production consumed by it, is not given = 100, this 100 then being divided into x, y and z. But rather, the price of the commodity simply consists of the value of wages, the value of profit and the value of rent, which magnitudes are determined independently of the value of the commodity and of each other, so that x, y and z are each given and determined independently, and only from the sum of these magnitudes, which may be smaller or larger than 100, is the magnitude of the value of the commodity itself obtained by adding these component values together. This quid pro quo is inevitable because:

First: The component parts of the value of a commodity appear as independent revenues in relation to one another, and as such are related to three very dissimilar production factors, namely labour, capital and land, and therefore they seem to arise from the latter. Ownership of labour power, capital and land is the cause for these various component values of commodities falling to the share of the respective owners, and thus transforming themselves into revenue for them. But the value does not arise from a transformation into revenue; it must rather exist before it can be converted into revenue, before it can assume this form. The illusion that the opposite is true is strengthened all the more as the determination of the relative magnitudes of these three components in relation to one another follows different laws, whose connection with, and limitation by, the value of the commodities themselves nowise appear on the surface.

Secondly: We have seen a that a general rise or fall in wages, by causing a movement of the general rate of profit in the opposite direction — other circumstances remaining the same — changes the prices of production of the various commodities, i.e., raises some and lowers

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a See this volume, pp. 198-202.
others, depending on the average composition of capital in the respective spheres of production. Thus, experience shows here that in some spheres of production, at any rate, the average price of a commodity rises because wages have risen, and falls because wages have fallen. But “experience” does not show that the value of commodities, which is independent of wages, secretly regulates these changes. However, if the rise in wages is local, if it only takes place in particular spheres of production as a result of special circumstances, then a corresponding nominal rise in the prices of these commodities may occur. This rise in the relative value of one kind of commodity in relation to the others, for which wages have remained unchanged, is then merely a reaction against the local disturbance in the uniform distribution of surplus value among the various spheres of production, a means of equalising the particular rates of profit into the general rate. “Experience” shows in this case that wages again determine the price. Thus, in both of these cases experience shows that wages determine the prices of commodities. But “experience” does not show the hidden cause of this interrelation. Furthermore: The average price of labour, i.e., the value of labour power, is determined by the production price of the necessary means of subsistence. If the latter rises or falls, the former rises or falls accordingly. Thus, experience again shows the existence or a connection between wages and the price of commodities. But the cause may appear as an effect, and the effect as a cause, which is also the case in the movements of market prices, where a rise of wages above their average corresponds to the rise of market prices above the prices of production during periods of prosperity, and the subsequent fall of wages below their average corresponds to a fall of market prices below the prices of production. To the dependence of prices of production upon the values of commodities prima facie there would always have to correspond, apart from the oscillatory movements of market prices, the experience that whenever wages rise the rate of profit falls, and vice versa. But we have seen that the rate of profit may be determined by movements in the value of constant capital, independently of the movements of wages; so that wages and rate of profit, instead of moving in opposite directions, may move in the same direction, may rise or fall together. If the rate of surplus value were to directly coincide with the rate of profit, this

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a See this volume, pp. 106-23.
would not be possible. Similarly if wages should rise as a result of a rise in the prices of the means of subsistence, the rate of profit may remain the same, or even rise, due to greater intensity of labour or prolongation of the working day. All these experiences bear out the illusion created by the independent and distorted form of the component values, namely, that either wages alone, or wages and profit together, determine the value of commodities. Once such an illusion appears with respect to wages, once the price of labour and the value created by labour seem to coincide, the same automatically applies to profit and rent. Their prices, i.e., their money expression, must then be regulated independently of labour and of the value created by the latter.

Thirdly: Let us assume that according to direct experience the values of a commodity, or the prices of production—which merely appear to be independent of the values—always coincide with the market prices of the commodity rather than merely prevailing as the regulating average prices by constant compensation of the continual fluctuations in market price. Let us assume, furthermore, that reproduction always takes place under the same unaltered conditions, i.e., labour productivity remains constant in all elements of capital. Finally, let us assume that the component value of the commodity product, which is formed in every sphere of production by the addition of a new quantity of labour—i.e., a newly produced value—to the value of the means of production, always splits into constant proportions of wages, profit and rent, so that the wage actually paid always directly coincides with the value of labour power, the profit actually realised—with the portion of the total surplus value which falls to the share of every independently functioning part of the total capital by virtue of the average rate of profit, and the actual rent is always limited by the bounds within which ground rent on this basis is normally confined. In a word, let us assume that the division of the socially produced values and the regulation of the prices of production takes place on a capitalist basis, but that competition is eliminated.

Thus, under these assumptions, namely, if the value of commodities were constant and appeared so, if the component value of the commodity product which resolves itself into revenues were to remain a constant magnitude and always appeared as such, and finally, if this given and constant component value always split into constant proportions of wages, profit and rent—even under these assumptions, the real movement would necessarily appear in a distorted
form; not as the splitting of a previously given magnitude of value into three parts which assume mutually independent forms of revenue, but, on the contrary, as the formation of this magnitude of value from the sum of the independent and separately determined, each by itself, constituent elements—wages, profit and ground rent. This illusion would necessarily arise, because in the actual movement of individual capitals, and the commodities produced by them, not the value of commodities would appear to be a precondition of its splitting but, conversely, the components into which it is split function as a precondition of the value of the commodities. In the first place, we have seen that to every capitalist the cost price of his commodities appears as a given magnitude and continually appears as such in the actual price of production. The cost price, however, is equal to the value of the constant capital, the advanced means of production, plus the value of labour power, which, however, appears to the agent of production in the irrational form of the price of labour, so that wages simultaneously appear as revenue of the labourer. The average price of labour is a given magnitude, because the value of labour power, like that of any other commodity, is determined by the necessary labour time required for its reproduction. But as concerns that portion of the value of commodities which is embodied in wages, it does not arise from the fact that it assumes this form of wages, that the capitalist advances to the labourer his share of his own product in the form of wages, but from the fact that the labourer produces an equivalent for his wages, i.e., that a portion of his daily or annual labour produces the value contained in the price of his labour power. But wages are stipulated by contract, before their corresponding value equivalent has been produced. As an element of price, whose magnitude is given before the commodity and its value have been produced, as a constituent part of the cost price, wages thereby do not appear as a portion which detaches itself in independent form from the total value of the commodity, but rather, conversely, as a given magnitude, which predetermines this value, i.e., as a creator of price and value. A role similar to that of wages in the cost price of commodities is played by the average profit in their price of production, for the price of production is equal to cost price plus average profit on the advanced capital. This average profit figures practically, in the mind and calculation of the capitalist himself, as a regulating element, not merely in so far as it determines the transfer of capitals from one sphere of investment into another, but also in all sales and contracts which
embrace a process of reproduction extending over long periods. But so far as it figures in this manner, it is a pre-existent magnitude, which is in fact independent of the value and surplus value produced in any particular sphere of production, and thus even more so in the case of any individual investment of capital in any sphere of production. Rather than appearing as a result of a splitting of value, it manifests itself much more as a magnitude independent of the value of the produced commodities, as pre-existing in the process of production of commodities and itself determining the average price of the commodities, i.e., as a creator of value. Indeed, the surplus value, owing to the separation of its various portions into mutually, completely unrelated forms, appears in still more concrete form as a prerequisite for creating commodity value. A part of the average profit in the form of interest confronts the functioning capitalist independently as an assumed element in the production of commodities and of their value. No matter how much the magnitude of the interest fluctuates, at each moment and for every capitalist it is a given magnitude entering into the cost price of the commodities produced by him as individual capitalist. The same role is played by ground rent in the form of lease money fixed by contract for the agricultural capitalist, and in the form of rent for business premises in the case of other entrepreneurs. These portions into which surplus value is split, being given as elements of cost price for the individual capitalist, appear conversely therefore as creators of surplus value; creators of a portion of the price of commodities, just as wages create the other. The secret wherefore these products of the splitting of commodity value constantly appear as prerequisites for the formation of value itself is simply this, that the capitalist mode of production, like any other, does not merely constantly reproduce the material product, but also the social and economic relations, the characteristic economic forms of its creation. Its result, therefore, appears just as constantly presupposed by it, as its presuppositions appear as its results. And it is this continual reproduction of the same relations which the individual capitalist anticipates as self-evident, as an indubitable fact. So long as the capitalist mode of production persists as such, a portion of the newly added labour continually resolves itself into wages, another into profit (interest and profit of enterprise), and a third into rent. In contracts between the owners of various agencies of production this is always assumed, and this assumption is correct, however much the relative proportions may fluctuate in individual cases. The definite
form in which the parts of value confront each other is presupposed because it is continually reproduced and it is continually reproduced because it is continually presupposed.

To be sure, experience and appearance now also demonstrate that market prices, in whose influence the capitalist actually sees the only determination of value, are by no means dependent upon such anticipation, so far as their magnitude is concerned; that they do not correspond to whether the interest or rent were set high or low. But the market prices are constant only in their variation, and their average over longer periods results precisely in the respective averages of wages, profit and rent as the constant magnitudes, and therefore, in the last analysis, those dominating the market prices.

On the other hand, it seems plain on reflection that if wages, profit and rent are creators of value since they seem to be presupposed in the production of value, and are assumed by the individual capitalist in his cost price and price of production, then the constant portion, whose value enters as given into the production of every commodity, is also a creator of value. But the constant portion of capital is no more than a sum of commodities and, therefore, of commodity values. Thus we should arrive at the absurd tautology that commodity value is the creator and cause of commodity value.

However, if the capitalist were at all interested in reflecting about this — and his reflections as capitalist are dictated exclusively by his interests and self-interested motives — experience would show him that the product which he himself produces enters into other spheres of production as a constant portion of capital, and that products of these other production spheres enter into his own product as constant portions of capital. Since the additional value, so far as his new production is concerned, seems to be formed, from his point of view, by the magnitudes of wages, profit and rent, then this also holds good for the constant portion consisting of the products of other capitalists. And thus, the price of the constant portion of capital, and thereby the total value of the commodities, reduces itself in the final analysis, although in a manner which is somewhat unaccountable, to a sum of values resulting from the addition of independent creators of value — wages, profit and rent — which are regulated according to different laws and arise from different sources.

Fourthly: Whether the commodities are sold at their values or not, and hence the determination of value itself, is quite immaterial for the individual capitalist. It is, from the very outset, a process that takes
place behind his back and is controlled by the force of circumstances independent of himself, because it is not the values, but the divergent prices of production, which form the regulating average prices in every sphere of production. The determination of value as such interests and has a determining effect on the individual capitalist and the capital in each particular sphere of production only in so far as the reduced or increased quantity of labour required to produce commodities, as a consequence of a rise or fall in productive power of labour, enables him in one instance to make an extra profit, at the prevailing market prices, and compels him in another to raise the price of his commodities, because more wages, more constant capital, and thus more interest, fall upon each portion of the product, or individual commodity. It interests him only in so far as it raises or lowers the cost of production of commodities for himself, thus only in so far as it makes his position exceptional.

On the other hand, wages, interest and rent appear to him as regulating limits not only of the price at which he can realise the profit of enterprise, the portion of profit falling to his share as functioning capitalist, but also at which he must generally be able to sell his commodities, if continued reproduction is to take place. It is quite immaterial to him whether or not he realises, through sale, the value and surplus value incorporated in his commodities, provided only that he makes the customary, or larger, profit of enterprise at given prices, over and above his individual cost price determined by wages, interest and rent. Apart from the constant portion of capital — wages, interest and rent appear to him, therefore, as the limiting and thereby productive determining elements of the commodity price. Should he succeed, e. g., in depressing wages below the value of labour power, i. e., below its normal level, in obtaining capital at a lower interest rate, and in paying less lease money than the normal amount for rent, then it is completely irrelevant to him whether he sells his product below its value, or even below the general price of production, thereby giving away gratis a portion of the surplus labour contained in the commodities. This also applies to the constant portion of capital. If an industrialist, e. g., can buy his raw material below its price of production, then this buffers him against loss, even should he sell it in the finished product under its price of production. His profit of enterprise may remain the same, or even increase, if only the excess of the commodity price over its elements, which must be paid, replaced by an equivalent, remains the same or increases. But aside from the value of the
means of production which enter into the production of his commodities as a given price magnitude, it is precisely wages, interest and rent which enter into this production as limiting and regulating price magnitudes. Consequently they appear to him as the elements determining the price of the commodities. Profit of enterprise, from this standpoint, seems to be either determined by the excess of market prices, dependent upon accidental conditions of competition, over the immanent value of commodities determined by the above-mentioned elements of price; or, to the extent that this profit itself exerts a determining influence upon market prices, it seems itself, in turn, dependent upon the competition between buyers and sellers.

In the competition of individual capitalists among themselves as well as in the competition on the world market, it is the given and assumed magnitudes of wages, interest and rent which enter into the calculation as constant and regulating magnitudes; constant not in the sense of being unalterable magnitudes, but in the sense that they are given in each individual case and constitute the constant limit for the continually fluctuating market prices. For instance, in competition on the world market it is solely a question of whether commodities can be sold advantageously with existing wages, interest and rent at, or below, existing general market prices, i.e., realising a corresponding profit of enterprise. If wages and the price of land are low in one country, while interest on capital is high, because the capitalist mode of production has not been developed generally, whereas in another country wages and the price of land are nominally high, while interest on capital is low, then the capitalist employs more labour and land in the one country, and in the other relatively more capital. These factors enter into calculation as determining elements in so far as competition between these two capitalists is possible. Here, then, experience shows theoretically, and the self-interested calculation of the capitalist shows practically, that the prices of commodities are determined by wages, interest and rent, by the price of labour, capital and land, and that these elements of price are indeed the regulating constituent factors of price.

Of course, there always remains an element here which is not assumed, but which results from the market price of commodities, namely, the excess above the cost price formed by the addition of the aforementioned elements: wages, interest and rent. This fourth element seems to be determined by competition in each individual case, and in the average case by the average profit, which in its turn is regulated by this same competition, only over longer periods.
Fifthly: On the basis of the capitalist mode of production, it becomes so much a matter of course to split up the value, in which newly added labour is represented, into the forms of revenue, of wages, profit and ground rent, that this method is applied (leaving aside earlier stages of history, from which we gave illustrations in our study of ground rent) even where the preconditions for these forms of revenue are missing. That is, all is subsumed by analogy under these forms of revenue.

When an independent labourer — let us take a small farmer, since all three forms of revenue may here be applied — works for himself and sells his own product, he is first considered as his own employer (capitalist), who makes use of himself as a labourer, and second as his own landlord, who makes use of himself as his own tenant. To himself as wage worker he pays wages, to himself as capitalist he gives the profit, and to himself as landlord he pays rent. Assuming the capitalist mode of production and the relations corresponding to it to be the general basis of society, this subsumption is correct, in so far as it is not thanks to his labour, but to his ownership of means of production — which have assumed here the general form of capital — that he is in a position to appropriate his own surplus labour. And furthermore, to the extent that he produces his product as commodities, and thus depends upon its price (and even if not, this price is calculable), the quantity of surplus labour which he can realise depends not on its own magnitude, but on the general rate of profit; and likewise any eventual excess above the amount of surplus value determined by the general rate of profit is, in turn, not determined by the quantity of labour performed by him, but can be appropriated by him only because he is owner of the land. Since such a form of production not corresponding to the capitalist mode of production may thus be subsumed under its forms of revenue — and to a certain extent not incorrectly — the illusion is all the more strengthened that capitalist relations are the natural relations of every mode of production.

Of course, if wages are reduced to their general basis, namely, to that portion of the product of the producer’s own labour which passes over into the individual consumption of the labourer; if we relieve this portion of its capitalist limitations and extend it to that volume of consumption which is permitted, on the one hand, by the existing productivity of society (that is, the social productivity of his own individual labour as actually social), and which, on the other hand, the full development of the individuality requires; if, furthermore, we
reduce the surplus labour and surplus product to that measure which is required under prevailing conditions of production of society, on the one side to create an insurance and reserve fund, and on the other to constantly expand reproduction to the extent dictated by social needs; finally, if we include in No. 1 the necessary labour, and in No. 2 the surplus labour, the quantity of labour which must always be performed by the able-bodied in behalf of the immature or incapacitated members of society, i.e., if we strip both wages and surplus value, both necessary and surplus labour, of their specifically capitalist character, then certainly there remain not these forms, but merely their rudiments, which are common to all social modes of production.

Moreover, this method of subsumption was also characteristic of previous dominant modes of production, e.g., feudalism. Production relations which nowise corresponded to it, standing entirely beyond it, were subsumed under feudal relations, e.g., in England, the tenures in common socage (as distinct from tenures on knight's service), which comprised merely monetary obligations and were feudal in name only.

Chapter LI
DISTRIBUTION RELATIONS
AND PRODUCTION RELATIONS

The new value added by the annual newly added labour—and thus also that portion of the annual product in which this value is represented and which may be drawn out of the total output and separated from it—is thus split into three parts, which assume three different forms of revenue, into forms which express one portion of this value as belonging or falling to the share of the owner of labour power, another portion to the owner of capital, and a third portion to the owner of landed property. These, then, are relations, or forms of distribution, for they express the relations under which the newly produced total value is distributed among the owners of the various production agents.

From the common viewpoint these distribution relations appear as natural relations, as relations arising directly from the nature of all social production, from the laws of human production in general. It cannot, indeed, be denied that precapitalist societies disclose other modes of distribution, but the latter are interpreted as undeveloped, unperfected and disguised, not reduced to their purest expression and
their highest form and differently shaded modes of the natural distribution relations.

The only correct aspect of this conception is: Assuming some form of social production to exist (e.g., primitive Indian communities, or the more ingeniously developed communism of the Peruvians), a distinction can always be made between that portion of labour whose product is directly consumed individually by the producers and their families and — aside from the part which is productively consumed — that portion of labour which is invariably surplus labour, whose product serves constantly to satisfy the general social needs, no matter how this surplus product may be divided, and no matter who may function as representative of these social needs. Thus, the identity of the various modes of distribution amounts merely to this: they are identical if we abstract from their differences and specific forms and keep in mind only their unity as distinct from their dissimilarity.

A more advanced, more critical mind, however, admits the historically developed character of distribution relations, but nevertheless clings all the more tenaciously to the unchanging character of production relations themselves, arising from human nature and thus independent of all historical development.

On the other hand, scientific analysis of the capitalist mode of production demonstrates the contrary, that it is a mode of production of a special kind, with specific historical features; that, like any other specific mode of production, it presupposes a given level of the social productive forces and their forms of development as its historical precondition: a precondition which is itself the historical result and product of a preceding process, and from which the new mode of production proceeds as its given basis; that the production relations corresponding to this specific, historically determined mode of production — relations which human beings enter into during the process of social life, in the creation of their social life — possess a specific, historical and transitory character; and, finally, that the distribution relations essentially coincident with these production relations are their opposite side, so that both share the same historically transitory character.


a The reference is to Essays on Some Unsettled Questions of Political Economy, Essay II, pp. 47-74.
In the study of distribution relations, the initial point of departure is the alleged fact that the annual product is apportioned among wages, profit and rent. But if so expressed, it is a misstatement. The product is apportioned on one side to capital, on the other to revenue. One of these revenues, wages, itself constantly assumes only the form of revenue, revenue of the labourer, after it has first confronted this labourer in the form of capital. The confrontation of produced conditions of labour and of the products of labour generally, as capital, with the direct producers implies from the outset a definite social character of the material conditions of labour in relation to the labourers, and thereby a definite relationship into which they enter with the owners of the conditions of production and among themselves during production itself. The transformation of these conditions of labour into capital implies in turn the expropriation of the direct producers from the land, and thus a definite form of landed property.

If one portion of the product were not transformed into capital, the other would not assume the forms of wages, profit and rent.

On the other hand, if the capitalist mode of production presupposes this definite social form of the conditions of production, so does it reproduce it continually. It produces not merely the material products, but reproduces continually the production relations in which the former are produced, and thereby also the corresponding distribution relations.

It may be said, of course, that capital itself (and landed property which it includes as its antithesis) already presupposes a distribution: the expropriation of the labourer from the conditions of labour, the concentration of these conditions in the hands of a minority of individuals, the exclusive ownership of land by other individuals, in short, all the relations which have been described in the part dealing with primitive accumulation (Buch I, Kap. XXIV). But this distribution differs altogether from what is understood by distribution relations when the latter are endowed with a historical character in contradistinction to production relations. What is meant thereby are the various titles to that portion of the product which goes into individual consumption. The aforementioned distribution relations, on the contrary, are the basis of special social functions performed within the production relations by certain of their agents, as opposed to the direct producers. They imbue the conditions of production themselves and their representatives with a specific social quality.
They determine the entire character and the entire movement of production.

Capitalist production is distinguished from the outset by two characteristic features.

First. It produces its products as commodities. The fact that it produces commodities does not differentiate it from other modes of production; but rather the fact that being a commodity is the dominant and determining characteristic of its products. This implies, first and foremost, that the labourer himself comes forward merely as a seller of commodities, and thus as a free wage labourer, so that labour appears in general as wage labour. In view of what has already been said, it is superfluous to demonstrate anew that the relation between capital and wage labour determines the entire character of the mode of production. The principal agents of this mode of production itself, the capitalist and the wage labourer, are as such merely embodiments, personifications of capital and wage labour; definite social characteristics stamped upon individuals by the process of social production; the products of these definite social production relations.

The characteristic 1) of the product as a commodity, and 2) of the commodity as a product of capital, already implies all circulation relations, i.e., a definite social process through which the products must pass and in which they assume definite social characteristics; it likewise implies definite relations of the production agents, by which the value expansion of their product and its reconversion, either into means of subsistence or into means of production, are determined. But even apart from this, the entire determination of value and the regulation of the total production by value results from the above two characteristics of the product as a commodity, or of the commodity as a capitalistically produced commodity. In this entirely specific form of value, labour prevails on the one hand solely as social labour; on the other hand, the distribution of this social labour and the mutual supplementing and interchanging of its products, the subordination under, and introduction into, the social mechanism, are left to the accidental and mutually nullifying motives of individual capitalist producers. Since these latter confront one another only as commodity owners, and everyone seeks to sell his commodity as dearly as possible (apparently even guided in the regulation of production itself solely by his own free will), the inner law enforces itself only through their competition, their mutual pressure upon each other, whereby the deviations are mutually cancelled. Only as an inner law, vis-à-vis the
individual agents, as a blind law of Nature, does the law of value exert its influence here and maintain the social equilibrium of production amidst its accidental fluctuations.

Furthermore, already implicit in the commodity, and even more so in the commodity as a product of capital, is the objectification of the social features of production and the personification of the material foundations of production, which characterise the entire capitalist mode of production.

The second distinctive feature of the capitalist mode of production is the production of surplus value as the direct aim and determining motive of production. Capital produces essentially capital, and does so only to the extent that it produces surplus value. We have seen in our discussion of relative surplus value, and further in considering the transformation of surplus value into profit, how a mode of production peculiar to the capitalist period is founded hereon—a special form of development of the social productive powers of labour, but confronting the labourer as powers of capital rendered independent, and standing in direct opposition therefore to the labourer's own development. Production for value and surplus value implies, as has been shown in the course of our analysis, the constantly operating tendency to reduce the labour time necessary for the production of a commodity, i.e., its value, below the actually prevailing social average. The pressure to reduce cost price to its minimum becomes the strongest lever for raising the social productive power of labour, which, however, appears here only as a continual increase in the productiveness of capital.

The authority assumed by the capitalist as the personification of capital in the direct process of production, the social function performed by him in his capacity as manager and ruler of production, is essentially different from the authority exercised on the basis of production by means of slaves, serfs, etc.

Whereas, on the basis of capitalist production, the mass of direct producers is confronted by the social character of their production in the form of strictly regulating authority and a social mechanism of the labour process organised as a complete hierarchy—this authority reaching its bearers, however, only as the personification of the conditions of labour in contrast to labour, and not as political or theocratic rulers as under earlier modes of production—among the bearers of this authority, the capitalists themselves, who confront one another only as commodity owners, there reigns complete anarchy within
which the social interrelations of production assert themselves only as an overwhelming natural law in relation to individual free will.

Only because labour pre-exists in the form of wage labour, and the means of production in the form of capital—i.e., solely because of this specific social form of these two essential production agents—does a part of the value (product) appear as surplus value and this surplus value as profit (rent), as the gain of the capitalist, as additional available wealth belonging to him. But only because this surplus value thus appears as his profit do the additional means of production, which are intended for the expansion of reproduction, and which constitute a part of this profit, present themselves as new additional capital, and the expansion of the process of reproduction in general as a process of capitalist accumulation.

Although the form of labour as wage labour is decisive for the form of the entire process and the specific mode of production itself, it is not wage labour which determines value. In the determination of value, it is a question of social labour time in general, the quantity of labour which society generally has at its disposal, and whose relative absorption by the various products determines, as it were, their respective social importance. The definite form in which the social labour time prevails as decisive in the determination of the value of commodities is of course connected with the form of labour as wage labour and with the corresponding form of the means of production as capital, in so far as solely on this basis does commodity production become the general form of production.

Let us moreover consider the so-called distribution relations themselves. The wage presupposes wage labour, and profit—capital. These definite forms of distribution thus presuppose definite social characteristics of production conditions, and definite social relations of production agents. The specific distribution relations are thus merely the expression of the specific historical production relations.

And now let us consider profit. This specific form of surplus value is the precondition for the fact that the new creation of means of production takes place in the form of capitalist production; thus, a relation dominating reproduction, although it seems to the individual capitalist as if he could in reality consume his entire profit as revenue. However, he thereby meets barriers even in the form of insurance and reserve funds, laws of competition, etc., which hamper him and prove to him in practice that profit is not a mere distribution category of the individually consumable product. The entire process of capitalist
production is furthermore regulated by the prices of the products. But the regulating prices of production are themselves in turn regulated by the equalisation of the rate of profit and its corresponding distribution of capital among the various social spheres of production. Profit, then, appears here as the main factor, not of the distribution of products, but of their production itself, as a factor in the distribution of capitals and labour itself among the various spheres of production. The division of profit into profit of enterprise and interest appears as the distribution of the same revenue. But it arises, to begin with, from the development of capital as a self-expanding value, a creator of surplus value, i.e., from this specific social form of the prevailing process of production. It evolves credit and credit institutions out of itself, and thereby the form of production. As interest, etc., the ostensible distribution forms enter into the price as determining production factors.

Ground rent might seem to be a mere form of distribution, because landed property as such does not perform any, or at least any normal, function in the process of production itself. But the circumstance that 1) rent is limited to the excess above the average profit, and that 2) the landlord is reduced from the manager and master of the process of production and of the entire process of social life to the position of mere lessor of land, usurer in land and mere collector of rent, is a specific historical result of the capitalist mode of production. The fact that the earth received the form of landed property is a historical precondition for this. The fact that landed property assumes forms which permit the capitalist mode of operation in agriculture is a product of the specific character of this mode of production. The income of the landlord may be called rent, even under other forms of society. But it differs essentially from rent as it appears in this mode of production.

The so-called distribution relations, then, correspond to and arise from historically determined specific social forms of the process of production and mutual relations entered into by men in the reproduction process of human life. The historical character of these distribution relations is the historical character of production relations, of which they express merely one aspect. Capitalist distribution differs from those forms of distribution which arise from other modes of production, and every form of distribution disappears with the specific form of production from which it is descended and to which it corresponds.

The view which regards only distribution relations as historical,
but not production relations, is, on the one hand, solely the view of the initial, but still timid criticism of bourgeois economy. On the other hand, it rests on the confusion and identification of the process of social production with the simple labour process, such as might even be performed by an abnormally isolated human being without any social assistance. To the extent that the labour process is solely a process between man and Nature, its simple elements remain common to all social forms of development. But each specific historical form of this process further develops its material foundations and social forms. Whenever a certain stage of maturity has been reached, the specific historical form is discarded and makes way for a higher one. The moment of arrival of such a crisis is disclosed by the depth and breadth attained by the contradictions and antagonisms between the distribution relations, and thus the specific historical form of their corresponding production relations, on the one hand, and the productive forces, the production powers and the development of their agencies, on the other hand. A conflict then ensues between the material development of production and its social form. 57)

Chapter LII

CLASSES

The owners merely of labour power, owners of capital, and landowners, whose respective sources of income are wages, profit and ground rent, in other words, wage labourers, capitalists and landowners, constitute then three big classes of modern society based upon the capitalist mode of production.

In England, modern society is indisputably most highly and classically developed in economic structure. Nevertheless, even here the stratification of classes does not appear in its pure form. Middle and intermediate strata even here obliterate lines of demarcation everywhere (although incomparably less in rural districts than in the cities). However, this is immaterial for our analysis. We have seen that the continual tendency and law of development of the capitalist mode

57) See the work on *Competition and Co-operation* (1832?).#

# This refers apparently to *A Prize Essay on the Competitive Merits of Competition and Cooperation*, London, 1834.
of production is more and more to divorce the means of production from labour, and more and more to concentrate the scattered means of production into large groups, thereby transforming labour into wage labour and the means of production into capital. And to this tendency, on the other hand, corresponds the independent separation of landed property from capital and labour, or the transformation of all landed property into the form of landed property corresponding to the capitalist mode of production.

The first question to be answered is this: What constitutes a class? — and the reply to this follows naturally from the reply to another question, namely: What makes wage labourers, capitalists and landlords constitute the three great social classes?

At first glance — the identity of revenues and sources of revenue. There are three great social groups whose members, the individuals forming them, live on wages, profit and ground rent respectively, on the realisation of their labour power, their capital, and their landed property.

However, from this standpoint, physicians and officials, e.g., would also constitute two classes, for they belong to two distinct social groups, the members of each of these groups receiving their revenue from one and the same source. The same would also be true of the infinite fragmentation of interest and rank into which the division of social labour splits labourers as well as capitalists and landlords — the latter, e.g., into owners of vineyards, farm owners, owners of forests, mine owners and owners of fisheries.

//Here the manuscript breaks off.//

58) F. List remarks correctly: "The prevalence of a self-sufficient economy on large estates demonstrates solely the lack of civilisation, means of communication, domestic trades and wealthy cities. It is to be encountered, therefore, throughout Russia, Poland, Hungary and Mecklenburg. Formerly, it was also prevalent in England; with the advance of trades and commerce, however, this was replaced by the breaking up into middle estates and the leasing of land." (Die Ackerverfassung, die Zwergwirtschaft und die Auswanderung, 1842, p. 10.)
Written by F. Engels in May-June 1895

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Translated from the German
The third book of Capital is receiving many and various interpretations ever since it has been subject to public judgement. It was not to be otherwise expected. In publishing it, what I was chiefly concerned with was to produce as authentic a text as possible, to demonstrate the new results obtained by Marx in Marx's own words as far as possible, to intervene myself only where absolutely unavoidable, and even then to leave the reader in no doubt as to who was talking to him. This has been deprecated. It has been said that I should have converted the material available to me into a systematically written book, _en faire un livre_, as the French say; in other words, sacrifice the authenticity of the text to the reader's convenience. But this was not how I conceived my task. I lacked all justification for such a revision, a man like Marx has the right to be heard himself, to pass on his scientific discoveries to posterity in the full genuineness of his own presentation. Moreover, I had no desire thus to infringe—as it must seem to me—upon the legacy of so pre-eminent a man; it would have meant to me a breach of faith. And third, it would have been quite useless. For the people who cannot or do not want to read, who, even in Volume I, took more trouble to understand it wrongly than was necessary to understand it correctly—for such people it is altogether useless to put oneself out in any way. But for those who are interested in a real understanding, the original text itself was precisely the most important thing; for them my recasting would have had at most the value of a commentary, and, what is more, a commentary on something unpublished and inaccessible. The original text would have had to be referred to at the first controversy, and at the second and
third its publication *in extenso* would have become quite unavoidable. Such controversies are a matter of course in a work that contains so much that is new, and in a hastily sketched and partly incomplete first draft to boot. And here my intervention, of course, can be of use: to eliminate difficulties in understanding, to bring more to the fore important aspects whose significance is not strikingly enough evident in the text, and to make some important additions to the text written in 1865 to fit the state of affairs in 1895. Indeed, there are already two points which seem to me to require a brief discussion.

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LAW OF VALUE AND RATE OF PROFIT

It was to be expected that the solution of the apparent contradiction between these two factors would lead to debates just as much after the publication of Marx's text as before it. Some were prepared for a complete miracle and find themselves disappointed because they see a simple, rational, prosaically-sober solution of the contradiction instead of the hocus-pocus they had expected. Most joyfully disappointed of course is the well-known, illustrious Loria. He has at last found the Archimedean fulcrum from which even a gnome of his calibre can lift the solidly built gigantic Marxian structure into the air and explode it. What! he declaims indignantly. Is that supposed to be a solution? That is pure mystification! When the economists speak of value, they mean value that is actually established in exchange.

"No economist with any trace of sense has ever concerned himself or will ever want to concern himself with a value which commodities do not sell for and never can sell for *(né possono vendersi mai)*.... In asserting that the value for which commodities never sell is proportional to the labour they contain, what does Marx do except repeat in an inverted form the thesis of the orthodox economists, that the value for which commodities sell is *not* proportional to the labour expended on them?... Matters are not helped by Marx's saying that despite the divergency of individual prices from individual values the total price of all commodities always coincides with their total value, or the amount of labour contained in the totality of the commodities. For inasmuch as value is nothing more than the exchange ratio between one commodity and another, the very concept of a total value is an absurdity, nonsense *... a contradicito in adjecto*...."  

At the very beginning of the book, he argues, Marx says that exchange can equate two commodities only by virtue of a similar and

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*a* contradiction in definition
equally large element contained in them, namely, the equal amount of labour. And now he most solemnly repudiates himself by asserting that commodities exchange with one another in a totally different ratio than that of the amount of labour contained in them.

"Was there ever such an utter reductio ad absurdum, such complete theoretical bankruptcy? Was ever scientific suicide committed with greater pomp and more solemnity!" (Nuova Antologia, Feb. 1, 1895, pp. 477-78, 479.)

We see our Loria is more than happy. Wasn't he right in treating Marx as one of his own, as an ordinary charlatan? There you see it—Marx sneers at his public just like Loria; he lives on mystifications just like the most insignificant Italian professor of economics. But, whereas Dulcamara\(^a\) can afford that because he knows his trade, the clumsy Northerner, Marx, commits nothing but ineptitudes, writes nonsense and absurdities, so that there is finally nothing left for him but solemn suicide.

Let us save for later the statement that commodities have never been sold, nor can even be sold, at the values determined by labour. Let us deal here merely with Mr. Loria’s assurance that

"value is nothing more than the exchange ratio between one commodity and another," and that therefore "the very concept of a total value of commodities is an absurdity, nonsense...."

The ratio in which two commodities are exchanged for each other, their value, is therefore something purely accidental, stuck on to the commodities from the outside, which can be one thing today and something else tomorrow. Whether a metric hundredweight of wheat is exchanged for a gramme or a kilogramme of gold does not in the least depend upon conditions inherent in that wheat or gold, but upon circumstances totally foreign to both. For otherwise these conditions would also have to assert themselves in the exchange, dominate the latter on the whole, and also have an independent existence apart from exchange, so that one could speak of a total value of commodities. That is nonsense, says the illustrious Loria. No matter in what ratio two commodities may be exchanged for each other, that is their value—and that's all there is to it. Hence value is identical with price, and every commodity has as many values as the prices it can get. And price is determined by supply and demand; and anyone asking any more questions is a fool to expect an answer.

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\(^a\) Charlatan in L’Elisir d’Amore, comic opera by Donizetti.
But there is a little hitch to the matter. In the normal state, supply and demand balance. Therefore, let us divide all the commodities in the world into two halves, the supply group and the equally large demand group. Let us assume that each represents a price of 1,000,000 million marks, francs, pounds sterling, or what you will. According to elementary arithmetic that makes a price or value of 2,000,000 million. Nonsense, absurd, says Mr. Loria. The two groups together may represent a price of 2,000,000 million. But it is otherwise with value. If we say price: 1,000 + 1,000 = 2,000. But if we say value: 1,000 + 1,000 = 0. At least in this case, where the totality of commodities is involved. For here the commodities of each of the two groups are worth 1,000,000 million only because each of the two can and will give this sum for the commodities of the other. But if we unite the totality of the commodities of both groups in the hands of a third person, the first has no value in his hand any longer, nor the second, and the third certainly not—in the end no one has anything. And again we marvel at the superiority with which our southern Cagliostro has manhandled the concept of value in such a fashion that not the slightest trace of it has been left. This is the acme of vulgar economics! 1)

1) Somewhat later, the same gentleman "well-known through his fame" (to use Heine’s phrase) also felt himself compelled to reply to my preface to Volume III—after it was published in Italian in the first number of Rassegna in 1895. The reply is printed in the Riforma Sociale of February 25, 1895. After having lavished upon me the inevitable (and therefore doubly repulsive) adulation, he states that he never thought of filching for himself Marx’s credit for the materialist conception of history. He acknowledged it as early as 1885—to wit, quite incidentally in a magazine article. But in return he passes over it in silence all the more stubbornly precisely where it is due, that is, in his book on the subject, where Marx is mentioned for the first time on page 129, and then merely in connection with small landed property in France. And now he bravely declares that Marx is not at all the originator of this theory; if Aristotle had not already suggested it, Harrington undoubtedly proclaimed it as early as 1656, and it had been developed by a Pleiad of historians, politicians, jurists and economists long before Marx. All of which is to be read in the French edition of Loria’s book. In short, the perfect plagiarist. After I have made it impossible for him to brag any more with plagiarisms from Marx, he boldly maintains that Marx adorns himself with borrowed plumes just as he himself does. From my other attacks, Loria takes up the one that, according to him, Marx never planned to write a second or indeed a third volume of Capital. "And now Engels replies triumphantly by throwing the second and third volumes at me... excellent! And I am so pleased with these volumes, to which I owe so much intellectual enjoyment, that never was a victory so dear to me as today this defeat is—if

a An Italian alchemist and charlatan. His real name is Guiseppe Balsamo.-

b H. Heine, Ritter Olaf.
First page of Engels' manuscript

"Law of Value and Rate of Profit"
In Braun’s *Archiv für soziale Gesetzgebung*, Vol. VII, No. 4, Werner Sombart gives an outline of the Marxian system which, taken all in all, is excellent. It is the first time that a German university professor succeeds on the whole in seeing in Marx’s writings what Marx really says, stating that the criticism of the Marxian system cannot consist of a refutation —

“LET THE POLITICAL CAREERIST DEAL WITH THAT”

— but merely in a further development. Sombart, too, deals with our subject, as is to be expected. He investigates the importance of value in the Marxian system, and arrives at the following results: Value is not manifest in the exchange relation of capitalistically produced commodities; it does not live in the consciousness of the agents of capitalist production; it is not an empirical, but a mental, a logical fact; the concept of value in its material definiteness in Marx is nothing but the economic expression for the fact of the social productive power of labour as the basis of economic existence; in the final analysis the law of value dominates economic processes in a capitalist economic system, and for this economic system quite generally has the following content: the value of commodities is the specific and historical form in which the productive power of labour, in the last analysis dominating all economic processes, asserts itself as a determining factor.—So says Sombart; it cannot be said that this conception of the

it really is a defeat. But is it actually? Is it really true that Marx wrote, with the intention of publication, this mixture of disconnected notes that Engels, with pious friendship, has compiled? Is it really permissible to assume that Marx ... confided the coronation of his work and his system to these pages? Is it indeed certain that Marx would have published that chapter on the average rate of profit, in which the solution, promised for so many years, is reduced to the most dismal mystification, to the most vulgar playing with phrases? It is at least permissible to doubt it.... That proves, it seems to me, that Marx, after publishing his magnificent (*splendido*) book, did not intend to provide it with a successor, or else wanted to leave the completion of the gigantic work to his heirs, outside his own responsibility.”

So it is written on p. 267. Heine could not speak any more contemptuously of his philistine German public than in the words: “The author finally gets used to his public as if it were a reasonable being.”

What must the illustrious Loria think his public is?

In conclusion, another load of praise comes pouring down on my unlucky self. In this our Sganarelle puts himself on a par with Balaam, who came to curse but whose lips bubbled forth “words of blessing and love” against his will. For the good Balaam was distinguished by the fact that he rode upon an ass that was more intelligent than its master. This time Balaam evidently left his ass at home.

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[^a]: H. Heine, afterword to *Romancero*.  
[^b]: A character from Molière’s *Don Juan*. 
significance of the law of value for the capitalist form of production is wrong. But it does seem to me to be too broad, and susceptible of a narrower, more precise formulation; in my opinion it by no means exhausts the entire significance of the law of value for the economic stages of society’s development dominated by this law.

There is a likewise excellent article by Conrad Schmidt on the third volume of *Capital* in *Braun’s Sozialpolitisches Centralblatt*, February 25, 1895, No. 22. Especially to be emphasised here is the proof of how the Marxian derivation of average profit from surplus value for the first time gives an answer to the question not even posed by economics up to now: how the magnitude of this average rate of profit is determined, and how it comes about that it is, say, 10 or 15% and not 50 or 100%. Since we know that the surplus value first appropriated by the industrial capitalist is the sole and exclusive source from which profit and rent flow, this question solves itself. This passage of Schmidt’s article might be directly written for economists à la Loria, if it were not labour in vain to open the eyes of those who do not want to see.

Schmidt, too, has his formal misgivings regarding the law of value. He calls it a scientific hypothesis, set up to explain the actual exchange process, which proves to be the necessary theoretical starting-point, illuminating and indispensable, even in respect of the phenomena of competitive prices which seem in absolute contradiction to it. According to him, without the law of value all theoretical insight into the economic machinery of capitalist reality ceases. And in a private letter that he permits me to quote, Schmidt declares the law of value within the capitalist form of production to be a pure, although theoretically necessary, fiction. 93—This view, however, is quite incorrect in my opinion. The law of value has a far greater and more definite significance for capitalist production than of a mere hypothesis, not to mention a fiction, even though a necessary one.

Sombart, as well as Schmidt—I mention the illustrious Loria merely as an amusing vulgar-economic foil—does not make sufficient allowance for the fact that we are dealing here not only with a purely logical process but with a historical process and its explanatory reflection in thought, the logical pursuance of its inner connections.

The decisive passage is to be found in Marx, Buch III, I, S. 154a: “The whole difficulty arises from the fact that commodities are not

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a See this volume, p. 174.
exchanged simply as commodities, but as products of capitals, which claim participation in the total amount of surplus value, proportional to their magnitude, or equal if they are of equal magnitude.”

To illustrate this difference, it is supposed that the workers are in possession of their means of production, that they work on the average for equally long periods of time and with equal intensity, and exchange their commodities with one another directly. Then, in one day, two workers would have added by their labour an equal amount of new value to their products, but the product of each would have different value, depending on the labour already embodied in the means of production. This latter part of the value would represent the constant capital of capitalist economy, while that part of the newly added value employed for the worker’s means of subsistence would represent the variable capital, and the portion of the new value still remaining would represent the surplus value, which in this case would belong to the worker. Thus, after deducting the amount to replace the “constant” part of value only advanced by them, both workers would get equal values; but the ratio of the part representing surplus value to the value of the means of production—which would correspond to the capitalist rate of profit—would be different in each case. But since each of them gets the value of the means of production replaced through the exchange, this would be a wholly immaterial circumstance.

“The exchange of commodities at their values, or approximately at their values, thus requires a much lower stage than their exchange at their prices of production, which requires a definite level of capitalist development.... Apart from the domination of prices and price movement by the law of value, it is quite appropriate to regard the values of commodities as not only theoretically but also historically prior to the prices of production. This applies to conditions in which the labourer owns his means of production, and this is the condition of the land-owning farmer living off his own labour and the craftsman, in the ancient as well as in the modern world. This agrees also with the view we expressed previously, that the evolution of products into commodities arises through exchange between different communities, not between the members of the same community. It holds not only for this primitive condition, but also for subsequent conditions, based on slavery and serfdom, and for the guild organisation of handicrafts, so long as the means of production involved in each branch of production can be transferred from one sphere to another only with diffi-
cully and therefore the various spheres of production are related to one another, within certain limits, as foreign countries or communist communities" (Marx, Buch III, I, S. 155, 156).

Had Marx had an opportunity to go over the third volume once more, he would doubtless have extended this passage considerably. As it stands it gives only a sketchy outline of what is to be said on the point in question. Let us therefore examine it somewhat closer.

We all know that at the beginnings of society products are consumed by the producers themselves, and that these producers are spontaneously organised in more or less communistic communities; that the exchange of the surplus of these products with strangers, which ushers in the conversion of products into commodities, is of a later date; that it takes place at first only between individual communities of different tribes, but later also prevails within the community, and contributes considerably to the latter's dissolution into bigger or smaller family groups. But even after this dissolution, the exchanging family heads remain working peasants, who produce almost all they require with the aid of their families on their own farmsteads, and get only a slight portion of the required necessities from the outside in exchange for surplus products of their own. The family is engaged not only in agriculture and livestock-raising; it also works their products up into finished articles of consumption; now and then it even does its own milling with the hand-mill; it bakes bread, spins, dyes, weaves flax and wool, tans leather; builds and repairs wooden buildings, makes tools and utensils, and not infrequently does joinery and blacksmithing; so that the family or family group is in the main self-sufficient.

The little that such a family had to obtain by barter or buy from outsiders, even up to the beginning of the 19th century in Germany, consisted principally of the objects of handicraft production, that is, such things the nature of whose manufacture was by no means unknown to the peasant, and which he did not produce himself only because he lacked the raw material or because the purchased article was much better or very much cheaper. Hence the peasant of the Middle Ages knew fairly accurately the labour time required for the manufacture of the articles obtained by him in barter. The smith and the cartwright of the village worked under his eyes; likewise the tailor

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* See this volume, pp. 175-76.
and shoemaker, who in my youth still paid their visits to our Rhine peasants, one after another, turning the homemade materials into shoes and clothing. The peasants, as well as the people from whom they bought, were themselves workers; the exchanged articles were each one's own products. What had they expended in making these products? Labour and labour alone: to replace tools, to produce the raw material, and to process it they spent nothing but their own labour power; how then could they exchange these products of theirs for those of other labouring producers otherwise than in the ratio of the labour expended on them? Not only was the labour time spent on these products the only suitable measure for the quantitative determination of the values to be exchanged: no other was at all possible. Or is it believed that the peasant and the artisan were so stupid as to give up the product of ten hours' labour of one person for that of a single hour's labour of another? No other exchange is possible in the whole period of peasant natural economy than that in which the exchanged quantities of commodities tend to be measured more and more according to the amounts of labour embodied in them. From the moment money penetrates into this mode of economy, the tendency towards adaptation to the law of value (in the Marxian formulation, nota bene!) grows more pronounced on the one hand, while on the other it is already interrupted by the interference of usurers' capital and fleecing by taxation; the periods for which prices, on the average, approach to within a negligible margin of values begin to grow longer.

The same holds good for exchange between peasant products and those of the urban artisans. At the beginning this barter takes place directly, without the medium of the merchant — on the cities' market days, when the peasant sells and makes his purchases. Here too, not only does the peasant know the artisan's working conditions, but the latter knows those of the peasant as well. For the artisan is himself still a bit of a peasant; he not only has a vegetable and fruit garden, but very often also has a small piece of land, one or two cows, pigs, poultry, etc. People in the Middle Ages were thus able to check up with considerable accuracy on each other's production costs for raw material, auxiliary material, and labour time — at least in respect of articles of daily general use.

But how, in this barter on the basis of quantity of labour, was the latter to be calculated, even if only indirectly and relatively, for products requiring longer labour, interrupted at irregular intervals, and
uncertain in yield — e.g., grain or cattle? And among people, to boot, who could not calculate? Obviously only by means of a lengthy process of zigzag approximation, often feeling the way here and there in the dark, and, as is usual, learning only through mistakes. But each one's necessity for covering his outlay on the whole always helped to return to the right direction; and the small number of kinds of articles in circulation, as well as the often century-long stable nature of their production, facilitated the attaining of this goal. And that it by no means took so long for the relative amount of value of these products to be fixed fairly closely is already proved by the fact that cattle, the commodity for which this appears to be most difficult because of the long time of production of the individual head, became the first rather generally accepted money commodity. To accomplish this, the value of cattle, its exchange ratio to a large number of other commodities, must already have attained a relatively unusual stabilisation, acknowledged without contradiction in the territories of many tribes. And the people of that time were certainly clever enough — both the cattle-breeder s and their customers — not to give away the labour time expended by them without an equivalent in barter. On the contrary, the closer people are to the primitive state of commodity production — the Russians and Orientals for example — the more time do they still waste today, in order to squeeze out, through long tenacious bargaining, the full compensation for their labour time expended on a product.

Starting with this determination of value by labour time, the whole of commodity production developed, and with it the multifarious relations in which the various aspects of the law of value assert themselves, as described in the first part of Volume I of Capital; that is, in particular, the conditions under which labour alone is value-creating. These are conditions which assert themselves without entering the consciousness of the participants and can themselves be abstracted from daily practice only through laborious theoretical investigation; which act, therefore, like natural laws, as Marx proved to follow necessarily from the nature of commodity production. The most important and most incisive advance was the transition to metallic money, the consequence of which, however, was that the determination of value by labour time was no longer visible upon the surface of commodity exchange. From the practical point of view, money became the decisive measure of value, all the more as the commodities entering trade became more varied, the more they came
from distant countries, and the less, therefore, the labour time necessary for their production could be checked. Money itself usually came first from foreign parts; even when precious metals were obtained within the country, the peasant and artisan were partly unable to estimate approximately the labour employed therein, and partly their own consciousness of the value-measuring property of labour had been fairly well dimmed by the habit of reckoning with money; in the popular mind money began to represent absolute value.

In a word: the Marxian law of value holds generally, as far as economic laws are valid at all, for the whole period of simple commodity production, that is, up to the time when the latter suffers a modification through the appearance of the capitalist form of production. Up to that time prices gravitate towards the values fixed according to the Marxian law and oscillate around those values, so that the more fully simple commodity production develops, the more the average prices over long periods uninterrupted by external violent disturbances coincide with values within a negligible margin. Thus the Marxian law of value has general economic validity for a period lasting from the beginning of exchange, which transforms products into commodities, down to the 15th century of the present era. But the exchange of commodities dates from a time before all written history, which in Egypt goes back to at least 2500 B. C., and perhaps 5000 B. C., and in Babylon to 4000 B. C., perhaps 6000 B. C.; thus the law of value has prevailed during a period of from five to seven thousand years. And now let us admire the thoroughness of Mr. Loria, who calls the value generally and directly valid during this period, a value at which commodities are never sold nor can ever be sold, and with which no economist having a spark of common sense would ever occupy himself!

We have not spoken of the merchant up to now. We could save the consideration of his intervention for now, when we pass to the transformation of simple into capitalist commodity production. The merchant was the revolutionary element in this society where everything else was stable—stable, as it were, through inheritance; where the peasant obtained not only his hide of land but his status as a freehold proprietor, as a free or enthralled quit-rent peasant or serf, and the urban artisan his trade and his guild privileges by inheritance and almost inalienably, and each of them, in addition, his customers, his market, as well as his skill, trained from childhood for the inherited craft. Into this world then entered the merchant with whom its revolution was to start. But not as a conscious revolutionary; on the
contrary, as flesh of its flesh, bone of its bone. The merchant of the Middle Ages was by no means an individualist; he was essentially an associate like all his contemporaries. The mark association, grown out of primitive communism, prevailed in the countryside. Each peasant originally had an equal hide, with equal pieces of land of each quality, and a corresponding, equal share in the rights of the mark. After the mark had become a closed association and no new hides were allocated any longer, subdivision of the hides occurred through inheritance, etc., with corresponding subdivisions of the common rights in the mark; but the full hide remained the unit, so that there were half, quarter and eighth-hides with half, quarter and eighth-rights in the mark. All later productive associations, particularly the guilds in the cities, whose statutes were nothing but the application of the mark constitution to a craft privilege instead of to a restricted area of land, followed the pattern of the mark association. The central point of the whole organisation was the equal participation of every member in the privileges and produce assured to the guild, as is strikingly expressed in the 1527 license of the Elberfeld and Barmen yarn trade. (Thun: *Industrie am Niederrhein*, Vol. II, p. 164 ff.) The same holds true of the mine guilds, where each share participated equally and was also divisible, together with its rights and obligations, like the hide of the mark member. And the same holds good in no less degree of the merchant companies, which initiated overseas trade. The Venetians and the Genoese in the harbour of Alexandria or Constantinople, each “nation” in its own *fondaco*—dwelling, inn, warehouse, exhibition and salesrooms, together with central offices—formed complete trade associations; they were closed to competitors and customers; they sold at prices fixed among themselves; their commodities had a definite quality guaranteed by public inspection and often by a stamp; they deliberated in common on the prices to be paid by the natives for their products, etc. Nor did the Hanseatic merchants act otherwise on the German Bridge (Tydske Bryggen) in Bergen, Norway; the same held true of their Dutch and English competitors. Woe to the man who sold under the price or bought above the price! The boycott that struck him meant at that time inevitable ruin, not counting the direct penalties imposed by the association upon the guilty. And even closer associations were founded for definite purposes, such as the Maona of Genoa in the 14th and 15th centuries, for years the ruler of the alum mines of Phocaea in Asia Minor, as well as of the Island of Chios; furthermore the great Ravensberg Trading
Company, which dealt with Italy and Spain since the end of the 14th century, founding branches in those countries; the German company of the Augsburgers: Fugger, Welser, Vöhlin, Höchstetter, etc.; that of the Nürnberger: Hirschvogel and others, which participated with a capital of 66,000 ducats and three ships in the 1505-06 Portuguese expedition to India, making a net profit of 150%, according to others, 175% (Heyd: *Levantehandel*, II, 524)a; and a large number of other companies, “Monopolia”, over which Luther waxes so indignant.

Here for the first time we meet with a profit and a rate of profit. The merchant’s efforts are deliberately and consciously aimed at making this rate of profit equal for all participants. The Venetians in the Levant, and the Hanseatics in the North, each paid the same prices for his commodities as his neighbour; his transport charges were the same, he got the same prices for his goods and bought return cargo for the same prices as every other merchant of his “nation”. Thus the rate of profit was equal for all. In the big trading companies the allocation of profit *pro rata* of the paid-in capital share is as much a matter of course as the participation in mark rights *pro rata* of the entitled hide share, or as the mining profit *pro rata* of the mining share. The equal rate of profit, which in its fully developed form is one of the final results of capitalist production, thus manifests itself here in its simplest form as one of the points from which capital started historically, as a direct offshoot in fact of the mark association, which in turn is a direct offshoot of primitive communism.

This original rate of profit was necessarily very high. The business was very risky not only because of widespread piracy; the competing nations also permitted themselves all sorts of acts of violence when the opportunity arose; finally, sales and marketing conditions were based upon licenses granted by foreign princes, which were broken or revoked often enough. Hence, the profit had to include a high insurance premium. Then turnover was slow, the handling of transactions protracted, and in the best periods, which, admittedly, were seldom of long duration, the business was a monopoly trade with monopoly profit. The very high interest rates prevailing at the time, which always had to be lower on the whole than the percentage of usual commercial profit, also prove that the rate of profit was on the average very high.

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a The reference is to *Geschichte des Levantehandels im Mittelalter*. 
But this high rate of profit, equal for all participants and obtained through joint labour of the community, held only locally within the associations, that is, in this case the “nation”. Venetians, Genoese, Hanseatics, and Dutchmen each had a special rate of profit, and at the beginning more or less for each individual market area as well. Equalisation of these different company profit rates took place in the opposite way through competition. First, the profit rates of the different markets for one and the same nation. If Alexandria offered more profit for Venetian goods than Cyprus, Constantinople or Trebizond, the Venetians would start more capital moving towards Alexandria, withdrawing it from trade with the other markets. Then the gradual equalisation of profit rates among the different nations, exporting the same or similar goods to the same markets, had to follow, and some of these nations were very often squeezed to the wall and disappeared from the scene. But this process was being continually interrupted by political events, just as all Levantine trade collapsed owing to the Mongolian and Turkish invasions; the great geographic-commercial discoveries after 1492 only accelerated this decline and then made it final.

The sudden expansion of the market area that followed and the revolution in communications connected with it, introduced no essential change at first in the nature of trade operations. At the beginning, co-operative companies also dominated trade with India and America. But in the first place, bigger nations stood behind these companies. In trade with America, the whole of great united Spain took the place of the Catalanians trading with the Levant; alongside it two great countries like England and France; and even Holland and Portugal, the smallest, were still at least as large and strong as Venice, the greatest and strongest trading nation of the preceding period. This gave the travelling merchant, the merchant adventurer of the 16th and 17th centuries, a backing that made the company, which protected its companions with arms also, more and more superfluous, and its expenses an outright burden. Moreover, the wealth in a single hand grew considerably faster, so that single merchants soon could invest as large sums in an enterprise as formerly an entire company. The trading companies, wherever still existent, were usually converted into armed corporations, which conquered and monopolistically exploited whole newly discovered countries under the protection and the sovereignty of the mother country. But the more colonies were founded in the new areas, largely by the state, the more did company
trade recede before that of the individual merchant, and the equalisation of the profit rate became therewith more and more a matter of competition exclusively.

Up to now we have become acquainted with a rate of profit only for merchant capital. For only merchant and usurers' capital had existed up to that time; industrial capital was yet to be developed. Production was still predominantly in the hands of workers owning their own means of production, whose work therefore yielded no surplus value to any capital. If they had to surrender a part of the product to third parties without compensation, it was in the form of tribute to feudal lords. Merchant capital, therefore, could only make its profit, at least at the beginning, out of the foreign buyers of domestic products, or the domestic buyers of foreign products; only toward the end of this period—for Italy, that is, with the decline of Levantine trade—were foreign competition and the difficulty of marketing able to compel the handicraft producers of export commodities to sell the commodity under its value to the exporting merchant. And thus we find here that commodities are sold at their values, on the average, in the domestic retail trade of individual producers with one another, but, for the reasons given, not in international trade as a rule. Quite the opposite of the present-day world, where the production prices hold good in international and wholesale trade, while the formation of prices in urban retail trade is governed by quite other rates of profit. So that the meat of an ox, for example, experiences today a greater rise in price on its way from the London wholesaler to the individual London consumer than from the wholesaler in Chicago, including transport, to the London wholesaler.

The instrument that gradually brought about this revolution in price formation was industrial capital. Rudiments of the latter had been formed as early as the Middle Ages, in three fields—shipping, mining and textiles. Shipping on the scale practised by the Italian and Hanseatic maritime republics was impossible without sailors, i. e., wage labourers (whose wage relationship may have been concealed under association forms with profit-sharing), or without oarsmen—wage labourers or slaves—for the galleys of that day. The guilds in the ore mines, originally associated workers, had already been converted in almost every case into stock companies for exploiting the deposits by means of wage labourers. And in the textile industry the merchant had begun to place the petty master-weaver directly in his service, by supplying him with yarn and having it made into
cloth for his account in return for a fixed wage, in short, by himself changing from a mere buyer into a so-called contractor.

Here we have the first beginning of the formation of capitalist surplus value. We can ignore the mining guilds as closed monopoly corporations. With regard to the shipowners it is obvious that their profit had to be at least as high as the customary one in the country, plus an extra increment for insurance, depreciation of ships, etc. But how were matters with the textile contractors, who first brought commodities, directly manufactured for capitalist account, into the market and into competition with the commodities of the same sort made for handicraft account?

Merchant capital’s rate of profit was at hand to start with. Likewise, it had already been equalised to an approximate average rate, at least for the locality in question. Now what could induce the merchant to take on the extra business of a contractor? Only one thing: the prospect of greater profit at the same selling price as the others. And he had this prospect. By taking the petty master into his service, he broke through the traditional bonds of production within which the producer sold his finished product and nothing else. The merchant capitalist bought the labour power, which still owned its production instruments but no longer the raw material. By thus guaranteeing the weaver regular employment, he could depress the weaver’s wage to such a degree that a part of the labour time furnished remained unpaid for. The contractor thus became an appropriator of surplus value over and above his commercial profit. Admittedly, he had to employ additional capital to buy yarn, etc., and leave it in the weaver’s hands until the article for which he formerly had to pay the full price only upon purchasing it was finished. But, in the first place, he had already used extra capital in most cases for advances to the weaver, who as a rule submitted to the new production conditions only under the pressure of debt. And secondly, apart from that, the calculation took the following form:

Assume that our merchant operates his export business with a capital of 30,000 ducats, sequins, pounds sterling or whatever the case may be. Of that, say, 10,000 are engaged in the purchase of domestic goods, whereas 20,000 are used in the overseas market. Say the capital is turned over once in two years. Annual turnover = 15,000. Now our merchant wants to become a contractor, to have cloth woven for his own account. How much additional capital must he invest? Let us assume that the production time of the piece of
cloth, such as he sells, averages two months, which is certainly very
high. Let us further assume that he has to pay for everything in cash.
Hence he must advance enough capital to supply his weavers with
yarn for two months. Since his turnover is 15,000 a year he buys cloth
for 2,500 in two months. Let us say that 2,000 of that represents the
value of yarn, and 500 weavers' wages; then our merchant requires
an additional capital of 2,000. We assume that the surplus value he
appropriates from the weaver by the new method totals only 5 per
cent of the value of the cloth, which constitutes the certainly very
modest surplus-value rate of 25 per cent. \( (2,000c + 500v + 125s;
\frac{s'}{2,500} = 25\%; \frac{p'}{2,500} = 5\% \) ) Our man then makes an extra
profit of 750 on his annual turnover of 15,000, and has thus got his
additional capital back in \( 2 \frac{2}{3} \) years.

But in order to accelerate his sales and hence his turnover, thus
making the same profit with the same capital in a shorter period of
time, and hence a greater profit in the same time, he will donate a
small portion of his surplus value to the buyer — he will sell cheaper
than his competitors. The latter will also gradually be converted into
contractors, and then the extra profit for all of them will be reduced
to the ordinary profit, or even to a lower profit on the capital that
has been increased for all of them. The equality of the profit rate is
re-established, although possibly on another level, by a part of the
surplus value made at home being turned over to the foreign buyers.

The next step in the subjugation of industry by capital takes place
through the introduction of manufacture. This, too, enables the manu-
facturer, who is most often his own export trader in the 17th and
18th centuries — generally in Germany down to 1850, and still today
here and there — to produce cheaper than his old-fashioned competi-
tor, the handicraftsman. The same process is repeated; the surplus
value appropriated by the manufacturing capitalist enables him
(or the export merchant who shares with him) to sell cheaper than his
competitors, until the general introduction of the new mode of pro-
duction, when equalisation again takes place. The already existing
mercantile rate of profit, even if it is levelled out only locally, remains
the Procrustean bed in which the excessive industrial surplus value is
lopped off without mercy.

If manufacture sprang ahead by cheapening its products, this is
even more true of modern industry, which forces the production costs
of commodities lower and lower through its repeated revolutions in
production, relentlessly eliminating all former modes of production.
It is large-scale industry, too, that thus finally conquers the domestic market for capital, puts an end to the small-scale production and natural economy of the self-sufficient peasant family, eliminates direct exchange between small producers, and places the entire nation in the service of capital. Likewise, it equalises the profit rate of the different commercial and industrial branches of business into one general rate of profit, and finally ensures industry the position of power due to it in this equalisation by eliminating most of the obstacles formerly hindering the transfer of capital from one branch to another. Thereby the conversion of values into production prices is accomplished for all exchange as a whole. This conversion therefore proceeds according to objective laws, without the consciousness or the intent of the participants. Theoretically there is no difficulty at all in the fact that competition reduces to the general level profits which exceed the general rate, thus again depriving the first industrial appropriator of the surplus value exceeding the average. All the more so in practice, however, for the spheres of production with excessive surplus value, with high variable and low constant capital, i.e., with low capital composition, are by their very nature the ones that are last and least completely subjected to capitalist production, especially agriculture. On the other hand, the rise of production prices above commodity values, which is required to raise the below-average surplus value, contained in the products of the spheres of high capital composition, to the level of the average rate of profit, appears to be extremely difficult theoretically, but is soonest and most easily effected in practice, as we have seen. For when commodities of this class are first produced capitalistically and enter capitalist commerce, they compete with commodities of the same nature produced by precapitalist methods and hence dearer. Thus, even if the capitalist producer renounces a part of the surplus value, he can still obtain the rate of profit prevailing in his locality, which originally had no direct connection with surplus value because it had arisen from merchant capital long before there was any capitalist production at all, and therefore before an industrial rate of profit was possible.

II

THE STOCK EXCHANGE

1. The position of the stock exchange in capitalist production in
general is clear from Vol. III, Part 5, especially Chapter.\footnote{In the MS., Engels left a blank for the chapter number to be entered. Chapter XXVII, "The Role of Credit in Capitalist Production", apparently was intended.} But since 1865, when the book was written, a change has taken place which today assigns a considerably increased and constantly growing role to the stock exchange, and which, as it develops, tends to concentrate all production, industrial as well as agricultural, and all commerce, the means of communication as well as the functions of exchange, in the hands of stock exchange operators, so that the stock exchange becomes the most prominent representative of capitalist production itself.

2. In 1865 the stock exchange was still a secondary element in the capitalist system. Government bonds represented the bulk of exchange securities, and even their sum-total was still relatively small. Besides, there were joint-stock banks, predominant on the continent and in America, and just beginning to absorb the aristocratic private banks in England, but still relatively insignificant \textit{en masse}. Railway shares were still relatively weak compared to the present time. There were still only few directly productive establishments in stock company form—and, like the banks, most of all in the \textit{poorer} countries: Germany, Austria, America, etc. The "minister's eye" was still an unconquered superstition.

At that time, the stock exchange was still a place where the capitalists took away each other's accumulated capital, and which directly concerned the workers only as new proof of the demoralising general effect of capitalist economy and as confirmation of the Calvinist doctrine that predestination (alias chance) decides, even in this life, blessedness and damnation, wealth, i. e., enjoyment and power, and poverty, i. e., privation and servitude.

3. Now it is otherwise. Since the crisis of 1866 accumulation has proceeded with ever-increasing rapidity, so that in no industrial country, least of all in England, could the expansion of production keep up with that of accumulation, or the accumulation of the individual capitalist be completely utilised in the enlargement of his own business; English cotton industry as early as 1845; the railway swindles. But with this accumulation the number of \textit{rentiers}, people who were fed up with the regular tension in business and therefore wanted merely to amuse themselves or to follow a mild pursuit as directors or governors of companies, also rose. And third, in order to facilitate the investment of this mass floating around as money capital, new legal
forms of limited liability companies were established wherever that had not yet been done, and the liability of the shareholder, formerly unlimited, was also reduced \( \pm ^a \) (joint-stock companies in Germany, 1890. Subscription 40 per cent!).

4. Thereafter, gradual conversion of industry into stock companies. One branch after another suffers this fate. First iron, where giant plants are now necessary (before that, mines, where not already organised on shares). Then the chemical industry, likewise machinery plants. On the continent, the textile industry; in England, only in a few areas in Lancashire (Oldham Spinning Mill, Burnley Weaving Mill, etc., tailor co-operatives, but this is only a preliminary stage which will again fall into the masters' hands at the next crisis), breweries (the American ones sold a few years ago to English capital, then Guinness, Bass, Allsopp). Then the trusts, which create gigantic enterprises under common management (such as United Alkali). The ordinary individual firm is \( + & + ^b \) only a preliminary stage to bring the business to the point where it is big enough to be "founded".

Likewise in trade: Leafs, Parsons, Morleys, Morrison, Dillon — all founded. The same in retail stores by now, and not merely under the cloak of co-operation à la "stores".

Likewise banks and other credit establishments even in England. A tremendous number of new banks, all shares limited. Even old banks like \( ^c \) ..., etc., are converted, with seven private shareholders, into limited companies.

5. The same in the field of agriculture. The enormously expanded banks, especially in Germany under all sorts of bureaucratic names, more and more the holders of mortgages; with their shares the actual higher ownership of landed property is transferred to the stock exchange, and this is even more true when the farms fall into the creditors' hands. Here the agricultural revolution of prairie cultivation is very impressive; if it continues, the time can be foreseen when England’s and France’s land will also be in the hands of the stock exchange.

6. Now all foreign investments in the form of shares. To mention England alone: American railways, North and South (consult the stock-list), Goldberger, etc.

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\( ^a \) more or less \( ^b \) more and more \( ^c \) Illegible. It would seem to be "Glyn & Co." — the name of a bank.
7. Then colonisation. Today this is purely a subsidiary of the stock exchange, in whose interests the European powers divided Africa a few years ago, and the French conquered Tunis and Tonkin. Africa leased directly to companies (Niger, South Africa, German South-West and East Africa), and Mashonaland and Natal seized by Rhodes for the stock exchange.
NOTES
AND
INDEXES
NOTES

1 Volume III of Capital, edited by Frederick Engels and published in Hamburg in November 1894, concludes the theoretical part of Marx's main economic writing.

Both the economic theory itself and the structure of Capital, Book III included, were the product of many years of study. In his work on the manuscript of Book III Marx evidently followed the plan which he had drawn up when writing the Economic Manuscript of 1857-58, and which he sets out in a letter to Engels dated April 2, 1858: "Capital falls into 4 sections. a) Capital en général... b) Competition, or the interaction of many capitals. c) Credit, where capital, as against individual capitals, is shown to be a universal element. d) Share capital as the most perfected form (turning into communism) together with all its contradictions" (see present edition, Vol. 40, p. 298). In the course of his further study, however, Marx concentrated on the first point dealing with "capital in general", and was to set forth the problems of the process of production of capital, the process of its circulation, and the unity of the two, or capital and profit (interest) (ibid., p. 287).

"The Draft Plan of the Chapter on Capital", drawn up after the completion of the Economic Manuscript of 1857-58, listed the problems to be examined in the section "Capital and Profit" (ibid., Vol. 29, p. 516).

The next stage in Marx's economic studies was the manuscript of 1861-63 in which he scientifically substantiated the theory of average profit and price of production, and also formulated the doctrine of special forms of surplus value — industrial profit, rent, interest, etc.

In December 1862, basing himself on the new results of his studies, Marx wrote down in Notebook XVIII a detailed plan of Part III, or Section III, of Capital, according to which the future book was to have the following chapters:

"1) Conversion of surplus value into profit. Rate of profit as distinguished from rate of surplus value.

"2) Conversion of profit into average profit. Formation of the general rate of profit. Transformation of values into prices of production.

"3) Adam Smith's and Ricardo's theories on profit and prices of production.

"4) Rent. (Illustration of the difference between value and price of production.)

"5) History of the so-called Ricardian law of rent.

"6) Law of the fall of the rate of profit. Adam Smith, Ricardo, Carey.

"7) Theories of profit. Query: whether Sismondi and Malthus should also be included in the Theories of Surplus Value.
"8) Division of profit into industrial profit and interest. Mercantile capital.
Money capital.

"9) Revenue AND ITS SOURCES. The question of the relation between the processes of production and distribution also to be included here.

"10) reflux movements of money in the process of capitalist production as a whole.

"11) Vulgar economy.


This plan served, in fact, as the basis for the manuscript of the third book. A comparison of the text of this manuscript and the exposition of the same issues in the Economic Manuscript of 1861-63 shows that Marx not only made use of certain fundamental ideas set out in this manuscript, but included in the text whole passages from it (see respective footnotes).

As early as July 1863, having finished the Economic Manuscript of 1861-63 (see present edition, vols 30-34), Marx turned to his plans concerning Capital. His aim, as formulated on May 29, 1863, was "to make a fair copy of the political economy for the printers (and give it a final polish)" (ibid., Vol. 41, p. 474). Marx began preparing Book I and continued working on it till the summer of 1864. Of this manuscript only "Chapter Six. Results of the Direct Production Process" has survived in full (ibid., Vol. 34, pp. 355-466). Marx already envisaged Capital as consisting of four books and he wrote about this to Ludwig Kugelmann on October 13, 1866 (ibid., Vol. 42, p. 328).

At the end of summer, 1864, Marx finished work on Book I of Capital and immediately began Book III. In the first half of 1865, however, he interrupted his work on Book III in order to write the first draft of Book II. The only full manuscript version of Book III had been written by early 1866.

Engels started to prepare this manuscript for the printers at the end of February 1885, as is seen from his correspondence, and continued working on it almost to the end of his life. It was Engels' great service to prepare for the printers and publish Volume III of Marx's Capital.—5, 112, 119, 211, 223, 234, 236, 310, 397, 818.

As early as 1865, when working on the manuscript Marx planned to have Capital translated into English (see Marx's letter to Engels of July 31, 1865; present edition, Vol. 42, p. 173). Reporter Peter Fox, a member of the British labour movement, was to help him find a publisher. However, he died in 1869, and nothing was settled. The English translation of Volume I of Capital, edited by Engels, appeared after Marx's death, in January 1887 (ibid., Vol. 35). The translation was done by Samuel Moore and Edward Aveling between mid-1883 and March 1886; Eleanor Marx-Aveling assisted in preparing the translation for the press.—5

Since the late 1860s Marx repeatedly asked his correspondents to send him materials on landed property in various countries (see present edition, Vol. 43, pp. 61 and 412). He also informed them that he intended to use this new material to supplement the section on ground rent. Having received numerous statistical reference books and other publications on landed property in Russia from Nikolai Danielson, in particular, and having made a thorough study of them, Marx wrote to his Russian correspondent on December 12, 1872: "In Volume II of Capital I shall, in the section on landed property, deal in great detail with the Russian form" (ibid., Vol. 44, p. 457). This passage, among other excerpts from Marx's letters to him, was quoted by Danielson in his letter to Engels of August 25 (September 6), 1885. He thought they
could be used in the preface to Volume III of *Capital*. See also Engels' letter to Danielson of June 3, 1885 (ibid., Vol. 47, p. 294).—10

4 Cf. the contents of Book III of *Capital* as set forth by Marx in his letter to Engels of April 30, 1868 (ibid., Vol. 43, pp. 21-25).—10

5 A reference to: 1) *First Report from the Secret Committee on Commercial Distress; with the minutes of evidence*. Ordered, by the House of Commons, to be printed, 8 June 1848; 2) *Report from the Secret Committee of the House of Lords, Appointed to Inquire into the Causes of the Distress which has for some time prevailed among the commercial classes, and how far it has been affected by the laws for regulating the issue of banknotes payable on demand*. Together with the minutes of evidence and an appendix. Ordered, by the House of Commons, to be printed, 28 July 1848. [Reprinted 1857.]—11

6 A reference to: *Report from the Select Committee on Bank Acts; together with the proceedings of the Committee, minutes of evidence, appendix and index*. Ordered, by the House of Commons, to be printed, 30 July 1857; and: *Report from the Select Committee on the Bank Acts; together with the proceedings of the Committee, minutes of evidence, appendix and index*. Ordered, by the House of Commons, to be printed, 1 July 1858.—11

7 Marx first mentioned Book IV, which deals with the history of the theory of surplus value, in “Chapter Six. Results of the Direct Production Process”, which has survived from the draft version of Book I of *Capital* (ibid., Vol. 34, p. 454), and also in his letter to Ludwig Kugelmann of October 13, 1866 (ibid., Vol. 42, p. 328).

Engels did not have time to realise his intention to publish *Theories of Surplus Value* as Volume IV of *Capital*. It was first published by Karl Kautsky between 1905 and 1910. In the present edition it is published as part of the Economic Manuscript of 1861-63 (see vols 30-34).—11, 168, 765, 770

8 The economic theory of marginal utility appeared in the 1870s. According to this theory, the value of a commodity is determined by its “marginal utility”, that is, by the subjective evaluation of the utility of the commodity which satisfies the least urgent need of a buyer.—13

9 The *Fabians*—members of the English reformist *Fabian Society* founded by middle-class intellectuals in 1884; among its leaders were Sidney and Beatrice Webb. The Society was named after the Roman general of the 3rd century B.C., Quintus Fabius Maximus, surnamed Cunctator (“the delay”) for his cautious tactics in the war against Hannibal.

The Fabians believed that the transition from capitalism to socialism was possible through gradual minor reforms in society. In 1900 the Fabian Society affiliated to the Labour Party.—13


*Bimetallism* (or double standard)—a monetary system in which gold and silver are a legal universal equivalent and the basis of national money circulation (the 16th-19th cent).—14, 319

11 In the French edition of Volume I of *Capital* used by Loria, this chapter corresponds to Chapter IX: “Rate and Mass of Surplus Value” of the German edition. In the present edition it is Chapter XI (see Vol. 35).—19
According to the views prevalent in chemistry in the 18th century, combustion was attributed to the presence in combustible bodies of a particular substance—phlogiston—which separates from them in burning. As it was known, however, that metals increased in weight during prolonged heating in the air, the supporters of the phlogistic theory sought to ascribe to phlogiston a negative weight. This theory was proved untenable by the French physicist Antoine Lavoisier who explained the process of combustion as the combination of the burning substance with oxygen.

Engels deals with the phlogistic theory also in the Preface to Volume II of Capital (see Vol. 36, p. 19).—43

In January 1849 Proudhon attempted to found a People's Bank in order to promote a peaceful transition to socialism, which, for him, consisted in the liquidation of loan interest and the introduction of exchange without money with the producer receiving full equivalent of his labour revenue. This bank went bankrupt in two months. Marx gave a detailed critical analysis of Proudhon's views in The Poverty of Philosophy. Answer to the "Philosophy of Poverty" by M. Proudhon and Outlines of the Critique of Political Economy (see present edition, Vol. 6, pp. 105-212 and Vol. 28, pp. 352-54 respectively).—44


Marx had already made a critical analysis of Malthus' views in the Economic Manuscript of 1861-63 (see present edition, Vol. 32, pp. 209-58). According to the plan of Part III of Capital, drawn up in December 1862, Malthus' theory was to be examined in one of the historico-critical chapters (see Note 1). In the course of writing Capital Marx decided to transfer these chapters to Volume IV (see Note 7).—51


In 1844, workers in the town of Rochdale (Lancashire industrial region) who had been influenced by Owen's ideas took the initiative in organising a consumers' co-operative, the Rochdale Equitable Pioneers' Society, which became the prototype for workers' cooperatives in England and other countries. Workers' cooperatives often combined productive functions with their activities as consumer co-operative societies.—89

Marx took the quotation from a review of this Report in The Westminster Review, Vol. 38, 1842, p. 102.—91

Killing No Murder was the title of a pamphlet that appeared in England in 1657. Its author, Edward Sexby, stated that it was a patriotic duty that Lord Protector Oliver Cromwell, a hated and cruel tyrant, be assassinated.—93

The Court of Queen's Bench is one of the high courts in England; in the nineteenth century (up to 1873) it was an independent supreme court for criminal and civil cases, competent to review the decisions of lower judicial bodies.—93
Notes 905

21 The reference is to An Act for the Further Amendment of the Laws Relating to Labour in Factories (12 and 20 Victoria, Chapter 38) of June 30 1856. See also K. Marx, “Condition of Factory Laborers” (present edition, Vol. 15, pp. 251-54).—94

22 High import duties on agricultural produce were imposed by the Corn Laws (first introduced in the fifteenth century) in the interests of the landowners in order to maintain high prices on the home market. See also Note 73.—109, 325

23 The Ten Hours’ Bill, passed by the British Parliament on June 8, 1847, applied only to adolescents and women and was ignored by many manufacturers.

In February 1850 the Court of Chancery (one of Britain’s high courts) acquitted a number of manufacturers accused of infringing the Ten Hours’ Bill. This ruling caused protests from the workers. On August 5, 1850, Parliament passed a new Bill which stipulated a 10½-hour working day for women and adolescents and fixed the beginning and end of the working day.

On more details on this Bill see present edition, Vol. 35, p. 297 and Vol. 10, pp. 271-76, 288-300.—109


28 Ateliers nationaux (national ateliers, workshops) were instituted by the Provisional Government immediately after the February revolution of 1848. By this means the government sought to discredit Louis Blanc’s ideas on the “Organisation of Labour” in the eyes of the workers and, at the same time, to utilise those employed in the national workshops, organised on military lines, against the revolutionary proletariat. Revolutionary ideas, however, continued to gain ground in the national workshops. The government took steps to reduce the number of workers employed in them, to transfer a large number to public works in the provinces, and finally to liquidate the workshops. This precipitated a proletarian uprising in Paris in June 1848. After its suppression, the Cavaignac Government issued a decree on July 3 disbanding the national workshops.

For the assessment of the national workshops see K. Marx, The Class Struggles in France, 1848 to 1850 (present edition, Vol. 10, p. 63).—135

29 The settlement laws existed in England from 1662. They actually deprived farm labourers of their right to move from one place to another. Being a component part of the poor laws, they stipulated the return of farm labourers to the place of their birth or permanent residence by court decision. Restricting the labourers’ freedom of movement, the legislation thus enabled employers to cut their wages to the minimum.—174, 181

30 These views are to be found in D. Ricardo, On the Principles of Political Economy, and Taxation, 3rd ed., London, 1821, pp. 60-61 and H. Storch, Cours d’économie


32 Marx analysed Ricardo's views on the relation of wages, profit and price of production in the Economic Manuscript of 1861-63 (present edition, Vol. 32, pp. 52-103). That he intended to devote a special chapter to Ricardo is seen from the plan of Part III of Capital drawn up in December 1862 (see Note 1).—202

33 The reference is to the general law of capitalist accumulation formulated by Marx in Volume I of Capital (present edition, Vol. 35, p. 639).—220

34 Marx had already critically analysed Smith's views in the Economic Manuscript of 1861-63 (present edition, Vol. 31, pp. 439-57 and Vol. 33, pp. 92-93, 103, 108-09). According to the plan of Part III of Capital, drawn up in December 1862, Smith's law of the fall of the rate of profit was to be examined in Chapter 6 (see Note 1). In the course of writing Capital, Marx decided to transfer historico-critical chapters to Volume IV (see Note 7).—223


36 The Dutch East India Company, founded in 1602, had a monopoly of trade with the Orient and played an important role in Holland's colonial expansion, particularly in the Indian Ocean. It carried on a bitter competitive struggle against the British East India Company. In 1798 the Dutch East India Company was abolished and the whole of its property transferred to the Batavian Republic, which was virtually a French possession.—305, 327

37 The ancient philosopher Epicurus believed in an infinity of worlds, each originating and existing according to its own natural laws. The gods, though he believed in them, he saw as being outside and between the worlds, and not exerting any influence on either the development of the universe, or human life.—328

38 Marx is referring to the greatly reduced importance of Genoa, Venice and other North Italian cities in transit commerce at the end of the fifteenth century following the great geographical discoveries of the time: the discovery of Cuba, Haiti and the Bahama Islands, the continent of North America, the sea route to India round the Cape and, finally, the continent of South America.—331

39 Marx ironically calls Karl Arnd "the philosopher of the dog tax" because, in a special paragraph of his book (§ 88, pp. 420-21), he advocated this tax.—361

40 In order to prevent a growth in the national debt, William Pitt the Younger, then British Prime Minister, introduced in 1786 a sinking fund, i. e., a scheme whereby a certain portion of public revenues was used every year to purchase state promissory notes. However, the war with France (1793-1802) was accompanied by a sharp increase in the national debt. The imbalance between revenues and expenditure led, first, to a limit on the issue of banknotes, and in 1797 to the enactment of a law relieving the Bank of England of the obligation to accept banknotes. Marx wrote in detail about Pitt's sinking fund laws in the article "Mr. Disraeli's Budget" published

Josiah Child’s book was first published in London in 1668 as a small pamphlet. In 1669-70 he wrote ten additional chapters, and the book was republished many times.—394

Five Chinese cities (Canton, Shanghai, Amoy, Ninbo and Fuchou) were opened to English trade by the Nanking Treaty imposed on China in 1842 as a result of the so-called first Opium War, which Britain had been waging against China since 1839.—405

Marx means the champions of the *Currency Principle*—one of the schools of the quantity theory of money widely subscribed to in Britain in the first half of the nineteenth century. According to this theory, the value and price of commodities are determined by the quantity of money in circulation, and economic crises are caused mainly by violations of the laws of money circulation. The proponents of the quantity theory sought to maintain the stability of money circulation by means of obligatory gold backing of banknotes.

Marx showed the untenability of the currency principle in *A Contribution to the Critique of Political Economy* (present edition, Vol. 29, pp. 412-15).—415

The reference is to the coalition wars of the European states against revolutionary and Napoleonic France lasting from 1792 to 1815.

The Crimean War of 1853-56 was a war between Russia and a coalition of Britain, France, Turkey and the Kingdom of Sardinia (Piedmont).—421

Engels is referring to the great swindle connected with the bribery of French statesmen, officials and the press by the Panama Canal joint-stock company, founded in France on the initiative of Ferdinand de Lesseps, an engineer and businessman, in 1879. The Company went bankrupt at the end of 1888. This caused widespread ruin among small shareholders and numerous bankruptcies.—437

Here Marx has in mind bourgeois political economists, primarily Adam Smith, who regarded money circulating in the form of gold and silver as the most indifferent and useless form of capital.—461

Marx is presumably referring to Chapter II of W. Petty’s *Verbum Sapiently, or an Account of the Wealth and Expences of England and the Method of Raising Taxes in the Most Equal Manner*, London, 1691, and particularly the statement: “Whereas the Stock of the Kingdom yielding but 15 Millions of proceeds, is worth 250 Millions; then the People who yield 25, are worth 416½ Millions.”—463

A reference to the *Bank Charter Act* (An Act to Regulate the Issue of Banknotes, and for Giving to the Governor and Company of the Bank of England Certain Privileges for a Limited Period) which was introduced by Robert Peel on July 19, 1844. It provided for the division of the Bank of England into two separate departments, each with its own cash account—the Banking Department, dealing exclusively with credit operations, and the Issue Department, issuing banknotes.

The Act was repeatedly infringed by the government itself, particularly during the 1847 and 1857 monetary crises. Marx analysed the content and significance of the Act of 1844 in a series of articles written for the *New-York Daily Tribune* in 1857 and 1858 (present edition, vols 15 and 16).—474, 538, 545
49 A reference to the money reform in Russia. In 1895-97 gold monometallism and free exchange of paper money for gold were introduced in the country. The issue of banknotes by the State Bank was limited: it could issue banknotes up to the value of 600 million rubles with no less than half the sum backed by gold, and banknotes issued in excess of that sum had to be backed by gold to the full.

The transition to the gold standard contributed to the development of the country's industry and trade and stimulated the import of foreign capital. — 521

50 The Bank Restriction Act, passed in 1797, established a compulsory rate of exchange and rescinded the exchange of banknotes for gold. The exchange was enacted again in 1819 and completely restored in 1821. — 528

51 The reference is to the case of Davidson, who was accused of swindles with bills of exchange. This case was described in S. Laing's *New Series of the Great City Frauds of Cole, Davidson, & Gordon*, London [1869].

Assizes — periodical sessions of the higher courts formerly held in every English county for the trial of civil and criminal cases. — 532

52 The reference is to the Birmingham school of “little shilling men”, founded by the Birmingham banker Thomas Atwood. Its propounders supported a project for reducing the gold content of the money unit in England — “the project of the little shilling”. At the same time they opposed the government measures to curtail the amount of money in circulation. In fact the policy of currency devaluation served the interests of the Treasury and big businessmen, who were the main recipients of all possible credits, because it enabled state and private debts to be redeemed in devalued money. On this school see also K. Marx, *A Contribution to the Critique of Political Economy* (present edition, Vol. 29, pp. 319-20). — 535, 555

53 The British East India Company was founded at the beginning of the seventeenth century. It had a monopoly of trade with the East Indies and played a decisive part in establishing the British colonial empire. The Company was liquidated in 1858, during the popular Indian uprising of 1857-59. — 536

54 That Marx intended to do this is seen from his plan of the economic manuscript in the letter to Engels of April 2, 1858, where he enumerated four sections, one of which was to deal with credit. See Note 1. — 545

55 The reference is to the popular unrest in several provinces of China. In the mid-1850 this grew into a peasant war that resulted in the insurgents establishing a state of their own over a considerable part of China’s territory. The state was called Taiping Tang (hence the name of the movement — the Taiping uprising). The Taiping uprising lasted till 1864. — 548

56 Marx stresses the importance of the Russian goldmines that, alongside those in California, augmented the gold reserves of the European banks. In Notebook V on economic issues written in January 1851 Marx noted a considerable growth in the output of gold in Russia between 1840 and 1848.

The value of Russian gold extracted in 1850 was £4 million, that of Californian gold — £10 million. — 560

57 Marx criticized Carey’s unhistorical approach. Carey compared the rate of interest at the early stages of capitalism with the level of this interest under developed capitalism — in the economic manuscripts of 1857-58 and of 1861-63 (present edition, Vol. 29, p. 227 and Vol. 34, pp. 118-19 respectively). — 590
Monts-de-piété, or montes depièta—loan offices or pawnshops set up in Western Europe to counterbalance usury. In the fifteenth century the King of France Louis XI granted the Lombards the right to give loans on the security of property at a legalised rate of interest. Monts-de-piété, however, failed to protect poor people from usurers.—596

Marx is inaccurate here. Thomas Manley did not write the anonymous treatise *Interest of Money Mistaken* published in London in 1668. He was one of the authors of another treatise similar in content and published in 1669. The author of this particular treatise is not known.—598

This refers to John Law, the Scottish economist and financier, who sought to implement in France his financial projects based on the erroneous idea that a state can increase the country's wealth by issuing banknotes without security. In 1716 Law founded a private bank that, in 1718, was turned into a state bank. In addition to implementing the unlimited emission of banknotes, Law withdrew metallic money from circulation and supported various speculative undertakings. The controversy aroused by Law's activities culminated, at the end of 1720, in the final collapse of the bank and "Law's system".—598

The Crédit mobilier (Société générale du Crédit mobilier)—a big French joint-stock bank founded by the Pèreire brothers in 1852. It was notorious for its speculation. The Crédit mobilier took an active part in building railways and setting up industrial enterprises. It went bankrupt in 1867.—600


A reference to a 100-gulden loan with interest payable in three instalments at the Leipzig Fair: New Year, Easter (spring) and at Michaelmas (autumn).—605


A reference to the mortmain—the right of the medieval feudal lord to inherit the property of the dead serf peasant. Since the property and the land of the dead peasant usually went to his heirs, the latter were obliged to pay a specially onerous fee for it to the lord.—607

Marx planned to expound the results of his economic research in six books: 1) On capital, 2) Landed property, 3) Wage labour, 4) The State, 5) International trade, 6) World market. He wrote about this in his letters to Ferdinand Lassalle of February 22 and to Engels of April 2, 1858 (present edition, Vol. 40, pp. 270 and 298). Thus problems of landed property were to be examined in a separate book. Marx intended to supplement the section on ground rent with the material on landed property in various countries, Russia in particular (see Note 3). Engels also mentions this in his preface. Marx's plans, however, remained unfulfilled.—608, 613

The reference is primarily to David Ricardo's theory of rent. Marx criticised it as being unhistorical in his work *The Poverty of Philosophy. Answer to the "Philosophy of Poverty" by M. Proudhon* (present edition, Vol. 6, pp. 201-03).—609


Temple Bar—stone gates built in the fourteenth century at the west end of the Fleet Street in London.—615

A description of Turgot's views is to be found in Vol. 30, pp. 366-67 and Vol. 32, p. 476.—616

In his speech on July 26, 1848 in the National Assembly, Thiers opposed the proposals to reform credit and taxation which Proudhon had submitted to the Assembly's finance committee. After Proudhon's speech of July 31, 1848, Thiers published his own speech in a separate pamphlet as an attack on his opponent. See also K. Marx, "On Proudhon", present edition, Vol. 20, p. 31.—618

A reference to the debate in the House of Commons (June 24, 1853) on the Bill on Irish landlords and tenants introduced by the Aberdeen Ministry.

The government hoped to normalise relations between landlords and tenants by granting the latter certain rights and thereby mitigating the agrarian struggle in the country. After more than two years of debates Parliament rejected the Bill.

For details see K. Marx, "The Indian Question.— Irish Tenant Right" (present edition, Vol. 12, pp. 157-62).—620

On Corn Laws see Note 22.

In 1815 a law was passed prohibiting grain imports when grain prices in England fell below 80 shillings per quarter. In 1822 the law was modified slightly, and in 1828 a sliding scale was introduced—a system of raising or lowering tariffs in proportion to the fall or rise of grain prices on the home market. The industrial bourgeoisie who opposed the Corn Laws under the slogan of free trade secured their repeal in 1846.—620, 650

A reference to the wars waged by Britain against the French Republic and Napoleonic Empire in 1793-1815.—620

A reference to the Blue Books: Report from the Select Committee on Petitions Relating to the Corn Laws of this Kingdom: together with the minutes of evidence, and an appendix of accounts. Ordered, by the House of Commons, to be printed, 26 July 1814; Reports Respecting Grain, and the Corn Laws: viz.: First and Second Reports from the Lords Committee, appointed to enquire into the state of the growth, commerce, and consumption of grain, and all laws relating thereto. Ordered, by the House of Commons, to be printed, 23 November 1814.

The Blue Books—periodical collections of documents of the British Parliament and Foreign Office. The first were published in the seventeenth century.—621

According to the Poor Laws, which were introduced in England in the sixteenth century and remained in force at the beginning of the nineteenth century, a special tax to support the poor was collected in each parish. The parishioners unable to provide for themselves and their families received support through the poor-box.—621

The Society of Arts and Trades—a cultural and philanthropic society founded in 1754. The Society tried to prevent the development of the mass strike movement in Britain and sought to play the part of arbitrator between workers and employers. Marx ironically called it the "Society of Arts and Tricks".—623

The reference is to the Congress of the National Association for the Promotion of Social Sciences, an educational and philanthropic society founded in 1857.—623
This refers to l'Institut de France—France's highest scientific and art centre, which included the Académie Française.—624

Here and below Marx uses the term *Produktionkosten* in the meaning of price of production.—645


This notebook, written by Marx in 1865-66, when he was working on the manuscript of Volume III of *Capital,* contains extracts from J. Liebig's books: *Herr Dr. Emil Wolff in Hohenheim und die Agrikultur Chemie,* 1855; *Die Chemie in ihrer Anwendung auf Agricultur und Physiologie,* 1862; *Einleitung in die Naturgezetze des Feldbaues,* 1862. —732

*Potosi*—a town in the south of Bolivia. It was founded by the Spanish conquistadors in 1547, after the discovery there of rich silver deposits two years earlier. In the second half of the eighteenth century the deposits were exhausted and the town gradually fell into decline.—760

The reference is to the economic organisation, established in about 800 A. D. on the vast estates owned by Charlemagne. Special attention was given to more effective control over the fulfilment of numerous obligations imposed on the peasants working on such estates, as well as to the preservation of the estates themselves and of profits received from them.—772

The reference is to the so-called *Tithe Commutation Acts* of 1836-60, which replaced Church tithe in kind by money payments for land.—774

*Yeomen*—English freeholders who had largely disappeared by approximately the mid-18th century partly as a result of the primitive accumulation of capital, which took the form of communal land enclosure and its appropriation by the landlords. The Yeomen were excellent archers and, before the spread of firearms, usually formed the main force of the English troops. Yeomen were superseded by small tenant farmers.—793

*Bandes Noires*—special mounted detachments which appeared in the fourteenth century at European courts and fought under black banners. In the nineteenth century this name was applied in France to the associations of profiteers who bought up large estates and resold them in smaller plots because the demand and price for them were higher.—797

Engels is inaccurate here. A perusal of the manuscript of Volume III of *Capital* showed that Marx planned to arrange the three fragments which Engels placed at the beginning of Chapter XLVIII in the following order: fragment III was to be first, then the text marked by Engels as the beginning of the chapter; fragments I and II should follow a page now missing from the manuscript (see this volume, p. 809).—809

This work was written after the publication of Volume III of *Capital*. Engels wrote to Karl Kautsky on May 21, 1895 (present edition, Vol. 49) that he intended to have the supplement to Volume III of *Capital* published in the *Neue Zeit* as two articles. The first of them, "The Law of Value and the Rate of Profit", was occasioned by the polemic in economic literature over "the contradiction" between volumes I and III of *Capital*. For the second article he sketched a draft plan of 7 points dealing with the main problems to be discussed.—873

According to the biblical legend (Numbers 22-24), Balak, King of Moab, asked Balaam to curse the children of Israel. However, told only to say the words God put in his mouth, Balaam blessed them instead.—881

The reference is to Conrad Schmidt's letter of March 1, 1895. Engels analysed the propositions it contained in his reply of March 12, 1895 (present edition, Vol. 49).—882

The reference is primarily to Christopher Columbus' expeditions which opened up the continent of America and the West India islands: the Bahamas, the Antilles and other islands in the Caribbean Sea.—890
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