Chapter 10: The Equalisation of the General Rate of Profit through Competition. Market Prices and Market Values. Surplus Profit

What Marx set out in the previous chapter was essentially: ‘if there were to be a general rate of profit, what would it look like?’ We have not yet, however, considered the concrete mechanisms by which the profit rate either does, or tends to, equalise.

I The tendency towards the equalisation of the rate of profit through competition

To the degree that the value composition of capital in a given sector of production coincides with the value composition of the total social capital considered as an aggregate, the production prices of the commodities it produces coincide with their ‘value expressed as money’. In this sector, composed of capitals of average composition, surplus-value is equal to general profit.

Competition distributes the social capital between the various spheres of production in such a way that the prices of production in each of these spheres are formed after the model of the prices of production in the spheres of mean composition [...]. The equalisation between spheres of production of different composition must always seek to adjust these to the spheres of mean composition, whether these correspond exactly to the social average or just approximately. Between these spheres that approximate more or less to the social average, there is [...] a tendency to equalisation, which seeks the ‘ideal’ mean position, i.e. a mean position which does not exist in reality. In other words, it tends to shape itself around this ideal as a norm. In this way there prevails, and necessarily so, a tendency to make production prices into mere transformed forms of value, or to transform profits into mere portions of surplus-value that are distributed not in proportion to the surplus-value that is created in each particular sphere of production, but rather in proportion to the amount of capital applied in each of these spheres, so that equal amounts of capital, no matter how they are composed, receive equal shares (aliquot parts) of the totality of surplus-value produced by the total social capital.

There are two ideas here that we need to keep a hold of as Marx develops the argument which follows: first, that social capital is distributed (i.e. surplus-value is proportioned out as profit) through competition; second, that equalisation (distribution of surplus-value as general profit) is, one, a tendency, which moves towards an average, and, two, a process, rather than an instantaneous fact.

II Price as the manifestation of value in exchange

Marx asks the question: ‘how does this equalisation lead to a general rate of profit, since this is evidently a result and cannot be a point of departure?’ By posing the question in this way, Marx is distancing himself from the method of classical political economy, which took price as its logical starting point, and thus accepted price in its fetishistic form as given; Marx takes, as his starting point, the determination of value by labour-time: and wants to investigate the determinations that lead value to take the form of price.

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1 Where I insert my own subheads they appear, as here, in sans serif type.
3 C3, pp. 273-4. And Marx points out that ‘if, for whatever reason, capitals in certain spheres of production were not subjected to the process of equalization [the average profit would [...] be calculated on the portion of the social capital that was involved in the equalization process.’
4 C3, p. 274.
5 Rakesh Bhandari: ’The transformation problem literature is based on a misreading as to what the actual problem is, which (given the fetishistic representation of social labour time) always has to be one of going from known prices to unknown values not the other way around.’ Re: [OPE-L] question on the interpretation of labour values’, <http://ricardo.een.wfu.edu/~cottrell/ope/archive/0702/0084.html>. 
Marx reminds us that, however prices are determined, the following two points are always true. (1) The movement of prices is governed by the law of value: more or less labour-time necessary for production causes the production price to rise or fall. (2) Average profit, which determines production price, "must always be approximately equal to the amount of surplus-value that accrues to a given capital as an aliquot part of the total social capital." The total value of the commodities produced governs the total surplus-value, and the total surplus-value governs both the level of general profit and the general rate of profit ('as a general law or as governing the fluctuations') and hence price of production. (Later in the chapter, Marx comments that '[t]he exchange or sale of commodities at their value is the rational, natural law of the equilibrium between them; this is the basis on which divergences have to be explained, and not the converse, i.e. the law of equilibrium should not be derived from contemplating the divergences.' The fundamental determination of the proportions in which commodities exchange, i.e. of price, is the labour-time embodied in them; other determinations, which cause price to deviate from labour-time determined value are secondary in logical priority. Hence one of Marx's central criticisms of Ricardo that, failing to follow this procedure, he tried to accommodate a general rate of profit into his theory of value, i.e. by precisely seeking 'the law of equilibrium' – the equality of price and value – derived from the divergences from it (the general rate of profit), a procedure which led him to the conclusion that value was only in part determined by labour-time.)

Marx reminds us that 'an assessment of commodity values in money, for example, can only be a result of exchanging them.' Value is determined in production, but only realised in exchange. The substance of value is labour, but, in the production of commodities, labours are carried out privately and only express themselves socially when their products are compared socially, through exchange: if I want to know what the value of a commodity is, I can only do this by exchanging it with others. Value, in other words, has no objective existence outside of exchange: '[f]rom this [the fact that commodities possess the character of values only insofar as they are expressions of 'an identical social substance, human labour', i.e. that their character as values is a social character] it follows [...] that it [i.e. value] can only appear in the social relation between commodity and commodity'. Value finds its expression in exchange – in the form of exchange-value – in the definite physical quantity of the commodity with which it is exchanged; in other words, the exchange-value of a given commodity is the definite physical quantity of the other commodity with which it is exchanged. When this other commodity is the

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6 C3, p. 280. Note the word 'approximately'.
7 C3, p. 281.
8 And not the other way around: price of production does not determine value, as some of the traducers of Marx's 'transformation procedure' seem to forget.
9 C3, p. 289. An example of the method: 'If [...] these capitals of equal size [...] are to yield equal profits, then the prices of commodities (as determined by the general rate of profit on a given outlay) must be very different from the values of the commodities. Hence it follows, not that the values have altered their nature, but that the prices are different from the values. TSV2, p. 198 (italicisation added).
10 '[T]he manner in which Ricardo carries out this investigation is the following: He presupposes a general rate of profit or an average profit of equal magnitude for different capital investments of equal magnitude, or for different spheres of production in which capitals of equal size are employed – or, which is the same thing, profit in proportion to the size of the capital employed in the various spheres of production. Instead of postulating this general rate of profit, Ricardo should rather have examined in how far its existence is in fact consistent with the determination of value by labour-time, and he would have found that instead of being consistent with it, prima facie, it contradicts it, and that its existence would therefore have to be explained through a number of intermediary stages, a procedure which is very different from merely including it under the law of value.' TSV2, p. 174.
11 C3, p. 274.
12 Marx, Capital volume 1 (Harmondsworth, 1976), p. 139.
13 'When, at the beginning of this chapter, we said in the customary manner that a commodity is both a use-value and an exchange-value, this was, strictly speaking, wrong. A commodity is a use-value or object of utility, and a "value". It appears as the twofold thing it really is as soon as its value possesses its own particular form of manifestation, which is distinct from its natural form. This form of manifestation is exchange-value, and the commodity never has this form when looked
money commodity, then the exchange-value of a commodity is its price. To say that commodities ‘exchange at their values’ is to say that what determines the quantity of the money commodity a commodity exchanges for is the labour-time socially necessary for the production of both, and nothing else.\footnote{Disregarding the fact that, since value only objectifies itself in exchange, the quantititative commensurability of ‘value’ and ‘price’ can only be realised \textit{ex post facto}, the other things that influence price include supply and demand (including monopoly position in the market) and a whole myriad of cultural and historical factors.} To say that commodities exchange at their values is therefore necessarily equivalent itself to saying that value equals price.\footnote{‘All prices are distinct from values because price is always money price, the monetary expression of value within the sphere of circulation. From this point of view, the transformation brought about by the tendential equalisation of profit rates is a transformation in the form-of-value: from direct prices, prices proportional to values, to prices of production. All price differences are thus differences between existing prices and direct prices.’ Anwar Shaikh, ‘The Transformation from Marx to Sraffa’, in Alan Freeman and Ernest Mandel (eds.), \textit{Ricardo, Marx, Sraffa} (London, 1984), p. 44.}

\section*{III The tendency of the equalisation of the rate of surplus-value}

If commodities in general are exchanged at value rather than at prices of production, different rates of profit, as we have seen, prevail in sectors of different value composition of capital. But if this is the case – i.e.
that capitals that set in motion unequal amounts of living labour produce proportionally unequal amounts of surplus-value – then this supposes that the rate of exploitation itself is (more or less) \textit{the same} across these sectors. By what process is the rate of exploitation of labour ‘equalised’? By ‘competition among the workers, and an equalization that takes place by their constant migration between one sphere of production and another.’\footnote{C3, p. 275.} Insofar as there is free movement of labour between capitals, therefore, wage rates tend to equalise.\footnote{Marx makes two important caveats at this point (C3, p. 275). First, he remarks that ‘all economic laws’ operate ‘as […] tendencies[,] and, as such, ‘as […] theoretical simplification[s]’; that ‘[i]n theory, we assume that the laws of the capitalist mode of production develop in their pure form [while] [i]n reality, this is only an approximation […]’. But, second, he also remarks that this ‘approximation is all the more exact, the more the capitalist mode of production is developed and the less it is adulterated by survivals of earlier economic conditions with which it is amalgamated.’}

\section*{IV Market value and market price}

Let us continue with our assumption that commodities exchange at value, at, to use Shaikh’s term, ‘direct prices’; i.e., let us assume in operation only the fundamental determination of price, value as social labour-time. Let us also imagine that the workers themselves are in possession of their own means of production, i.e. that the commodities they produce are exchanged as products of labour but not as ‘products of capital’\footnote{C3, p. 275: Marx’s term and emphasis.} – simply as commodities. Because they exchange at value, the commodities so produced exchange in function of the total labour – dead labour and living labour – contained in them; and if we assume the living labour component to be the same for all producers, i.e. that the workers all work for the same time in a day and at the same intensity, then the new value – living labour – created in a day will be the same for each worker, while the value of the total product of a day’s labour will differ in function of the mass and cost of means of production used up. The daily commodity product of two workers, if these required more or less means of production, of different cost, would thus be very different: but new value created would be the same, and supposing the necessities of life (‘wages’) were the same for both, then that new value created beyond these necessities (‘profit’) would, in magnitude, accrue to each equally, even though the value of their commodity products, in function of the different outlays on means of production, would be different. In other words, insofar as the dead labour incorporated into the commodity product were different, they would enjoy different ‘rates of profit’ but the same ‘rate of surplus-value’. But, here, precisely because these commodities are \textit{not} products of capital, that the rates

at in isolation, but only when it is in a value-relation or exchange relation with a second commodity of a different kind.’ C1, p. 152.
of profit are different is a matter of indifference: greater outlays mean that a greater part of the value of the product has to be transformed back to recover these outlays, but the value of the product is higher by precisely this amount.

For commodity prices in exchange to correspond approximately to their values what is required is (1) that the exchange of different commodities ceases to be merely accidental or occasional; (2) that commodities to be exchanged are produced quantities that approximately correspond to mutual need; and (3) that no natural or artificial monopolies dominate exchange.

But what the assumption that commodities from different sectors of production exchange at value means is ‘that this value is the centre of gravity around which price turns and at which its constant rise and fall is balanced out.’

This ‘centre of gravity’ is the ‘market value’: ‘the average value of the commodities produced in a particular sphere’, or, to put it another way, ‘the individual value of commodities produced under average conditions in the sphere in question’. The individual value of some of these commodities will stand below the market value (i.e. less labour-time has been required for their production than the market value expresses), the value of others above it.

Marx now directs himself to the position, argued by Ricardo, that, where conditions of production vary in a branch of production, the value (‘natural price’) of a commodity is that of those produced under the worst – least advantageous – conditions. Marx disagrees. ‘Market value’ is an average value, of all conditions, and is not just determined by one set of them: ‘the commodities whose individual value stands below the market price will realise an extra surplus-value or surplus profit, while those whose individual value stands above the market price will be unable to realize a part of the surplus-value which they contain.’

Ricardo’s position would only be true if the demand for a particular commodity were so exceptionally strong that a rise in price would not contract the demand for that commodity (and, conversely, if supply outstripped demand sufficiently, the market value would be determined by the best conditions, and those commodities produced under the worst conditions might not even realise their cost prices, while those produced under average conditions would realise only a part of their surplus-value).

By distinction, under ‘normal’ conditions, at a given price, a given type of commodity ‘can only take up a certain area of the market; this area remains the same through changes in price only if the higher price coincides with a smaller quantity of commodities and a lower price with a greater quantity.’ The ‘area’ that Marx refers to here, then, is a delimited quantity of value of social labour-time.

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19 C3, p. 279. The metaphors of ‘centre of gravity’ and ‘balancing’ are unhelpful here; Marx’s earlier formulation of a movement ‘shaping itself around an ideal as a norm’ appears here more appropriate. As we shall see, the ‘centre of gravity’ turns out to be an average aggregate value, not a point of attraction; it is not the cause of the movement of prices, but its result.

20 C3, p. 279.

21 C3, p. 279.

22 C3, p. 279. Cf. Karl Marx, *Theories of Surplus-Value* vol. 2, in Karl Marx, *Theories of Surplus-Value: Books I, II and III* (Amherst, NY, 2000) [hereafter TSV2], pp. 204: ‘The value of [...] the product of a particular sphere of production is determined by the labour which is required in order to produce the [...] the total sum of the commodities appertaining to this sphere [...] and not by the particular labour-time that each individual capitalist or employer within this sphere of production requires. [...] The quantity of labour by which, for example, the value of a yard of cotton is determined is therefore not the quantity of labour it contains [...] but the average quantity with which all the cotton-manufacturers produce one yard of cotton for the market.’

23 C3, p. 279.

24 C3, p. 279.
For Marx, ‘market value’ refers to the ‘centre of gravity around which price turns and at which its constant rise and fall is balanced out’: the ‘average value of the commodities produced in a particular sphere’, or ‘the individual value of commodities produced under average conditions in the sphere in question’.

In another work, written shortly before the main draft that became *Capital* volume three, he wrote:

> [T]he general value of the products [of a given sector] is the same for all, whatever may be its relation to the particular value of each individual commodity. This common value is the market-value of these commodities, the value at which they appear on the market. Expressed in money, this market-value is the market-price, just as in general, value expressed in money is price. The actual market-price is now above, now below this market-value and coincides with it only by chance. Over a certain period, however, the fluctuations equal each other out and it can be said that the average of the actual market-prices is the market-price which represents the market-value. Whether, at a given moment, the actual market-price corresponds to this market-value in magnitude, i.e., quantitatively or not, at any rate it shares the qualitative characteristic with it, that all commodities of the same sphere of production available on the market have the same price (assuming of course that they are of the same quality), that is, in practice, they represent the general value of the commodities of this sphere.

> Thus the market value of a commodity is that ‘area’, measured as a delimited quantity of social labour-time, occupied by a particular (type of) commodity: the monetary expression of this value is the commodity’s *market price*. Competition within a particular branch of production ensures that a given type of commodity of a given quality will sell at a given price, independently of the *individual* conditions of production of each capital involved in that commodity’s production: those that produce with a higher than average productivity of labour will produce a commodity whose value lies below the market price, and therefore reap a profit higher than the average for the branch, and those at a lower level of labour productivity will reap a profit below that average.

If, considering the mass of commodities of the same type, some are produced under better than average conditions, and some under worse, should these two extremes cancel one another out, the average value of the commodities produced under both of the extreme poles will be the same as the value of the mass of average commodities, and market value will be determined by the value of the commodities produced under these average conditions.

If, however, we assume now, given the same overall quantity of commodities, that the value of those produced under worse conditions is not balanced out by that of those produced under better ones, it will be the former that will govern the market value. Likewise, if the value of those commodities produced under better than average conditions is not balanced by that of those produced under worse ones, then it will be those produced under better conditions that will determine the market value.

In all three cases, the average market price of each individual commodity is determined by the total value of the mass of commodities shared out as an aliquot part of this total value: the market value of the entire mass of

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25 C3, p. 279. The metaphors of 'centre of gravity' and 'balancing' are unhelpful here; Marx's earlier formulation of a movement 'shaping itself around an ideal as a norm' appears here more appropriate. As we shall see, the 'centre of gravity' turns out to be an *average aggregate value*, not a point of attraction; it is not the cause of the movement of prices, but its result.

26 C3, p. 279.

27 C3, p. 279.


29 TSV2, p. 205.

30 Here Marx is evidently settling a score with Ricardo.

31 Or, to my way of looking at the matter, the *average* – the statistical mean – market value will fall.
commodities (‘as governed by the average values’) is equal to the sum of its individual values. In the first case, this value coincides with the value of the commodities produced under average conditions: for the commodities produced at the poles of the conditions of production this value is an average value imposed on them, and those producing under worse conditions will sell below the individual values of the commodities, and those under better ones above them. In the second case, where those commodities produced under worse conditions govern the market value, this stands not only above the value of the more favourable extreme, but also above that of the middle (‘average’) category, but less than that of those commodities produced under the most unfavourable conditions. In case three, it is the commodities produced under more favourable conditions that govern market value.33

V The interplay of supply and demand

Market price is the monetary expression in circulation of market value just as price is the monetary expression of the value created and passed on in production. But the magnitude of the value created and passed on in production is given by the labour time socially necessary for production. What determines the magnitude of market value?

In volumes one and two, and up to here in volume three, Marx has scrupulously avoided discussion of supply and demand; now, it starts to become a central theme. In a work written at around the same time as the draft of volume three of *Capital*, he wrote the following:

> You would be altogether mistaken in fancying that the value of labour or any of other commodity whatever is ultimately fixed by supply and demand. Supply and demand regulate nothing but the temporary fluctuations of market prices. They will explain to you why the market price of a commodity rises above or sinks below its value, but they can never account for that value itself. Suppose supply and demand to equilibrate, or, as the economists call it, to cover each other. Why, the very moment these opposite forces become equal they paralyse each other, and cease to work in the one or the other direction. At the moment when supply and demand equilibrate each other, and therefore cease to act, the market price of a commodity coincides with its real value, with the standard price round which its market prices oscillate. In inquiring into the nature of that value, we have, therefore, nothing at all to do with the temporary effects on market prices of supply and demand.34

Marx’s method – again, taking as his starting point the determination of value by labour-time – is to elucidate the determinations between value and price with supply and demand abstracted away, and then to examine the effects (and meaning) of the further determinations that the interplay of supply and demand involves.

> If two forces act in opposing directions and cancel one another out, they have no external impact [...], and phenomena that appear under these conditions must be explained otherwise than by the operation of these two forces. [...] The real inner laws of capitalist production clearly cannot be explained in terms of the


33 In all three cases here we are considering the effect of conditions of production (i.e. productivity of labour) on market value, not the effect of supply and demand on market price (i.e. the deviation of market price from market value). Marx describes the way this last works through like this: ‘[W]here the market is over-supplied, [...] it is always the portion produced under the most favourable conditions that governs the market price [...]’. If demand is only marginally predominant, it is the individual value of the unfavourably produced commodities that governs the market price. [...] If demand is weak in relation to supply, the favourably situated part, however big it might be, forcibly makes room for itself by drawing the price towards its individual value. The market value can never coincide with this individual value of the commodities produced under the most favourable conditions, except in cases where supply sharply outweighs demand.’ C3, pp. 284-6.

34 Karl Marx, *Value, Price and Profit* <http://www.marxists.org/archive/marx/works/1865/value-price-profit/ch01.htm#c5>.
interaction of demand and supply [...] since these laws are realised in their pure form only when demand and supply cease to operate, i.e. when they coincide.35

Thus, even though ‘demand and supply never coincide, or, if they do so, it is only by chance and [for this reason] not to be taken into account for scientific purposes; it should be considered as not having happened’,36 we make the assumption that they do coincide because, one, to explain the ‘real inner laws of capitalist production’, and, two, ‘to discover the real tendency of their [supply and demand’s] movement and to define it to a certain extent’.37

In this way, while supply and demand cannot explain the nature and existence of price – these are explained by value, i.e. by the labour embodied in a commodity – they are part of the explanation of why (embodied) value and (actual) price do not coincide, for when supply and demand do cease to act, this is a condition for commodities of the same type and same quality from the same sector of production to be sold at value.

Hence it is to the action of supply and demand that we must now turn.

Evidently, supply and demand involve the quantities of commodities produced, and the extent to which they can be sold. When we considered the individual commodity as a use-value, we assumed, because it was a use-value, that it fulfilled a need. Now, once we consider the entire commodity output of a branch of production, we need to consider the quantitative extent of the social need; if the quantity placed on the market exceeds or falls below the social demand, market price will deviate from market value.

What then is the relation between value and market prices, or between natural prices and market prices? You all know that the market price is the same for all commodities of the same kind, however the conditions of production may differ for the individual producers. The market price expresses only the average amount of social labour necessary, under the average conditions of production, to supply the market with a certain mass of a certain article. It is calculated upon the whole lot of a commodity of a certain description.38

The difference between the quantity of commodities produced and the quantity of these commodities which can be sold at their market value can result either from supply or demand: either from the fact that fewer or more commodities are produced or because demand itself expands or contracts (of course, both of these can operate at the same time).

First we consider supply: ‘the product which is actually on sale in the market or can be delivered to it.’39 The annual production of a kind of commodity – ignoring the possibility of commodities being withdrawn from the market and saved for consumption at a later period – is both use-value and value, As use-value it satisfies human needs, but now it is available on the market on a given scale. It also has a definite market value, expressible as a multiple of the market value of the individual commodity. There is of course no necessary connection between the quantitative volume of commodities on the market and their market value; the only relation between quantity and market value that exists is that, for a given level of productivity of labour in a given sector, the production of a particular quantity of a particular article requires a particular quantity of social labour-time, such that if a quantity a of a certain type of commodity costs labour-time b, then quantity na costs labour-time nb.

To the degree that society wants to satisfy a need, and hence have an article produced for this reason, it has to ‘pay’ for it. Given the already existing division of labour (a presupposition of commodity production), if society ‘buys’ these articles, it does so with a certain quantity of the labour-time it has available. That part of society responsible for the production of a given commodity or commodities then has to receive an equivalent in social labour to that social labour represented in the articles that satisfy its needs.

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35 C3, p. 291.
36 C3, p. 291.
37 C3, p. 291.
38 Value, Price and Profit <http://www.marxists.org/archive/marx/works/1865/value-price-profit/ch02.htm#c6>. As I I Rubin put it (Essays on Marx's Theory of Value (Delhi, 2008), p. 174), market value is the commodity’s ‘average social value’.
39 C3, p. 287.
If a given quantity of one kind of commodity embodies the social labour required to produce it, its market value represents this necessary labour; if the commodity in question is then produced on a scale that exceeds the then existing social need, a part of society’s labour-time is wasted, and the commodities in question represent on the market a smaller quantity of social labour than they actually contain.

But under conditions of commodity production, whether the total quantity of social labour spent on a social article, i.e. that proportion of total social labour-power (and therefore the proportion that the production of this article assumes within total production) meets the particular proportion in which the society demands satisfaction of a particular need or not is only determined once the commodities in question are placed on the market: and there is no guarantee before this that the social labour spent on a social article exceeds the need or falls short of it. Hence, either commodities will be sold at less than their market value (or even go unsold), or they will be sold at above their market value; should the amount of social labour spent on the production of a certain article correspond to the social need to be satisfied, such that the amount produced corresponds, at a given and fixed level of demand, to the normal scale of reproduction and, therefore, the commodity be sold at its market value, this will happen only by chance.

Next we consider demand. It would appear at first sight that there should be ‘a given volume of social needs [...] to which definite quantities of social production in the various branches are to correspond’: For a given industry to carry on annual reproduction at a given level, the usual amount of means of production would be necessary, and the expansion of production would appear to require a given additional quantity; the working class – and other classes – should be able to find the same amount of necessary provisions available to go on living in the customary manner, and a growth in population would also need a given additional quantity. However, despite this appearance, in fact in its quantitative dimension this need is completely fluid and changeable. If means of subsistence are cheaper (or money wages higher), more of them are consumed; a greater social demand thus appears. If means of production become cheaper, capitalists’ demand for them grows.

Demand as represented on the market is different from what Marx calls ‘genuine social need’, i.e. there is a difference between the mass of commodities demanded and the mass that would be demanded if money prices, or the buyers’ financial and living conditions, were different. In addition, the demand that comes from capitalists for means of production is different in kind from that coming from workers (and other social classes) for means of subsistence:

It must never be forgotten in this connection that the demand for productive consumption [...] is the capitalist’s demand, and that his true purpose is the production of surplus-value, so that it is only with this in

40 ‘In all societies, the objects required to satisfy human needs imply a certain allocation of society’s labour-time, its productive activities, in specific proportions and quantities. Otherwise the reproduction of society is impossible. [...] But in the case of commodity production, the products of labour which constitute the material basis of this reproduction process are produced without any direct connection to social needs. They are produced for exchange, as the products of private autonomous labours carried out independently of one another, but within and through the social division of labour. [...] ‘We know of course that commodity production is generalised only under capitalism, hence only when labour-power becomes a commodity. But the very fact that commodity production is generalised gives rise to a paradox. It rests on private autonomous labours carried out independently of one another with only exchange, generally exchange for profit, in mind. In order to be undertaken, each constituent labour must presuppose, must risk, the existence and reproduction of other such labours, along with the reproduction of their social basis. In other words, each such independent labour must be undertaken on the presupposition of the social division of labour.

‘In order actually to be reproduced, however, private and apparently anarchic labours must somehow end up being allocated in specific proportions and quantities consistent with the social division of labour. It is precisely through exchange that this presupposition is realised, that private independent labours are forcibly articulated into a social division of labour.’ Shaikh, ‘The Transformation from Marx to Sraffa’, pp. 44-5.


42 C3, p. 289.
mind that he produces a particular kind of commodity. This does not prevent the capitalist, in so far as he is
present on the market as buyer of cotton, for example, from being the representative of the need for cotton,
since it is completely unimportant for the seller of cotton whether the buyer transforms it into shirting or
gun-cotton, or whether he uses it to stop up his own and the world’s ears. And yet the capitalist’s purpose
exerts a great influence on the kind of buyer he is. His need for cotton is modified fundamentally by the fact
that all it really clothes is his need to make a profit.43

If the disproportions in supply and demand are ‘contrary in character’ and balance each other out, there is no
single individual case in which demand and supply do coincide, in the long run, ‘as the average of the movement
that has taken place and through the constant movement of their contradiction’,44 over time ‘[m]arket prices that
diverge from market values balance out on average to become market values, since the departures from these
values balance each other.’45

Hence:

The relationship between demand and supply thus explains on the one hand simply the divergences of
market price from market value, while on the other hand it explains the tendency for these divergences to be
removed, i.e. for the effect of the demand and supply relationship to be cancelled.46

If demand falls, so too does price fall below market value, leading either to a withdrawal of capital and a
reduction in the supply or a fall in the market value itself due to inventions reducing necessary labour-time, also
bring market value back into line with the market price. If demand rises, price rises above market value,
leading to the increasing investment of capital in a given branch of production leading in turn to a rise in
production such that price falls back below market value (or, alternatively, a rise in price may depress demand).

But if supply and demand determine price, then market price in turn – and market value – also determine supply
and demand. Demand moves in the opposite direction to price, expanding when it falls and contracting when it
rises. As far as supply is concerned, the prices of means of production that go into commodities supplied
determine the demand for these means of production, and therefore also the supply of those commodities
whose supply brings with it a demand for the means of production: ‘[c]otton prices determine the supply of
cotton goods.’

Hence, if a given kind of commodity is sold at its market value, and it is sold in proportion to the socially
necessary labour contained in it, then the total mass of social labour which is devoted to the production of the
total quantity of this commodity must coincide with the quantity of social need for it (social need with money to
back it up, of course). In other words, a given market value coincide with a given level of social need (although
the actual mass of commodities this will represent will depend on the productivity of labour); to the degree that
price deviates from market value through the interplay of supply and demand the social need and market value
will deviate. But the combined effect of competition and fluctuations in market price corresponding to
fluctuations in the interplay of demand and supply work constantly to keep the total quantity of labour applied
to each kind of commodity at this level.

To better understand the relationship of supply and demand for commodities we will first recall what we have
established about commodity exchange at the level of a single commodity.

A commodity is use-value and exchange-value; we have a relation between commodity and money, and buyer
and seller. In addition, we also have a relationship between producer and consumer.47 For the complete
metamorphosis of a commodity, three parties are necessary: A converts her commodity into B’s money and
then transforms this money back into commodities by buying from C. Considering money, we had no reason to

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43 C3, p. 290.
44 C3, p. 291.
45 C3, p. 291.
46 C3, p. 292. ‘The exceptional cases of those commodities which have prices without having any value will not be
considered here.’
47 ‘[E]ven though both may be represented by third parties, in the shape of merchants.’ C3, p. 294.
assume that prices diverged from values; it was completely immaterial whether the commodity’s price was above or below its value. Only when we dealt with money as means of circulation did we consider the metamorphoses of commodities as socially intertwined.

Now, considering supply and demand, we can say that supply is equal to the total sum of commodities provided by the sellers and producers of a particular kind of commodity and that demand is equal to the total sum of buyers and consumers – be they productive or unproductive – of that same kind of commodity. These are totals that act on one another as aggregate forces. Now, a single individual is ‘an atom in the mass’, and has an effect only as a part of that competition that brings the social character of production and consumption into play.

If demand outstrips supply for a particular kind of commodity, one buyer outbidding the others raises the commodity’s price above its market value for everyone, as sellers all seek to sell at a high market price. If supply outstrips demand, one seller beginning to unload his product more cheaply forces others to follow, as buyers together work to lower market price as far as possible below market value. ‘Each is only concerned with the common interest as long as he obtains more with it than he would against it.’

In this way ‘[d]emand and supply imply the transformation of value into market value’. Thus, taking identical commodities, if the quantity of commodities required to fulfil social need is put on the market, market price will equal market value. If more product than required to fulfil social need is put on the market, then commodities will have to be sold below their market value (while, if the quantity is insufficient they will be sold above the market value). However, the market value itself may change: if it falls, social need is on average expanded and society can absorb a greater mass of commodities (and if it rises, social need contracts).

Thus if supply and demand regulate market price, or rather the departures of market price from market value, the market value in turn regulates the relationship between demand and supply, or the centre around which fluctuations of demand and supply make the market price oscillate.

It is worth emphasising this point: the interplay of supply and demand determines market price, while market value determines supply and demand. Given a certain market value, the expression of the fulfilment of social need, the actual mass of products on the market, itself determined by competition, determines whether their price rises or falls below the market value. But that relationship between the mass of products available and the social need is in turn regulated by market value. What might make market value change? On the one hand, the productivity of labour, which by increasing, will make market value fall and the mass of product absorbable by society to rise; on the other, the principle of ‘social need’ which governs demand is in turn conditioned by ‘the relationship of the different classes and their respective economic positions; [...] by the proportion between the total surplus-value and wages, and [...] by the proportion between the various parts into which surplus-value itself is divided (profit, interest, ground-rent, taxes, etc.).’

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48 Although ‘[t]he commodity’s value remains important as the basis, since any rational understanding of money has to start from this foundation, and price, in its general concept is simply value in the money form.’ C3, p. 295.

49 C3, p. 295.

50 C3, p. 296.

51 ‘[O]r, what comes to the same thing, if the pressure of competition among the sellers is not strong enough to compel them to bring this mass of commodities to the market’ (C3, p. 282); i.e. the mass of commodities that do arrive on the market is (in part) determined by the pressure of competition among the producers.

52 ‘[T]his always means here the need which has money to back it up’, C3, p. 282.

53 C3, p. 282.

54 C3, p. 282. ‘Here again we can see how absolutely nothing can be explained by the relationship of demand and supply, before explaining the basis on which this relationship functions.’ C3, p. 282 (italicisation added).
VI Competition within and between branches of production

Both market price and price of production, as we have seen, result from the action of competition. But it is important to grasp here that two different types of competition, producing two different effects, are involved.

What competition brings about, first of all in one sphere, is the establishment of a uniform market value and market price out of the various individual values of commodities. But it is only the competition of capitals in different spheres that brings forth the production price that equalizes the rates of profit between those spheres.55

In other words, competition within a given sector of production equalises market prices; competition between sectors determines prices of production through equalising the rate of profit.

[C]ompetition, partly among the capitalists themselves, partly between them and the buyers of the commodity and partly among the latter themselves, brings it about here that the value of each individual commodity in a particular sphere of production is determined by the total mass of social labour-time required by the total mass of the commodities of this particular sphere of social production and not by the individual values of the separate commodities or the labour-time the individual commodity has cost its particular producer and seller.56

Thus competition has two different and contradictory effects.

According to the first, the products of the same sphere sell at one and the same market-value, competition therefore enforces different rates of profit, i.e., deviations from the general rate of profit. According to the second, the rate of profit must be the same for each capital investment, that is competition brings about a general rate of profit. The first law applies to the various independent capitals invested in the same sphere of production. The second applies to capitals in so far as they are invested in different spheres of production. By the first action, competition creates the market-value, that is, the same value for commodities of the same sphere of production, although this identical value must result in different profits, it thus creates the same value despite of, or rather by means of, different rates of profit. The second action (which, incidentally, is brought about in a different way; namely, the competition between capitalists of different spheres throws the capital from one sphere into another, while the other competition, in so far as it is not competition between buyers, occurs between capitals of the same sphere) enables competition to create the cost-price, in other words the same rate of profit in the various spheres of production, although this identical rate of profit is contrary to the inequality of values, and can hence only be enforced by prices which are different from values.57

Hence what is demanded here is both ‘equal value or price with unequal rate of profit, and equal rate of profit with unequal values’.58

In other words:

What competition within the same sphere of production brings about, is the determination of the value of the commodity in a given sphere by the average labour-time required in it, i.e., the creation of the market-

55 C3, p. 281. ‘The latter process requires a higher development of the capitalist mode of production than the former.’
56 TSV2, pp. 205-6. However: ‘If the rise of the value of the commodities above the average value exceeds certain limits, the “quantity of produce required” falls, that is, this quantity is only required at a given price – or at least within certain limits of price. Hence it is just as possible that the [...] category [producing under unfavourable conditions] has to sell below the individual value of its commodities as the better placed category always sells its products above their individual value. Which of the categories has a decisive effect on the average value, will in particular depend on the numerical ratio or the proportional size of the categories. If numerically the middle category greatly outweighs the others it will determine [the average value]. If this group is numerically weak and that which works below the average conditions is numerically strong and predominant, then the latter determines the general value of the produce of this sphere, although this by no means implies and it is even very unlikely, that the individual capitalist who is the most unfavourably placed in the last group, is the determining factor.’ TSV2, pp. 204-5.
57 TSV2, pp. 206-7.
58 TSV2, p. 207. Marx remarks that while Ricardo is aware of this when it comes to rent, he seems unaware of it when he deals with market-price.
value. What competition between the different spheres of production brings about is the creation of the same general rate of profit in the different spheres through the levelling out of the different market-values into market prices, which are cost-prices that are different from the actual market-values. Competition in this second instance by no means tends to assimilate the prices of the commodities to their values, but on the contrary, to reduce their values to cost-prices that differ from these values, to abolish the differences between their values and cost-prices.59

VII The exchange of commodities as products of capital

Marx comments, to summarise, that ‘[t]his establishment of the market price, which we have depicted here only abstractly, is brought about on the actual market itself by competition among the buyers, assuming that demand is strong enough to absorb the whole mass of commodities at the values established [...]’.60

But here we have been considering the exchange of commodities as commodities; under capitalist conditions of production, of course, commodities are also products of capital. Much more than mere purchase and sale is involved in their exchange: along with ‘the formal conversion of commodity value into price, i.e. a mere change of form’,61 what is also involved are the ‘specific quantitative divergences of market prices from market values and, at a further remove, from prices of production.’62 Supply and demand ‘imply the existence of various different classes and segments of classes which distribute the total social revenue among themselves and consume it as such, thus making up a demand created out of revenue’.63

Under conditions of capitalist production it is no longer a case where commodities are exchanged of withdrawing from circulation an equivalent mass of value than is thrown in, but of extracting, for capital advanced, an average profit. Commodities need then to be sold at prices – prices of production – that deliver this profit. ‘This is the form in which capital becomes conscious of itself as a social power, in which every capitalist participates in proportion to his share in the total social capital.’64

There are two factors we need to keep in mind here. First, that the nature of use-value produced is a matter of indifference, both to the capitalist – whose only interest is surplus-value (in fact, realising an average profit) –

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59 TSV2, p. 208. ‘The market-values of each particular sphere, therefore the market-prices of each particular sphere (if the market-price [...] merely represents the value in the form of money) would yield very different rates of profit, for capitals of equal size in different spheres [...] employ very unequal proportions of constant and variable capital and therefore yield very unequal surplus-values, hence very unequal profits. The levelling out of the various market-values, so that the same rate of profit is produced in the different spheres of production, and capitals of equal size yield equal average profits, is therefore only possible by the transformation of market-values into cost-prices which are different from the actual values.’ TSV2, p. 208. We should note that in Theories Marx frequently uses the term ‘cost-price’ where in capital uses ‘price of production.’

60 C3, p. 286. ‘If the rise of the value of the commodities above the average value exceeds certain limits, the “quantity of produce required” falls, that is, this quantity is only required at a given price – or at least within certain limits of price. Hence it is just as possible that the [...] category [producing under unfavourable conditions] has to sell below the individual value of its commodities as the better placed category always sells its products above their individual value. Which of the categories has a decisive effect on the average value, will in particular depend on the numerical ratio or the proportional size of the categories. If numerically the middle category greatly outweighs the others it will determine [the average value]. If this group is numerically weak and that which works below the average conditions is numerically strong and predominant, then the latter determines the general value of the produce of this sphere, although this by no means implies and it is even very unlikely, that the individual capitalist who is the most unfavourably placed in the last group, is the determining factor.’ TSV2, pp. 204-5.

61 C3, p. 296.
62 C3, p. 296.
63 C3, p. 296.
64 C3, p. 297.
and also to wage labour, which 'is indifferent to the specific character of its work; it must be prepared to change according to the needs of capital and let itself be flung from one sphere of production to another.'

Second, given average profit, that one sector of production is just as good as any other.

However, this latter would not be the case were commodities to be sold at their values; but insofar as it is not the case, capital will withdraw from a sector where the rate of profit is lower than average and migrate to those where it is higher.

This constant migration, the distribution of capital between the different spheres according to where the profit rate is rising and where it is falling, is what produces a relationship between supply and demand such that the average profit is the same in the various different spheres; and values are therefore transformed into prices of production.

The degree to which this equalisation is achieved depends upon the degree to which capitalist development itself has advanced; the speed with which equalisation occurs depends (1) on how mobile capital is, i.e. on the ease with which it can be transferred from one sector and place to others, and (2) on the speed with which labour-power can be moved between sectors and from place to place.

These conditions imply the existence of a number of factors. The mobility of capital requires free trade and the abolition of monopolies; the development of the credit system, 'which concentrates together the inorganic mass of available social capital vis-à-vis the individual capitalist'; the subordination of sectors of production to capitalist production (insofar as this is not achieved sectors of production do not enter into the formation of a general rate of profit); a high population density. The mobility of labour requires the abolition of legal restrictions on workers' movement between sectors of production and places of production; 'indifference of the worker to the content of his work'; each individual capitalist, just like the totality of all capitalists in each particular sphere of production, participates in the exploitation of the entire working class by capital as a whole, and in the level of this exploitation; not just in terms of general class sympathy, but in a direct economic sense, since, taking all other circumstances as given, including the value of the total constant capital advanced, the average rate of profit depends on the level of exploitation of labour as a whole by capital as a whole.

Hence the average rate of profit coincides with the average surplus-value of capital as a whole, i.e. depends on the exploitation of wage-labour by the capitalist class. The only additional factor determining the mass of average profit accruing to capitalists is the value of the capital advanced. the interests of the individual capitalist, or the capitalists of a given sector of production, with regard to the exploitation of the workers directly employed are 'confined to the possibility of taking an extra cut, making an excess profit over and above the average, either by exceptional overwork, by reducing wages below the average, or by exceptional productivity in the labour applied.'

Since the rate of surplus-value depends on the degree of exploitation of labour,

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sphere of capital, however, and each individual capitalist, has the same interest in the productivity of the social labour applied by the total capital.72

Both the mass of use-values in which general profit is expressed, which provide the accumulation fund for new capital and the revenue fund for consumption, and the value of the total capital advanced, which, given the mass of surplus-value produced, determines the general rate of profit, are dependent on the productivity of social labour. At the level of the individual sector or firm, the specific productivity of labour concerns the capitalists directly involved only insofar as it provides the possibility of extra profit in relation to total capital, or total capital of a given sector.

We thus have a mathematically exact demonstration of why the capitalists, no matter how little love is lost among them in their mutual competition, are nevertheless united by a real freemasonry vis-à-vis the working class as a whole.73

Capitalists as a class have an interest in intensifying the exploitation of wage-labour because individually (or sectorally) it is in their interest to exploit their own wage-labour: this class solidarity among capitalists is not based on and does not need consciousness of where profit comes from, i.e. despite the fact that profit appears to accrue to individual capitalists or individual sectors of production and not through the exploitation of wage-labour as a class.

If price of production includes average profit, it is called price of production because it is the long-term condition of supply, the condition of the reproduction of commodities in each individual sector of production. But price of production is an externalised and ‘irrational’ form of commodity value, which presents itself as such under conditions of competition. This is why it features so prominently (‘natural price’, ‘prix nécessaire’, etc.) in political economy.

Those capitalists who produce under the best conditions produce a surplus profit; this holds for all market prices, no matter their divergence from market values or market prices of production. Market price implies that the same price is paid for all commodities of the same kind, independently of the conditions they are produced under, i.e. independently of their individual cost prices.74

VIII Summary

Marx’s argument has been complex, at times long-winded, and in places oblique; it would be worth outlining a brief summary.

At any given moment, there is a given level of social need for a given type of commodity. This social need, expressed as money, represents a determinate quantity of social labour time. This social labour time is the commodity-type’s market value; the market value of an individual commodity – in money form its market price – is an aliquot part of the total market value. Competition between capitals producing the same commodity within a given branch of production produces a tendency towards the equalisation of individual market prices independently of the specific conditions of production of the individual capitals. If, in a given branch of production, the total social labour time in which the social need for a given commodity consists coincides with that embodied in the commodity product (the latter taking the monetary form of prices of production) – i.e. if demand coincides with supply – then the total market prices of those commodities equals their total market value and an average profit is realised in the branch of production in question. If, however, supply outstrips demand – if more social labour time is embodied in production than that expressed as social need – then either the unit price of commodities will fall, or some of the commodity product will either go unsold, or some of it will remain longer in circulation than normal, or a combination of these factors will occur; but, in short, market price will fall below market value and a below than average profit will be reaped. If, contrariwise, more social

72 C3, p. 299.
73 C3, p. 300.
74 Note that this surplus profit is not a product of monopoly, but of advantageous productivity of labour.
need is expressed in the monetary form of social labour than that embodied in production – if, in other words, demand exceeds supply – then market price will rise above market value and a greater than average profit will be reaped in the branch of production in question. At the aggregate level, since the social need for a given commodity represents an aliquot part of the total aggregate labour time available to society, total market price is equal to total market value: differences between market price and market value in given branches of production cancel themselves out in the aggregate. Capital, which is disinterested in use-value other than insofar as its sale as a commodity allows capital’s self-valorisation, flows, in function of its own mobility, from those branches of lower profitability to those of higher profitability: production expands where demand outstrips supply and contracts where supply outstrips demand. This movement, the product of the competition between capitals of different branches in search of above average profits, is the mechanism whereby the rate of profit for the whole social capital tends to equalise. Were, on the one hand, the productivity of labour, and, on the other, the scale and distribution of social need fixed and unchanging, this movement of capital in function of the interplay of supply and demand would generate an equilibrium point where market price and market value would be equal in all branches of production and an average profit would be garnered everywhere. Yet both the productivity of labour and the shape of that social need expressible as money change constantly: pressure of competition and the need to realise ever more surplus-value impel the capitalist – all capitalists – to cheapen individual commodities, reducing market value (as well as increasing the organic composition of capital), while social need is determined by the relations between classes and the division of ‘revenue’ into wages and surplus-value, as well as the division of the surplus-value itself into its various forms. As such, instead of a fixed equilibrium towards which the process of equalisation of the rate of profit inexorably orientates, alongside the process of equalisation there obtains an equally strong process of disequalisation of profit rates, such that permanent and shifting unevenness of profit rates and the consequent constant movement of capital towards surplus profit mark the essential dynamic of capitalist reproduction.