In his important and influential book, *The Making of Marx’s Capital* (1977), Roman Rosdolsky emphasised a key methodological distinction in Marx’s theory: the distinction between capital in general and competition (or many capitals). Although Rosdolsky did not provide a comprehensive and detailed interpretation of the role of this distinction in the logical structure of *Capital*, he did emphasise that this distinction is crucial to Marx’s theory of surplus-value and his theory of the average rate of profit. Rosdolsky argued that Marx’s theory of surplus-value is at the level of abstraction of capital in general and his theory of the average rate of profit (and prices of production) is at the level of abstraction of competition (pp. 41–50 and 367–75). Unfortunately, Rosdolsky’s emphasis on this distinction between capital in general and competition has been largely ignored in the subsequent literature in English on Marx’s theory, and, in particular, in the debate over the so-called ‘transformation problem’ in Marx’s theory (an exception is Foley 1986).

Recently, Michael Heinrich (1989) has challenged this interpretation of capital in general. Heinrich has argued that, while working on the second draft of *Capital* in the early 1860s, Marx encountered crucial difficulties in maintaining the distinction between capital in general and competition. Heinrich (CôC 38, 1989) argued that, while working on the second draft of *Capital* in the early 1860s, Marx encountered crucial difficulties in maintaining the distinction
between capital in general and competition, and eventually abandoned this distinction. Heinrich concludes that this distinction plays no role in the final logical structure of the three volumes of *Capital*.

Heinrich is to be commended for calling attention to this second draft of *Capital*, parts of which were published for the first time in German in the late 1970s as part of the authoritative collection Marx-Engels Gesamtausgabe, and which have been only very recently published in English in Volume 30 (1988), Volume 33 (1991), and Volume 34 (1994) as part of the 50-volume Marx-Engels Collected Works. Volumes 31 and 32, part of the same manuscript, were previously published as *Theories of Surplus-Value*. All five volumes together are referred to as the *Economic Manuscripts of 1861–63*. This second draft of *Capital* provides a vital link between the *Grundrisse* and *Capital*. It provides many insights into the logical structure and content of *Capital*, similar to the publication of the English translation of the *Grundrisse* in the 1970s.

However, I disagree with Heinrich's conclusion that Marx encountered difficulties in maintaining the distinction between capital in general and competition while working on this manuscript and that Marx subsequently abandoned this distinction in *Capital*. In this paper, I reexamine Heinrich's arguments and conclude that they are based on a mistaken definition of capital in general and that Marx maintained the distinction between capital in general and competition in the final versions of *Capital*. Indeed, Marx could not have abandoned this distinction because his theory of the average rate of profit and prices of production depends crucially on this distinction. Likewise, his theory of the other specific forms of surplus-value — mercantile profit, interest, and rent — also depend on this distinction. Without this distinction, Marx would have been left without a theory of the average rate of profit, similar to Ricardo, and also would have been without theories of these other forms of surplus-value.

I.

**MARX'S CONCEPTS OF CAPITAL IN GENERAL AND COMPETITION**

This section presents a brief summary of my interpretation of Marx's distinction capital in general and competition and the role this distinction plays in the logical structure of *Capital* (see Moseley 1993a and 1994 for further elaborations of this summary). The main purpose of Marx's concepts of 'capital in general' and 'competition' (or 'many capitals') was to distinguish between the *production* of surplus-value, or the determination of the total amount of surplus-value in the economy as a whole, and the *distribution* of surplus-value among individual capitals, or its division into individual component parts. The general methodological premise on which this distinction is based is that the total amount of surplus-value is determined prior to and independent of the division of this total amount into individual parts. This distinction between the production and distribution of surplus-value provided the key advance over Ricardo's theory and enabled Marx to explain the determination of the average rate of profit and prices of production, which Ricardo could not. As Marx expressed this premise in the *Grundrisse*:

The profit of the capitalists as a class, or the profit of capital as such, has to exist before it can be distributed, and it is extremely absurd to try to explain its origin by its distribution. (G: 684; emphasis added)

Thus, in quantitative terms, Marx's concept of *capital in general* refers to the total capital invested in the capitalist economy as a whole (i.e. the 'total social capital'). (Roodskly 1977: 46; Oakley 1983: 67–68)

... we are concerned here with capital as such, (let us) say the capital of the whole society. The differentiation, etc. of capitals does not concern us yet. (G: 346; emphasis added)

If I regard the total capital of e.g. a nation as distinct from total wage labor, ... then I regard it in general. (G: 852; emphasis added)

The main question analysed at the level of abstraction of capital in general is the determination of the total amount of surplus-value in the capitalist economy as a whole. Marx expressed this all-important question in terms of the familiar 'general formula for capital': $M' - C - M'$, where $M' = M + \Delta M$. In this formula, $M$ represents the aggregate money-capital invested in the capitalist economy as a whole and $M'$ represents the aggregate money-capital recovered after some period of time (not specified at this early stage of the analysis). $\Delta M$ represents the aggregate amount of surplus-value produced during this period in the capitalist economy as a whole, which includes not
only industrial profit, but also merchant profit, interest, and rent.

The fact that the purpose of the process is that x should be transformed into x + Δx also points to the path our own investigation should take. (C: 977)

Marx often illustrated the analysis of capital in general with the analysis of an individual capital, usually a capital in the cotton cloth industry. However, this individual capital, as distinct from other individual capitals, is not the real subject of Marx's analysis. An individual capital is considered in Volume 1 only in terms of what it shares with all other capitals (the production of surplus-value) and thus as a typical representative of the total social capital for the purpose of illustration.

In capitalist production [i.e. in Volume 1 of Capital], each capital is assumed to be a unit, an aliquot part of the total capital. (TSV 1: 416)

Here we can speak of a single capital operating since we are considering capital as such... (G: 726)

The main conclusion of Marx's theory of surplus-value in Volume 1 of Capital is that the aggregate amount of surplus-value is determined by the aggregate amount of surplus labour in the capitalist economy as a whole. Moseley (1993) provides a detailed discussion of Marx's theory of the aggregate amount of surplus-value. For the purposes of this paper, the main point is that this aggregate amount of surplus-value is determined at the level of abstraction of capital in general prior to the subsequent analysis of the distribution of this total amount of surplus-value. In the subsequent analysis of the distribution of surplus-value at the level of abstraction of competition, this total amount of surplus-value is then taken as given.

Volume 3 is then primarily concerned with the level of abstraction of competition. The main question addressed at the level of abstraction of competition is the distribution of surplus-value among individual capitals, or the division of surplus-value into individual component parts. This analysis of the distribution of surplus-value involves both the equalisation of profit rates across individual branches of production and the further division of surplus-value into industrial profit, merchant profit, interest, and rent.

In Book III we come to the transformation of surplus-value into its different forms and separate component parts. (SC: 191; emphasis added)

Such an analysis [of competition] deals in general with the struggle of the capitalists and their effort to acquire the greatest possible amount of surplus labor and it is concerned only with the division of the surplus labor among the different individual capitalists, not with the origin of surplus labor or its general extent. (TSV 3: 356)

As noted above, in this analysis of the distribution of surplus-value, the total amount of surplus-value is taken as given, as determined by the prior analysis of capital in general. In this way, the analysis of the determinants of the aggregate surplus-value at the level of capital in general is a necessary 'intermediate link' in the subsequent analysis of competition and the distribution of surplus-value.

In considering profit, surplus-value is assumed as given. (TSV 3: 369; emphasis added)

Profit (profit of enterprise plus interest) and rent are nothing more than characteristic forms assumed by particular portions of the surplus-value in commodities. The size of the surplus-value sets a quantitative limit for the parts it can be broken down into. (C: 3: 971; emphasis added).

We have thus an absolute limit for the value component that forms surplus-value and can be broken down into profit and ground-rent; this is determined by the excess of the unpaid portion of the working day over its paid portion, i.e. by the value component of the total product in which this surplus labor is realized. (C: 3: 999; emphasis added)

These latter two passages concern the division of surplus-value into profit, interest and rent. However, the same methodological principle, that the aggregate amount of surplus-value is determined prior to its division into individual parts and sets the limit for the latter, also applies to the equalisation of profit rates across individual branches of production and the determination of prices of production.

Marx's theory of the distribution of surplus-value among individual branches of production is presented in Part 2 of Volume 3. Since this distribution is accomplished by means of the prices of individual commodities, the analysis of this aspect
of the distribution of surplus-value also necessarily involves the
determination of individual prices of production. According to
Marx's theory, prices of production are determined by the
following equation:

\[ P_i = (K_i) + R \cdot C_i \]

where \( P_i \) is price of production of each commodity, \( K_i \) is the costs
of production of the commodity (the sum of constant capital
consumed and variable capital) (a flow variable), \( C_i \) is the total
stock of capital invested in the given industry, and \( R \) is the general
rate of profit.

The most important point about Marx's theory of prices of
production for the purpose of this paper is that the general rate of
profit \( R \) is taken as given, as determined by the prior analysis of
capital in general, not determined simultaneously with prices of
production. The general rate of profit is equal to the ratio of the
aggregate surplus-value to the aggregate stock of capital.

The prerequisite of prices of production is the existence of a general
rate of profit... (C 3: 257)

This rate of profit, expressed in absolute terms, can be nothing else
than the surplus-value produced (annually) by the capitalist class in
relation to the total capital advanced by society as a whole. (SC: 193;
emphasis added)

The general rate of profit is formed through the total surplus-value
being calculated on the total capital of society (of the class of capitalists).
(TSV 2: 433; emphasis added)

This is precisely the point at which Ricardo's theory faltered. Ricardo
was unable to explain how the rate of profit was determined on the basis of the labour theory of value. Rather than
first analysing the determination of the general rate of profit and
then taking this general rate of profit as given in the subsequent
analysis of prices of production, Ricardo simply assumed the
general rate of profit at the very beginning of his theory, along with
the labour theory of value. He tried in vain to reconcile these two
apparently contradictory principles. Thus Ricardo omitted the
essential 'intermediate links' in the determination of prices of
production. Marx was able to provide a satisfactory theory of prices
of production precisely because of his methodological distinction
between capital in general and competition.

Instead of postulating this general rate of profit, Ricardo should have
examined how far its existence is consistent with the determination
of value by labor-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 very different from merely including it under the
law of value. (TSV 2: 174; emphasis added)

The main 'intermediate stage' to which Marx referred in this
passage is the determination of the general rate of profit by the
prior analysis of capital in general.

The amount of profit included in the price of each commod-
yty (= RC) will in general not be equal to the amount of
surplus-value actually contained in that commodity, and hence
the price of production of each commodity will in general not
be proportional to the labour-time required to produce it.
However, the total amount of surplus-value is not altered by this
redistribution of surplus-value among the individual industries,
because it is taken as given in the analysis of the distribution of
surplus-value, not determined by this analysis. Taken altogether,
the divergences of individual profits from individual surplus-
values balance out so that the sum of individual profits is equal
to the total amount of surplus-value \( S \), as determined in the
Volume 1 analysis of capital in general (see Moseley 1993 for a
trivial algebraic derivation of this result). As Marx expressed this
important point:

The total surplus-value, as well as the total profit, which is only surplus-
value itself, computed differently, can neither grow nor decrease through
this operation, even what is modified thereby, is not it, but only its
distribution among the different capitals. (G: 760; emphasis added)

(T)here takes place merely a change in the distribution of surplus
value between different capitalists... This change in distribution, or
alteration in the proportions in which different people share in the
surplus value, does not change anything, either in its magnitude or
in its nature. (MECW 33: 75)

The transformation of values into prices of production does not
abolish the limits to profit, but simply affects its distribution among
the particular capitals of which the social capital is composed... (C 3: 1000)
In a previous paper (Moseley 1993), I have responded to the widely accepted neo-Ricardian criticism of Marx's theory of prices of production, that this theory is logically incomplete and contradictory. One of the two main points in my response is that the neo-Ricardian interpretation of Marx's theory does not recognise the distinction between capital in general and competition and the prior determination of the general rate of profit in the analysis of prices of production. I argue that, if Marx's theory is correctly interpreted, including this premise concerning the prior determination of the general rate of profit, there is no logical error in Marx's theory of prices of production.

The remainder of Volume 3 presents Marx's theories of the other specific forms into which the total surplus-value is divided: commercial profit (Part 4), interest (Part 5), and rent (Part 6). Throughout this analysis, the total amount of surplus-value which is to be distributed is taken as a predetermined, given magnitude.

Since commercial capital does not itself produce any surplus-value, it is clear that the surplus-value that accrues to it in the form of the average profit forms a portion of the surplus-value produced by the productive capital as a whole. The question now is this: How does commercial capital attract the part of the surplus-value produced by productive capital that falls to its share? ... (C 3: 395; emphasis added)

Interest...is...nothing but a part of the profit, i.e. the surplus-value, which the functioning capitalist, whether industrialist or merchant, must pay to the owner and lender of capital is so far as the capital he uses is not his own but borrowed. (C 3: 493; emphasis added)

In any case, absolute rent, arising from the excess value over and above the price of production, is simply a part of the agricultural surplus-value, the transformation of this surplus value into rent, its seizure by the landowner; just as differential rent arises from the transformation of surplus profit into rent, its seizure by landed property, at the governing price of production. (C 3: 898; emphasis added)

Therefore, I conclude that the main purpose of Marx's concepts of capital in general and competition was to distinguish between the production of the total amount of surplus-value in the economy as a whole and the distribution of this total amount of surplus-value among individual capitals. According to Marx's logical method, the total amount of surplus-value is determined at the aggregate level of analysis of capital in general, prior to and independent of the distribution of this total amount of surplus-value among individual capitalists. The subsequent question of the distribution of surplus-value among individual capitalists is then analysed at the disaggregated level of analysis of competition, with the total amount of surplus-value taken as given, as determined in the prior analysis of capital in general. This method of analysis provides the key to Marx's solution to Ricardo's problem of the determination of the general rate of profit and prices of production, and to his theories of commercial profit, interest, and rent.

II.

HEINRICH'S CRITIQUE

I turn now to Heinrich's critique of Marx's concepts of capital in general and competition. To begin with, Heinrich defines Marx's concept of capital in general as 'all the common characteristics of many capitals' (C&C 38: 66; emphasis added).

Capital has to be 'finally' determined within the section on capital in general, including all those characteristics which manifest themselves in competition. (C&C 38: 67; emphasis added)

It is crucial to Heinrich's later arguments that he interprets the concept of capital in general to include the average rate of profit, or an equal rate of profit for all individual capitals. Since the average rate of profit is common to all individual capitals, and capital in general is interpreted to include all such common aspects, the average rate of profit must be included in the concept of capital in general. Therefore, according to Heinrich, Marx must provide an explanation of the average rate of profit at the level of abstraction of capital in general.

However, Heinrich argues that while working on the 1861–63 manuscript, Marx realised both that the average rate of profit should be included in the concept of capital in general and that the average rate of profit could not be explained solely on the basis of capital in general, but can only be explained by an analysis of competition. Another difficulty, according to Heinrich, was that Marx wanted to analyse the reproduction of the total social capital at the level of capital in general, but this analysis involved breaking up the total capital into two departments which are particular
forms' of capital and therefore excluded from capital in general. The recognition of these logical difficulties with the concept of capital in general did not lead Marx to abandon the concept immediately, according to Heinrich, because he did not yet have a clear alternative methodological approach. However, Marx finally developed such an alternative methodological approach in the next several years while working on the first published edition of Volume 1 of Capital. This alternative methodological approach was based on the distinction between production and circulation (see Section 5 below). With this new approach in hand, according to Heinrich, Marx then abandoned the earlier distinction between capital in general and competition, and does not refer to it again in Capital.

Heinrich's textual evidence for these sweeping claims is very limited. The following reexamines his main passages of textual evidence.

a. Definition of capital in general.

With respect to the definition of the concept of capital in general, Heinrich cites no specific reference to Marx which clearly and explicitly supports his definition of capital in general to include all the common characteristics of individual capitals, including the average rate of profit, as opposed to only the most essential common characteristic (the production of surplus-value). Instead, Heinrich refers to Rosdolksy and argues that Rosdolksy defined capital in general to include all the common characteristics of capital.

Rosdolksy, for example, determined the content of 'capital in general', based on a passage in the Grundrisse, as the totality of those characteristics which are common to all individual capitals (Rosdolksy 1977: 43). (O/C 58: 65; emphasis added)

However, rereading Rosdolksy reveals that nowhere is capital in general explicitly defined as the 'totality' of those characteristics which are common to all capitals. Instead, Rosdolksy quotes Marx in the Grundrisse:

'The relation of the many is better explained after we have studied what they all have in common, the quality of being capital.' (Rosdolksy 1977: 43; quoting Marx 1973: 517) (Note that the 'all' in this passage refers to all the capitals, not to all the common characteristics of capitals.)

Rosdolksy is not entirely clear with respect to the key question of the precise definition of the concept of capital in general. However, Rosdolksy is very clear that the concept of capital in general does NOT include the average rate of profit.

One thing is clear from the outset. In the Rough Draft [i.e. the Grundrisse] it is repeatedly stressed that a thorough treatment of the problem of the average rate of profit and prices of production is not possible until the analysis of 'many capitals'; i.e. competition. (Rosdolksy 1977: 19)

...the establishment of a general rate of profit and the transformation of value into prices of production which corresponds to it, presuppose competition and hence occur at a level which is excluded from the study of 'capital in general'... (Rosdolksy 1977: 46)

Therefore, since Rosdolksy did not include the average rate of profit in the concept of capital in general, either he is blind to an elementary logical blunder or he did not define capital in general to include all the common characteristics of capital, as Heinrich suggests.

Marx was also consistently clear, as Rosdolksy suggests, that capital in general did not include the average rate of profit and prices of production. Capital in general could not include these phenomena because capital in general deals with the production of surplus-value and these phenomena are related to the distribution of surplus-value. Further evidence to support this claim will be presented below.

b. 1862 letter to Engels about rent.

With respect to the crucial difficulties Marx supposedly encountered while working on the 1861-63 manuscript, Heinrich cites a letter from Marx to Engels (2 August 1862; Marx and Engels 1975: 120) and a passage from Volume 2 of the Theories of Surplus-Value which have to do with the theory of rent. Heinrich's argument is that in this letter, and in this passage, Marx realized that he should incorporate both the average rate of profit and absolute rent (as an illustration of the equalisation of profit rates) into the section on capital in general. Marx's letter is the most important textual evidence. This letter presents a brief summary of Marx's theory of the average rate of profit and prices of production, and then uses this theory to explain the possibility
of absolute rent as a criticism of Ricardo's denial of absolute rent. This letter begins:

I now intend after all to bring the theory of rent into this volume as a supplementary chapter, i.e., as an 'illustration' of a principle laid down earlier. (Ibid; emphasis added)

Therefore, Heinrich's argument about Marx's important methodological decision hinges on the interpretation that 'bringing the theory of rent into this volume' means incorporating the theory of rent and the average rate of profit into capital in general, i.e., it 'equates this volume with capital in general.' However, at this stage of Marx's thinking, the entire subject of capital, including not only capital in general but also competition, credit, and share capital, was to be included in one book, which was to be the first of a projected six books. (The other five books were to be landed property, wage-labour, the state, international trade, and the world market; Cr: 19 and SC: 96-97). In the year or so prior to this letter, i.e., while working on the 1861-63 manuscript, there are numerous references in his letters to 'my book', but never a mention of more than one volume (see MECW 41: 623, note 310, for further references).

Therefore, 'this volume' in the above letter does not refer to capital in general, but instead refers to the entire subject of capital, including competition. Marx's decision to bring the theory of rent into 'this volume' refers to a decision to include at least some discussion of rent in the book on capital, rather than waiting until the projected second volume on landed property. The theory of rent was to be included in the section on competition as an aspect of the distribution of surplus-value and as a further application of the theory of equal rates of profit and prices of production. As is well known, Marx's theory of rent was eventually presented in Part 6 of Volume 3 of Capital (written in 1865). Part 6 begins as follows:

The analysis of landed property in its various historical forms lies outside the scope of the present work. We are concerned with it only in so far as a portion of the surplus-value that capital produces falls to the landowner. (C 3: 751; emphasis added)

c. Section from 1861-63 manuscript on 'Capital and Profit'

Another set of textual evidence cited by Heinrich regarding Marx's difficulties with the distinction between capital in general and competition in the 1861-63 manuscript is from a previously unpublished section entitled 'Capital and Profit'. As an indication of Marx's growing doubts about this distinction, Heinrich quotes Marx:

A closer investigation of this point [the average rate of profit] belongs to the Chapter on competition. Nevertheless, the decisive considerations must be added here. (MECW 33: 94)

Heinrich then quotes Marx's summary a few pages later of the 'decisive considerations' with respect to the average rate of profit:

In fact, the matter can be expressed in this way: profit — as first transformation of surplus-value — and the rate of profit in this first transformation expresses surplus-value in proportion to the individual overall capital of which it is the product...

Empirical or average profit expresses the same transformation, the same process, in that it relates the total amount of surplus-value, hence the surplus-value realized by the whole capitalist class, to the total capital, or the capital employed by the whole capitalist class... The second transformation is a necessary result of the first, which emerges from the nature of capital itself. (MECW 33: 100; emphasis added)

From these passages, Heinrich concludes:

Marx's aim here is to present the relation of surplus-value to total capital, and specifically both as a process of an individual capital as well as of total social capital...

However, 'capital in general' is not only placed in question by the fact that average profit — which Marx now recognizes as belonging to the nature of capital — presupposes a consideration of competition; it can also no longer be reconciled with the distinction between the individual capital and total social capital. The category of 'capital in general' is beginning to break down. (C 3C8: 71)

The above passages from Marx are from an important subsection entitled 'Costs of Production' (MECW 33: 78-103), which is primarily a first draft of what later became Chapter 1 of Volume 3 of Capital, entitled 'Cost Price and Profit'. The concept of 'cost price' in Volume 3 of Capital is the same as 'costs of production'
in the 1861-63 manuscript: the total capital — constant capital and variable capital — consumed in the capitalist production of commodities. In this subsection, the main point is two separate, but related, ‘transformations of surplus-value into profit’.

In the first transformation, surplus-value is related to the total capital (constant capital plus variable capital), and not just to the variable capital which, according to Marx’s theory, is the source of surplus-value. As a result of this transformation, the source of surplus-value is obliterated and therefore not recognised by the agents of capitalist production. In this first transformation the magnitude of surplus-value does not change; it is simply related to the total capital, rather than just to variable capital. This first transformation eventually became the subject of Part 1 of Volume 3 (‘The Transformation of Surplus-Value into Profit and of the Rate of Surplus-Value into the Rate of Profit’).

Profit, as we are originally faced with it, is thus the same thing as surplus-value, save in a mystified form, though one that necessarily arises from the capitalist mode of production. Because no distinction between constant capital and variable capital can be recognised in the apparent formation of the cost price, the origin of the change in value that occurs in the course of the production process is shifted from the variable capital to the capital as a whole. (C 3: 127)

In the second transformation, profit is transformed into average profit and the average rate of profit is established. In this second transformation, the total profit is distributed among individual capitals in such a way that the profit appropriated by each individual capital is proportional to the magnitude of the individual capital, rather than equal to the amount of surplus-value actually produced by the labour employed by that capital. This equalisation of profit rates is accomplished by means of the determination of prices of production. In this second transformation, the amount of profit appropriated by each capital changes, which further obscures the origin of surplus-value. This second transformation eventually became the subject of Part 2 of Volume 3 (‘The Transformation of Profit into Average Profit’).

On the basis of the first transformation, therefore, a second takes place, which no longer affects the form alone, but also the substance itself, in that it alters the absolute magnitude of profit. . . . This absolute magnitude of profit was untouched by the first transformation. (MECW 33: 97)

In this Part [Part 1 of Volume 3 of Capital], . . . profit and surplus-value . . . are treated as numerically identical magnitudes, different only in form. In the following Part, we shall observe the further development of the externalisation by which profit presents itself as a magnitude distinct from surplus-value in a numerical respect as well. (C 3: 139—40)

The passage from the 1861-63 manuscript emphasised by Heinrich is another statement of these two transformations of surplus-value into profit (and not an especially clear one). However, Heinrich misinterprets these two transformations. He suggests that both of these transformations have to do with the formation of an average rate or profit, the first transformation for an individual capital and the second transformation for the total social capital. Read in isolation, the passages quoted by Heinrich may seem to support his interpretation. The first passage does refer to an individual capital and the second passage does refer to the total capital.

However, the individual capital to which the first passage refers is still the individual capital as a representative of the total capital, as in Volume 1 (as discussed above (p.18)); it is not an individual capital in relation to other individual capitals through competition and the equalisation of profit rates. The first transformation is still at the level of analysis of capital in general. It is clear from the context of the passages quoted by Heinrich and from the passages quoted, discussed, and cited above that the first transformation of surplus-value into profit does not refer to the average rate of profit, as Heinrich interprets it. Instead, the first transformation refers to simply the relation of surplus-value to both constant capital and variable capital, rather than just to variable capital alone. This first transformation can be discussed either in terms of the total capital, or in terms of an individual capital as a typical representative of the total capital.

Secondly, the total capital referred to in Heinrich’s second sentence has to do with the determination of the general rate of profit by the ratio of the total surplus-value produced in the economy as a whole to the total capital invested in the economy as a whole, as discussed above. This general rate of profit is then taken as given in the determination of prices of production. This redistribution of surplus-value among individual capitals by means of the equalisation of profit rates and the determination of prices of production is the second transformation of surplus-value into profit. Marx continues in the passages quoted by Heinrich to say:
The transformation is formal in the first case, in the second material at the same time, since now the profit that falls to the share of the individual capital is in practice a different magnitude from the surplus-value created by it... In the first case, the surplus-value is calculated only according to the magnitude of the capital which produces this particular surplus-value, without regard to the capital's organic components. In the second case, the share of the individual independent capital in the total surplus-value is calculated in accordance with this capital's magnitude alone, without regard to its functional relation to the production of that total surplus value.

In the second case, therefore, an essential difference enters the picture, both between profit and surplus-value and between the price and the value of the commodity... The more detailed investigation of this point belongs to the chapter on competition. (MECW 33: 101; emphasis added)

This passage does not suggest doubt on Marx's part of the distinction between capital in general and competition, but rather continued and clear emphasis on this distinction.

In the page prior to the passage quoted by Heinrich, Marx states, in relation to the second transformation:

*The empirical, or average, rate of profit can therefore be nothing other than the distribution of that total profit... among the individual capitals in each particular sphere of production, in equal proportions, or, what is the same thing, according to the different proportions in which they stand to the magnitude of the capitals, and not according to the proportion in which the capitals directly stand to the production of that total profit. It therefore only represents the result of the particular mode of calculation in which the different capitals divide among themselves aliquot parts of the total profit. What is available for them to divide among themselves is only determined by the absolute quantity of the total profit or the total surplus-value... What was merely formal in the first transformation, the calculation of surplus value on the individual overall capital as a uniform distinct amount of value without regard to the organic relation of its components, becomes here a material difference, since the share of total profit or total surplus-value is uniformly determined... without regard to the proportion in which each individual capital in each particular sphere of production participates in the creation of that total profit or total surplus value. (MECW 33: 99; emphasis added)*

This passage also clearly supports the interpretation presented in this paper of the priority determination of the general rate of profit at the level of analysis of capital in general and of the nature of the 'two transformations' of surplus-value into profit.

*d. Reproduction of the total social capital.*

The only evidence cited by Heinrich to support his claim that Marx encountered difficulties in the 1861-63 manuscript with respect to his analysis of the reproduction of the total social capital – that the division of the total capital into two departments contradicts Marx's concept of capital in general – is, surprisingly, from the *Grundrisse*. In the passage cited, we find:

To the extent that we are considering it here, as a relation distinct from that of value and money, capital is capital in general, i.e. the incarnation of the qualities which distinguish value as capital from value as pure value or as money... But we are concerned neither with a particular form of capitals nor with an individual capital, as distinct from other individual capitals. We are present at the process of its becoming. (G. 310; emphasis in the original)

Since nothing is said in this passage (or indeed in the entire *Grundrisse*) about the two departments into which the total capital is divided for the purpose of analysing its reproduction, Heinrich's argument rests on his implicit assumption that the two departments of social capital are 'particular forms' in the sense in which Marx meant this term in this passage. However, Marx did not specify his exact meaning of 'particular forms' of capital in this passage or in the surrounding context. Nor does Heinrich specify the precise meaning of the 'particular forms' of capital. He simply implicitly assumes that the two departments of the total social capital are such 'particular forms' of capital, as Marx meant in this passage.

I argue, to the contrary, that Marx's meaning of the 'particular forms' of capital is precisely those forms which have to do with the distribution of surplus value into its 'particular forms' of industrial profit, merchant profit, interest, and rent. In other words, the 'particular forms' of capital are industrial capital, merchant capital, interest-bearing capital, and landed capital. Three key passages in which this meaning of 'particular forms' is indicated are: the 'general observation' which begins the 'Theories of Surplus-Value' and which mentions the 'particular forms' of
profit and rent; a comment on Ricardo's failure to treat surplus-value independently of its 'particular forms' of profit, interest, and rent (TSV2: 169); and a letter to Engels soon after the publication of Volume 1 of Capital (see below, pp. 38–40).

On the other hand, the division of the total capital into two departments in the analysis of the reproduction of the total social capital is not related to Marx's analysis of the distribution of surplus-value. The purpose of this analysis of the reproduction of the total social capital is not to explain how the surplus-value is divided between the two departments. The compositions of capital in the two departments are assumed to be equal, so that the prices of the products of the two departments are equal to their values and the question of the equalisation of profit rates between the two departments does not even arise. Instead, the purpose of this division of the total capital into two departments (and the main purpose of the analysis of the reproduction of the total social capital) is to explain how the various components of the commodity product of the total social capital, especially the constant capital components in Department I and Department II are reproduced from year to year, both in value and in kind. This explanation is used to criticise 'Smith's dogma', according to which the total commodity value, including the constant capital, is 'resolved into' wages, profit, and rent.

Further evidence that Marx's analysis of the reproduction of the total social capital in Part 3 of Volume 2 is still at the level of analysis of capital in general is provided by Chapter 49 of Volume 3 ('On the Analysis of the Process of Production'). In this chapter, Marx returned to his analysis of the reproduction of the total social capital, with one important new element: the division of the total surplus-value into the particular forms of profit and rent. It was not possible for Marx to include these particular forms of surplus-value in his analysis in Volume II, because the division of surplus-value had not yet been analysed. However, it was especially important for Marx to include these particular forms of surplus-value because Smith had formulated his 'dogma' on these terms. Therefore, Marx's analysis of the reproduction of the total social capital in these two stages indicates again the continued importance of the distinction between capital in general and competition in Marx's theory.

We can see that the problem posed here was already solved when we dealt with the reproduction of the total social capital, in Volume II, Part 3. We come back to it here firstly because there surplus-value was not yet developed in its form of revenue - and hence could not yet be dealt with in these forms; and secondly because it is precisely in connection with the form of wages, profit and rent that an incredible blunder has run through the analysis of political economy since Adam Smith. (C 3: 975; emphasis added)

Therefore, I conclude that Heinrich presents no convincing textual evidence to support his argument that Marx encountered difficulties with the distinction between capital in general and competition while working on the 1861–63 manuscript, which led him to eventually abandon this distinction. Indeed, the impression one gets from studying this manuscript is one of Marx's increasing clarity with respect to this distinction and its crucial role in the determination of the average rate of profit and prices of production, and in the determination of the other specific forms of surplus-value.9

III.
MARX'S LATER USE OF CAPITAL IN GENERAL AND COMPETITION

Further evidence that Marx did not abandon the distinction between capital in general and competition in the drafts of Capital written after 1863 is presented in this section.

a. Volume 3 of Capital

The most important evidence of Marx's continued use of the distinction between capital in general and competition is Volume 3 of Capital, which was written in 1864–65 (see Moseley 1994 for an extended discussion of Marx's analysis of these various aspects of the distribution of surplus-value in Volume 3). As discussed in Section 1 above, the subject of Volume 3 is primarily the distribution of surplus-value, first among the individual branches of production, and then the further division of surplus-value into industrial profit, merchant profit, interest, and rent. In this analysis of the distribution of surplus-value, the total amount of surplus-value is taken as given, as determined in the prior analysis of the capital in general.

In Part 7 of Volume 3 ('Revenue and its Sources'), which has not received the attention it deserves, Marx repeatedly emphasised that the total amounts of value and surplus-value are determined prior to the division of these total amounts into individual component parts, i.e., are determined at the level of analysis of
capital in general prior to the analysis of competition. Two passages from this part were quoted above on p. 19 and are presented in Moseley (1994). Especially important in this regard is Chapter 50 ("Illusion Created by Competition"), in which Marx contrasted his presumed order of determination between aggregate magnitudes and individual magnitudes with that of the vulgar economists, which is the exact opposite order of determination: they began with the individual forms of revenue (wages, profit, interest, and rent), usually taking these magnitudes as given, and then determined the total value and surplus-value by adding up these individual types of revenue.

(1) It is correct to say that the value of a commodity, in so far as it represents freshly added labor, is always reducible to three elements, wages, profit, and rent; which constitute three forms of revenue, while the respective value magnitudes, i.e. the aliquot parts that these forms of the total value, are determined by specific laws that have already been developed. It would be wrong however to say that the value of wages, the rate of profit, and the rate of rent are independent constituent elements of value, with the value of the commodity... arising from their combination. (C 3: 993)

Therefore, most of Volume 3 is at the level of analysis of competition, and continues to employ the methodological distinction between the determination of the total amount of surplus-value at the level of abstraction of capital in general and the distribution of this predetermined amount of surplus-value at the level of abstraction of competition.

b. Volume 1 of Capital
Volume 1 of Capital, written in 1866-67, provides further evidence that Marx did not abandon the distinction between capital in general and competition after 1863.

In Chapter 5, Marx argued that the origin of surplus-value cannot be explained as long as the analysis is restricted solely to the sphere of circulation, in which the only activities considered are buying and selling, since, by Marx's assumption, buying and selling involve the exchange of equivalent values. This problem is formulated in terms of the total capital of society. Marx discussed the possibility that an individual capitalist may appropriate a surplus-value by selling his commodity above its value, but emphasised that this can occur only at the expense of the seller who loses value.

The sum of values in circulation can clearly not be augmented by any change in their distribution... The capitalist class of a given country, taken as a whole, cannot defraud itself. (C 1: 265-66; emphasis added)'

Marx then pointed out that this conclusion that surplus-value cannot originate from the sphere of circulation seems to be contradicted by the existence of merchants' profit and bankers' interest. Merchants and bankers are engaged (more or less) exclusively in activities of circulation, and yet merchants obtain a profit and bankers obtain interest as a result of their activities. Marx remarked that in order to explain these apparently contradictory phenomena, 'a long series of intermediate steps' are necessary, 'which are entirely absent' in the analysis thus far (C 1: 267). In other words, before Marx could analyse merchant profit and interest at the level of analysis of competition, he first had to analyse the determination of the total amount of surplus-value at the level of analysis of capital in general. Marx promised to explain this apparent contradiction at a later stage in the analysis:

In the course of our investigation, we shall find that both merchants' capital and interest-bearing capital are derivative forms [of industrial capital]. (C 1: 267)

As already discussed, Marx's theories of merchant profit and interest are presented in Parts 4 and 5 of Volume 3, respectively.

In Chapter 10 of Volume 1, Marx's theory of the determination of the working day and absolute surplus-value also clearly applies to the economy as a whole. According to Marx's theory:

the establishment of a norm for the working day presents itself as a struggle over the limits of that day, a struggle between collective capital, i.e. the class of capitalists, and collective labor, i.e. the working class. (C 1: 344)'

In Chapter 11 of Volume 1, there is another important anticipation of Marx's theory of the distribution of surplus-value in Volume 3 and, in particular, of the determination of equal rates of profit across industrial capitals. In this chapter, Marx discussed three laws which follow from his theory of surplus value, the third
of which is that the amount of surplus-value produced during a
given period of time is proportional to the amount of variable
capital invested (with the rate of surplus-value as the factor of
proportionality). Marx noted that if this law is applied directly to
individual industries, then it is contradicted by the observable
phenomenon that individual capitals with unequal proportions
of variable capital and constant capital tend to make equal rates
of profit (i.e. that profit is proportional to the total capital, not
just to the variable capital). Marx then commented that 'for the
solution of this apparent contradiction, many intermediate terms
are still needed' (p.421). In other words, this apparent con-
tradiction cannot be resolved at the level of analysis of capital in
general, but can only be explained in the later analysis of
competition. Marx's resolution of this apparent contradiction is
of course his theory of prices of production, presented in Part 2
of Volume 3, and discussed above.

There is another passage in this chapter which also indicates
that the subject of Marx's analysis in Volume 1 is the total surplus-
value produced by the total labour of society:

_The labor which is set in motion by the total capital of a society, day
in, day out, may be regarded as a single working day. If, for example,
the number of workers is a million, and the average working day is
10 hours, the social working day will consist of 10 million hours.
With a given length of the working day... the mass of surplus-value
can be increased only by increasing the number of workers, i.e. the
size of the working population. The growth of population here forms
the mathematical limit to the production of surplus-value by the total
social capital._ (C 1: 422; emphasis added)

In Chapter 12 of Volume 1, Marx's theory of technological change
and relative surplus-value also clearly applies to the economy as
a whole. Technological change is derived as an inherent tendency
capital in general. Technological change increases surplus-value
by reducing the labour-time necessary to produce the workers' wage-goods.

Capital therefore has an immanent drive, and a constant tendency,
towards increasing the productivity of labor, in order to cheapen
commodities and, by cheapening commodities, to cheapen the worker
himself. (C 1: 436-37)

This theory cannot apply to an individual capital, because such
an individual capital does not produce all the workers' wage-goods.
Relative surplus-value only makes sense in terms of all the
industries in the economy, including all those which directly and
indirectly produce wage-goods.

The total sum of the necessary means of subsistence, however, consists
of various commodities, each the product of a distinct industry; and
the value of each of those commodities enters as a component part
into the value of labor-power. The latter value decreases with the
decrease of the labor-time necessary for its reproduction. The total
decrease of necessary labor time is equal to the sum of all the different
reductions in labor-time which have occupied in those various distinct
branches of production. Here we treat this general result as if it were
the direct result and the direct purpose in each individual case. When
an individual capitalist cheapens shirts, for instance, by increasing
the productivity of labor, he by no means necessarily aims to reduce
the value of labor-power and shorten necessary labor-time in
proportion to this. But he contributes towards increasing the general
rate of surplus value only in so far as he ultimately contributes to this
result. The general and necessary tendencies of capital must be
distinguished from their forms of appearance. (C 1: 433; emphasis
added)

When an individual capitalist alters the mode of production in
order to increase the productivity of labour,

he does as an individual what capital itself taken as a whole does when
engaged in producing relative surplus-value. (C 1: 435; emphasis
added)

Marx then went on to clearly distinguish this derivation of
technological change as an inherent tendency of capital in general
from a derivation of technological change based on competition.

While it is not our intention here to consider the way in which the
immanent laws of capitalist production manifest themselves in the
external movement of the individual capitals, assert themselves as the
coercive laws of competition, ...this much is clear: a scientific analysis
of competition is possible only if we can grasp the inner nature of capital...
(C 1: 433; emphasis added)
In other words, a scientific analysis of competition is possible only after an analysis of capital in general.

Finally, in the introduction to Part 7 of Volume 1, Marx presented another important preview of his later analysis of competition and the distribution of surplus-value in Volume 3:

The capitalist who produces surplus-value, i.e. who extracts unpaid labor directly from the workers and fixes it in commodities, is admittedly the first appropriator of this surplus-value, but he is by no means its ultimate proprietor. He has to share it afterwards with capitalists who fulfill other functions in social production taken as a whole, with the owner of the land, and with yet other people. Surplus-value is therefore split up into various parts. Its fragments fall to various categories of persons and take on various mutually independent forms, such as profit, interest, gains made through trade, ground rent, etc. We shall be able to deal with these modified forms of surplus-value only in Volume 3. (C 1: 709; emphasis added)

The break-up of surplus-value into various fragments does not affect either its nature or the conditions under which it becomes an element of accumulation. (C 1: 710; emphasis added)

c. Letters to Engels

Further evidence that Marx maintained the distinction between capital in general and competition after 1863 is found in several letters to Engels in 1867–68 (i.e. soon after the publication of Volume 1). In August 1867, Marx wrote that one of the two best points of his book was the determination of the total amount of surplus-value prior to the analysis of the particular forms of surplus-value.

The best points in my book are: ...2) the treatment of surplus-value independently of its particular forms. This will be seen especially in the second volume. [Marx's plan at the time was to publish what we know as both Volume 2 and 3 in the 'second volume'. FM] The treatment of the particular forms by classical economy, which always mixes them up with the general form is a regular hash. (SC: 180; emphasis added)

Marx repeated the same point in a letter in January 1868, in which he stated that his treatment of surplus-value is one of the 'three fundamentally new elements' of his book:

1) That in contrast to all former political economy, which from the very outset treats the different fragments of surplus value with their fixed forms of rent, profit, and interest as already given. I first deal with the general form of surplus-value, in which all these fragments are still undifferentiated— in solution, as it were. (SC: 186; emphasis added)

Finally, in an important letter in April 1868, Marx summarised for Engels the contents of Volume 3 of Capital. This outline also supports the interpretation that the main subject of Volume 3 is the distribution of surplus-value.

In Book III we come to the transformation of surplus-value into its different forms and separate component parts.

I. Profit is for us first of all only another name or another category for surplus-value [i.e. the first transformation of surplus-value into profit; FM]...

II. ...(A) mean or general rate of profit is formed by competition. This rate of profit expressed in absolute terms can be nothing else than the surplus-value produced (annually) by the capitalist class as a whole in relation to the total capital advanced by society as a whole... (B) The mass of capital belonging to each sphere of production receives an aliquot part of the total surplus-value proportionate to the part of the total social capital which it constitutes... But this means that the prices of commodities must deviate from their values... The price thus equalised, which distributes the social surplus equally among the individual capitals in proportion to their size, is the price of production of commodities...

III. The tendency of the rate of profit to decline...

IV. Previously we have only dealt with productive capital. Now modifications occur caused by merchant capital...

V. Next comes the splitting up of this profit into entrepreneur's profit and interest.

VI. Transformation of surplus profit into rent.

VII. At last we have arrived at the phenomena which serve as the starting point for the vulgar economists: rent originating from the land, profit (interest) from capital, wages from labor. But from our point of view the thing now looks differently. The apparent movement is explained. (SC: 193-95; emphasis added)

Therefore, I conclude that Marx did not abandon the distinction between capital in general and competition after 1863. Instead, this distinction continued to provide the basic logical structure
for the three volumes of *Capital*, and especially for Marx’s theory of the average rate of profit and of the other specific forms of surplus-value in Volume 3.

IV.

**Heinrich’s Alternative Interpretation**

According to Heinrich, Marx substituted for the abandoned distinction between capital in general and competition the following alternative logical structure of *Capital* which Marx developed between 1863 and 1867: Volume 1 is about the immediate process of production, Volume 2 is about the process of circulation, and Volume 3 is about the unity of production and circulation (*C&C 38: 74–77*). According to this interpretation, Marx did not first analyse the determination of the total amount of surplus at the level of capital in general and then analyse the distribution of surplus-value at the level of competition. Instead, all three volumes are about both individual capitals and the total social capital. At each level, Marx began with the individual capital, then derived the total social capital in a particular way, and then showed how the total social capital in turn sets limits to the movement of the individual capitals.

At each of the three levels, therefore, what is presented is firstly the individual capital and then the constitution of the individual capitals into total social capital, together with the retroactive effect of the total social capital on the movement of the individual capitals. (*C&C 38: 76*)

According to Heinrich’s interpretation, in the Volume 1 analysis of the immediate process of production, the production of surplus-value and the accumulation of capital are first analysed for individual capitals, and then in Chapter 23 the total social capital is derived as the arithmetic sum of the individual capitals. The effects of the total social capital on the movement of the individual capitals are then analysed (the precise nature of these effects is not specified). In the Volume 2 analysis of the process of circulation, the circuits of individual capitals are first analysed and then in Part 3 the total social capital is derived in terms of the interrelations between the individual capitals in the process of reproduction. Since the process of reproduction requires a certain degree of proportionality, both with regard to material substance and to value, this process imposes limits on the movement of the individual capitals. Finally, in the Volume 3 analysis of the process as a whole, the transformation of surplus value into profit is first presented for individual capitals and then the total social capital is derived from the individual capitals through the establishment of a average rate of profit. This average rate of profit then appears as a finished presupposition to individual capitals and in turn determines their movement.

Even though this interpretation ignores all the evidence to the contrary presented above, it sounds somewhat plausible and coherent on first reading. However, further reflection reveals that this interpretation leaves several important gaps. Most importantly, it does not provide a theory of the determination of the average rate of profit and prices of production. All that is said is that competition equalizes the rate of profit across individual capitals at some level, but it is not explained how the precise magnitude of this level is determined. I have argued above that, according to Marx’s logical method, the magnitude of the general rate of profit is determined by the prior analysis of capital in general and that this determination of the general rate of profit prior to the distribution of surplus-value and the determination of prices of production is the main purpose of Marx’s distinction between capital in general and competition. If this method of determination of the general rate of profit rejected, then some other method of determination should be substituted. Otherwise, Marx would be left without a theory of the determination of the general rate of profit, similar to Ricardo. Heinrich does not recognise the method of determination of the general rate of profit is the main purpose of the distinction between capital in general and competition, and therefore he does not present an alternative method of the determination of the general rate of profit. The main problem that Marx’s distinction between capital in general and competition was intended to solve is not solved in a different way by Heinrich’s alternative interpretation, but instead is simply ignored and not addressed.

In addition, Heinrich’s interpretation says nothing at all about the rest of Volume 3 after Part 2 and the determination of the other specific forms of surplus-value — commercial profit, interest, and rent. How are these parts related to the general rate of profit in Part 2? How is the total social capital derived from the individual capitals in these later parts, in a way that is related to Part 2? Is the total surplus-value likewise derived as the sum of
these individual parts of surplus-value? We have seen above that in Part 7 of Volume 3 Marx explicitly argued against precisely this interpretation that aggregate totals were determined as the sum of the individual parts. Therefore, Heinrich’s interpretation appears to be the opposite of Marx’s logical method.

Furthermore, the logical structure of production/circulation/unity was not discovered by Marx late in his work after the 1861-63 manuscript. Marx had utilised this structure as early as the Grundrisse, and then again in the 1861-63 manuscript. But this structure was not an alternative to the distinction between capital in general and competition, but rather distinctions within the level of abstraction of capital in general. Marx repeatedly emphasised in the Grundrisse that his analysis was restricted to capital in general. At the same time, the chapter on Capital is divided into three sections: The Production Process of Capital, The Circulation Process of Capital, and Capital as Fructiferous (Transformation of Surplus-value into Profit). Notice that the first two sections are the production process and the circulation process of capital, i.e. of capital in general (since the entire draft was about capital in general). The third section is what Marx later called the ‘unity of production and circulation’.

This third section of the Grundrisse begins as follows:

Capital is now posited as the unity of production and circulation: and the surplus-value it creates in a given period of time... Proceeding from itself as the active subject, ... capital relates to itself as self-increasing value: i.e. it relates to surplus-value as something posited and founded by it... It therefore no longer measures the newly produced value by its real measure, the relation of surplus labor to necessary labor, but rather by itself as its presupposition. A capital of a certain value produces in a certain period of time a certain surplus-value. Surplus-value thus measured by the value of the presupposed capital... is profit. (G: 745–46; emphasis added)

We can see from this passage (and from the remainder of this section of the Grundrisse) that, the ‘unity of production and circulation’ means the view that a given amount of capital produces a certain amount of surplus-value in a definite period of time. We can also see that surplus-value defined in this way is what Marx meant by profit.

This meaning of the unity of production and circulation as the appearance of surplus-value as the product of capital (i.e. as profit) is also indicated in a letter which Marx wrote to Lassalle while working on the Grundrisse (published for the first time in English in 1883), which included the following brief, but very important, outline of his book:

It contains: 1. Value; 2. Money; 3. Capital in General (the process of production of capital, the process of its circulation, the unity of the two, or capital and profit; interest). (MECW: 287; emphasis added)

This outline clearly indicates that production/circulation/unity are sections within the chapter on capital in general.

Another indication of this logical structure is a ‘Draft Plan for the Chapter on Capital’ (again published for the first time in English only recently, in 1987), which Marx wrote soon after finishing the Grundrisse. This plan also divides this chapter into the same three sections, with the third section now entitled ‘Capital and Profit’:

1. The Production Process of Capital
2. The Circulation Process of Capital
3. Capital and Profit
(MECW: 30: 511-16)

Similarly, when Marx began the draft of the chapter on Capital in the 1861-63 manuscript, he started with the following abbreviated outline of the chapter:

Third Chapter. Capital in General.
1. The Production Process of Capital
(MECW: 31: 6; emphasis added)

The beginning of the draft of third section on ‘Capital and Profit’ in the 1861-63 manuscript is similar to the beginning in the Grundrisse:

Considered in its totality (wholeness)... the movement of capital is a unity of the process of production and the process of circulation.

The surplus-value produced within a given period of circulation... when measured against the total capital which has been advanced is called – profit. (MECW: 33: 69)
This draft of this section still remains primarily within the level of capital in general, like the draft in the Grundrisse. The main emphasis is on the 'first transformation' of surplus-value into profit, which is still an aspect of capital in general. The 'second transformation' of profit into average profit, which is an aspect of competition, is also briefly considered (as discussed above, pp.28–31).

Soon after writing this draft, Marx decided to expand the contents of the third section on 'Capital and Profit' to include not only capital in general, but also key aspects of competition and the distribution of surplus-value. Evidently, Marx's work on these subjects while writing the 1861-63 manuscript convinced him that they should be included in the third section on 'Capital and Profit,' instead of waiting for a subsequent volume on competition (see Moseley 1994 for a further discussion of Marx's work on the 1861–63 manuscript which led up to this decision). This decision is reflected in the following expanded outline of this section written toward the end of the 1861-63 manuscript:¹⁴

1. Conversion of surplus-value into profit. Rate of profit as distinguished from the rate of surplus-value.
2. Conversion of profit into average profit. Formation of the general rate of profit. Transformation of values into prices of production.
3. Adam Smith's and Ricardo's theories of profit and prices of production.
4. Rent. (Illustration of the difference between value and price of production.)
5. History of the so-called Ricardian theory of rent.
7. Theories of profit...
9. Revenue and its sources. The questions of the relation between production and distribution also to be included here.
10. Reflux movements of money in the process of capitalist production as a whole.
11. Vulgar economy.
12. Conclusion. 'Capital and wage labor'.
(MECW 33, 346-47)

This decision to expand the contents of the third section on 'Capital and Profit' to include key aspects of competition is also reflected in the first paragraph of Volume 3 of Capital.

It cannot be the purpose of this present, third volume simply to make general reflections on this unity [of production and circulation]. Our concern is rather to discover and present the concrete forms which grow out of the process of capital's movement considered as a whole... The configurations of capital, as developed in this volume, thus approach step by step the form in which they appear on the surface of society, in the action of different capitals on one another, i.e. in competition, and in the everyday consciousness of the agents of capitalist production. (C 3: 118; emphasis added).

All the textual evidence presented in this paper suggests that this decision to expand the contents of the third section does not reflect an abandonment of the distinction between capital in general and competition, but rather a simple decision to include aspects of competition (which is specifically referred to in the above passage) and the distribution of surplus-value in the third section (later to become the third volume), since they had already been pretty much worked out by Marx during his work on the 1861-63 manuscript. The first two sections on the production process of capital and the circulation process of capital remained pretty much as they had been envisioned ever since the Grundrisse, which means that they remained at the level of abstraction of capital in general.

V.

Conclusions

Therefore, I conclude that Heinrich's argument that Marx encountered difficulties in maintaining the distinction between capital in general and competition while working on the 1861–63 manuscript and that Marx eventually abandoned this distinction, is not supported by a reexamination of this manuscript and related texts. To the contrary, a careful study of the 1861–63 manuscript suggests Marx's increasing clarity with respect to this distinction and its crucial role, not only in the determination of the average rate of profit and prices of production, but also in the further division of surplus-value into merchant profit, interest, and rent. This increasing clarity is also reflected in the later manuscripts of Volume 3 and Volume 1 of Capital.

This study of the 1861-63 manuscript also reveals that it is a very interesting text, which sheds substantial new insights into the logical structure and content of Capital, especially Volume 3.
It should be carefully studied by all those who wish to understand Marx's Capital. Michael Heinrich should be commended again for calling our attention to this important manuscript, even though his own interpretation of it leaves much to be desired.

Acknowledgements
I am very grateful to the following for lengthy and helpful comments on earlier drafts of this paper: Chris Arthur, Paul Burkett, Martha Campbell, Andrew Kliman, Paul Mattick, Patrick Murray, Geert Reuten, and Tony Smith. Needless to say, these good colleagues are not responsible for the views expressed here.

Notes
1. The references to Marx in this paper utilise the following shorthand notation:
   
   C 1  Capital, Volume 1
   C 2  Capital, Volume 2
   C 3  Capital, Volume 3
   Cr.  A Contribution to the Critique of Political Economy
   G.  Grundrisse
   MECW 30 Marx-Engels. Collected Works, Volume 30
   MECW 33 Marx-Engels. Collected Works, Volume 33
   SC.  Selected Correspondence
   TSV 1 Theories of Surplus-Value; Volume 1
   TSV 2 Theories of Surplus-Value; Volume 2
   TSV 3 Theories of Surplus-Value; Volume 3

2. Others who have emphasised this use by Marx of an individual capital to represent the total social capital include Rosdolsky (1977: 48) and Foley (1986: 6).

3. Parts 1 and 3 of Volume 3 remain at the level of abstraction of capital in general. Part 1 is concerned with the 'transformation of surplus-value into profit' (see below, pp. 17-21). Part 3 is of course about the falling rate of profit. Part 2, the 'transformation of profit into average profit', is discussed prior to the falling rate of profit because of the connection between the 'two transformations of surplus-value into profit'.

4. The magnitudes of individual capitals invested and consumed in each industry (Cj and Ks) are also taken as given, as the sums of money which initiate the circulation of capital in each industry (see note 5).

5. The other main point in my response is that the fundamentals given in Marx's theory are not the physical quantities of the technical conditions of production and the real wage, as in linear production theory, but are instead sums of money invested as capital. According to this interpretation, the inputs of constant capital and variable capital are taken as given in money or price terms and therefore do not need to be 'transformed' from values to prices. Others who have made similar arguments are Carccheci 1984 and 1993 and Mattick 1981.

6. In a related article (1974: 68-70), Rosdolsky is equally clear on this point.

7. Burkett (1991: 53-546) also criticises Heinrich's interpretation that Marx's concept of capital in general includes all the common characteristics of capitals, and thus includes equal rates of profit and prices of production.

8. See Rosdolsky (1977: 10-12) for a discussion of this original plan.


10. Marx posed the question of the origin of surplus-value in similar aggregate terms in the draft of this chapter in the 1861-63 manuscript (MECW 30: 25).

11. A similar statement of the collective class nature of the determination of the working day is found in the draft of this chapter in the 1861-63 manuscript (MECW 30. 184).

12. Similar statements are found in the draft of this chapter in the 1861-63 manuscript in terms of what Marx called 'simultaneous working days' (MECW 36. 165. 206).

13. A clear summary of this derivation of technological change in terms of capital in general is presented in the draft of this chapter in the 1861-63 manuscript (MECW 36: 237).

14. We can see that this outline is very close to the final version of Volume 3 of Capital, which Marx wrote in the following two years (1864-65).

References


Marx, Karl and Frederick Engels (1975) Selected Correspondence. Progress Publishers, Moscow.


