

Notes on CAPITAL

Chapter 5 'Contradiction in the General Formula'

Penguin, pp. 258-69; Everyman, pp. 141-53; Moscow, pp. ; Dietz, pp. 170-81.

This chapter is only one section of chapter 4 in the German original where it is titled 'The Transformation of Money into Capital'. It's helpful to see the tip of the obelisk at the heart of the maze.

We have noted how Marx proceeds step by step as if in a chemical formula. Now he advances his analysis by not moving forward. For much of the next two chapters he devotes himself to blocking moves as one might in chess or soccer, Australian rules or grid-iron. His game plan is to close off every escape route for the classical economists and more importantly, by the 1860s, for the vulgar economists who are on the cusp of marginal utility. The claims of Condillac in 1776 that 'the value of a thing consists solely in its relation to our needs,' (p. 261) had acquired a mathematical patina before 1900.

Marx is charged with not proving his theory of value but of eliminating all the other possible explanations, engaging in argument by exhaustion. Sherlock Holmes told Dr Watson:

How often have I said to you that when you have eliminated the impossible, whatever remains, *however improbable*, must be the truth. (*The Sign of Four*) Marx's 'improbable' is that new values can be added only by the application of labour, purchased in time-units of living labour-power and assisted by the dead labour in tools, machines and such ancillaries as motive force. For the capitalist and his intellectual lackeys, this conclusion was not only improbable – it had become politically impossible. The organised workers must never be told the truth about a fair day's wage. There can't be one.

During the coming chapters, we encounter a contest in which the capitalist fails to score a point before Marx drives the ball through the posts while knocking over the keeper.

To get started:

p. 258: ... contradicts all the laws ...

What kind of laws are they that can be subject to that degree of contradiction? Is it still any kind of law? Marx has given his answer on p. 196:

... a mode of production whose laws can assert themselves only as blindly operating averages between constant irregularities.

The paradox is lessened if the original German *Gesetzen* is not translated as law but as 'rule', which seems to be closer to the context. The preference for rule over law is supported by Marx's use of *Formel* for 'Formula' in the title 'Contradictions in the General Formula'. The significance that Marx gives to 'law' will be traced in Appendix G, should I ever get around to finishing it. Meanwhile, it helps to think of 'law' as 'pattern' versus 'randomness'.

The title of the chapter 'Contradictions in the General formula' foreshadows chapters 14 and 15 in volume three, 'Counteracting Factors' and 'Development of the Law's Internal Contradiction' regarding the 'Law of the Tendency of the Rate of Profit'.

Advances in our relative knowledge depend on contradictions which renovate concepts.¹

How can this purely formal distinction change the nature of these processes, as if by magic?

As well as 'magic' here, Marx uses 'hocus-pocus' on top of the next page and has used 'occult' earlier. Is this how he thinks about the vulgar economists against whom he directs his fire throughout the next paragraph? Marx's job is to explain why the change is possible only through a social, that is, material experience, never by conjuring tricks.² [p. 187: Hence, the magic of money.]

To that end, Marx now writes himself into his drama script where commodities 'step forth', that is, are brought to life:

As a capitalist, I buy commodities from A and sell them again to B ...

Self-identification of an author with the activities that he is investigating invites the reader to do the same. This rhetorical device is intended to help us to grasp the process. Moreover, Marx has to unravel the mistakes he finds in both the Classical School and the *vulgari*. The 'I' is both a playful personification of himself as capitalist while he remains the stern disputant of the excuses offered for the system. In the first role, Marx can announce

I myself confront them each time as a mere owner of either money or commodities ...

He sees this confrontation as alternating between his being objectified as money or as a commodity.

that is as a buyer or a seller,

and what is more, in both sets of transactions I confront A only as a buyer, and B only as a seller.

I confront the one only as money, the other only as commodities,

but neither of them as capital or as a capitalist,

or as a representative of anything more than money or commodities.

Here is another reminder of the distance still to travel from simple commodity circulation to the capitalist mode. We are cautioned not to get too far ahead of his investigation. Marx underlines his warning:

or of anything which might produce any effect beyond that produced by money or commodities.

Recall that a capitalist is the personification of capital, even though subject to the Faustian bargain choosing of pleasure or accumulation, champagne or the newest machinery.

The capitalist is always reified to some extent, as Marx has done to himself in this duel between money and commodities.

Marx is leading us towards what money can become, i.e. capital.

Reconsider the last extract:

or of anything which might produce any effect beyond that produced by money or commodities.

What might that effect be? The answer is capital.

¹ See Frederick Engels, *Ludwig Feuerbach and the End of Classical German Philosophy*, Foreign Languages Publishing House, Moscow, pp. 65-67.

² '... mysteries which mislead theory into mysticism find their rational solution in human practice and in the comprehension of this practice', Karl Marx, *Marx-Engels Collected Works*, volume 5, 1976, p. 8.

We can underline that answer if we expand the wording to read:
 or of anything which might produce any effect beyond that produced by money
*as any one of its five functions or commodities when consumed as use-values or
 bartered/exchanged for different commodities.* [italics added]

Even this elaboration is to get ahead of Marx's exposition, which we now resume:
 For me, the purchase from A and the sale to B are part of a series. But the connection
 between these two acts exists for me alone.

Here, the 'me' is Marx as the narrating purchaser etc, not Marx the critic of
 Political Economy. He is about to transform himself back into the scourge of
 bourgeois ideology.

The capitalists dismiss his proffered explanation as 'hocus-pocus', but it is they
 who are talking gobbledy-gook. They envisage the capitalist mode as if it were
 still no more than simple commodity circulation which, of course, would have no
 place for them. They do not – cannot / dare not – comprehend their own system.
 Why not? The answer is in the paragraph's final five words:

... the formation of surplus-value.

But that solution is to anticipate chapters 6, 7 and 8.

Let's backtrack a few lines to see more of how the traders got themselves into
 this muddle and how Marx rescues their mode of production from its apologists.
 First, they invert the series and then throw it out. Notwithstanding their
 reactions, Marx's 'meritorious' action and his attempt to explain it to them have
 brought them to see that they no longer need anyone to come between their
 trades.

Marx gives the instance of where A buys \$1m. worth of commodities from B
 during June and B buys \$1m. from A in the same period. At the end of the month,
 they make book-keeping entries which balance out each other's debt. No hard
 cash is involved. Instead, there is money of account.

259:

Money serves here as money of account, and expresses the values of the commodities in
 their prices,

but does not itself confront the commodities in a material shape.

That is to say, neither coin nor paper changes hands.

Here would be a good place to make a paragraph division to indicate a break in
 the issues under discussion:

In so far as use-values are concerned, it is clear that both parties may gain.

Each trader gets rid of something they don't need and gets something that they
 do.

Next, Marx presents a more complicated case. It is risky because it skirts his core
 concept of labour-time. It is easy to follow when two people swap what is a use-
 less value to them for a use-value they need. This exchange advantages both
 sides of the deal. The harder case is to explain how some advantage can be
 gained by swapping items which retain a use-value for their original owners.
 The explanation depends on how much labour-time each trader would have had
 to put in to end up with the equivalent value to what they get through the
 exchange in a social-division of labour.

If it takes more value to grow corn in one place and more value to produce wine
 in another, then it is possible for a swap of those use-values to advantage each
 side. It is important to remember that this outcome is not the result of a swindle.

Nor need this exchange involve any exploitation of the labour of anyone beyond the traders as grain farmer and grape-grower respectively. Marx leaves these cases with a stern reminder:

It is otherwise with exchange-value. [emphasis added]

Marx will go further at the top of p. 261 quoting Galiani:

‘Where equality exists there is no gain.’

Presently, he will reveal the great exception to that precept: labour-power.

Labour-power alone among commodities can add more value than goes into its production.

But we should follow and not precede him.

In its pure form, the exchange of commodities is an exchange of equivalents, and thus is not a method of increasing value.

Marx will soon show that this bar does not prevent one of the parties increasing his or her share of the pre-existing value by swindling, see pp. 264-5 and Appendix E.

260:

Inserting money into the exchange of corn for wine makes no difference. The price was already there and the money had to match it.

... in the abstract, i.e. disregarding circumstances which do not flow from the immanent laws of simple commodity circulation ...

... provided the phenomenon occurs in its purity.

Marx takes us back to bourgeois ideologues, no longer just the benighted businessmen with whom he bought and sold on page 258. How he relates ideas to practice will be taken up in Appendix D. Typically, he makes this move into ideas as a step to advance his analysis of how the system works. Again, he practices a dialectically materialist epistemology.

The vulgar economists have practically no inkling of the nature of value; hence, whenever they wish to consider the phenomenon in its purity, after their fashion, they assume that supply and demand are equal, i.e. that they cease to have any effect at all.

261:

In its pure form, the exchange of commodities is an exchange of equivalents, and thus it is not a method of increasing value.

To illustrate that non-result is the objective of this chapter. While the value possessed by one or more capitalist can be increased by circulation, the sum total of values in society cannot be.

Hence we see that behind all attempts to represent the circulation of commodities as a source of surplus-value, there lurks an inadvertent substitution, a confusion of use-value and exchange-value.

Marx discusses the claim by Condillac in 1776 (the year of Smith’s *Wealth of Nations*), who contended that

‘The value of a thing consists solely in its relation to our needs’.

For Marx, Condillac

... not only confuses use-value with exchange-value,

but in a really childish manner assumes that, in a society in which the production of commodities is well developed, each producer produces his own means of subsistence, and throws into circulation only what is superfluous, the excess of his own requirements.

This thrust reiterates the point on the top of p. 259. In general, the apologists defend capitalism by pretending that it is something else. They need to do so if they are to explain the expansion of values without coming within a country mile of surplus-value out of exploitation despite equal exchanges.

262:

But commodities are not paid for twice over, once on account of their use-value, and a second time on account of their value.³

We shall refer back to this sentence when reading chapter 7, 'The Labour-process and the Valorisation process', to ask whether the processes are consecutive or simultaneous.

We might just as well say that the buyer performs what is 'strictly' an 'act of production' by converting stockings, for example, into money.

The material variety of the commodities is the material driving force behind their exchange, and it makes buyers and sellers mutually dependent, because none of them possesses the object of his own need, and each holds in his own hand the object of another's need.

In terms of sheer numbers, wage-slaves dominate this market with their sole commodity, a capacity to add value. The capitalists have in their hands the means to subsistence. That possession gives them a qualitative domination.

Apart from this material variety in their use-values, there is only one other mark of distinction between [263] commodities, the distinction between their natural form and their converted form, between commodities and money.

263

The money-names or prices of the commodities would rise, but the relations between their values would remain unchanged.

Neat to think of prices as money-names for values; cf. p. 195 for this point.

Marx has been busy blocking off another false explanation for an increase in values without exploitation. It might seem daft that anyone could imagine that inflation added value - but they can and then do. The stock-market is a perfect instance of such value-adding by the multiplication of the latest trading price for a single share by all the shares in that corporation.

KEY STATEMENT

The formation of surplus-value, and therefore the transformation of money into capital, can consequently be explained neither by assuming that commodities are sold above their value,

³ This intimacy, perhaps incestuous, is taken up on pp. 307-9, as it was touched upon in regard to the Trinity on page 256.

nor by assuming that they are bought at less than their value.

264:

Marx weaves a narrative and his concepts together:

The consistent upholders of the mistaken theory that surplus-value has its origin in a nominal rise of prices

or in the privilege which the seller has of selling too dear

assume therefore that there exists a class of buyers who do not sell,

i.e. a class of consumers who do not produce.

The existence of such a class is inexplicable from the standpoint we have so far reached, that of simple circulation.

But let us anticipate.

Which he does with a commentary on swindling in Ancient Rome, ending with a *caveat emptor*:

265:

Their goods were still paid for with their own money. That is not the way to get rich or to create surplus-value.

Marx now makes yet another of his blocking moves. He is worried that he might have misled his audience by

conceiving people merely as personified categories, instead of as individuals.

The individual is the first and last refuge of the Robinsonades. Because their version of the expansion of values proliferates, Marx must track through what passes for their reasoning:

'A' may be clever enough to get advantage of 'B' and 'C' without their being able to take their revenge.

Marx accepts that such behaviour must enrich 'A' at the expense of 'B' and 'C'. But the total of values possessed by the trio remains unchanged.

The value in circulation has not increased by one iota; all that has changed is its distribution between 'A' and 'B'.

The same change would have taken place if 'A' ... had directly stolen the £10 from 'B'.

A Jew, presumably a pawnbroker, can sell an old coin, a farthing, (equivalent to a quarter of one penny), prized by collectors, for several gold sovereigns. This price has nothing to do with its value because it is no longer part of the social system of production that gave rise to it. A 1606 coin cannot be minted in 1866.

266:

The capitalist class of a given country, taken as a whole, cannot defraud itself.

i.e social capital cannot defraud itself but individual and socialised capitals defraud each other every day.

KEY

However much we twist and turn, the final conclusion remains the same.

If equivalents are exchanged, no surplus-value results,

and if non-equivalents are exchanged, we still have no surplus-value.

Circulation, or the exchange of commodities, creates no value.

p. 266:

Now we get more interlocking of history with concepts – issues central to my work on the revolution-within-capital:

... [in] our analysis of the primary form of capital, the form in which it determines the economic organisation of modern society, we have entirely left out of consideration its well-known and so to speak antediluvian forms
merchants' capital and usurers' capital.

266-7

Marx makes an assault on merchants' capital as long as equivalents are exchanged
... parasitically inserts himself ... cheating ... frauds
More detail is promised for when we get beyond
... our only assumption is the circulation of commodities and its simple elements.
(See v. III, Part Four)
Even truer for usurers' capital where
M-C-M+ is reduced to M-M+ .
M-M+ is 'incompatible' with the five functions of money given previously.

... we shall find that both merchants' capital and interest-bearing capital are derivative forms,
... it will become clear why, historically, these two forms appear before the modern primary form of capital.
that is, before the revolution-within-capital.

268:

... something must take place in the background which is not visible in the circulation itself.

The commodity owner can create value by his labour, but he cannot create values which can valorise themselves.

Marx offers the instance of leather that goes into boots. The boots are more valuable than the leather, but only because of the added labour. The leather has not been able to valorise itself any more than it could turn itself into a pair of boots.

A REPEAT CAUTION

'Self-valorising' and 'value valorising itself' are among the most taxing concepts in Marx. One reason is that the words seem to be saying what they are not saying. Value cannot puff itself up like Mr Toad. Right from the start it has to be stressed that the surplus-value is 'added'. It is added by labour-power. No more value can be transferred from the 'dead labour' of equipment, raw materials and ancillaries than goes into their production.

Capital cannot therefore arise from circulation,
and it is equally impossible for it to arise apart from circulation.
It must have its origin both in circulation and not in circulation.
We therefore have a double result.

Any difficulty with statements such as the one above comes from unfamiliarity with their dialectical reasoning. The twofold character of each and every thing, of every process and of all relationships is one of only two universals, the other being change which depends on the contradictions out of those dual natures.

269:

n. 24 presents several very important notions about the ideological strands within the science of Classical Political Economists; 'disinterested thinking' should be examined for its class links with ideas, see Appendix D.

Translator's note: *Ricardo accepts Smith's confusion of identification of exchange-value with cost-price or natural price,' a confusion based on the notion that exchange-value is formed by putting together the values of wages, profit and rent. *Theories of Surplus Value*, II, p. 217.

The capitalist must emerge from the chrysalis of simple commodity circulation into a butterfly of relentless drive to expansion.

These are the conditions of the problem. *Hic Rhodus, hic salta!*⁴
'Here is Rhodes, leap here.'

The chapter thus ends with yet another reminder of how much further we have to go before we come within sight of the continent of capital. Marx warned in the 'Preface' to the French edition that we would have to scale mighty peaks. Now he expects us to make a giant leap.

⁴ Translator's footnote: In defending the actual as the rational, Hegel declared it 'just as stupid to imagine that any philosophy can transcend its contemporary world as that an individual can jump over his time, jump across the straits of Rhodes'.