VALUE AND PRICE

PAUL MATTICK

MARX based his theory of capital accumulation on the labor theory of value and surplus-value, although he was fully aware that commodities rarely are exchanged at their value. This "contradiction," of which so much is made in anti-Marxian theory, he resolved for himself by pointing to the competitive market mechanism which, in his view, transforms values into prices of production. Actually, of course, there is no way of discovering the commodity price in its value, or, by a reverse procedure, to discover its value in its price. There is no observable "transformation" of values into prices and the value concept has meaning only with respect to total social capital.

The deviation of price from value comes to the fore in the average rate of profit. While the rate of surplus-value is determined by the time the worker labors for the capitalist in relation to the time he works for himself, the rate of profit is calculated on total investment, on both constant and variable capital. An equal rate of surplus-value must lead to different rates of profit for capitals of various organic compositions. A capital with a "high" organic composition, that is, with a relatively greater constant than variable capital, must yield a smaller rate of profit than a capital with a "low" organic composition in which these relations are reversed. In reality, however, and generally, all capitals, whatever their organic composition, yield an average rate of profit. Because of the variety of organic compositions of different capitals, commodities cannot be exchanged in accordance with their value. This fact induced bourgeois critics to state that "the theory of the average rate of profit and of the prices of production cannot be reconciled with the theory of value."[1]

1 Eugen v. Böhm-Bawerk, *Karl Marx and the Close of his System* (New York, 1949), p. 30.

The whole difficulty with the law of value, according to Marx, arises from the fact that commodities are not exchanged simply as commodities but as products of capital, which claim participation in the total amount of surplus-value in proportion to their sizes. Value-exchange would actually be possible only in non-capitalist situations. Marx demonstrated this point by following the workings of the law of value under such assumed conditions. He concluded that the value of commodities should be regarded "not only theoretically but also historically as existing prior to the prices of production."[2] Friedrich Engels elaborated upon this by saying that the law of value "holds generally, to the extent that economic laws are valid at all, for the whole period of simple commodity production," that is, "for a period lasting from the beginnings of exchange . . . down to the fifteenth century of the present era."[3]

Whether this was so or not, it is clear that whatever the answer, it will have no real meaning for the problems of capitalism. The assertion that the law of value determined the exchange relations of the past offers no clue to the workings of the law as the "regulator" and the driving force of the capitalist mode of production. As part of capitalist ideology, and like other aspects of it, the labor theory of value undoubtedly contained an element of truth; and searching for the reality behind the ideology, Marx felt sure that the value-concept must have had a concrete basis in the past. Still, it is difficult to see how this possible, though certainly only partial pre-capitalist value-exchange, could lead to an understanding of the difficulties and limitations of the capitalist system of production and exchange.

From the point of view of Marx's theoretical and practical interests, furthermore, both the attempt to derive a price theory from the labor theory of value and the assertion of the historical significance of the value-concept are quite superfluous. Marx's value-model of capital development leaves aside the conglomerations of various capital compositions of different capitals, as encountered in reality. "Total capital" is just what it says it is: all capitals constituting an entity confronting all workers as another entity. This

2 *Capital,* Kerr ed., Vol. III, p. 209.

3 *Engels on Capital* (New York, 1937), p. 106.

model fits the conditions of a "total capital structure" of both a "high" and a "low" organic composition and thus represents capitalism at any stage of its development. The value-price transformation of which Marx speaks relates to this abstract model of capital development and has no direct connection with either value or price as actual and historical phenomena. For Marx had "never the intention to descend from the general idea of value . . . by means of ever closer determinants to a direct determination of the prices of commodities."[4] What he tried to show with respect to the value-price problem is that the absence of value considerations in the market reality does not invalidate a capital analysis in value terms.

An average rate of profit presupposes different rates of profit. Leaving aside such considerations as varying rates of surplus-value in different enterprises, originally diverse rates of profit point to the variety of organic compositions of various capitals. Since these differences are determined by the physical character of the industries, profitability cannot be equalized at the point of production through the averaging of organic capital compositions. To a degree, this is possible with a particular industry but not between totally different spheres of production. The averaging of individual rates of profit takes place in circulation. It means that some commodities are sold below and others above their value. This changes nothing on the value content of the commodities. It means only that some capitalists accept less in terms of prices than is their due in terms of value, and that others reap more in terms of prices than they produce in terms of value.

In order to understand this mechanism it is necessary to consider the social character of capitalist production and the nature of the commodity as both a use-value and an exchange-value. The "law of value" must also be seen as an expression of the socialization of production under the conditions of capital production. Implied here is an allocation of labor suited to its development and an exchange principle securing such an allocation. There exists a real need to coordinate production in terms of use-value, quite apart from the actual commodity evaluations within the exchange process. In capitalism the market must fulfill this function. It can only exchange

4 Karl Korsch, *Karl Marx* (London, 1938), p. 153.

what has been produced; but what has been produced reflects the social demand of capitalism at any particular stage of its development. "Social demand" as revealed by the market is not identical with actually existing social needs but only with these needs within the frame of capital production. Still, it is this capitalistically modified social demand which reflects the material necessities of social production.

Social demand expresses itself as a demand for use-value. The rising organic composition of capital in a particular industry implies an increasing demand for its commodities. And it is the social demand for commodities produced by industries of a high organic capital composition which allows them to realize prices that secure their profitability. Since the low organic composition of other industries does not by itself lend their commodities more use-value than they actually possess, they will not be able to realize a greater profit than is compatible with existing social demand as determined by the economic system as a whole.

In the course of capital accumulation almost all industries will increase their constant in relation to their variable capital. But capitals of previously low organic composition may turn into capitals of high organic composition and *vice versa*. Because of the social interdependence developed through the capitalist mode of production, all growth and change of the total capital structure will affect the individual spheres of production. Capital invested in various lines of business can function only in connection with the production system as a whole. This social interdependence also determines the changing relations between various industries. A shift from light to heavy industry, for instance, will alter the relations between the extracting and the manufacturing industries. Capital accumulation, being bound to the material structure of social production, brings it about that an advance in some lines of business finds its counterpart in other lines. So long as the production of any industry forms a necessary part for the functioning of the system as a whole, it will be able to command prices that will make its existence and expansion possible.

Because all capitalists have to try for the highest profitability in a market where demand is predetermined by the production system as a whole, the distribution of surplus-value is a social affair and excludes individual considerations such as the specificity of the organic composition of independent capitals. The total social surplus-value comprises a definite quantity of social labor incorporated in commodities. Not only the surplus-labor product but the total social product, or the great bulk of it, must go through the circulation process. The impossibility of isolating surplus-value from its commodity embodiment and the need to throw the whole of social production on the market, divorces the realization and the division of surplus-value from its production.

The competitive market mechanism brings it about that commodity prices are determined not by their individual production time but by the time socially necessary to produce them. Although trying for the profit-maximum, the capitalists gain only the "possible profits," as determined by the state of competition. Their calculations are based on production costs, that is, on prices already averaged and incorporating an averaged profit-rate competitively established in all the individual spheres and branches of production. Capital competes for the more profitable lines of business and, wherever possible, shifts from one type of economic activity to another, from one industry to the next. It tries to escape spheres of production of low profitability and to enter those of high profitability. Some capitalists increase their productivity sooner than others and earn an extra-profit by being able to sell at, or below, previously established social average prices. But others follow suit, and a new social average is established on a generally higher level of productivity. The competitively established prevailing average rate of profit serves as point of orientation. Profit-rates are, of course, not exactly the same for all businesses and the profitability of any one business varies with changing circumstances. The average rate of profit is merely a *tendency* and encompasses individual rates only approximately. Under conditions of competition and in the "long run," however, the average rate of profit is real enough, and relatively stable enough, to serve as point of departure for the profit expectations of operating capitals. From market experiences and the conventions stemming therefrom, the capitalists learn that profits added to production costs cannot be arbitrarily set, that the profit must fit the market situation as indicated by the prevailing average rate of profit.

With his critics, then, Marx maintained that market prices are not derived from labor-time values. But whereas the very existence of an average rate of profit, as brought about by competition, turned the question of its formation and its quantitative changes into a problem transcending the market reality and thus the horizon of bourgeois economic interest, it served Marx as a verification of the labor theory of value. Precisely at the point where the apparent market solution ended the problem for bourgeois economy, it became of interest to Marx. He saw very well, of course, that "by the transformation of value into prices of production, the basis of the determination of value is itself removed from direct observation," and he found it only "natural that the capitalist should lose the meaning of the term value at this juncture."[5] For, with regard to the average rate of profit, "the individual capitalists . . . justly believe that their profits are not derived solely from the labor employed in their individual spheres," and by seeing further "that a reduction in the quantity of labor required for production . . . exerts no injurious influence on profits . . . how, then, could living labor be the exclusive source of profit."[6]

Using competition to explain the average rate of profit does not, however, explain its magnitude at any given time nor the reasons for its changes. Competition, according to Marx, "can influence the rate of profit only to the extent that it affects the prices of commodities. It can merely make the producers within the same sphere of production sell their commodities at the same price, and make them sell their commodities in different spheres of production at prices which will give them the same profit. In order to balance unequal rates of profit, the profit as an element in the price of commodities must already exist, and competition does not create it."[7] Rather, competition is itself conditioned upon the existence of profit, and the explanation of the average rate of profit presupposes the recognition of its source, which, then, leads back to value and surplus-value.

5 *Capital,* Vol. III, pp. 198f.
6 *Ibid.,* p. 201.
7 *Ibid.,* pp. 1007f.

The deviation of price from value, in Marx's mind, does not abolish the determination of prices by values, or of profit by surplus-value. But this determination is not of the kind that allows for a direct derivation of prices from values. The determination of price by value, as Marx's speaks of it, does not refer to an attempt to prove that the price of a single commodity is actually determined by the social average labor-time incorporated in it, but to the need to break through the semblance of competition in order to have a theory of economic capital development at all.

Because the production of exchange-value remains bound to, and limited by, the use-value aspects of commodities and the physical requirements of social production, capital accumulation presupposes a surplus-value distribution which enables the expansion of capital both with regard to its value and to its material composition. If the distribution of surplus-value, like its production, were determined by the law of value, accumulation could not take place, for those capitals that need most to expand could not do so for lack of profits, while those with a sufficient profitability would not do so for lack of incentive. The development of the social forces of production in a capitalist exchange-economy requires a price formation which expresses the interdependence of the social production process. The average rate of profit indicates that market prices are determined by the system as a whole. The system as a whole is susceptible to value analysis.

The production of commodities in capitalism is the production of capital; and their exchange is the medium for the realization of surplus-value. The real object of competition is the division and accumulative application of surplus-value. And this competition leads to a deviation of price from value just because it takes place in a value and surplus-value producing society wherein "the distribution of social labor and the mutually supplementing and circulation of matter in the products, the subordination under the social activity and the entrance into it, are left to the accidental and mutually nullifying initiative of the individual capitalists."[8]

Within the market mechanism, the actual division of the products of the aggregate value of the necessary labor time, as well as

8 *Ibid.*, p. 1026.

the actual division of the aggregate surplus-value among the capitalists and non-productive layers of society, is determined by the real activities of men in the competitive pursuit of their interests within the frame of their socially determined but changing possibilities. And here there is nothing but the struggle of all against all, self-interest against self-interest, a general and impenetrable scramble for the amassing of wealth, or for mere existence. Market and extra-market activities intertwine and there is no room for the clear-cut exchange relations of either value or price theory. But even from a purely economic point of view, the co-existing variety of degrees of exploitation; differences in the turn-over of various capitals and between different spheres of production, the existence of natural monopolies, the effects of rent and interest upon the rate of profit, and so forth, exclude the possibility of recognizing the value base of the commodity in its price. It "remains visible only in the influence of the fluctuating productivity of labor upon the rise and fall of the prices of production."[9]

Beyond the statement that price relations presuppose value relations, and that in this sense the latter determine the former and limit their variability, no need exists for a "Marxian theory of prices." Even if such a theory were possible, it would not suffice for an understanding of capitalist development and would have to be replaced by a theory of value. The various attempts which have been made to refute Marx's critics with regard to the so-called value-price contradiction, either by regarding the theory of value as a first approximation to a theory of prices, or by constructing formulas of price calculations which did not contradict the value scheme, are not only entirely superfluous but indicate a basic lack of understanding of Marx's theoretical and practical intentions, and stem from the wish to relegate his work to a category where it does not belong, that is, to the field of bourgeois equilibrium theory, and finally to pronounce that "Marx, in many of his basic precepts, was the last great member of the Manchester school of thought."[10]

Marx's goal, a theory of capital development, necessitated a

9 *Ibid.*, p. 965.

10 T. McCarthy, Preface to Marx's *History of Economic Theories*, Vol. I (New York, 1952), p. xvi.

capital analysis in terms of social aggregates of labor and surplus-labor, value and surplus-value. He started his work with a value analysis of the single commodity which, so to speak, constitutes the "cell-form" of the total capital structure. But this is an *abstract cell-form of an abstract concept of total capital,* and within the scheme of these abstract conceptions no contradiction exists between capital analysis and that of the commodity. The value-price transformation and the average rate of profit are not in opposition to the abstract value scheme but merely point to its limitations. Yet, Marx saw no other way, and no other way has yet been found, to penetrate the bewildering capitalist reality and the ceaseless flux of its development otherwise than with the help of the value concept.

Boston, Massachusetts