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Value, Exchange and Capital

Donald J. Harris

> "The simplest economic relations . . . conceived by themselves, are pure abstractions; but these relations are, in reality, mediated by the deepest antithesis, and represent only one side, in which the full expression of the antithesis is obscured."[1]

Introduction

The literature of Marxian economic analysis posits three forms of the circulation of commodities consisting of (1) simple commodity exchange, (2) the circulation of capital as "merchant capital," and (3) the circuit of capital as "industrial capital." These three forms play a crucial role in both theoretical and historical analysis. Nevertheless, they continue to be highly problematical as to their exact meaning and proper status in the analysis. The particular substantive features which characterize and differentiate them as abstract categories remain blurred. There is also no agreement concerning the concrete historical conditions which they are supposed to represent.

They are often argued to represent different concrete historical forms of society which occur as discrete points or stages in a sequential pattern of historical development. This argument has a long history going back at least to Engels and, some writers claim, even to Marx himself, and it has re-emerged in recent discourse.[2] On the other hand, Laurence Harris rejects the argument that these forms represent a historical transition from a pre-capitalist system to capitalism and holds instead that the transition reflects different stages within capitalism.[3] Oskar Lange takes the view that different "modes of production" coincide with definite periods of historical development, if only "roughly," but considers simple commodity exchange to be an exception: "which, although never dominant in any period, continually appears as a subsidiary mode of production—and one which is frequently very important."[4]

A counter-argument to the position of a historical correspondence, at least for simple commodity exchange, has been presented by M. Morishima and G. Catephores.[5] They opt, instead, for an interpretation of the scheme of transition from simple commodity exchange to capitalist production as "a purely logical tool," or "logical simulation," arguing on the basis of internal evidence of Marx's texts as well as of factual evidence. This latter position is consistent, in the main, with earlier arguments of Althusser and Balibar, Bettelheim, Dobb, Emmanuel, Rosdolsky, and Rubin.[6] The recent work of

Cutler, Hindess, Hirst and Hussain, accepts the view that this transition is "part of a process of conceptual abstraction," but goes on to reject altogether the validity of the conceptualization as they see it.[7]

The work of Paul Sweezy stands closer to this latter group. His *Theory of Capitalist Development* provides an early and forceful statement of Marx's use of the abstract analytic method and, consistent with this, interprets simple commodity exchange as an analytic device: "Here we have the problem of exchange in its clearest and most elementary form." Similarly, Sweezy emphasizes the analytic advantages of this device: "Such a theoretical construction is useful for a number of reasons: for example, it enables us to present the problem of exchange value in its simplest form; and it is also helpful in clarifying the nature of classes and their relations to the means of production."[8]

A fundamental and unanswered question remains in all of this discourse. Namely, if these forms are to be viewed as meaningful analytical categories, then what are the specific abstractions which they contain? What are the key substantive elements which characterize and differentiate them? This is the primary question which the argument presented here seeks to answer.

Examination of the internal logic of these three forms of circulation, as set out in this paper, reveals that they have an inherent inability to stand on their own or apart from each other. They display a tendency either to coalesce into the abstract conditions of capitalist production properly constituted, or to fall apart for lack of a principle which gives them consistency and determinacy. The resolution of this difficulty comes only through an attempt to constitute the essential logical foundation of all three forms in capitalist commodity production as such. In this way, it is possible to arrive at a determinate conception of the *system of capital* in terms of its abstract and general conditions and its inner contradiction.

In particular, the first of these forms, simple commodity exchange, is often counterposed to the second, merchant capital, as if they were mutually opposed. The question remains as to what is the precise nature of that opposition. It is argued here that these two forms reveal, in their mutual opposition, the essential principle of the contradictory unity of capitalist commodity production, which is the contradiction between use value and exchange value as two poles that are united in the commodity. That opposition is therefore to be considered as the expression of a contradiction within the capital relation itself. Both forms of circulation are thus embedded within that relation and are not separate or mutually exclusive. They are simply different aspects of the logic of that relation or different moments of a unified system.[9] As regards the second and third of these forms, merchant capital and industrial capital, they are often presented as if they were different forms of capital, having an identifiably separate existence not only on an historical level but also on a conceptual level. It is argued here that the second, viewed as a form of capital, is essentially incomplete and contradictory. It becomes complete only by its incorporation and absorption with the third into the system of capitalist commodity production. Altogether these three forms then turn out to be just so many logical steps in the process of reasoning out and constructing the innermost structural properties of that system.

These three forms of circulation are, thus, to be properly considered as different aspects of the logic of the system of capitalist economic relations. They are different theoretical abstractions constructed in a process of reasoning out the complex internal logic of that system and for the purpose of developing systematically the inner structure of the capital relation itself. They each contain, in their own one-sided way, essential elements of that relation. Furthermore, they are not to be regarded as corresponding to an inevitable linear and chronological development from a "simple" or "early" form of society to an "advanced" form. Rather, it is presumed that the historical process of emergence and development of the capital relation is a problem which has to be confronted directly on its own terms. Furthermore, if there is a problem of periodization of the historical development of capital, that problem also requires a specific analysis. For any such analysis, it is necessary to have a proper theoretical conception of the complex structure of the capital relation itself.[10] This is the conception that these forms provide and it is subjected here to systematic examination.

Simple Commodity Exchange

The conception of simple commodity exchange, or "the simple circulation of commodities," is the first step in that logical development described in the preceding discussion. It posits a sequence in the form of

$$C_1 \rightarrow M \rightarrow C_2, \quad C_1 = C_2.$$

This involves a movement in which the commodity owner brings to the market an amount of commodities, C_1, which the owner sells for an amount of money, M. With this money the commodity owner then purchases an amount of commodities, C_2. It is assumed that, except for accidental circumstances, the exchange is in general characterized by exchange of value equivalents, so that $C_1 = C_2$ in value terms. This movement is repeated from one cycle to another and takes the same form in every cycle.

It is evident that there are two phases in this sequence. The first entails the transformation of commodities into money, the second the transformation of money into commodities. It is a sequence consisting of a sale followed by a purchase, or a process of "selling in order to buy." The object of the exchange is a purchase: the acquisition of new commodities in the specific form of the bundle C_2 that are different from those of C_1 which the owner brings to the market. The motive of the movement, its driving force, is the goal of acquiring the use values embodied in the commodities C_2, and the circuit therefore terminates *in* the consumption of the acquired commodities. Though the movement may be repeated from one cycle to another, its essential character remains the same. Specifically, commodities constitute the beginning and end of every transaction and the movement is directed towards the goal of acquiring use values embodied in those commodities.

But, whereas the commodities which end the movement are use values from the point of view of their purchaser, the commodities which begin the movement are not to be so regarded. Rather, they are, for the owner, exchange values in the sense that the owner seeks to separate them from himself, or to alienate them, in exchange with other commodities. With regard to the substantive character of the commodities being traded, the situation is the exact opposite for the other commodity owner on the other side of the exchange. For him, the commodity which the other owner purchases from him is an exchange value, the commodity which the other sells to him is a use value. Exchange value and use value are thus two poles of the movement which are reversed for the particular commodity owners engaged in the interchange. They are nevertheless united in the same commodity, and similarly in each and every commodity. In general, they constitute the two-fold character of the commodity and its defining properties as a commodity.

It is commonly supposed that the characteristic and defining feature of simple commodity exchange is that it is driven by the object of realizing use value. That is regarded as the distinctive element which sets this form of exchange apart from the rest. However, as will be argued subsequently, the object of realizing use value remains within the capital relation itself. It is not eliminated, nor can it be suppressed, in the transition to that relation. Moreover, even at this stage of the argument, it is clear that both use value and exchange value are united in the commodity and together constitute its substantive character. What could be said here is that the conception of simple commodity exchange expresses the object of exchange as use value, pure and simple. It expresses sharply one side of the commodity form, its qualitative character as use value. In this way this conception abstracts a specific feature of the logic of the fully developed system of exchange relations. Insofar as use value is truly a property of that system, it must be given its specific and intrinsic place when that system has been fully constructed. But it is evident from the construction as presented so far that the use-value character of the commodity is simply posited, not systematically derived.[11] To avoid its collapsing back into the system of subjective individual preferences, use value must be given a social determination within a social process in which production and consumption are mutally dependent moments of the same process. Within such a process, the use-value character of the commodities is given to them by the fact that they are products of a definite production process and that only those products become commodities which are capable of satisfying needs that are social because they are formed within the same social process. That process, in the case of capitalist commodity production, is the motion of capital itself.

Money plays a necessary mediating role in simple commodity exchange. It is the medium for achieving the object of acquiring use value. The specific character of money in this case is that of means of payment, the means through which the exchange of commodities is facilitated. But the existence of such a monetary medium presupposes that there exists a network of exchange bringing together a multiplicity of commodity owners with a multiplicity of different commodities. It presupposes, moreover, that exchange is a regularly recurring activity and a pervasive feature of daily life, not an arbitrary occurrence such as the result of an accidental meeting of two commodity owners for the first time. In the former circumstances, money itself is then not a mere medium but possesses an intrinsic quality, that of being a universal standard for expressing the equivalence of commodities, or a "universal equivalent standard." At the same time, this quality must give it the capacity of being a universal command over commodities. It therefore has the potential, latent within it, of breaking through the narrow limits of its existence as a mere medium and coming thereby to acquire the power of capital, with a drive and a capacity for its own expansion through the exchange of commodities.[12]

This tension within the monetary medium reveals the inherent tendency of simple commodity exchange to become transformed into its opposite, the conditions of capitalist exchange. This is because, already in its conception, it contains an element of the logic of capitalist exchange, an element which remains to be given full expression in the fully developed system.[13] Otherwise, in the absence of further specification, simple commodity exchange must fall apart for lack of determinancy as to the origin and source of the money which sustains the exchange and the intrinsic quality of the money itself which allows it to perform that role.

If simple commodity exchange is to be posited as a system of exchange, then the very existence of exchange must be given a systematic necessity within the ongoing activity of the commodity owners. It must be rooted in a condition which binds them together as a matter of necessity and not of whim, and hence a condition which absorbs their ongoing activity, thereby bringing them all into intercourse with each other in the normal course of that activity. In this sense, the exchange relation must be grounded as an intrinsic element of social life. The origin of the commodity itself must be specific to that system of social life. Otherwise, its existence becomes wholly arbitrary, to be posited as a mere "possession" or "endowment," presumably bequeathed by Nature. In that case, the accounting of the exchange relation would be left open for introduction of a principle such as that of subjective utility, a principle which is ultimately outside of social life.

In order to provide a social determination of the exchange relation in the above specified sense, exchange must be rooted in a social division of labor among producers who are specialized to the production of specific articles of need. The characteristic mode of existence of such producers is that they produce for their own needs only by producing for the needs of others. Production on the part of such producers is for the market and not for self-consumption. Exchange, under such conditions, is a matter of necessity for the producers and the origin of the commodity is in their ongoing activity of production.

But what would be the principle which underlies and gives meaning to the social division of labor in such a system? Furthermore, what is it that makes the labor social, in the sense of having a quality of homogeneity and commensurability such that it is capable, in principle, of being divided up and summed as a social aggregate? It is usually argued in this connection that simple commodity exchange is based on specialization by independent producers owning their own means of production.[14] But within such a pattern of specialization, what is *labor?* Labor as a social category would have no real existence.[15] There could only be *work* in its undefined specificity to a particular individual fixed in his capacity for performing a specified set of tasks and bound to work with the particular set of means of production which constitute his property. Moreover, the commodities which originate from such a pattern of specialization must of necessity be imprinted with the specific characteristics of the particular producer and be limited by the conditions of his productivity. They cannot therefore be imbued with the qualities of universal exchangeability and usefulness which make them capable of existing and passing freely among a universe of commodity producers and consumers. They cannot therefore be commodities in the strict sense.

The fact is that the commodities which are the object of exchange in simple commodity exchange are presumed to be *values*. They are equated as values, as a necessary condition of the exchange, and their equation presupposes that they are values.[16] This equation can be made to be a condition of the exchange only if there is a quality of commensurability and comparability in the objects themselves. As commodities, and hence as values, they must therefore embody a distinctive quality. That quality is given to them by the fact that they are the products of a definite kind of laboring activity. It is this specific kind of laboring, not arbitrary laboring but laboring under definite conditions, which is capable of imbuing them with the quality necessary for their equalization. The unique character of this kind of laboring is that it is constituted on the basis of "abstract" labor, labor which is made general, or abstract, by the fact that it is carried out under definite social conditions and hence is labor which is fully social in character. It is socially equalized labor. What gives the commodities their quality as values, then, is the fact that they are products of labor in this sense. Their substantive character as values is that they embody abstract labor.

This is the full thrust of Marx's reasoning on the nature of the commodity.

Thus, there is a necessary presumption, in the conditions of simple commodity exchange as posited, that abstract labor is embodied in the commodities. Now, it is evident, upon further analysis, that abstract labor is labor which is specific to capital, labor which works with and for capital, labor which is activated within the economic and social order constituted by the capital relation.[17] It is labor which therefore exists under definite conditions. Included among these conditions, for instance, is the mobility of the laborer, his freedom to pass from one occupation or line of employment to another, in which passage all differences among particular concrete labors may be abstracted from so that what emerges is the fluid, homogeneous quality of the labor, hence its character as abstract labor. This condition, in turn, presupposes that the laborer's capacity to labor, his labor power, is itself a commodity available for sale to any buyer. Moreover, it is capital itself which produces that mobility of labor, by its ceaseless drive for expansion through constantly revolutionizing the methods of production, calling thereby for adaptability of the labor to ever-changing conditions of laboring, and by the ever-present competition of capitals which that expansion entails. If these are the conditions which must be presumed in order to give meaning to the conception of value in simple commodity exchange, conditions which are specific to capital and therefore presuppose capital, then it is evident that this conception must itself also presuppose capital. It must be predicated upon the existence of capital, and of capital in its fully developed form. There is therefore no way in which this conception can be logically sustained in the absence of the capital relation duly constituted as such.

It is also assumed in this conception that there is a certain definite condition of quantitative equality which the exchange must satisfy as an outcome of the workings of the system of exchange. The exchange cannot therefore have an arbitrary outcome. Specifically, this is the condition that, in value terms,

$$C_1 = C_2.$$

This condition is as much a requirement of any single transaction as of any other. It is therefore a requirement that the whole system of exchange must satisfy. Consequently, the workings of the whole system of exchange cannot be arbitrary. The precise meaning of this condition is that the commodity owner must be able to obtain from the exchange an amount of value which is equivalent to that which he has himself brought to the exchange. Insofar as the commodities which he owns are produced (and we here run up against the problem of specifying the exact origin of the commodities or of the value which he brings with him) then this requirement means that the producer must be able, through exchange, to replace fully the labor power and the means of production which were used up in producing those commodities. If he obtains a smaller amount of value than was put into the commodities, the producer cannot replace the labor power and means of production and, hence, cannot sustain or reproduce his productive activity in the next cycle. If he were to obtain a greater value than was put in, then some other producers must obtain less, and so the same result holds in this case also for those other producers. The same is true the other way round for all the other producers. Correspondingly, if the requirement holds for one producer it must hold for all and, hence, for the whole system of interdependent producers.

The requirement of quantitative equality in the exchange is thus a requirement of a specific necessity which the system of exchange must satisfy. In particular, it must enable each and every producer to reproduce himself as a producer. Hence, it must enable the whole interdependent system of producers to be reproduced as such. This condition, if satisfied, thus ensures restoration of the integrity of the producers as independent, autonomous commodity producers, and, hence, of the social relation among them as one of equality as commodity producers.[18] In this manner, then, quantitative equality corresponds with qualitative equality, and they are mutually reinforcing. The outcome is the preservation of the system of commodity producers as a system. In these respects, the whole process comes to acquire the intrinsic character as *a process of the conservation or preservation of value*.

This condition thus expresses the idea of social reproduction in this sense. It is a condition which can be seen to have fundamental significance for the conception of the process in terms of positing the continuity and self-sustaining character of the process. It is evidently a necessity only insofar as social reproduction takes place in and through the exchange relation and insofar as it is presumed that reproduction is a substantive feature of the ongoing social process. The problematic of reproduction thus arises in the context of a system in which social life is permeated and spontaneously organized by exchange relations. It is a feature of the analysis of a specific form of society, that is, a society based on exchange, or a system of commodity exchange. It appears in its simplest form in the context of simple commodity exchange where it anticipates the deeper complexities of the fully developed system.

However, it must be asked, in this connection: What is the mechanism which generates that specific condition of quantitative equality in the exchange *as a result?*[19] Note that it is strictly a condition of equality in value terms, that is, in terms of the quantity of labor time embodied in the products exchanged. In this respect, exchange in this system may be said to follow the rule of proportionality in terms of the labor embodied in commodities. It is the rule of exchange according to labor value or, simply, *the labor value rule*. But the effectivity of this particular rule of exchange evidently presupposes a mechanism of interaction among the producers, consistent with their status as independent, autonomous commodity producers. In particular, this must be a mechanism such as to bring about a distribution of labor in the different branches of production which ensures that no producer in any branch obtains a greater or smaller amount of value in exchange than corresponds to the amount of labor time expended in production and, hence, that no producer has an advantage or disadvantage over any other. It is, accordingly, a mechanism of distribution of labor according to the principle of "equal advantage" of production in the different branches.[20] This, in turn, presupposes that the producers themselves are driven by a specific motive, the motive of capturing any and all opportunities for "gain" in terms of the difference between value received and value expended. It presupposes also a disposition on the part of all producers, as a consequence of the interaction taking place among them, to "economize" labor time in terms of the specific methods of production which they employ and of the specific branch of production in which they come to engage.

These are stringent requirements which must be satisfied if the condition of equality of exchange is to be established as an intrinsic property of the system and not become a purely accidental or arbitrary feature. They may be characterized *in toto* as requirements of "mobility" of producers. These requirements, as enumerated here, are so stringent as already to anticipate the conditions of the capitalist exchange system. Yet, as will appear subsequently, the labor value rule is not in general consistent with capitalist exchange. Marx himself presumes that the labor value rule holds, in the case of simple commodity exchange, "so long as the means of production involved in each branch of production can be transferred from one sphere to another only with difficulty and therefore the various spheres of production are related to one another, within certain limits, as foreign countries or communist communities."[21] In a similar way, others such as Hilferding presume that it holds when "the laborer who produces on his own account cannot change his sphere of production at will."[22] But if such immobility between the different spheres of production did exist, this would appear to contradict the condition of equality of exchange expressed in the labor value rule which requires for its existence that there be "mobility" in the above defined sense. Consequently, the condition of equality, as a quantitative and qualitative condition of the exchange system, would be left without any logical foundation.[23]

In conclusion, we come, therefore, in our investigation of the conditions of simple commodity exchange, to the recognition that it embodies and expresses some of the elementary and essential features of the capital relation. It is an abstract category which must now be seen to express something of significance. What it expresses are simple but essential elements of the capital relation which anticipate their incorporation into the fullness of that relation. It is not therefore a system which is separate from capital. It is a system which makes no sense in the absence of capital. It therefore awaits, for its full determination, the development of the capital relation in its fullness and entirety. It is, of course, necessarily incomplete. It simplifies the logic of the relationships of the fully developed commodity exchange system. Hence, it is only *simple* commodity exchange. In these respects, it also tends to distort the conditions of the fully developed system considered in their totality. These are the limitations of this particular construction which can only be overcome by articulating the conditions of the full system.

The logically incomplete and seemingly contradictory nature of the conception of simple commodity exchange, in its usual presentation, can be traced back to its origins in Adam Smith's notion of the "simple and rude state" of society which is supposed to precede historically the appearance of capitalist society. To some extent Marx, by taking over this construction from Smith, also takes with it some of its underlying confusions.[24] It becomes fully coherent and determinate only when it is transcended by construction of the logic of capitalist commodity production. It then acquires meaning within that construction.

The Circulation of Capital

The second stage in the argument is the construction of capitalist commodity exchange or the circulation of capital. It entails a different form of intermediation, because it is based on a different set of interrelationships. This conception posits a sequence in the form of

$$(2) \qquad M \rightarrow C \rightarrow M', \ M' > M.$$

In this case there is a movement beginning with the advance of a sum of money, M, by the owner of money to purchase an amount of commodities, C. Those commodities are then sold in return for an amount of money, M', which is assumed to be greater in magnitude than the initial advance. This exchange thus results in an increment of money equal to the difference M' - M. The realization of that increment, and on an ever-expanding scale from one cycle to another, is presumed to be the object and driving force of the movement.

In this form of circulation, it is the owner of money who initiates the sequence and not the owner of commodities. Thus, as is evident from the initial point in its conception, this form is based upon a different social relationship. Money is, of course, a commodity, but it is a peculiar commodity which has a distinctive character. It is a commodity which is the universal embodiment of all commodities, the universal expression of value, and therefore it is not specific to a particular commodity. It is a command over all commodities or simply abstract purchasing power. The owner of money, as the owner of that peculiar commodity, therefore occupies a distinctive social position: the position of being able to advance the money to purchase commodities and to realize through the re-sale of those commodities an increment of money, M' -

M, which is positive.

What is distinctive also about this form of exchange is that its driving force is different: it is directed toward the goal of realizing an increment of money. This is a difference which expresses itself in the specific sequence of phases that the movement entails. In particular, the first phase in the movement is the exchange of money for commodities, or a purchase. The second phase is a sale which realizes the increment of money. As in the previous case of simple commodity exchange, the movement is a combination of antithetical phases, a purchase and a sale. But there is in this case, as compared with the previous one, an "inverted order of succession" of the two phases. It is a purchase followed by a sale or a process of "buying in order to sell."

There is, in these respects, a qualitative difference between the two forms of exchange. They contain a qualitatively different social relationship and that relationship is driven by a different object. The difference is expressed in the inversion of the order of sequencing of the phases of the movement.

The movement, in this case, begins and ends with money. This means that money is of fundamental significance here in a way which is different from the previous case. In the previous case, money is a facilitating condition of the exchange, which allows for the carrying out of the exchange. In this case, money, or the acquisiton of more money, is the object of the exchange itself. Money is the goal of the movement. Moreover, it is the goal insofar as the acquisition of more money in one cycle is the acquisition of a greater command over commodities as exchange values which can, in turn, be sold to return an even greater quantity of money in the next cycle, and continuing in this way in an endless spiral. Thus, money ends the movement only to begin it again, and the movement itself becomes an interminable cumulative process of the increase of money through the buying and selling of commodities. In this respect, the circulation of money as capital is an end in itself and it has no limit. The object of the movement is the expansion of money, or the expansion of exchange value in the form of money. It is a process that is fundamentally rooted in a limitless drive for expansion. Money serves here, then, not merely as a medium of circulation but as the object for realizing that drive for expansion, and hence as the object of accumulation.

Commodities enter into this process uniquely as embodiments of exchange value. All semblance of their capacity as use values is thereby suppressed and eliminated from the movement. They are acquired by the owner of money not as use values, that is, for his direct consumption, but rather in their capacity as saleable items which can yield a money increment. They enter the process as exchange values seeking a monetary form, but only to leave it again so that money can realize itself as more money. They are simply objects which money alternately attaches to itself and subsequently throws off in order to achieve its goal of ceaseless expansion. It is as if nothing is known either of whence these objects came or of what usefulness they may have. Evidently, this is completely a matter of indifference for the owner of money.

This construction thus focusses sharply upon one side of the commodity form, its property of exchange value, to the complete exclusion of the other side, its property of use value. In this respect it is indeed opposed to the previous conception in which the use value character of the commodity, and hence the object of acquiring use value, is at the center of the treatment of exchange. Viewed as separate and independent entities, these two constructions thereby manage to tear apart the two-fold character of the commodity and to set them into mutual opposition. That there exists a unity of these two qualities in the commodity would thus appear to be negated at this stage of the argument. The precise form of the unity remains, however, to be constructed in the further working out of the logic of the capital relation. If the opposition of use value and exchange value is a real condition, it should then be recreated as an opposition within the capital relation itself.

In simple commodity exchange, any difference in value between commodities C_1 which begin the movement and the commodities C_2 which end the movement is purely accidental. Rather, equivalence in value of the commodities exchanged, is a necessary condition of the normal course of the movement. It is not quite so with the circulation of capital or, rather, as will appear when the analysis is fully worked out, it is so, but with a profound difference. In the conception of the circulation of capital, there is a systematic difference in money value, equal to the difference $M' - M$, which arises from the exchange. This is so for every exchange in which money circulates. It is therefore true for the whole system of exchange. Furthermore, it is the realization of that value difference which is the object of the movement of money in each and very exchange and hence in the whole system of exchange. In this case the whole system is therefore presumed to undergo a systematic and necessary expansion of value in terms of the advance and return of money. We may say, in this respect, that whereas the previous case is marked by the *preservation* of value, the present case is marked by the *expansion* of value. Thus, the characteristic feature of the circulation of capital is that it is a process of the expansion of value in terms of money, or a value-expansion process.

Now, we have seen that the condition of value preservation is necessary to the system of exchange, and for a definite reason. The reason is that it is a requirement of the continuity and renewal of the producers in that system and hence of their reproduction as producers. This is a condition which must hold in any self-reproducing system of commodity producers. Therefore it must hold in this system as well. The question consequently arises, if the condition of *value preservation* is to be satisfied, whether that condition can be made to be consistent with the condition of *value expansion*. This is a question which is of fundamental significance for the theoretical understanding and determination of the system of circulation of capital. It is a question which arises at this stage of the argument as a matter of the inner logic and self-consistency of the system of relations as posited. It has to be resolved, therefore, in terms of the theoretical conception of the logic of those relations. It cannot be settled by an appeal to any set of historical "facts" or "events." It is, furthermore, a question which anticipates a central feature of the problematic of the fully developed system of relations.

We confront here, at this stage of the argument, what is essentially a contradiction in the conception of capital as posited up to this point. The problem is to explain how it comes about, within the internal logic of the system of relations, that such a value difference emerges from exchange, consistent with the understanding of the exchange as based upon necessary equality of the values exchanged. Is that difference systematically generated within the exchange system itself? Or is it, rather, an arbitrary, accidental or random occurrence due, for instance, to the discovery of a special kind of commodity on which the owner of money can realize a "mark-up" by "buying cheap and selling dear?" Could that commodity then be regarded as a *value* in the strict sense already identified? It must be granted that there is nothing within the logic of the conception as it stands which would account for the generation of that value difference. That difference must therefore be regarded as wholly arbitrary or accidental. What is evidently missing here is a necessity for the expansion, a condition which would somehow make that expansion self-generated and self-sustaining. Until that condition has been articulated, the logic of the conception of capital remains essentially incomplete or indeterminate.

If the origin of the value difference is problematical, as also is the conception of the difference as value, what can be said about the presumed drive on the part of the owner of money to realize that difference, hence to expand his money capital, or to accumulate capital? This is the other side of the problem of providing a systematic necessity for the value expansion, hence making it a condition that is fully self-generated and self-sustaining.

It is presumed here that the drive for expansion is a characteristic of capital itself, and hence of each and every unit of capital. It is an inner drive which is fulfilled only through expansion. It is, so to speak, in the nature of capital to expand. Expansion is its natural state. Marx clearly identifies that inner drive, which is the motive force of expansion, as being in the nature of capital as such. Hence, the capitalist is "capital personified."[25] It is not that capital is a person, but that the person is capital. By implication, it is not the individual will of the capitalist as a person, hence his personal psyche as a depository of private lust and greed, which accounts for this drive. Rather, it is his situation within a social process. That social process, therefore, is what accounts for the necessity of the drive for "profit" and makes it not an arbitrary personal choice or psychological disposition on the part of the particular individual who owns or has a legal association with the capital.

To claim, therefore, that the circuit is limitless and its goal is expansion of capital as exchange value, is to make a substantive claim about social laws governing the exchange. Capitalists are driven by a force which is socially determined, embodied in the social process independently of the individual will of the particular capitalist. In this respect, the objective of expanding exchange value is *enforced* on all capitalists. Their ability to survive as capitalists is predicated upon the extent to which they fulfill the requirement of expansion. Otherwise, they are unable to survive. In this way, expansion becomes a property of the capitalist circulation of commodities, not a psychological or individual whim, but a socially enforced drive.

Within the conception of the circulation of capital as presented so far, the problem then is: What is that social force? What is there, within the realm of the interaction of the different capitals, which reinforces and sustains their drive for expansion? What is that force which makes it not only an inner drive but a social necessity hence converting the inner drive into a social imperative? The answer to be found within the Marxian conception is that the force is the *competition of capitals*.[26] Competition makes it a necessity on the part of each and every capital to expand in order to survive in the quest for possibilities of realizing profits. With competition, expansion becomes established essentially "as a means of self-preservation and under penalty of ruin."[27] Competition, in this sense, is a struggle among the different capitals to garner, each for itself, the possibilities of value expansion, or to carve out for itself, the conditions for generating the value expansion. But how could that competition exist in the context of this system as posited? What could be its substantive basis in such a system, where the very possibilities of value expansion come from ouside the system and therefore have to be accidentally "discovered?" Evidently, competition in the sense required and presupposed by this conception, can have no meaning when the objects of competition are not themselves created by capital, are not the result of capital's own process. We thus arrive here, again, at the point of recognizing an essential indeterminacy in the conception of capital in this form.

This form of the circulation of capital, Marx argues, "appears certainly to be a form peculiar to one kind of capital alone, namely, merchants' capital." But in reality, he argues further, it is not so peculiar. It is rather "the general formula of capital as it appears prima facie within the sphere of circulation." As such, it is the characteristic form of the circulation of capital, regardless of its particularity as merchants' capital, industrial capital, or interest-bearing capital. For this to be so it must be that, as Marx argues "the events that take place outside of the sphere of circulation, in the interval between the buying and selling, do not affect the form of this movement."[28]

But the peculiar character of this form of circulation of capital, a character which the present investigation has demonstrated, is its inability to find within its own movement the conditions for value expansion or, indeed, for its existence as a value relation. That is to say, it is incapable of achieving its full consummation as self-expanding value. This is so, first, because the commodities which enter into its circuit originate entirely outside of that circuit. Their availability as commodities is wholly conditional and contingent, depending on circumstances which are, from the standpoint of that circuit, purely fortuitous and accidental. Insofar as they are produced commodities, their character as products is uniquely related to the particularity of the concrete labor expended upon them under conditions that are wholly outside of the circuit and not at all to the expenditure of abstract labor as a universal substance determined within the circuit. They can therefore have no status as embodiments of a value relation. Second, and following from the first, it is because the competition which is supposed to sustain the drive for expansion is itself without a foundation in the ongoing social process of interaction among the capitals.

The form of circulation appropriate to such conditions must necessarily be capricious and parasitic, giving rise to the creation and expansion of wealth as a matter of "fortune," "luck," or "discovery," rather than as the regularly recurring feature of a process of sustained self-expansion. Circulation in this form cannot therefore be treated as a mere form. It has a substantive character which is specific to its parasitic position within the system of economic relations. Its presumed general character as the formula of capital thus remains at least in doubt or, otherwise, awaits a further logical development in the absence of which the general formula itself is lacking in a full determination.

This tension within the formula of merchant capital, its incapacity to serve as the general formula of capital, drives towards its theoretical reconstruction as fully developed capital. This might also be interpreted on an historical plane as the basis of a necessary drive for transcendence, hence of a process of social transformation by which concrete forms of merchant capital internalize their own conditions of expansion. But that interpretation would itself be of dubious validity. It is negated by the observable historical record of highly developed systems of merchant capital which failed to bring about such a social transformation for a considerable period of time (e.g., Holland, Italy, Spain, Portugal). Marx himself points out that there are two possible historical paths to the development of capitalism. One is the route by which there occurs an internal transformation within production itself, so that the producer becomes merchant and capitalist. "This is the really revolutionary path." The other is the merchant capital route, by which the merchant comes to establish direct sway over production. This he regards as the weak path, in which merchant capital may become eventually "an obstacle to the real capitalist mode of production and goes under with its development." Marx concludes that the independent development of merchant capital "is incapable by itself of promoting and explaining the transition from one mode to another." He goes so far as to propose as a law "that the independent development of merchant's capital is inversely proportional to the degree of development of capitalist production."[29]

Whatever may be the specific role of merchant capital in the concrete historical process of transition to capitalism, and this is necessarily at this level an open question requiring a more concrete investigation, the result derived from the preceding theoretical analysis provides nonetheless a precise understanding of the general character of the various concrete forms of merchant capital which have historically preceded the full development of capital. In this respect, this result, as regards the contradiction and indeterminancy of the conception of capital in its form as merchant capital, is of considerable analytical significance. In particular, this result demonstrates that merchant capital is a form which is necessarily contradictory and contingent. Specifically, it has the character that it is inherently incapable of sustaining itself in the absence of "other" conditions, which are not necessarily of its own making and which are, so to speak, outside of itself. It is, therefore, a parasitic form. Hence, we find historically that merchant capital has to wait upon the "discovery" of commodities. It is wholly dependent, in some cases, upon the expeditions of explorers and adventurers. In other cases it is dependent upon differences of "information" between remote communities, or upon differences in "natural" conditions, or upon a monopoly of trade routes. In the most persistent cases it manages, by force of conquest and imposition of control by an arbitrary state power, to latch itself on to pre-existing forms of laboring activity, sometimes restructuring them or creating them anew to serve its own end. In all of these circumstances, it is based upon conditions of "unequal exchange." Therefore *inequality of exchange* is of the essence of merchant capital.[30] This is the precise condition which is necessary for the generation of expansion to suit the goal of merchant capital. It is in this manner, precisely, that the inner contradiction between value preservation and value expansion is resolved. Capital in that form cannot then be considered a value relation in the strict sense. Besides, its very contradictory existence under those conditions must necessarily drive towards a transformation that leads to its reconstruction on a new basis.

All of this suggests, therefore, that merchant capital is not the pervasive and persistent form of capital. It is not capital in its fully developed or "pure" form. It is an incomplete and necessarily limited form. In a strict sense, it is not capital. The full constitution of capital as such requires yet a further theoretical development.

The System of Capitals

The resolution of the theoretical issues exposed in the preceding discussion comes only through the attempt to constitute the essential logical foundation of the formulae (1) and (2) in the system of capitalist commodity production. It is therefore necessary for us to examine now, in detail, the anatomy of this system. The form of the movement in this case is represented by

$$(3) \qquad M \rightarrow C(L,MP) \ldots P \ldots C' \rightarrow M', \; M' > M.$$

This is the formula of capital. It is a movement which begins with the advance of money M to purchase commodities C consisting of labor power L and means of production MP. It goes through production P in which the purchased commodities are combined to produce new commodities C'. It ends in the sale of the produced commodities so as to realize an amount of money M' in excess of the amount initially advanced. The amount of this excess, expressed as $r = (M' - M)/M$, is the rate of profit which is the aim and object of the movement. It is a movement which ends in the realization of profit on the money advanced, but only to begin again through a subsequent advance of money so as to realize additional profits which are in turn converted into additional money, continuing in this way as a never ending spiral. As such, the circuit of capital is a movement based on the objective of profit for the purpose of ceaseless expansion. Its object is the accumulation of capital.

There are different phases of this movement in which capital itself also undergoes changes of form. The first is a movement in the sphere of exchange or circulation of commodities, involving the purchase of labor power and means of production, through which capital acquires the requisites of production. In this phase, capital exists in its form as *money capital* seeking to be invested in production. The second is a movement in the immediate process of production, consisting of the organizing and using-up of labor power and means of production to create commodities. Once it is thus embodied in production, capital alters its form to become *productive capital*. Finally there is a phase in which the commodities which are produced, and now embody the further altered form of capital as *commodity capital*, enter the sphere of exchange to be sold in order to realize their value in money.

Since the circuit is conceived to be circular, each such form of capital and its associated phase of the circuit may be considered the starting point of the circuit and its end point. There are then different forms of the circuit corresponding to each such starting point. There is, first a circuit of money capital which takes the form of the sequence already described in (3). There is, second, a circuit of productive capital, taking the form

$$(4) \qquad P_1 \ldots C'_1 \rightarrow M_1' \rightarrow C_2 \ldots P_2.$$

This starts with production, goes through exchange and ends in further production. There is, third, a circuit of commodity capital represented by the sequence

$$(5) \qquad C_1' \rightarrow M_1' \rightarrow C_2 \ldots P_2 \ldots C_2'.$$

It begins with the output of commodities as capital seeking for its realization in money and ends in a new output of commodities. These different forms of the circuit define different dimensions of capital in its complexity as capital, first as money, second as both means of production and labor-power united in production, and third as commodities embodying exchange value. Each and every such form of the circuit is a real aspect of the movement through which capital must pass in its drive for expansion. Correspondingly, failure to complete the transition from one form to another causes an interruption in the whole circuit and retards the expansion.[31]

Production and exchange constitute mutally dependent moments in the circuit which are bound together by an essential unity. In particular, production presupposes exchange because, in a developed division of labor, the means of production must be obtained through exchange between specialized and widely dispersed producers. Direct acquisition of labor power as a requisite of production necessitates a movement in exchange owing to the commodity character of labor power itself which is an essential constitutive condition of the capital relation. Moreover, it is only through their entry into the market, and their ability to find a market, that the value embodied in commodities can be realized. Altogether, the realization of capital, the fulfillment of its mobility, and its drive for expansion, are predicated upon market exchange for conversion of the products of capital into money, back into commodities, again into money, and so on. On the other side, market exchange presupposes production because it is through production and its associated division of labor that the commodities to be exchanged are created. The market itself is a specific market, created (in part) by all of the capitals taken together through the mutual dependence of the particular capitals in their ongoing activity of production. Capital thus traverses exchange and production, production and exchange, in the course of its movement.

It follows that within this circuit, as the properly constituted circuit of capital, circulation is united with production, and production with circulation. Together, they form an interdepdendent whole, definite and distinct moments in a single movement. It is the unity of these moments which gives continuity to the movement of capital and connectedness between the different forms through which capital moves.

The circuit of each and every unit of capital constituted in this form, and therefore the circuit of capital in general, is a movement which begins with the advance of a sum of money M for the purchase of commodities C and ends with the sale of commodities for a sum M′, where M′>M. The "general formula of capital" therefore emerges here and can be expressed in the abbreviated form

$$\mathrm{M} \rightarrow \mathrm{C} \rightarrow \mathrm{M}', \quad M' > \mathrm{M}.$$

In this form, the general formula of capital expresses the essential character of capital in its generality as capital, that is to say, as *value in motion*, as sum of money alternately attaching itself to commodities, then realizing itself again as additional money and so on, in a process of ceaseless expansion. This character is immanent in capital as such, regardless of its specific form. But the distinctive feature of capital, which systematically differentiates it from the mere circulation of money as capital as in formula (2), is that it is a movement in and through production as one phase of the circuit interposed between a double movement in the sphere of circulation. It is this process as a whole, represented in terms of formula (3), which subsumes the general formula of capital and gives it its real substantive basis.

Production is here constituted as the activity of consuming labor-power and means of production to create commodities, an activity which is organized by capital and for the goal of capital. That phase of the movement is also the process of consumption of labor power in its form and substance as abstract labor, a substance made homogeneous by the total process of capital itself through the ceaseless mobility of labor and competition of capitals which that process entails.[32] It is that phase, therefore, in which the unique value substance, abstract labor, is embodied in commodities and which stamps them with their character as values.

The creation of a *surplus value*, on the basis of production organized in this way, becomes the unique source of the self-expansion of capital. This surplus value is, in turn, associated with the existence of labor-power as a commodity, purchased with wages, which has the unique capacity of being used in production so as to generate an amount of value in labor time in excess of what is required for its own reproduction. Specifically, the exchange of labor power, like that of every other commodity, is on the basis of equality of exchange: a value equivalent is paid for its acquisition by capital. But its use in production generates more value than is paid in exchange. That capacity of labor power constitutes its specific use value as a commodity. The capacity to produce that value increment as a regular and recurrent feature of the movement gives to capital its character as *self-expanding value*.

It follows that, in this system *value preservation* and *value expansion* now become mutually consistent. The specific condition of the exchange of labor power with capital and of the generation thereby of a surplus value is decisive for establishing this consistency.[33]

The rate of profit is the pivot upon which turns the whole circuit of capital. This is so insofar as it is the object of the movement and therefore the measure of its success. Moreover, it is the continued generation of profit and its conversion into additional capital that constitutes the expansion process of capital. As such, the rate of profit represents the difference between the amount of money realized from sale of commodities and the money advanced to purchase commodities. It is thus the quantitative difference between the end point of the circuit and its starting point. It thereby provides a measure of the whole movement as well as encompasses all the intermediate phases of the movement. In no way, then, can the rate of profit be collapsed into a relation that is emergent or determined solely within the sphere of production or within the sphere of circulation without violating the logic of the conception of the circuit of capital itself.[34]

Now, the circuit of the individual unit of capital is itself imbedded within a network consisting of the circuits of all the individual capitals. These circuits, in their interlocking and interlacing, together form the system of capitals as a whole or "the aggregate social capital." They are linked together on the basis of the exchange of products which, in accordance with the unfolding division of labor, provides each and every individual capital with the requirements of its own sustenance in terms of both means of production and markets for its products. In this respect, the system of capitals is formed on the basis of a systematic interdependence among the capitals, and hence on the basis of *dependence,* each upon the next in a whole network of interrelations. Specifically this takes the form, as illustrated in Figure 1, that the commodity capital of one circuit enters the circuit of another capital as means of production thereby becoming part of the latter's productive capital (i.e., "constant capital"). Exchange thus consists concretely, in this instance, of the interchange of commodity capital with money capital, of capital with capital. Another form of interdependence, and hence of dependence, among the capitals arises from capitalists' consumption. In particular, capitalists purchase commodities from the circuit for their individual consumption, thereby constituting a market for commodities produced by capital. The difference in this case is that the commodity capital which circulates in this way is not exchanged with money capital to be consumed in production as productive capital and for the purpose of expansion of capital. Rather it is purchased out of the revenue for individual consumption and therefore falls ouside of the circuit of capital. Whatever the case, it is through such exchanges, constituting a system of mutual dependence, that each and every capital obtains the sustenance necessary to its movement and expansion and, therefore, that the system of capital as a whole reproduces itself. In this way, it is evident that the circuit of each and every capital presupposes the circuit of other capitals, and therefore presupposes the system of capitals. The system of capitals is, in turn, predicated upon, and grows out of, the individual circuits.

The circuits of the individual capitals are linked together also on the basis of *competition of capitals.* This necessarily involves them in a relation of conflict with each other. The system of capitals thus entails relations of conflict as well as of interdependence among the capitals. But what is this competition? What is its substantive basis? This is a problem which we have encountered before, in the context of the previous conception of "merchant capital." In that context we discovered an essential indeterminacy in the idea of competition, if it is to be regarded specifically as a necessary condition within the interaction of the many individual capitals which at the same time reinforces the drive for

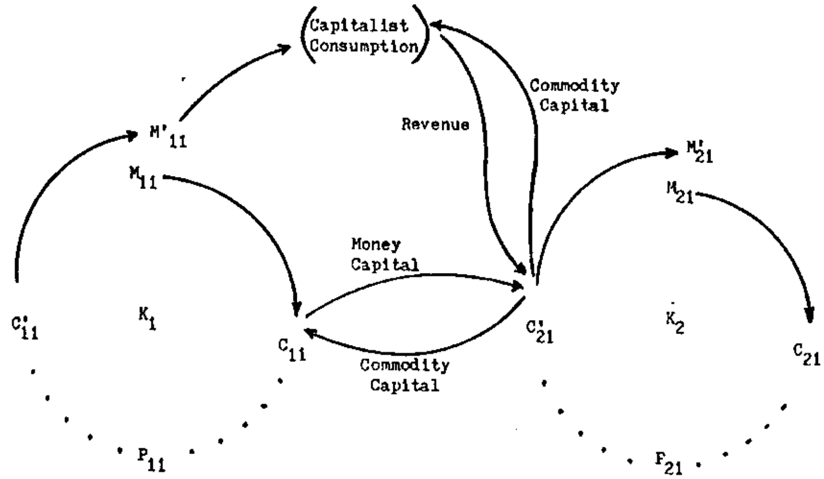

Figure 1

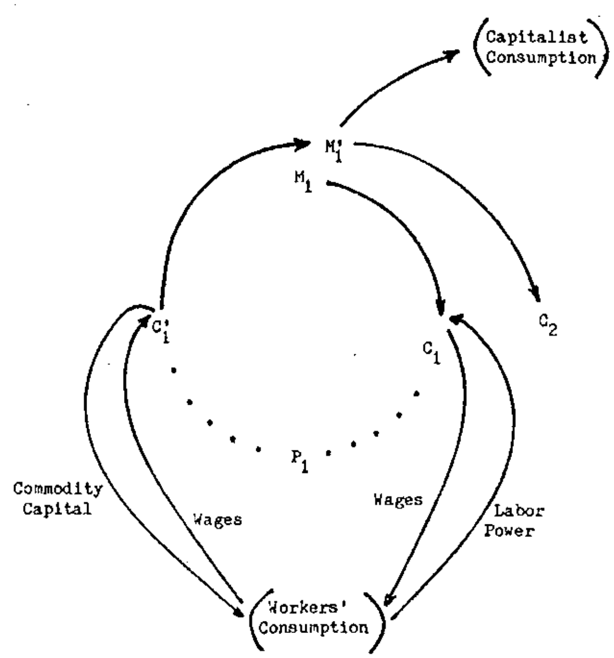

Figure 2

expansion on the part of each. It was found that there was, as yet, no real basis for this condition. In the present context, however, competition in this sense can be seen to have a real foundation. This is because it is constituted on the basis of production conceived to be organized and directed by capital to the goal of capital's expansion.

Production, when it is conceived in this way, becomes not only the real basis for the generation of the value difference, specifically as surplus value, which is the source of the expansion of capital. This production also becomes the real basis of both expansion and the competition which reinforces it. In particular, production becomes the basis upon which each capital is able to create the conditions for expansion in terms of the specific useful articles, judged as such by the market, which win for the particular capital a place in the market through which to realize the value increment. Correspondingly, the specific exchange values which each capital brings to the market as its commodity capital are of its own making and those specific articles are the instruments by which it is able to compete with other capitals. Both the means of expansion and the instruments of competition are thus created within the production process of each and every capital. It is the production process, furthermore, which creates the value difference, as the source of the expansion, needing to be realized through confronting the market in which all the particular capitals compete. Thus it is on the basis of production that each and every capital is able to propel itself into the market with a capacity for expansion and, simultaneously, is forced into collision with other capitals with the instruments for competing with them. In these respects, *production is the basis of both expansion and competition*. The competition in turn becomes capable of reinforcing the expansion and the expansion drives the competition. They are mutally dependent features of the whole process, and none can be considered prior to the other.

Capital as a Whole

Further consideration needs to be given to the sphere of exchange in which capital realizes itself. In general, it is not to be conceived as being exclusively the sphere of exchange of capitals, or of capital with capital. This latter includes only the exchange of commodity capital with money capital and therefore falls entirely within the the circuits of capital as such. But the sphere of exchange in general extends beyond the circuits of capital to encompass other spheres.

These other spheres include, first of all, the market for labor power, the distinguishing feature of which is the unique character of labor power as a commodity. Specifically, labor power is purchased with the wage out of money capital and in turn becomes part of productive capital (i.e., "variable capital"). For their own consumption workers purchase, out of the wage received, commodities which are produced by capital. These commodities, in turn, enter into the reproduction process of their labor power so as to preserve it for capital. The market for their labor power thus has a dual linkage with the circuit of capital (see Figure 2). One is the exchange of labor power with money capital. The other is the exchange of wages for commodity capital. From the standpoint of capital, the wage, insofar as it is paid out of money capital, is capital. It is money capital advanced with the objective of a money return and it must therefore yield a return like any other component of money capital. The labor power, once it is purchased, also becomes capital. It becomes part of productive capital to be consumed with the objective of value expansion, like other components of productive capital.

But labor power as a commodity is not itself directly produced within any circuit of capital. It is not commodity capital. It is capable of expansion with capital, and as a result of the accumulation process of capital. However, its conditions of availability are not wholly created by capital. Its process of production and reproduction is constituted on an entirely different basis from that of commodity capital. This is necessarily so in principle and not as a matter of historical contingency. This therefore constitutes its uniqueness as a commodity. Therein lies also the possible source of a contradiction. In particular, the circuit of capital presupposes, as an essential condition of its existence, the regular and recurrent availability of labor power as a commodity freely bought and sold in the market to be consumed in production consistent with the drive of capital for ceaseless expansion and under continually changing conditions of production. Yet, the conditions of availability of that commodity are not wholly created by capital itself. This is a structural feature of the system of capitals which evidently calls for an explicit analytical treatment in constructing the logic of that system.

The process of production and reproduction of labor power thus requires additional specification. It is an aspect of the problematic of the capital relation itself. This problem appears in a wide variety of different concrete contexts in contemporary discussions.[35] The present analysis points to the generality of the problem and to its location at the level of the conception of capital itself. It points also to the possible source of a contradiction which requires further elaboration and analysis.

Without going further into this matter here, we note that, while constituting a market for the circulation of commodities, in which capital itself circulates, the market for labor power involves a movement outside of the circuits of capital. The system of capitals is therefore *open*, in this specific sense, with respect to the market for labor power. That market is a movement which, from the standpoint of capital, properly fits the sequence M→C→M′. From the standpoint of the worker as owner of labor power it fits the sequence C→M→C. Both forms of the movement indicate that it is a movement not fully established on the basis of capital, and therefore open. However, both forms are combined as integral parts of the same exchange, the exchange of labor power with capital. The movement therefore has a place only as part of the total movement of capital.

The sphere of capitalists' individual consumption is also unique, occupying a position which is altogether different both from this latter sphere and from that of the exchange of capital with capital. This sphere consists of the exchange of commodity capital produced in one circuit with the revenue obtained in another circuit. Since this revenue is appropriated by capital on the basis of the production activity of capital and the commodity exchanged is capital, it is legitimately to be considered as an exchange which is fully located within the circuits of capital. However, it is not an exchange which entails a continuing movement into productive capital for the purpose of creating more capital. Instead, the commodities which enter into this exchange fall out of the circuit to disappear entirely in consumption. This consumption is no less social for being individual. In other words, it is determined within the conditions of existence of the individual owner of capital, which are social conditions. It entails a corresponding quality of usefulness, or of specific use value,in the commodities consumed. The point is, however, that the specific and unique objective which drives this movement is not the expansion of capital as exchange value, which characterizes the circuit itself, but its opposite, the individual consumption of use value. In this respect, it is a movement directed to no other end but consumption, pure and simple. It therefore fits and epitomizes the movement of simple commodity exchange. We thus find here, within the movement of capital itself, a movement which was posited at the start of our investigation as seemingly separate from capital, even opposed to capital. That movement can now be seen to have a place within the capital relation.

The object of the movement of capital is the production of exchange values for the endless increase of capital. But it now appears to be also a movement which contains simultaneously the motive of acquisition of *use value*. This is most clearly so as regards capitalists' individual consumption. It is no less so, though in a qualitatively different sense, in the case of the cycle of reproduction of labor power. This latter is also intrinsically a circuit of simple commodity exchange involving, in particular, sale of the commodity labor power in return for wage payments in money to be spent to acquire the commodities which the worker consumes. The difference is that this cycle results in the reproduction of a commodity which capital itself consumes in production, which therefore is necessary to the productive consumption of capital and hence to its expansion. It is so, moreover, and again in a qualitatively different sense, in the case of consumption of means of production and labor power. The difference is that this case is directly the productive consumption of use values by capital for the unique purpose of the expansion of capital. The decomposition of use value into these three elements is evidently what underlies Marx's three-department scheme which distinguishes between departments producing means of production, means of consumption, and luxuries.

In the formula (3) (see also Figures 1 and 2), these processes correspond to that phase of the circuit described by

$$. . . C_1' \rightarrow M_1' . . .$$

Examined in detail, this phase can be seen to divide into three subprocesses. First, some of the commodities C_1', distinguished by their specific useful character for the process of capitalists' productive consumption, are exchanged with money capital to re-enter the circuit as component parts of productive capital. Second, some of the commodities C_1' are exchanged with revenue for the purpose of capitalists' individual consumption. These must also, as use values, have a specific useful character, a character which in this case is appropriate to the social process of capitalists' individual consumption. Third, some of the commodities C_1' are exchanged with wages. To the extent that wages are paid out of money capital, or out of revenue, or out of both, this may be considered formally to be an exchange with money capital or with revenue or with both. In qualitative terms, the substantive character of the exchange is that it is an exchange geared to the consumption requirements of the owner of labor power and hence to the reproduction process of labor power. The commodities which enter into that exchange must consequently have a specific useful character suited to that process and to the specific socially determined needs of the owner of labor power. It is therefore an exchange which is rooted in the social process of formation of those needs. It cannot, then, be collapsed into a mere provision of the means of productive consumption for capital, hence into a provision of "variable capital," without eliminating the specific factors of that social mediation and, correspondingly, the social existence of the owner of labor power.[36]

It is evident that use value is an intrinsic element of all these processes, an element which is specific to each such process. That element cannot therefore be arbitrarily posited. It has to be given a determination specific to the particular processes within which it is located and, hence, within the social process of capital itself. The foundation of both use value and exchange value must, then, be seen to lie in the social process of capital, as dual elements of that process. They are "the two factors of a commodity," as Marx proposed, and, therefore, of capital. It is proposed, moreover, that these two factors are combined in a contradictory unity which constitutes an essential condition of existence of the system of economic relations. This contradictory principle can now be seen, at this level of the analysis, to have a definite place as a general feature of the whole process.

The fundamental contradictory principle of the system of capitals arises from the fact that, on the one hand, the sole motivating object of the production of commodities on the part of each and every individual capital, *qua* individual capital, is the creation of exchange values for the purpose of that capital's expansion. On the other hand, and at the same time, it is a necessary requirement of those commodities that they have a specific useful character adapted to specific needs which are determined within a social process that is not itself directly created by the individual capital. There exists in this sense, it might be said, a contradiction between exchange value and use value. It is also, and this is evidently an equivalent expression of the same thing, a contradiction between the private or individual character of production, that is, the fact that it is based on the self-organizing and self-motivated activity of the individual capitals, and the social character of the same production immanent in the conditions of a necessary interdependence among the capitals and of a necessary structure of socially determined uses which the production must fulfill. It is, equivalently, a contradiction between use value and exchange value, and between social production and individual production. Moreover, the exchange of labor power with capital, as the exchange of a commodity specific to capital, having both an exchange value and a use value, is mediated by the same general contradiction.[37]

It is a contradiction, derived at this abstract and general level, which must in turn have necessary implications for the process of reproduction of the system of capitals. The exact nature of these implications therefore remains to be given an explicit elaboration in the analysis of that reproduction process, specifically in terms of the particular laws of motion which the contradiction entails. In this respect, the analysis must demonstrate not only what those laws are but also how exactly they derive from that inner contradiction. That problem is not considered here. Meanwhile, it is evident that recognition of the organic position of both use value and exchange value within the system of relations is a necessary prerequisite of that analysis.

Production in this general form, comprising all of the detailed elements presented here which are seen to be united in contradiction, is *capitalist commodity production*. Production, as a category, is thus used here in two quite different senses.[38] These may be distinguished as production in the broad sense and production in the narrow sense. Production in the broad sense comprehends the totality of the movement.[39] In that movement, production in the narrow sense has a place which is given to it as a relation with exchange. These components, as we have seen, are mutually dependent moments of the same total process. It is a case of using the same word to mean two quite different things. These meanings are often confused and that confusion is the source of much misunderstanding of the capital relation. In whatever sense it is used, however, it has to be made consistent with the systematic conception of the whole process and of the place of each element in that process.

Correspondingly, production in this general form is exchange, again understood in a broad sense. It is *capitalist commodity exchange*. Here, too, there are two different meanings of exchange which need to be distinguished.[40] There is, first, exchange considered as a particular phase of the total process, which exists in unity with production as the other phase. Second, there is exchange as the particular social form of the process of capital, a process which in its totality is permeated and spontaneously organized by exchange, so that production itself, in the narrow sense, comes to bear the necessary imprint of exchange.

Capital as a whole is also capable of undergoing reproduction for specific reasons not seen before in any of the previous forms of commodity exchange. In particular, this is because it is only in this system that production itself, in the narrow sense, is fully developed as an internal condition of the system. This system as a whole is abstractly conceived to be self-contained with respect to the capacity to produce (except for the conditions of production of labor power).[41] It is therefore capable of producing its own conditions of production, hence the conditions for continuing and renewing production. Thus it is capable of self-renewal and, hence, of reproduction. This capacity exists, at least as a potential, at the level of the system as a whole. Moreover, this system is capable of producing the conditions for value expansion as well, in the specific form of the surplus value generated in production. Therefore, both reproduction and value expansion are consistent with this system and with each other. In general, *expanded reproduction* is a potential which is latent within this system. It is, nevertheless, a potential which necessarily has a contradictory existence. This is because of the specific contradictory principle which we have seen to be emergent from the logic of the system. Consequently, the problematic of reproduction, which was presented in the discussion of previous forms, can now be fully posed for the first time and acquires a specific meaning in this context. In particular, this problematic comprises a fundamentally significant set of analytical questions, namely: What are the specific mechanisms and interactions involved in the internal workings of the system so as to ensure reproduction as a result? How might interruptions occur in the process, and why? What are, then, the internal obstacles and barriers to the continuation of the process? How does the system overcome those barriers and what internal changes does it then undergo? It is evident here that the concept of reproduction does not preclude or foreclose the possibility of change and transformation. It rather focusses sharply on the question of precisely why and how such change may be conceived to occur. This problematic acquires its full meaning, and a specific meaning, in the context of capitalist commodity production. It also has deep complexities in the context of this system. To penetrate these complexities is the object of the further detailed analysis of this system.

Conclusion

The sequence of forms of circulation, going from "simple commodity exchange," through "merchant capital," to "industrial capital," is interpreted here as representing a logical process of reasoning out the self-consistency and determinate structure of the system of capitalist economic relations. The three forms are not to be regarded as mutually exclusive forms having an independent existence as-such. Neither are they to be regarded necessarily as an historically observable sequence of concrete social forms, or historical stages of social development. Rather, they are to be interpreted as so many steps in a logical process of constructing the abstract and general conditions of the system of capitalist commodity production. The notion of a method of abstract logical reasoning as representing simultaneously a process of historical development is a way of collapsing the abstract method into a kind of historicism. By so doing it avoids the necessity of seeking to understand the process of historical development on its own terms through the powerful lens provided by a a systematic theory.

Of course, complex and difficult problems of analyzing the detailed structure and motion of the system of capitals still remain. They are not themselves solved by the analysis presented here, but the articulation of these foundations provides the necessary basis for going on to consider them.

Notes

1. Karl Marx *Grundrisse*, Harmondsworth: Penguin Books, 1973, p. 248.
2. Ronald L. Meek states the argument most vigorously in his three works: *Economics and Ideology and Other Essays*, London: Chapman Hall, 1967; *Studies in the Labor Theory of Value*, 2nd edition, London: Lawrence and Wishart, 1973; and "Is There an 'Historical Transformation Problem?' A Comment," *Economic Journal* 86 (June, 1976), 342-347. See also parallel arguments in Rudolf Hilferding, *Bohm-Bawerk's Criticism of Marx* (Paul M. Sweezy, editor), New York: Augustus M. Kelley, 1949; Rudolph Schlesinger, *Marx, His Time and Ours*, London: Routledge and Kegan Paul, 1950; J. Winternitz, "Values and Prices: A Solution of the So-Called Transformation Problem," *Economic Journal*, 58 (June, 1948), 276-280; and Ben Fine, "On Marx's Theory of Agricultural Rent," *Economy and Society*, 8 (August, 1979).
3. See his "The Science of the Economy," *Economy and Society* 7 (August, 1978) and "The Theory of Value and the Value of Theory - a Reply to Cutler *et.al.*," *Economy and Society* 8 (August, 1979).
4. See his *Political Economy*, Volume 1, New York: MacMillan, 1963, p. 19.
5. See their "Is There an 'Historical Transformation Problem'?" *Economic Journal* 85 (June, 1975), 309-328 and "The 'Historical Transformation Problem': A Reply," *Economic Journal* 86 (June, 1976), 348-352. .
6. Louis Althusser and Etienne Balibar, *Reading Capital*, London: New Left Books, 1970; Charles Bettelheim, "Theoretical Comments" in Arghirri Emmanuel, *Unequal Exchange*, New York: Monthly Review Press, 1972; Maurice Dobb, "A Note on the Transformation Problem" in his *On Economic Theory and Socialism*, London: Routledge and Kegan Paul, 1955; Roman Rosdolsky, *The Making of*

Marx's Capital, London: Pluto Press, 1977; and I.I. Rubin, *Essays on Marx's Theory of Value*, Detroit: Black and Red, 1972.

7. See their *Marx's Capital and Capitalism Today*, Volumes 1 and 2, London: Routledge and Kegan Paul, 1977 and 1978; and "An Imaginary Orthodoxy - A Reply to Laurence Harris," *Economics and Society* 8 (August, 1979).
8. See his *Theory of Capitalist Development*, New York: Monthly Review Press, 1956, p. 23; and his "A Critique" in *The Transition From Feudalism to Capitalism*, New York: Science and Society, 1967, p. 15.
9. In their investigation, Cutler *et al.*, *op cit.*, [1977] argue, on different gounds from those considered here, for an opposition between simple commodity production and capitalist production. They conclude from this, however, that Marx's value analysis of capitalist production must be rejected, because it "requires that the conceptions pertinent to one set of social relations be extended to the other" [p. 31]. In so doing, they fail to consider how that opposition may be consistently integrated into the conception of capital itself. They also fail to discover any problems in the logic of the conception of simple commodity production as such. Joan Robinson in her essays, "Value Before Capitalism," *Kyklos* 28:1 (1975), 143-148, and "The Labor Theory of Value," *Monthly Review Press* 29 (December, 1977), 50-59, arrives, by a different route, at the same conclusion as Cutler *et al.*, but she finds in addition that there are inconsistencies in the conception of simple commodity production.
10. There is no presumption here, implied or intended, of an arbitrary apriority in the concepts themselves, such as Bohm-Bawerk (in his *Karl Marx and the Close of His System* (Paul Sweezy, editor) New York: Augustus M. Kelley, 1949, pp. 88-89) falsely attributed to Marx's reasoning, or of any direct and immediate correspondence with empirical "reality." Rather, as Marx showed, for instance in the well-known "Introduction" to the *Grundrisse*, there is a complex alternating movement between abstract concepts and their concrete historical counterpart.
11. Marx's view in *Grundrisse* (pp. 267-268) is that, in the simple commodity exchange system, "exchange takes place only for the reciprocal use of the commodity." "But here," he adds, "the use value, i.e., the content, the natural particularity of the commodity has as such no standing as an economic form. Its form, rather, is exchange value. The content apart from this form is irrelevant; is not a content of the relation as social relation." He goes on immediately to ask: "But does this content as such not develop into a system of needs and production? Does not use value as such enter into the form itself, as a determinant of the form itself. . . ?" His answer is that "of course use does not come to a halt because it is determined *only* by exchange; although of course it obtains its direction thereby. In any case, this is to be examined with exactitude in the examination of value, and not, as Ricardo does, to be entirely abstracted from, nor like the dull Say, who puffs himself up with the mere presupposition of the word 'utility.' Above all it will and must become clear in the development of the individual sections to what extent use value exists not only as presupposed matter, outside economics and its forms, but to what extent it enters into it." Needless to say, this project is left incomplete and, after Marx, the concept of use value comes to occupy an ambiguous and often neglected status in the discourse of marxist analysis. A significant effort to restore it to its proper place is made in the recent work of Rosdolsky (cited above).

12. For Marx's argument on this see, for instance, *Grundrisse*, pp. 270-271.
13. Cf.Marx, *Grundrisse*, p. 248: "already the simple forms of exchange value and of money latently contain the opposition between labour and capital."
14. See, for instance, Meek, *op cit.*, (1967), p. 100; Lange, *op. cit.*, (1963), p. 19; Dobb, *op cit.*, (1973), p. 147n; and Sweezy, *op cit.*, (1956), p. 23.
15. Thus, Marx points out (*Grundrisse*, p. 296) that: "For example, in guild and craft labour, where captial itself still has a limited form, and is still entirely immersed in a particular substance, hence is not yet *capital as such*, labour, too, appears as still immersed in its particular specificity: not in the totality and abstraction of labour *as such*, in which it confronts capital." He adds (p. 297) that, with respect to "craftsmen and guild-members, etc.," their "economic character lies precisely in the *specificity* of their labour and in their relation to a *specific master*." Marx's argument here and in the rest of this paragraph makes it clear that the character of the labor is dependent on the character of the capital which it confronts. On the other hand, Dobb, *op cit.*, (1973), p. 147n, presumes that, in simple commodity production, "while there will be mobility of labour together with its means of production between different industries, there will be no separate 'mobility of capital' in the modern sense."
16. The reduction of each and every bundle of commodities to the common measuring rod of money provides, of course, a basis for comparing and establishing the equivalence of any two such bundles. Specifically, it establishes their equivalence as *exchange values*. It presupposes also that each and every commodity, as member of the set of all commodities, has an objective relation to the monetary standard and, hence, to all other commodities, in terms of their money price. But, for Marx, their equality as *values* presupposes something more. Specifically, it presupposes a substantive condition or quality intrinsic in the commodities themselves. This condition constitutes their character as values.
17. There is a certain ambiguity in Marx's derivation of abstract labor as the value substance distinct from exchange value and use value. At various points in the mature texts it appears that value (abstract labor) is deduced from commodity exchange as such, as a general condition, and correspondingly from the existence of money as the universal equivalent standard. But, at other points, abstract labor is derived uniquely from the existence of the capital relation as a historically specific set of social conditions. This ambiguity has been pointed out by many commentators with copious references to the texts, as early as in 1928 by Rubin (ch. 14) and most recently in Claudio Napoleoni, *Smith, Ricardo, Marx*, New York: John Wiley, 1975, ch. 5. It has also given rise, unfortunately, to certain degenerate lines of reasoning which seek, for instance, to connect labor as the value substance with a natural or physiological property of "human working activity" or with a purely "material" attribute of production viewed as a supra-historical category or primordial human condition. See, for instance, Karl Kautsky, *The Economic Doctrines of Karl Marx*, London: A. and C. Black, 1925; and Lange, *op. cit.*, (1963). The view taken here is that the only plausible and consistent derivation is that which connects value uniquely with the capital relation, since it is only with capital that exchange becomes fully established as the social form of the process of production and reproduction (cf. Marx, *Capital*, Volume II, New York: Interna-

tional Publishers, 1967, p. 34). This interpretation is consistent with that of commentators such as Lucio Colletti, *From Rousseau to Lenin*, London: New Left Books, 1972, and the above cited works of Napoleoni, Rosdolsky, and Rubin. But, beyond this, it is further presumed here that it is only labor working with capital, or free wage labor, which is fully social in character and hence becomes intrinsically "social labor." This category of social labor is therefore wholly inapplicable to any and all forms of pre-capitalist society. Marx, on the other hand, supposes that "from the moment that men in any way work for one another their labour assumes a *social form*" (*Capital*, Volume I, New York: International Publishers, 1967, p. 71).

18. There is no specification implied here as to the particular bundle of commodities involved in exchange. It is, rather, a condition strictly related to the magnitude of value on both sides of the exchange, and this is consistent with many different possible combinations of particular commodities. This means, in particular, that there is no necessary presumption that each producer must obtain from the exchange a specific set of particular use values in a specific combination. That specification would await a further determination of the social conditions of existence of the producers. In the absence of that determination, any such specification would reduce the requirement of quantitative equality in the exchange to a matter of an a-social, a-historical, and purely physiological need for "survival." On this, see the similar argument of Rubin, *op cit.*, (1972), pp. 103-104.
19. It may also be asked: What would happen if the condition of equality were *not* satisfied? This is another aspect of the problematic of reproduction, which calls for further analysis of the specific manner in which reproduction takes place, of the mechanisms and interactions involved in the internal workings of the system such as to ensure reproduction, and of the causes and consequences of interruptions in the reproduction process.
20. Cf. Rubin *op cit.*, (1972), pp. 101-103.
21. Marx, *Capital* Volume III, New York: International Publishers, 1967, pp. 177-178.
22. Hilferding, *op cit.*, p. 164.
23. In their investigation, Morishima and Catephores infer that "simple commodity production has never been realized in history in its full or pure form or even in some tolerably approximate form, because of the lack of mobility of producers among jobs in the pre-capitalist age." (*op cit.*, (1975), pp. 314-315). In contrast, the argument presented here is based on consideration of the requirements for internal consistency of the conception of simple commodity exchange itself, quite apart from any question of its correctness as an historical description.
24. Marx, of course, repeatedly rejects the attempt of Smith (and, later, Torrens), which Ricardo also opposed, to confine the operation of the law of value to a "prehistoric period" or "golden age" of pre-capitalist society. See, for instance *Grundrisse*, p. 156, and *Theories of Surplus Value*, Part III, Moscow: Progress Publishers, 1971, p. 74. But this rejection did not inhibit Marx himself from, at times, giving a historical place to simple commodity production in pre-capitalist society. The ambiguity in Marx's texts with regard to this idea is, in large part, reponsible for the continuing debate concerning its validity.
25. Marx, *Capital* Volume I, *op cit.*, pp. 152-153.
26. Marx notes (*Grundrisse*, pp. 650-651): "Free competition is the real development

36. Existing discussions of the "transformation problem" tend to have this consequence because of the assumed condition in the proposed solutions that the wage corresponds uniquely to a bundle of specified commodities which conform to the "subsistence" requirements of the worker. The limitations of this treatment are discussed in D. Harris , *op. cit.*, (1978).
37. Cf. Marx, *Grundrisse*, pp. 267-268: "in the relation of capital and labour, exchange value and use value are brought into relation; the one side (capital) initially stands opposite the other side as *exchange value*, and the other (labour), stands opposite capital, as use value."
38. In the "Introduction" to the *Grundrisse*, Marx clearly distinguishes between the many different senses of the term "production," making it clear that "this general category . . . is itself segmented many times over and splits into different determinations" (p. 85).
39. This is presumably the sense Marx intends when he asserts (*Grundrisse*, p. 46): "Production predominates not only over itself, in the antithetical definition of production, but over the other moments as well." For, a few sentences later he adds: "Admittedly, however *in its one-sided form*, production is itself determined by the other moments." In the translation of this passage by S.W. Ryazanskaya, this latter meaning of production is rendered as "production in the narrow sense" (Marx *A Contribution to the Critique of Political Economy*, London: Lawrence and Wishert, 1971, p. 205).
40. Rubin, *op. cit.*, (1972, pp. 149-150, makes a similar distinction between "two concepts of exchange."
41. Viewed historically, the sphere of exchange in which capital circulates includes also forms of non-capitalist production. From the standpoint of the system of capitals, exchange with such non-capitalist forms is a way in which capital acquires particular commodities which are requisite to its circuit but not (yet?) produced within any of the component circuits. On this see, for instance, Marx *Capital*, Volume II, *op. cit.*, pp. 110-111. As such, this is an exchange that is specific to the concrete historical conditions in which capital moves, both at the point of its emergence as capital and throughout its subsequent development. It is therefore an aspect of the concrete historical analysis of the capitalist economy. The full significance of such exchanges is that the circuits of capital cannot then be treated historically as a completely closed system. There remains nevertheless a substantive theoretical question as to how the exchange with non-capitalist forms is related to the internal logic of the system of capitals as such. What place does it occupy in the reproduction process of that system? This question has remained a problematical one in the conception of the reproduction process of capital. This question was a central concern of Rosa Luxemburg, *The Accumulation of Capital*, London: Routledge and Kegan Paul, 1951, and continues to be the main focus of one line of analysis of the problem of imperialism. It has been re-examined recently by Barbara Bradby, "The Destruction of Natural Economy," *Economy and Society* 4 (May, 1975), 127-161, and by P. Patnaik, "A Note on External Markets and Capitalist Development," *Economic Journal* 82 (December, 1972), 1316-1323.