MARX’S ALLEGED ERROR

REFERENCES


MARX’S ALLEGED LOGICAL ERROR: A COMMENT

I welcome David Laibman’s critical evaluation of what he calls “new orthodox Marxists” (myself included), who argue (among other things) that Marx did not make a logical error in his determination of prices of production in Part 2 of Volume 3 of Capital. The logical error that Marx allegedly made, according to Laibman and the standard critique of Marx, is of course that he failed to transform the inputs of constant capital and variable capital from values to prices of production. Correction of this error, according to the standard critique, leads to a different rate of profit and different prices of production. It also implies that only one of Marx’s two aggregate equalities (sum of prices of production equal to sum of values and sum of profits equal to sum of surplus-values) can be true at a given time.

One of the important points in Laibman’s critique is the oft-repeated claim that Marx himself explicitly acknowledged that he had made this logical error. Laibman argues:

It should be mentioned that Marx himself repeatedly referred to the “possibility of error” in disregarding the effect of prices of production on the valuation of inputs (see, e.g., Marx, 1982, 261, 265). Marx is therefore the first 20th century Marxist, despite strenuous, and admirable, efforts by some of the NOMists to discount and explain away those passages. (Laibman, 2000, 315; emphasis added.)

We can see that, although Laibman says that Marx “repeatedly” acknowledged his error he cites only two passages, both from Chapter 9 of Volume 3. This comment reexamines these two passages, in order to better understand their meaning. I will first very briefly summarize my “macro-monetary” interpretation of Marx’s theory.1

1 I have already responded to other points in Laibman’s critique in a separate comment (Moseley, 2001).
1. The Determination of Constant Capital and Variable Capital

The standard interpretation of Marx’s theory assumes that the fundamental givens of Marx’s theory are the physical quantities of the means of production and the means of subsistence, and that constant capital and variable capital are derived from these given physical quantities, first as the values of these given bundles of goods (in Volume 1) and then as the prices of production of these same given bundles of goods (in Volume 3). According to this interpretation, Marx’s theory of prices of production in Part 2 of Volume 3 is logically incomplete and contradictory because Marx failed to transform the inputs of constant capital and variable capital in each industry from value magnitudes to price magnitudes (which has well-known consequences: the price rate of profit is not equal to the value rate of profit, the trends of the two rates of profit might be different, values are “redundant,” etc.).

I argue, to the contrary, that constant capital and variable capital are taken as given in terms of the quantities of money-capital invested to purchase the means of production and labor-power. In other words, the initial givens with which Marx’s theory begins are these quantities of money invested as constant capital and variable capital, not the physical quantities of means of production and means of subsistence.

According to Marx’s logical method, it is not possible at the beginning of the theory to provide a full explanation of the magnitudes of constant capital and variable capital. Constant capital and variable capital (understood as the magnitudes of money-capital invested in the real capitalist economy to purchase means of production and labor-power) are identically equal to the price of production of the means of production and means of subsistence, respectively. Therefore, an explanation of constant capital and variable capital requires an explanation of prices of production. However, prices of production involve the equalization of profit rates across industries. According to Marx’s method, it is not possible at this early stage of the theory to explain the equalization of profit rates, which is an aspect of the distribution of surplus value. Before the distribution of surplus value can be analyzed, the total amount of surplus value to be distributed must first be determined in Volume 1.

Furthermore, I argue that the same quantities of constant capital and variable capital are taken as given both in the determination of the total surplus value in Volume 1 and in the determination of prices of production in Volume 3. The only difference is that in Volume 1 the aggregate amounts of constant capital and variable capital for the economy as a whole are taken as given,

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2 Please see Moseley, 1993 and 1999, for a more complete explanation of my “macro-monetary” interpretation of Marx’s theory.
and in Volume 3 the disaggregated amounts for each industry are also taken as given. The sums of the individual amounts taken as given in Volume 3 are by definition equal to the aggregate amounts taken as given in Volume 1. Therefore, these amounts of constant capital and variable capital remain "invariant" in the transition from Volume 1 to Volume 3 — because the same amounts of constant capital and variable capital are taken as given at both stages of the theory. This is the reason why constant capital and variable capital do not change, or do not have to be transformed, in the transition from the theory of the total surplus value in Volume 1 to the theory of prices of production in Volume 3: because the same quantities of constant capital and variable capital are taken as given in both of these stages of the theory. In Volume 1, Marx provisionally assumed that the given magnitudes of constant capital and variable capital are equal to the values of the means of production and means of subsistence, respectively. This is the only assumption consistent with the labor theory of value at this early stage of the analysis because prices of production have not yet been explained. However, this provisional assumption plays no role in the determination of the total surplus value, which is the main question of Volume 1. The given constant capital is the transferred value component of the price of the output, and the given variable capital is subtracted from the new value produced to determine the total surplus value, whether or not the given constant capital and variable capital are equal to the value of the means of production and means of subsistence.

Then in Volume 3, prices of production are determined, and the given constant capital and variable capital can be more fully explained, as equal to the prices of production of the means of production and means of subsistence. However, this more complete explanation does not change the magnitudes of constant capital and variable capital. The magnitudes of constant capital and variable capital remain the same — as the quantities of money-capital advanced to purchase means of production and labor-power. But now these given magnitudes are more fully explained.

Therefore, according to this interpretation of Marx's logical method, Marx did not make a logical error in his determination of prices of production in Volume 3. He did not forget to transform the inputs of constant capital and variable capital, because these inputs do not have to be transformed. The same quantities of the inputs of constant capital and variable capital are taken as given (in terms of money-capital advanced) in the determination of both values and prices of production.

2. Laibman's Passages

2.1 Laibman's first passage. I turn now to the two references cited by Laibman to support his interpretation that Marx himself explicitly acknowl-
edged that he had made a logical error in his determination of prices of production. The first passage is on page 261. Before examining this passage, I will first briefly review the opening pages of Chapter 9 of Volume 3 prior to page 261. I will pay special attention to the concept of cost price (the sum of consumed constant capital and variable capital), and the role this concept plays in Marx’s theory of prices of production. My disagreement with Laibman (and with the standard interpretation in general) can be expressed as follows: is the cost price the same or is it different in the determination of values and the determination of prices of production? In other words, is there one set of cost prices, or two?

As is well known, in the opening pages of Chapter 9 Marx first explained the determination of prices of production, and illustrated this determination with three tables (pp. 254–58). The first table makes no distinction between fixed and circulating capital, but the second and third tables do make this distinction. The second table determines the value of each of the five commodities as the sum of the cost price and the surplus value produced in each industry. The third table then determines the prices of production of the five commodities as the sum of the same cost prices and the profit appropriated in each industry. The point I wish to emphasize is that the cost price is the same for the determination of both values and prices of production. The only difference between the values and the prices of production presented in these tables is the difference between the surplus value produced and the profit appropriated in each industry. Of course, the standard interpretation (including Laibman) argues that this is a mistake by Marx; i.e., that Marx should have transformed the cost prices from values to prices of production. In other words, according to the standard interpretation, there are (or should be) two sets of cost prices in Marx’s theory, one set for the determination of values and another set for the determination of prices of production. We shall consider below whether or not this standard criticism of Marx is correct. But at least it should be clear that Marx himself stated and assumed in his numerical examples that the cost price is the same for the determination of both values and prices of production. Whether or not this is a mistake remains to be seen.

On page 258, Marx states that “the cost price is completely governed by the outlay within each respective sphere of production” (emphasis added). I interpret “completely governed by” to mean “determined by.” As I understand it, Marx is saying here that the cost price is determined by the capital outlay, which is taken as given. There is no mention here of two cost prices, one determined by the values of the means of production and the means of subsistence and the other determined by the prices of production of these bundles of goods. There is only one cost price mentioned (“the” cost price) and this one cost price is determined by the capital outlay, which is taken as
given. If the cost price is determined by the capital outlay, then there cannot be two cost prices, because there is only one capital outlay.

On page 259, Marx states the important aggregate equality that the sum of prices of production is equal to the sum of values: "And in the same manner, the sum of prices of production for the commodities produced in society as a whole — taking the totality of all branches of production — is equal to the sum of their values." This aggregate equality follows from the following assumptions in Marx's theory of prices of production: (1) the cost prices are the same in the determination of both values and prices of production, and (2) the sum of profits is equal to the sum of surplus values. The standard interpretation argues that (1) is another mistake by Marx, which follows from the first mistake (the failure to transform the cost prices from values to prices of production). Marx's critics argue that, since the cost prices are not the same in the determination of values and prices of production, it does not follow that the sum of prices of production is equal to the sum of values. Thus we can see that whether or not this important aggregate equality holds depends on whether or not the cost prices are the same in the determination of values and prices of production. But we can also see that Marx himself continued to assume that the cost prices are the same, and to draw important conclusions from this assumption.

Two pages later, Marx clarified what he meant by the key concept of cost price, or the sum of constant capital and variable capital. This passage is the first reference cited by Laibman to support his interpretation. This passage is as follows:

Apart from the fact that the price of the product of capital B, for example, diverges from its value, because the surplus-value realized in B is greater or less than the profit added in the price of the products of B, the same situation also holds for the commodities that form the constant part of capital B, and indirectly, also, its variable capital, as means of subsistence for the workers. As far as the constant portion of capital is concerned, it is itself equal to cost price plus surplus-value, i.e. now equal to cost price plus profit, and this profit can again be greater or less than the surplus-value whose place it has taken. As for the variable capital, the average daily wage is certainly always equal to the value product of the number of hours that the worker must work in order to produce his necessary means of subsistence; but this number of hours is itself distorted by the fact that the production prices of the necessary means of subsistence diverge from their values. However, this is always reducible to the situation that whenever too much surplus-value goes into one commodity, too little goes into another, and that the divergences from value that obtain in the production prices of commodities therefore cancel each other out.

Notice that in this passage Marx does not state that he failed to transform the constant capital and variable capital (i.e., the cost price) from values
to prices of production in his tables presented earlier in Chapter 9, nor that these tables need to be corrected. Nor does Marx state that there are two sets of constant capital and variable capital, one for the determination of values and another for the determination of prices of production. Rather, Marx clarifies that the constant capital and variable capital (that are taken as given) are now understood to be equal to the prices of production of the means of production and means of subsistence, rather than equal to the values of the means of production and the means of subsistence. I have argued above that the magnitudes of constant capital and variable capital do not change between Volume I and Volume 3. Rather, the same magnitudes of constant capital and variable capital are taken as given in both Volume 1 and Volume 3. As discussed above, Marx provisionally assumed in Volume 1 that the given magnitudes of constant capital and variable capital are equal to the values of the means of production and the means of subsistence. Then, after explaining prices of production in Volume 3, Marx provided a more complete explanation of the given magnitudes of constant capital and variable capital. However, this more complete explanation does not change the given magnitudes themselves. Marx does not say anything in this passage about the need to change the magnitudes of constant capital and variable capital in his earlier tables. He just says that the explanation of these given magnitudes is more complete than before.

The standard interpretation jumps to the conclusion that, because the magnitudes of constant and variable capital are now explained as equal to prices of production, this means that the magnitudes of constant capital and variable capital must change, and must be different in the determination of prices of production than in the determination of values. But Marx does not say this. Marx discusses only one set of magnitudes for constant capital and variable capital, which are now seen to be equal to prices of production, rather than to values. The fact that the given magnitudes of constant capital and variable capital are now understood to be equal to prices of production, rather than to values, does not mean that there must be two sets of magnitudes of constant capital and variable capital.

Furthermore, at the end of this very same paragraph, Marx states again the conclusion that the divergences between profits and surplus values for individual commodities cancel each other out, so that the aggregate equality between the sum of prices of production and the sum of values continues to be true. We have seen above that this conclusion requires as a logical precondition that constant capital and variable capital be the same for the determination of both values and prices of production.

Therefore, I conclude that this passage does not support Laibman’s critique (i.e., the standard critique) of Marx’s theory of prices of production. It is certainly not a clear statement that Marx made a mistake in his
earlier presentation and that his tables need to be corrected. Nor is it a clear statement that there are two sets of the inputs of constant capital and variable capital, and that these inputs need to be transformed from values to prices of production. Furthermore, the standard interpretation contradicts the two aggregate equalities that Marx emphasizes in surrounding paragraphs. On the other hand, this passage can be interpreted in an alternative way (that there is only one set of inputs of constant capital and variable capital which are now understood to be determined in a different way) which is consistent with the tables presented earlier and also with Marx’s two aggregate equalities. This alternative interpretation leads to the conclusion that Marx did not make a mistake in his determination of prices of production, i.e., that Marx did not forget to transform the values of the inputs from values to prices of production, because these inputs do not need to be transformed.

In the next section, we will continue our review of Chapter 9, and see what else Marx had to say about the relation between the key concepts of value, cost price, and price of production in his theory. This will also bring us to the second passage cited by Laibman, which comes four pages later in the text.

2.2 Laibman’s second passage. After a discussion of the determination of the general rate of profit and its dependence on the distribution of capital between industries with high and low compositions of capital (261–63), Marx returned to the subject of the relation between the concepts of value, cost price, and price of production in five important paragraphs (263–65). Of special importance in these paragraphs is whether the cost price is the same or is different in the determination of value and price of production. We will reexamine these crucial paragraphs and see what Marx had to say about the magnitude of the cost price in the determination of values and prices of production. The last of these five paragraphs is the second passage cited by Laibman to support his interpretation.

The first of these five paragraphs introduces the subject:

In Volumes 1 and 2 we were only concerned with the value of commodities. Now a part of this value has split away as the cost price, on the one hand, while on the other, the production price of the commodity has also developed, as a transformed form of value. (Emphasis in the original.)

The next paragraph is a bit of a mystery. In Marx’s Manuscript of 1864–65, from which Engels edited what we know as Volume 3, the next paragraph is an extremely important one, in which Marx defined the value of commodities and stated the relation between value, cost price, and price of production in clear unambiguous algebraic formulations (Marx’s original manu-
The cost price is, as we see, always smaller than the value of the commodity. The price of production can be smaller, bigger, or equal to the value of the commodity. The value of the commodity is the value of the capital consumed in the production of the commodity plus the surplus-value. If we take, as in the original development of the cost price (Chapter 1), cost price = value of the capital advanced in the production of the commodities, we have the following equations:

\[
\text{value} = \text{cost price} + \text{surplus-value} \quad \text{or \ profit as identical with surplus-value} \quad V = K + S \\
\text{cost price} = \text{value} - \text{surplus-value} \quad \text{or \ } K = V - s \\
\text{price of production} = \text{cost price} + \text{profit} \quad P = K + p' \\
\text{calculated according to the general rate of profit} = p'.
\]

Because \( K = V - s \) and \( V = K + s \), the value of the commodity is always \( > \) than the cost price. Depending on whether \( s \) or \( p' \) of each special production sphere is bigger or smaller or equal, \( > \) or \( = \) to the average profit determined by the general rate of profit, then \( P > < \) or \( = V \). Because \( V = K + s \) or \( p \), and \( P = K + p' \), \( V = P \) when \( s = p' \), \( > P \) when \( p' < s \), and \( < P \) when \( p' > s \). (Emphasis added.)

Notice that in this extremely interesting paragraph that there is only one cost price mentioned (K). There are not two cost prices, one a component of value and the other a component of price of production. The same cost price is a component of both the value and the price of production of the commodity. The value of the commodity is equal to the cost price (or the "capital consumed") plus surplus value \( (V = K + s) \), and the price of production is equal to the same cost price plus the average profit \( (P = K + p') \). The \( K \) is the same in both equations. Since \( K \) is the same, whether price of production is equal to, greater than, or less than, value depends solely on whether the average profit is equal to, greater than, or less than the surplus value. All this is clearly and unambiguously stated, and all this assumes that there is only one cost price.

Marx continued in the next paragraph to repeat and elaborate these same points, again with algebraic formulations and numerical examples. Especially interesting is the case of commodities produced with capital of average composition, in which case price of production is equal to value.

If we take it that the composition of the average social capital is \( 80c + 20v \), and the annual rate of surplus-value \( s' = 100 \) per cent, the average annual profit for a capital of \( 100 \) is \( 20 \) and the average annual rate of profit is \( 20 \) per cent. For any cost
price \( k \) of the commodities annually produced by a capital of 100, their price of production will be \( k + 20 \). In those spheres of production where the composition of capital is \((80 - x)c + (20 + x)v\), the surplus-value actually created within this sphere, or the annual profit produced, is \( 20 + x \), i.e. more than 20, and the commodity value produced is \( k + 20 + x \), more than \( k + 20 \), or more than the price of production. In those spheres of production where the composition of capital is \((80 + x)c + (20 - x)v\), the surplus-value or profit annually created is \( 20 - x \), i.e. less than 20, and the commodity value therefore is \( k + 20 - x \), less than the price of production, which is \( k + 20 \). Leaving aside any variation in turnover times, the production prices of commodities would be equal to their values only in cases where the composition of capital was by chance precisely \( 80c + 20v \). (Emphasis added.)

It seems to me that this is a very clear statement that the cost price is the same in the determination of both value and price of production. In these examples, the cost price \( k \) is always equal to 100, both in the determination of value and in the determination of price of production of the different commodities. The cost price \( k \) does not change from one magnitude in the determination of value to another magnitude in the determination of price of production. The only difference between values and prices of production is whether surplus value or average profit is added to the same identical cost price.

We can also see that Marx concludes that for average commodities (and for average commodities alone), the price of production is equal to their value. Since the cost price \( k \) is the same for both value and price of production, and since for these average commodities average profit = surplus value, it follows that price of production of these average commodities is equal to their value. This conclusion of the equality between the price of production and the value of average commodities, which is emphasized by Marx, is valid if and only if the cost price is the same in the determination of both the price of production and the value of these commodities. Either Marx is talking nonsense here about the value and price of production of average commodities, or the cost price is the same in the determination of both value and price of production.

In the next paragraph, Marx again divides the total social capital into three groups of average, higher than average, and lower than average composition of capital. According to Ramos (63–64), the last half of this paragraph in the Engels edition of Volume 3 was completed by Engels. The part of this paragraph added by Engels is as follows:

How these capitals function after the average rate of profit is established, on the assumption of one turnover in the year, is shown by the following table, in which capital I represents the average composition, with an average rate of profit of 20 percent.
I. \[80c + 20v + 20s.\] Rate of profit = 20 per cent.  
Price of the product = 120.  Value = 120.

II. \[90c + 10v + 10s.\] Rate of profit = 20 per cent.  
Price of the product = 120.  Value = 110.

III. \[70c + 30v + 30s.\] Rate of profit = 20 per cent.  
Price of the product = 120.  Value = 130.

Commodities produced by capital II thus have a value less than their price of production, and those produced by capital III have a price of production that is less than their value. Only for capitals such as I, in branches of production whose composition chanced to coincide with the social average would the value and the price of production be the same.

Engels’ addition seems to be an accurate interpretation of Marx’s paragraph immediately preceding. The cost price is the same for both values and prices of production for all three types of commodities. As a result, the price of production of the commodity produced with capital of average composition is equal to its value.

We come now to the fifth and final paragraph in Marx’s discussion of the relation between value, cost price, and price of production. This paragraph is the second passage cited by Laibman and is the source of Laibman’s quoted phrase about the “possibility of error” (a slightly different translation than the one below). The standard interpretation of this paragraph generally emphasizes the following sentences at the beginning of the paragraph:

The development given above also involves a *modification in the determination of commodity’s cost price*. It was originally assumed that the cost price of a commodity equaled the value of the commodities consumed in production. But for the buyer of a commodity, it is the price of production that constitutes its cost price and can thus enter into forming the price of another commodity. As the price of production of a commodity can diverge from its value, so the cost price of a commodity, in which the price of production of other commodities is involved, can also stand above or below the portion of its total value that is formed by the value of the means of production going into it. It is necessary to bear in mind this *modified significance of the cost price*, and therefore to bear in mind too that if the cost price of a commodity is equated with the value of the means of production used up in producing it, it is always *possible to go wrong*. (Emphasis added.)

The standard interpretation of these sentences is that the “modified significance of the cost price” means that the cost price is two different magnitudes for the determination of value and the determination of price of production, *i.e.*, that the magnitude of the cost price changes from the determination of value in Volume 1 to the determination of prices of production in Volume 3. According to the standard interpretation, Marx was acknowledging in this passage that in his own determination of prices of
production earlier in the chapter, he had failed to make this transformation, and that his earlier presentation needs to be corrected.

However, such an interpretation of these sentences is contradicted by the preceding four paragraphs, which we have just reviewed, and in which Marx clearly stated that the cost price is the same in the determination of both the value and the price of production of commodities. These earlier paragraphs are generally ignored by the proponents of the standard interpretation. If the sentences just quoted are to be consistent with these earlier paragraphs, then the standard interpretation of these sentences must be wrong.

Furthermore, the standard interpretation of these sentences is also contradicted by the rest of the very same paragraph, which is also generally ignored by its proponents. The rest of this paragraph is as follows:

Our present investigation does not require us to go into further detail on this point. The cost price of a commodity is a given precondition, independent of his, the capitalist’s, production, while the result of his production is a commodity that contains surplus-value, and therefore an excess value over an above its cost price. As a general rule, the principle that the cost price of a commodity is less than its value has been transformed in practice into the principle that its cost price is less than the price of production. For the total social capital, where price of production equals value, this assertion is identical with the earlier one that the cost price is less than the value. Even though it has a different meaning for the particular spheres of production, the basic fact remains that, taking the social capital as a whole, the cost price of the commodities that this produces is less than their value, or than the price of production which is identical with this value for the total mass of commodities. (Emphasis added.)

We see that in the rest of this paragraph Marx states that, even though the cost price is not equal to the value of the inputs, it is still nonetheless true that surplus value = value – cost price, from which it follows that value = cost price + surplus-value, as in the preceding paragraphs. The same cost price is a component of both the value and the price of production of commodities. There is only one magnitude of cost price mentioned here. Notice how many times Marx says “the” cost price or “its” cost price. Nothing is said about two magnitudes of cost price, one as a component of value and the other as a component of price of production. The same cost price is taken as a “given precondition” in the determination of both the value and the price of production of commodities. Therefore, the standard interpretation of the beginning of this paragraph is also contradicted by the rest of the very same paragraph.

There is another interpretation of the beginning sentences of this paragraph that is not contradicted by the preceding four paragraphs and by the rest of the same paragraph. According to this alternative interpretation, the
"modified significance of the cost price" does not mean that the magnitude of the cost price changes. Rather, it means that the same cost price that is taken as given in the determination of both value and price of production (discussed in previous paragraphs) is itself explained more fully than in Volume 1. Marx originally assumed in Volume 1 that the cost price is equal to the value of the inputs. However, after the determination of prices of production in Volume 3, Marx now provides a more complete explanation of the given cost price. But this more complete explanation of the given cost price does not change the magnitude of the given cost price itself. The same cost price continues to be taken as given in the determination of both the value and the price of production of commodities.

Marx is not acknowledging in this passage that he failed to transform the cost prices from values to prices of production earlier in the chapter, and that his earlier presentation needs to be corrected. Rather, this passage says that we can now understand that the given cost prices (which remain the same for the determination of both values and prices of production) are themselves equal to the prices of production of the inputs, rather than to the values of the inputs. This alternative interpretation of these sentences, unlike the standard interpretation, is consistent with the preceding paragraphs and with the rest of the same paragraph, in which Marx clearly stated that the cost price is the same in the determination of both value and price of production.

3. Conclusion

I conclude from the above review of these two important passages from Chapter 9 of Volume 3 that these passages do not support Laibman’s interpretation that Marx explicitly acknowledged that the inputs of constant capital and variable capital have to be transformed from values to prices of production and that he (Marx) had failed to carry out this transformation in his determination of prices of production. Rather, the overall weight of these passages and surrounding paragraphs supports the alternative interpretation that the inputs of constant capital and variable capital do not have to be transformed because these inputs are the same in the determination of both values and prices of production. Marx did not fail to transform the inputs, because the inputs do not have to be transformed. This standard allegation against Marx is false. The standard interpretation ignores what Marx said in surrounding paragraphs, and therefore misinterprets the few sentences that it focuses on. The crucial “missing paragraph” no doubt contributed to this misinterpretation. But now that the missing interpretation has been discovered and we can see the whole context of these paragraphs more clearly, there is less justification for this continuing misinterpretation.
Contrary to Laibman’s claim, Marx was not the first “20th century Marxist,” in the sense of recognizing that he had made a logical mistake in his determination of prices of production. Marx was Marx and 20th century Marxism has been something very different and has falsely accused Marx of making this logical error. The standard interpretation is based on a misinterpretation of Marx’s method of determination of the inputs of constant capital and variable capital. If Marx’s method is understood, then these passages suggest that Marx did not forget to transform the inputs of constant capital and variable capital, because the same quantities of constant capital and variable capital are taken as given in the determination of both values and prices of production.

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