

CHAPTER III

ORIGIN AND NATURE OF CAPITAL

SOCIALISM posits private ownership of capital as the cause of all or nearly all social injustice. Capital and capitalism are the terms most frequently encountered in its literature, and they are the favoured objects of denunciation. It might, therefore, be supposed that the Socialism which claims to be "scientific" had made a close and serious study of the thing capital—that it had analysed it and clearly conceived what it is. Yet, strange to say, the opposite is the case. The endless mass of socialist literature which overburdens the student contains but few attempts at any definition of capital, and not one serious attempt to determine its nature and functions. Not one makes any distinction between capital, which is the result of labour applied to natural objects, and monopolies, which are the creation of legislative enactments; and, though land and capital are frequently differentiated, such difference is not infrequently denied, either directly¹ or indirectly.² The few definitions of capital to be found in socialist literature all suffer from the same fault. The most important of these is that of Karl Marx, who

¹ "When we consider what is usually called capital, we are at a loss to disentangle it from land, as we are to find land which does not partake of the attributes of capital."—*Fabian Tract No. 7, Capital and Land.*

² "I know that it has been sometimes said by socialists: 'Let us allow the manufacturer to keep his mill and the Duke of Argyle to keep his land, as long as they do not use them for exploitation by letting them out to others on condition of receiving a part of the wealth created by these others. . . .' Unluckily there are no unappropriated acres and factory sites in England sufficiently advantageous to be used as efficient substitutes for those upon which private property has fastened."—*Fabian Essays*, pp. 139, 140.

The *petitio principii*, substituting "factory sites" in the second sentence for "mills" in the first, is a sleight-of-hand, characteristic of the manner in which prominent socialists endeavour to obscure the land question.

devotes a chapter of *Capital* to its elucidation,¹ and from which the following statements are extracted :—

“The circulation of commodities is the starting-point of capital. The production of commodities, their circulation, and that more developed form of their circulation called commerce, these form the historical groundwork from which it rises. . . .

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

This process of transformation is thus described :—

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

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

¹ *The General Formula for Capital*, vol. i. Part II. chap. iv.

"The circuit C—M—C starts with one commodity and finishes with another. Consumption, the satisfaction of wants, in one word, use-value, is its end and aim. The circuit M—C—M, on the contrary, commences with money and ends with money. Its leading motive, and the goal that tracts it, is, therefore, mere exchange-value. . . .

"To exchange £100 for cotton, and then this cotton again for £100, is merely a roundabout way of exchanging money for money, the same for the same, and appears an operation just as purposeless as it is absurd. One sum of money is distinguished from another only by its amount. The character and tendency of the process M—C—M is, therefore, not due to any qualitative difference between its extremes, both being money, but solely to their quantitative difference. More money is withdrawn from circulation at the finish than was thrown into it at the start. The cotton that was bought for £100 is perhaps resold for £100 plus £10 or £110. The exact form of this process is therefore M—C—M', where $M' = M^{\Delta} - M =$ the original sum advanced plus an increment. This increment or excess over the original value I call surplus-value. *The value originally advanced, therefore, not only remains intact while in circulation, but adds to itself a surplus-value or expands itself. It is this movement that converts it into capital. . . .*

"As the conscious representative of this movement, the possessor of money becomes a capitalist. . . .

"It (value) differentiates itself as original-value from itself as surplus-value, as the father differentiates himself from himself *qua* the son, yet both are one and of one age; for *only by the surplus-value of £10 does the £100 originally advanced become capital: . . . M—M'*, money which begets money—such is the description of capital from the mouths of its first interpreters, the mercantilists.

"Buying in order to sell, or more accurately, buying in order to sell dearer, M—C—M' . . . is therefore in reality the general formula of capital as it appears *prima facie* within the sphere of circulation."¹

¹ The italics are ours.

Apart from such misconceptions as the one that all capital makes its first appearance in the form of money, which do not concern us here, the foregoing quotations make quite clear Marx's conception of capital, viz. that it consists of all valuable things which yield an income to their possessors, and that it excludes all such things which either permanently or temporarily yield no income. The italicised sentences leave no shadow of doubt as to this meaning. No distinction is, therefore, made by him between the use of money (to adhere to his term) in directions which, while yielding an income to its possessor, add to the general income of the social body, and between the use of money which yields to its possessor an income which is deducted from the general income of the social body.

Moreover, the tenor of the argument implies that all incomes from capital are uncompensated deductions from the general income, that "buying in order to sell," inclusive of the transactions of manufacturers who buy, say cotton in order to sell yarn, is an activity which renders no service whatever. That this view is fully held and deliberately enforced by Marx is not only shown in the development of his surplus-value theory, but also in the following reference to capital:—

"We know that the means of production and subsistence, while they remain the property of the immediate producer, are not capital. They become capital only under circumstances in which they serve, at the same time, as means of exploitation and subjection of the labourer."¹

Here Marx still pursues the same theory, though the change in expression makes its meaning more clear. The only characteristic which differentiates capital from general wealth is its use as a "means of exploitation and subjection of the labourer." Anything not so used is not capital, and any income derived from capital is therefore "exploited" from the labourer.

Apart from the confirmation of the deductions made from previous quotations, which this passage yields, it

¹ *Capital*, p. 792.

leads to curious results in another direction. For, if true, any machine or other instrument of production which for the time being is not used, or is used by an immediate producer, say a farmer, is not capital. If the farmer engages a workman to drive the engine it becomes capital. A cotton-mill worked by a Co-operative Society could not be capital; if worked by a private employer it might be capital, provided it returned a profit; but if worked at a loss it could not possibly be capital. For, obviously, neither in the co-operative mill nor in that worked at a loss, are "the means of production used as the means of exploitation and subjection of the labourer," while in the private mill, returning a profit, they may be so used. As reasonably may it be held that a gun is not a firearm if it is used for shooting game, but if it is used for shooting a man, then it becomes a firearm.

The foregoing examination proves that Marx made no attempt to find out what capital is, but that he framed his definitions to suit certain deductions which he desired to make from them.

La Propriété, by Paul Lafargue, furnishes (p. 303) another definition, viz.:—

"Under capital one understands all property which affords interest, rent, income, or profits."

Lafargue also, therefore, makes no distinction whatever between land, labour-products, and monopoly-rights, but classes them all as capital. But subsequently he limits this generalisation as follows:—

"A sum of money put at interest is capital; any instrument of labour (land, weaving-looms, metal works, ships, etc.) used not by its proprietor, but by salaried persons, is capital. But the land which is cultivated by its peasant-owner with the aid of his family, the poacher's gun, the fisherman's boat . . . although they are property, are not capital."

This, however, is not merely a limitation, but an absolute contradiction of the principal proposition. For if "all property which affords . . . income or profits" is capital, then the peasant-proprietor's land and the fisherman's boat also are capital, if they "afford an income or

profit" to their owners when used by them, which generally is the case.

Moreover, according to this limitation, land is not capital if the owner and, say, two sons work it; but should one of the three be injured, so that a hired man must be engaged to take his place; or should threatening weather at harvest-time compel the engagement of an additional worker so as to hasten the operation, then it would at once become capital and the proprietor a capitalist.

Laurence Gronlund, in *The Co-operative Commonwealth*, gives the following definitions, pp. 29, 30 :—

"We, therefore, mean by capital that part of wealth which yields its possessors an income without work." . . .
"Capital is accumulated fleecings, accumulated, withheld wages."

This view is supported by a greater authority, Frederick Engel, who, in *Socialism, Utopian and Scientific*, p. 43, states .—

"The appropriation of unpaid labour is the basis of the capitalist mode of production, and of the exploitation of workers that occurs under it; even if the capitalist buys the labour-power of his labourer at its full value as a commodity on the market, he yet extracts more value from it than he paid for; and in the ultimate analysis this surplus-value forms those sums of value, from which are heaped up the constantly increasing masses of capital in the hands of the possessing classes."

These definite statements embody most clearly the general conception which socialist writers and teachers wish to convey, viz. that capital, privately owned, not merely robs the workers, but is itself stolen from them, and that any property which yields an income without work is capital. It cannot be denied that socialists, as well as any one else, have a perfect right to define the terms they use as seems good to them, provided the definition is consistent within itself, and is not subsequently departed from. Whether the definition is useful, or whether it tends to obscure the facts under consideration, is, however, another question. The definitions before us embrace objects, the origin,

nature, and influence of which differ so widely from each other, that their agglomeration under one definition has consequences of the most misleading and mischievous character. The present chapter will be devoted to the elucidation of what, in contradistinction to monopoly-rights and other spurious forms of capital, may be called real capital, leaving the treatment of the former as well as of land to subsequent chapters.

All the useful things which constitute wealth are the result of human exertion exercised upon matter in the direction of changing its form or relation so as to fit it for the satisfaction of human desires. But not all such exertion adds to the stock of wealth. Apart from all other cases, it is obvious that labour directed towards the immediate satisfaction of desire fails to do so. For if a man gathering berries puts them into his mouth and eats them, there is no production of wealth; but if instead he puts them into a basket for subsequent use, the stock of wealth is increased. In order, therefore, that such a simple form of wealth as berries should be produced, some labour had to be expended in advance on the production of something not wanted for its own sake, and unable of itself to satisfy desire.

Take another case. A man, wanting water from a spring at some distance from his hut, may satisfy his desire by going there and raising the water in his bent hand till he has quenched his thirst. But if he takes a piece of wood, hollows it out with fire, and attaches a handle made of twisted reeds, he not only can obtain more water, but can carry it to his hut where it is wanted. Manifestly, however, in order to obtain this greater quantity of water, and in order to carry it where it was wanted, he had to proceed in a roundabout way—that is, he had first to make something for which he had no direct desire, a pail. If he now wants more water still, he may cut down a tree, saw it into boards, make these boards into a flume, and along this channel an infinitely greater amount of water will be carried to his hut by gravitation, *i.e.* without any further exertion on his part than that of occasionally keeping the flume in order.

To obtain this greater supply with less labour, he had, however, to go about the work of producing the water in a still more roundabout way. He had to quarry iron-ore and flux, construct a smelter, smelt the ore into iron, then produce a forge and shape the iron into axe and saw, then fell a tree, saw it into boards, and finally make these into a flume.

It is true, that if one man had to do all this in order to obtain water for his own use, the greater quantity of water thus obtained would not requite him for the labour expended in his roundabout process. But if thousands of men work in co-operation extending over time and space, some quarrying ore and flux and coal; some constructing smelters and forges; others smelting the iron, which others again shape into axes, saws, and other appliances wanted in various industries; if other men, again, fell trees, and still others saw them into boards for the manifold purposes for which boards are wanted, then the man wanting boards for a flume can obtain them through exchange with such a small expenditure of labour, that the construction of a flume may be very profitable to him. It is also obvious that the greater supply of water which he will now obtain is entirely due to the roundabout and co-operative process of producing the water, which began with the mining of the ore, which was carried on by several exchanges of intermediary products, and closed with the exchange of boards for something produced by the labour of their consumer.

The above case is illustrative of the fact that a greater result is obtained by the roundabout process of production than by the direct process. In by far the greater number of productive processes, however, the roundabout process is the only one possible. In the pastoral industry, whether the final product aimed at is meat, wool, or milk, it is obvious that no product can be obtained except indirectly. Animals must be bred and reared; in cold climates shelter must be built for them; fodder must be grown, and various other processes must be performed, before either meat, wool, or milk is produced. Similarly, before wheat or any other product of agriculture is obtainable, some sort

of agricultural implements must be constructed, land must be cleared and prepared, seed must be sown, and other processes performed before the harvest can be gathered.

In every kind of manufacture the roundabout process is equally obligatory. In the manufacture of bread from wheat, some sort of a flour-mill and some kind of an oven must be made before the final process of baking the bread can be undertaken.

Similarly, before hides will emerge in the shape of boots, many tools must be constructed and processes undertaken; and even the most primitive manufacture of clothing requires at least a spinning-wheel and some sort of a loom, involving the antecedent labour of their construction.

The absolute necessity of this roundabout process is, however, still more apparent in the higher branches of manufacture. If any one will think out for himself the manifold processes required before a steel pen, a watch, a pocket-knife, or a pair of spectacles make their appearance, he will find that the extension in time and space of the co-operative, roundabout process involved, is as far-reaching as it is indispensable.

We have now arrived at these conclusions :—

In some processes of production, the intermediary production of goods not in themselves capable of satisfying desire, leads to a greater production of the desired goods with the same exertion, or to an equal production of them with less exertion.

In by far the greater number of productive processes, the intermediary production of goods not in themselves capable of satisfying desire is the indispensable condition of the production of the desired goods.

This roundabout process of production, whether merely advantageous or indispensable, requires the co-operation of many producers through exchange; not only through the exchange of the final product, but through the exchange of many intermediate products as well.

Two further conclusions, however, must be drawn.

It was seen that when a man substituted a pail for his hand, the produce of his labour was increased through the extension of the process of production in time. When for the pail he substituted a flume, there was a further increase, but at the expense of still greater delay between the initiation of the productive process and the appearance of the product. This holds true throughout all production. The more roundabout the process, that is, the more goods not in themselves desirable are interposed between raw matter and final product, the more energies and powers of matter are set to work for man's satisfaction, and the greater is the result of his exertion.

And further : The more roundabout the process of production, the more specialised becomes every part of it. With this greater specialisation there comes an increase in the forms and quantities of intermediary products, and consequently a greater number of exchanges. Not only does the co-operative, roundabout process depend upon exchanges for its existence, but as it is extended, so exchanges multiply. Moreover, the process of production is not completed till the ultimate exchange of the final product has taken place, *i.e.* till it is in the hands of consumers. The end and purpose of all production being the satisfaction of human desires through consumption, production only ends where consumption, the satisfaction of desire, begins. And just as coal cannot satisfy human desires till it is brought to the pit's mouth by the labour of the miner, so if it is not wanted there, it still fails to satisfy desire till the coal-merchant and sailor, or other carriers, have brought it to a city, and till the retailer and carter have delivered it in somebody's backyard who wants to burn it. From beginning to end of the roundabout, co-operative process of production, exchange is thus its indispensable condition. It is the bond which gives aim and purpose to the separate and individual efforts of all the co-operators.

The foregoing examination has made clear the nature of capital. It consists of all those forms of wealth which are produced, not for the direct satisfaction of the desires of the producer, but for their indirect satisfaction, through

the assistance which they render in the satisfaction of desire, either as material, instruments, or final product; till, when the productive process is completed by delivery of the final product to its ultimate consumer, this final product loses the special character of capital and becomes simply wealth. Capital is thus seen to consist of labour-products, and it must be obvious that to press under the same description privileges, rights, and possessions, which are not the produce of labour, because their possession entails some consequences akin to those which arise from the possession of capital, is as misleading as to class canaries amongst herbivoræ because they like to nibble lettuce leaves.

It is similarly made clear that what differentiates capital from other wealth is not its use "as means of exploitation and subjection of the labourer," but the relation in which it stands to ultimate human desires, and that this relation is not affected by the question whether the thing is "the property of the immediate producer" or of anybody else, whether it is actually used, or whether, for the time, it remains unused.

Capital, like all wealth, is the produce of labour and land. If capital is "accumulated fleecings," *i.e.* if it is stolen from labour, then all wealth not owned by labourers is equally stolen. That no one can morally obtain wealth without rendering services in return is absolutely true. But it is not true that no one can morally obtain wealth without producing it. Doctors, lawyers, scientists, publicists, and journalists, even socialist ones, no more produce wealth than do singers or actors. But they render services to the wealth-makers, for which the latter are willing to exchange wealth. The socialist denunciation of the capitalist as a robber, because as a capitalist—apart from organiser or manager—he does not produce wealth, is, therefore, illogical. The question is not whether he produces wealth, but whether he renders services to the wealth-makers which entitle him morally to a share in the wealth produced. Here, again, the distinction—unrecognised by Socialism—between the capitalist and the monopolist is of the utmost importance. The monopolist,

as such, renders no service ; the capitalist, as such, does, as will be shown in the chapter on interest. That, as long as monopolies exist, the reward which capitalists, as well as employers, obtain for their services may, in the aggregate, be excessive, is true. This, however, is not necessarily an inevitable outcome of the private ownership of capital and the private conduct of non-privileged industries, but may be, and, as will be shown, is a secondary result of legalised monopoly. Even if this were not the case, it would not justify the assertion that all the earnings of capital are stolen from labour. Nor does the undoubted fact that a considerable part of existing capital consists of accumulated tribute exacted from labour by monopolists justify the assertion that "all capital is accumulated fleecings," and still less does it justify "the exploitation of the labourer" to be made the determining characteristic of capital.

The denunciations which Socialism directs against the capitalistic form of production as "unorganised, chaotic, and anarchic," may justify a slight digression in their refutation, which the foregoing description of the round-about process of production makes almost superfluous.

Man lives in a world in which nothing is ever at rest. Every particle of matter is constantly being acted upon by other particles of matter, and is reacting upon yet other particles. As the result of these ceaseless activities, there appear energies, such as motion, gravitation, heat, electricity, chemical actions, and the mysterious principle which we call life. The sum of these energies, which nature pours out in ceaseless flow and inexhaustible quantities, without any assistance from man, is the productive endowment of man. From it he draws as much as his knowledge enables him and his wants necessitate, to assist him in satisfying his desires. Where man confines himself to production for immediate or almost immediate consumption, he makes use of a minimum only of nature's energies, and, as a consequence, the produce of his labour is small ; as he lengthens the process of production, enlisting more and more of nature's energies, and at more frequent intervals, the produce of his labour increases.

The increase in product is not necessarily proportioned to the increase in the length of the process. On the contrary, after a certain point is passed, every additional stage interposed between the beginning and end of a productive process may give a somewhat less increase of return than the previous one. There is, however, always an increase, against which advantage must be placed the disadvantage of increase of time.

It follows that a community which adopts the roundabout or capitalistic form of production, thereby enormously and progressively increases its power to satisfy wants; and further, that such a community consumes each year but a small part of the fruits of the labour of that year, *i.e.* that it mainly lives on the labour-results of past years which mature during the present year, while directing the greater part of its present efforts towards results which will mature in future years. The longer the process of production, the greater will be the degree of capitalism, the further off will be the time of maturity of present efforts, and the more ample will be their reward. In this sense, therefore, capital is the symptom as well as the cause of profitable production; it exists, because a people, producing more profitably, can postpone to later dates the consumption of the fruits of present efforts. The natural agencies imprisoned in capital and commanded by it enable man to give part of his labour to the imprisonment of more natural agencies which shall do his future work.

This process of roundabout or capitalistic production is made possible through the voluntary co-operation of vast numbers of men, extending in time and space, a co-operation of their physical as well as of their mental powers. Two kinds of co-operation are possible. One is the co-operation of many men, who, for the time, abandoning most of their mental activities, obey the will of one man in their physical exertions, leaving mental guidance to the one. This is the compulsory co-operation at which Socialism aims. The other is a voluntary co-operation, where every man more or less utilises both his physical and mental powers in the production of goods,

which, through the act of exchange, shall satisfy the desires of all of them. This is the capitalistic system, world-wide in its extension, upon which our civilisation is based. While socialistic, *i.e.* enforced co-operation, tends to the repression of the mental energies of most of the co-operators, this voluntary co-operation tends to excite them, and thus, in its results, no less than in its character, far surpasses the former. Capitalistic production, so contemptuously called chaotic and anarchic by the men who cannot conceive of any co-operation except that which is enforced, and of which the lowest savage is capable, is, in reality, the most marvellous system of co-operation which the human mind can conceive; a voluntary, world-wide co-operation of independent units, which alone has enabled mankind to raise itself above a state of savagery, which has enormously increased the sum of human happiness, and which, when freed from the incubus of monopolism which the interference of the State has grafted upon it, will lift mankind above want and the fear of want into a sphere of as yet unimaginable intellectual and moral activity.