Part 1

The Conversion of Surplus-Value into Profit and of the Rate of Surplus-Value into the Rate of Profit

Chapter 2. The Rate of Profit

The general formula of capital is M — C — M'. In other words, a sum of value is thrown into circulation to extract a larger sum out of it. The process which produces this larger sum is capitalist production. The process that realises it is circulation of capital. The capitalist does not produce a commodity for its own sake, nor for the sake of its use-value, or his personal consumption. The product in which the capitalist is really interested is not the palpable product itself, but the excess value of the product over the value of the capital consumed by it. The capitalist advances the total capital without regard to the different roles played by its components in the production of surplus-value. He advances all these components uniformly, not just to reproduce the advanced capital, but rather to produce value in excess of it. The only way in which he can convert the value of his advanced variable capital into a greater value is by exchanging it for living labour and exploiting living labour. But he cannot exploit this labour unless he makes a simultaneous advance of the conditions for performing this labour, namely means of labour and subjects of labour, machinery and raw materials, i.e., unless he converts a certain amount of value in his possession into the form of conditions of production; for he is a capitalist and can undertake the process of exploiting labour only because, being the owner of the conditions of labour, he confronts the labourer as the owner of only labour-power. As already shown in the first book [English edition: Vol. 1, pp. 168-69. 714-16. — *Ed*.], it is precisely the fact that non-workers own the means of production which turns labourers into wage-workers and non-workers into capitalists.

The capitalist does not care whether it is considered that he advances constant capital to make a profit out of his variable capital, or that he advances variable capital to enhance the value of the constant capital; that he invests money in wages to raise the value of his machinery and raw materials, or that he invests money in machinery and raw materials to be able to exploit labour. Although it is only the variable portion of capital which creates surplus-value, it does so only if the other portions, the conditions of production, are likewise advanced. Seeing that the capitalist can exploit labour only by advancing constant capital and that he can turn his constant capital to good account only by advancing variable capital, he lumps them all together in his imagination, and much more so since the actual rate of his gain is not determined by its proportion to the variable, but to the total capital, not by the rate of surplus-value, but by the rate of profit. And the latter, as we shall see, may remain the same and yet express different rates of surplus-value.

The costs of the product include all the elements of its value paid by the capitalist or for which he has thrown an equivalent into production. These costs must be made good to preserve the capital or to reproduce it in its original magnitude.

The value contained in a commodity is equal to the labour-time expended in its production, and the sum of this labour consists of paid and unpaid portions. But for the capitalist the costs of the commodity consist only of that portion of the labour materialised in it for which he has paid. The surplus-labour contained in the commodity costs the capitalist nothing, although, like the paid portion, it costs the labourer his labour, and although it creates value and enters into the commodity as a value-creating element quite like paid labour. The capitalist's profit is derived from the fact that he has something to sell for which he has paid nothing. The surplus-value, or profit, consists precisely in the excess value of a commodity over its cost-price, i.e., the excess of the total labour embodied in the commodity over the paid labour embodied in it. The surplus-value, whatever its origin, is thus a surplus over the advanced total capital. The proportion of this surplus to the total, capital is therefore expressed by the fraction s/C , in which C stands for total capital. We thus obtain the *rate of profit* $s/C=s/(c+v)$, as distinct from the rate of surplus-value s/v.

The rate of surplus-value measured against the variable capital is called rate of surplus-value. The rate of surplus-value measured against the total capital is called rate of profit. These are two different measurements of the same entity, and owing to the difference of the two standards of measurement they express different proportions or relations of this entity.

The transformation of surplus-value into profit must be deduced from the transformation of the rate of surplus-value into the rate of profit, not vice versa. And in fact it was rate of profit which was the historical point of departure. Surplus-value and rate of surplus-value are, relatively, the invisible and unknown essence that wants investigating, while rate of profit and therefore the appearance of surplus-value in the form of profit are revealed on the surface of the phenomenon.

So far as the individual capitalist is concerned, it is evident that he is only interested in the relation of the surplus-value, or the excess value at which he sells his commodities, to the total capital advanced for the production of the commodities, while the specific relationship and inner connection of this surplus with the various components of capital fail to interest him, and it is, moreover, rather in his interests to draw the veil over this specific relationship and this intrinsic connection.

Although the excess value of a commodity over its cost-price is shaped in the immediate process of production, it is realised only in the process of circulation, and appears all the more readily to have arisen from the process of circulation, since in reality, under competition, in the actual market, it depends on market conditions whether or not and to what extent this surplus is realised. There is no need to waste words at this point about the fact that if a commodity is sold above or below its value, there is merely another kind of division of surplus-value, and that this different division, this changed proportion in which various persons share in the surplus-value, does not in any way alter either the magnitude or the nature of that surplus-value. It is not alone the metamorphoses discussed by us in Book II that take place in the process of circulation; they fall in with actual competition, the sale and purchase of commodities above or below their value, so that the surplus-value realised by the individual capitalist depends as much on the sharpness of his business wits as on the direct exploitation of labour.

In the process of circulation the time of circulation comes to exert its influence alongside the working-time, thereby limiting the amount of surplus-value realisable within a given time span. Still other elements derived from circulation intrude decisively into the actual production process. The actual process of production and the process of circulation intertwine and intermingle continually, and thereby invariably adulterate their typical distinctive features. The production of surplus-value, and of value in general, receives new definition in the process of circulation, as previously shown. Capital passes through the circuit of its metamorphoses. Finally, stepping beyond its inner organic life, so to say, it enters into relations with outer life, into relations in which it is not capital and labour which confront one another, but capital and capital in one case, and individuals, again simply as buyers and sellers, in the other. The time of circulation and working-time cross paths and thus both seem to determine the surplus-value. The original form in which capital and wage-labour confront one another is disguised through the intervention of relationships seemingly independent of it. Surplus-value itself does not appear as the product of the appropriation of labour-time, but as an excess of the selling price of commodities over their cost-price, the latter thus being easily represented as their actual value (*valeur intrinsËque*), while profit appears as an excess of the selling price of commodities over their immanent value.

True, the nature of surplus-value impresses itself constantly upon the consciousness of the capitalist during the process of production, as his greed for the labour-time of others, etc., has revealed in our analysis of surplus-value. But: 1) The actual process of production is only a fleeting stage which continually merges with the process of circulation, just as the latter merges with the former, so that in the process of production, the more or less clearly dawning notion of the source of the gain made in it, i.e., the inkling of the nature of surplus-value, stands at best as a factor equally valid as the idea that the realised surplus originates in a movement that is independent of the production process, that it arises in circulation, and that it belongs to capital irrespective of the latter's relation to labour. Even such modern economists as Ramsay, Malthus, Senior, Torrens, etc., identify these phenomena of circulation directly as proofs that capital in its bare material existence, independent of its social relation to labour which makes capital of it, is, as it were, an independent source of surplus-value alongside labour and independent of labour. 2) Under the item of expenses, which embrace wages as well as the price of raw materials, wear and tear of machinery, etc., the extortion of unpaid labour figures only as a saving in paying for an article which is included in expenses, only as a smaller payment for a certain quantity of labour, similar to the saving when raw materials are bought more cheaply, or the depreciation of machinery decreases. In this way the extortion of surplus-labour loses its specific character. Its specific relationship to surplus-value is obscured. This is greatly furthered and facilitated, as shown in Book I (Abschn. VI) [English edition: Part VI, pp. 535-43. — *Ed*.], by representing the value of labour-power in the form of wages.

The relationships of capital are obscured by the fact that all parts of capital appear equally as the source of excess value (profit).

The way in which surplus-value is transformed into the form of profit by way of the rate of profit is, however, a further development of the inversion of subject and object that takes place already in the process of production. In the latter, we have seen, the subjective productive forces of labour appear as productive forces of capital. [English edition: Vol. 1, pp. 332-33. — *Ed*.] On the one hand, the value, or the past labour, which dominates living labour, is incarnated in the capitalist. On the other hand, the labourer appears as bare material labour-power, as a commodity. Even in the simple relations of production this inverted relationship necessarily produces certain correspondingly inverted conceptions, a transposed consciousness which is further developed by the metamorphoses and modifications of the actual circulation process.

It is altogether erroneous, as a study of the Ricardian school shows, to try to identify the laws of the rate of profit with the laws of the rate of surplus-value, or vice versa.

The capitalist naturally does not see the difference between them. In the formula s/C the surplus-value is measured by the value of the total capital advanced for its production, of which a part was totally consumed in this production and a part was merely employed in it. In fact, the formula s/C expresses the degree of self-expansion of the total capital advanced, or, taken in conformity with inner conceptual connections and the nature of surplus-value, it indicates the ratio of the amount of variation of variable capital to the magnitude of the advanced total capital.

In itself, the magnitude of value of total capital has no inner relationship to the magnitude of surplus-value, at least not directly. So far as its material elements are concerned, the total capital minus the variable capital, that is, the constant capital, consists of the material requisites - the means of labour and materials of labour - needed to materialise labour. It is necessary to have a certain quantity of means and materials of labour for a specific quantity of labour to materialise in commodities and thereby to produce value. A definite technical relation depending on the special nature of the labour applied is established between the quantity of labour and the quantity of means of production to which this labour is to be applied. Hence there is also to that extent a definite relation between the quantity of surplus-value, or surplus-labour, and the quantity of means of production. For instance, if the labour necessary for the production of the wage amounts to a daily six hours, the labourer must work 12 hours to do six hours of surplus-labour, or produce a surplus-value of 100%. He uses up twice as much of the means of production in 12 hours as he does in six. Yet this is no reason for the surplus-value produced by him in six hours to be directly related to the value of the means of production used up in those six, or in 12 hours. This value is here altogether immaterial; it is only a matter of the technically required quantity. It does not matter whether the raw materials or means of labour are cheap or dear, as long as they have the required use-value and are available in technically prescribed proportion to the labour to be applied. If I know that x lbs. of cotton are consumed in an hour of spinning and that they cost a shillings, then, of course, I also know that 12 hours' spinning consumes 12x lbs. of cotton = 12 a shillings, and can then calculate the proportion of the surplus-value to the value of the 12 as well as to that of the six. But the relation of living labour to the *value* of means of production obtains here only to the extent that a shillings serve as a name for x lbs. of cotton; because a definite quantity of cotton has a definite price, and therefore, conversely, a definite price may also serve as an index for a definite quantity of cotton, so long as the price of cotton does not change. If I know that the labourer must work 12 hours for me to appropriate six hours of surplus-labour, that therefore I must have a 12-hour supply of cotton ready for use, and if I know the price of this quantity of cotton needed for 12 hours, then I have an indirect relation between the price of cotton (as an index of the required quantity) and the surplus-value. But, conversely, I can never conclude the quantity of the raw material that may be consumed in, say, one hour, and not six, of spinning from the price of the raw material. There is, then, no necessary inner relation between the value of the constant capital, nor, therefore, between the value of the total capital (=c+v) and the surplus-value.

If the rate of surplus-value is known and its magnitude given, the rate of profit expresses nothing but what it actually is, namely a different way of measuring surplus-value, its measurement according to the value of the total capital instead of the value of the portion of capital from which surplus-value directly originates by way of its exchange for labour. But in reality (i.e., in the world of phenomena) the matter is reversed. Surplus-value is given, but given as an excess of the selling price of the commodity over its cost-price; and it remains a mystery where this surplus originated - from the exploitation of labour in the process of production, or from outwitting the purchaser in the process of circulation, or from both. What is also given is the proportion of this surplus to the value of the total capital, or the rate of profit. The calculation of this excess of the selling price over the cost-price in relation to the value of the advanced total capital is very important and natural, because in effect it yields the ratio in which total capital has been expanded, i.e., the degree of its self-expansion. If we proceed from this rate of profit, we cannot therefore conclude the specific relations between the surplus and the portion of capital invested in wages. We shall see in a subsequent chapter [K. Marx, *Theorien ber den Mehrwert*. K. Marx/F. Engels, *Werke*, Band 26, Teil 3, S. 25-28 . — *Ed*.] what amusing somersaults Malthus makes when he tries in this way to get at the secret of the surplus-value and of its specific relation to the variable part of the capital. What the rate of profit actually shows is rather a uniform relation of the surplus to equal portions of the total capital, which, from this point of view, does not show any inner difference at all, unless it be between the fixed and circulating capital. And it shows this difference, too, only because the surplus is calculated in two ways; namely, first, as a simple magnitude - as excess over the cost-price. In this, its initial, form, the entire circulating capital goes into the cost-price, while of the fixed capital only the wear and tear goes into it. Second, the relation of this excess in value to the total value of the advanced capital. In this case, the value of the total fixed capital enters into the calculation, quite the same as the circulating capital. Therefore, the circulating capital goes in both times in the same way, while the fixed capital goes in differently the first time, and in the same way as circulating capital the second time. Under the circumstances the difference between fixed and circulating capital is the only one which obtrudes itself.

If, as Hegel would put it, the surplus therefore re-reflects itself in itself out of the rate of profit, or, put differently, the surplus is more closely characterised by the rate of profit, it appears as a surplus produced by capital above its own value over a year, or in a given period of circulation.

Although the rate of profit thus differs numerically from the rate of surplus-value, while surplus-value and profit are actually the same thing and numerically equal, profit is nevertheless a converted form of surplus-value, a form in which its origin and the secret of its existence are obscured and extinguished. In effect, profit is the form in which surplus-value presents itself to the view, and must initially be stripped by analysis to disclose the latter. In surplus-value, the relation between capital and labour is laid bare; in the relation of capital to profit, i.e., of capital to surplus-value that appears on the one hand as an excess over the cost-price of commodities realised in the process of circulation and, on the other, as a surplus more closely determined by its relation to the total capital, *the capital* appears *as a relation to itself*, a relation in which it, as the original sum of value, is distinguished from a new value which it generated. One is conscious that capital generates this new value by its movement in the processes of production and circulation. But the way in which this occurs is cloaked in mystery and appears to originate from hidden qualities inherent in capital itself.

The further we follow the process of the self-expansion of capital, the more mysterious the relations of capital will become, and the less the secret of its internal organism will be revealed.

In this part, the rate of profit is numerically different from the rate of surplus-value; while profit and surplus-value are treated as having the same numerical magnitude but only a different form. In the next part we shall see how the alienation goes further, and how profit represents a magnitude differing also numerically from surplus-value.

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