

THE DEVELOPMENT OF
MARX'S THEORY OF THE DISTRIBUTION OF SURPLUS-VALUE

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Marx's theory of the production and distribution of surplus-value is based on a fundamental methodological premise, which has not been sufficiently recognized: that the total amount of surplus-value is determined prior to and independent of the division of this total amount into individual parts. The individual parts of surplus-value are then determined at a subsequent stage of the analysis, with the predetermined total amount of surplus-value taken as a given magnitude. This premise was first discussed by Marx in the Grundrisse with respect to the equalization of rates of profit across different branches of production. In the second draft of Capital, written in 1861-63, parts of which have been only recently published in English, Marx also began with this premise as he worked out his theories of rent, interest, and merchant profit. In the remaining drafts of Capital, this fundamental premise is consistently adhered to and emphasized, especially in Volume 3, in which the distribution of surplus-value is the main subject.

Marx expressed this fundamental premise of his theory concerning the prior determination of the total amount of surplus-value in terms of the distinction between the stages of analysis of "capital in general" and "competition" (or "many capitals"). Capital in general refers to the essential properties that all capitals have in common. The most important common property of capitals is their capacity for self-expansion, i.e. their ability to produce surplus-value. Therefore, the main question addressed in the analysis of capital in general is the determination of the total amount of surplus-value produced in the capitalist economy as a whole. Competition refers to the relations among capitals, and, in particular, to the distribution of surplus-value among capitals, first among the different branches of production and then the further division of surplus-value into industrial profit, merchant profit, interest, and rent.

Unfortunately, this fundamental premise of Marx's theory has been almost totally overlooked in the vast literature about Marx's theory, at least in the English literature. In particular, this premise has not been recognized in the long-standing debate over the so-called "transformation problem" in Marx's theory. The main exception to this oversight has been Rosdolsky (1977, pp. 41-50 and 367-75), who emphasized that Marx's explanation of equal rates of profit across industries in the Grundrisse was based on this principle (another exception is Foley 1986). However, even Rosdolsky's discussion is limited, because it applies only to the Grundrisse and to Marx's theory of equal rates of profit, and not to later drafts of Capital nor to the other components of surplus-value.

In an earlier paper (Moseley 1993a), I have attempted to show the importance of this methodological premise for Marx's theory of equal rates of profit and prices of production, i.e. for Marx's solution to the "transformation problem". In particular, I have argued that the widespread interpretation of Marx's theory in terms of linear production theory, which I call the "neo-

Ricardian" interpretation, is erroneous because it ignores this fundamental premise of Marx's theory (and for other reasons as well) and is instead based on a very different premise. In Marx's theory, the rate of profit is determined at the level of abstraction of capital in general as the ratio between the total amount of surplus-value and the total capital invested in the capitalist economy as a whole. This rate of profit is then taken as given in the determination of prices of production. In the neo-Ricardian interpretation of Marx's theory, there is no distinction between the levels of abstraction of capital in general and competition. Likewise, there is no recognition of the prior determination of the rate of profit in the analysis of prices of production. Instead, the rate of profit is determined simultaneously along with prices of production. It follows from this fundamental misinterpretation that the main neo-Ricardian criticism of Marx's theory - that Marx's solution to the "transformation problem" is logically incomplete and contradictory - is not correct. If Marx's theory is correctly interpreted, including this premise of the prior determination of the total amount of surplus-value and the general rate of profit, then there is no logical error in his solution to the "transformation problem".

The main purpose of the present paper is to extend this earlier paper by providing substantial further textual evidence of this important methodological premise in Marx's theory of the production and distribution of surplus-value. The various drafts of Capital will be examined to show their consistent adherence to this fundamental premise. Not only is Marx's theory of equal rates of profit considered, but also his theory of the other components of surplus-value, in order to demonstrate his consistent adherence to this premise and the logical connection between these different aspects of his theory of the distribution of surplus-value. The burden of interpretation will then be on those - especially the neo-Ricardians - who have so far ignored this fundamental premise of Marx's theory.

1. The Grundrisse

The Grundrisse is concerned almost entirely with an analysis of capital in general. There is very little discussion of the distribution of surplus-value. The only aspect of the distribution of surplus-value which is discussed is the equalization of profit rates across different branches of production, and this is discussed only very briefly and in passing in a few places. The clearest statement of the premise of the prior determination of the total amount of surplus-value is the following:

The total surplus-value ... can neither grow or decrease by this operation [the equalization of rates of profit. FM], ever; what is modified thereby is not it, but only its distribution among the different capitals. However, this examination belongs only with that of the many capitals, it does not yet belong here. (G. 760; emphasis added).

A few pages later, Marx comments:

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, although Marx left the elaboration of his theory of equal rates of profit to the subsequent analysis of competition, he was already clear in the Grundrisse that this theory would be based on premise that the total amount of surplus-value is determined prior to its distribution among individual branches of production.

2. The 1861-63 Manuscript

In the summer of 1861, Marx began working on a second draft of Capital. He continued to work on this manuscript for the next two years, writing at a very prolific rate and producing what would eventually be published as five volumes. About two-thirds of this manuscript has been previously published in English as the Theories of Surplus-Value. The entire manuscript, including the previously unpublished parts, has recently been published in English as Volumes 30-34 of the Marx-Engels Collected Works, which is a translation of the authoritative German collection Marx-Engels Gesamtausgabe, published in the 1970s. The publication of this entire manuscript is an important event in Marxian scholarship. This manuscript provides an important link between the Grundrisse and Capital and should provide many insights into the logical structure and content of Capital, similar perhaps to the publication of the English translation of the Grundrisse in the 1970s. It should be carefully studied by all those who wish to understand Marx's Capital. (Oakley 1983, Chapter 6, written before the publication of the complete English edition, provides a good short introduction to the 1861-63 manuscript.)

Marx began his work on this manuscript with what would later become Part 2 of Volume 1 of Capital ("The Transformation of Money into Capital"), since he had already reworked and published what later became Part 1 as A Contribution to the Critique of Political

Economy. He wrote drafts of what later became Parts 2-4 of Volume 1, which contain the key chapters of his theory of surplus-value, absolute surplus-value (the working day), and relative surplus-value (technological change). Marx then broke off to work on the "Theories of Surplus-Value", which was originally intended to be a critical survey of the attempts by the classical economists to explain the origin and determination of surplus-value. Marx's original plan seems to have been to include this critical survey of the theories of surplus-value following his own theory and in the same volume, similar to what

he had done for the theories of value and money in the A Contribution However, Marx soon went far beyond this original intention to discuss not only the production, but also the distribution, of surplus-value. Marx used this extended critique of the classical economists to work out in greater detail his own theory of the distribution of surplus-value. The following discussion will concentrate on those parts of the "Theories of Surplus-Value" and the remaining previously unpublished parts of the 1861-63 manuscript which deal with the distribution of surplus-value.

Marx began his critical survey of the classical economists' theories of surplus-value with the following "general observation":

All economists share the error of examining surplus-value not as such, in its pure form, but in the particular forms of profit and rent. (MECW.30. 348; TSV.I. 40)

Quantitatively, this means that the classical economists shared the error of not distinguishing between the determination of the total amount of surplus-value and the distribution of surplus-value in the specific forms of profit, rent, etc. Thus, Marx had this crucial distinction clearly in mind as he began the "Theories of Surplus-Value".

Marx then wrote what we know as Volume 1 of Theories of Surplus-Value, which is mainly about Smith's theory value and distribution and the concepts of productive and unproductive labor. Marx's work then took a surprising turn. Instead of next considering Ricardo's theory of surplus-value and perhaps the later Ricardian economists, as Marx originally planned (MECW.31. 583-84, note 2), Marx next discussed a more recent work, published in 1851, by Rodbertus, who had attempted to develop a new theory of rent along Ricardian lines, but with an attempted solution to Ricardo's problem of absolute rent (Ricardo's theory could not explain how the least fertile land could receive a rent). This subject is out of place in the manuscript both chronologically and logically, since it deals with rent, a form of the distribution of surplus-value, rather than the production of surplus-value. Marx labeled this section of the manuscript a "Digression".

It appears that the immediate reason for this surprising turn was mostly practical and fortuitous. Lassalle had loaned Marx a copy of Rodbertus' book the year before and had recently written to Marx that he wanted his book back. (MECW.31. 593, note 99; TSV. II. 633-34, note 1) Therefore, Marx studied Rodbertus' book while he still had the opportunity to do so. The book turned out to be more interesting than Marx expected and appears to have stimulated Marx's thinking about rent and about the distribution of surplus-value in general. It started Marx on an extended theoretical excursion for most of the next year, during which he began to work out the details of his own theory of the distribution of surplus-value, based on the premise of the prior determination of the total amount of surplus-value. This important excursion will now be examined in some detail.

a. Rodbertus

Early in the section on Rodbertus, Marx began to emphasize that the theory of rent must be understood in connection with the equalization of profit rates across individual branches of production. Therefore, he began to sketch out the details of his theory of the equalization of profit rates and prices of production (which Marx here called "average prices" or "cost prices") for the first time. (MECW. 31. 260-64 and 297-305; TSV.II. 25-30 and 64-71) In these sketches, Marx emphasized that the general rate of profit to which all individual rates of profit are equalized is determined by the ratio of the total amount of surplus-value divided by the total amount of capital invested. The total amount of surplus-value, Marx

assumed, is determined by a prior analysis of capital in general. This total amount of surplus-value is then distributed among the individual branches of production by means of commodities selling at average prices which differ from their values and which are determined in part by this general rate of profit. In this way, each capital is treated as a "shareholder of the aggregate capital," and receives its share of the total surplus-value, according to its own magnitude. Capitalists are like "hostile brothers [who] divide among themselves the loot of other people's labor" (MECW.31. 264; TSV.II. 29). The total magnitude of this "loot" has already been determined by the prior analysis of capital in general.

Rent is then explained as a further application of this theory of the general rate of profit and prices of production. Rent is a part of the total surplus-value which landlords are able, by their monopoly of the land (and other natural resources), to appropriate for themselves, rather than this surplus-value being distributed among all capitalists. In this theory of rent, the total amount of surplus-value is again taken as a given magnitude, as determined by the prior analysis of capital in general. This total amount of surplus-value is "split" into profit and rent, and rent does not enter into the equalization of profit rates across industries.

This ownership [of natural resources] is a means of obstructing the process which takes place in the rest of the capitalist spheres of production, and of holding on to this surplus-value created in this particular sphere, so that it is divided between the capitalist and the landowner in that sphere of production itself. (MECW.31. 276; TSV.II. 42).

Marx also outlined his general solution to Ricardo's problem of absolute rent, i.e. rent on the least fertile land which is not due to a monopoly price of the agricultural product, (i.e. to a price greater than the value of the product). Marx argued that absolute rent in this sense is possible because the composition of capital in agriculture may be less than the average composition for the total economy (and, in fact, was less in England at the time and tended to be less for all capitalist countries). In this case, the value of agricultural goods is greater than their price of production. Hence the actual price of agricultural goods may rise above their price of production without necessarily being greater than their value. This excess of the actual price over the price of production is the source of absolute rent on the least fertile land. Ricardo and Rodbertus had not been able to explain the possibility of absolute rent because they did not distinguish between the value and the price of production of commodities.

Soon after working on this section on Rodbertus, Marx wrote an important letter to Engels in which he summarized these new theoretical developments. Originally, Marx had planned to consider rent only in Book 2 on landed property, as part of his projected six books on political economy (Cr. 19; SC. 96-97). However, he now realized more clearly that rent is an aspect of the distribution of surplus-value and is intimately connected with the equalization of profit rates. Therefore, he decided to bring the discussion of rent into the first book on Capital, in the later sections on competition and the distribution of surplus-value. The letter to Engels begins:

I now intend after all to bring the theory of rent already into this volume as a supplementary chapter, i.e., as an illustration of a principle laid down earlier.

(SC. 120).

Marx then presented a brief sketch of this theory of prices of production (or "cost prices") and his theory of rent. Once again, the total amount of surplus-value and the general rate of profit are taken as given in

the determination of "cost-prices" and in the division of surplus-value into profit and rent.

b. Ricardo

One of the main conclusions of Marx's discussion of Rodbertus is that both Rodbertus and Ricardo made the mistake, following Smith, of assuming that the cost prices (or prices of production) of individual commodities are equal to their values (i.e. of "identifying cost prices and values") and that this false assumption led to their erroneous theories of rent. Therefore, Marx next discussed "Ricardo's and Smith's Theory of Cost Price". (MECW.31. 387-456; TSV. II. Chapter 10) In this section, Marx argued that Ricardo was not able to provide a satisfactory theory of cost prices because he failed to follow the correct logical method with respect to the production and distribution of surplus-value. Instead of first determining the total amount of surplus-value and the general rate of profit and then determining cost prices on the basis of this predetermined general rate of profit, Ricardo simply assumed a given rate of profit (without explaining its determination) and examined the extent to which the assumption of equal profit rates was consistent with the determination of prices by labor-times. To quote this important methodological criticism at some length:

Ricardo's method is as follows: He begins with the determination of the magnitude of the value of the commodity by labor-time and then examines whether the other economic relations and categories contradict this determination of value or to what extent they modify it. The historical justification of this method of procedure, its scientific necessity in the history of economics, are evident at first sight, but so too is, at the same time, its scientific inadequacy. This inadequacy not only shows itself in the method of presentation (in a formal sense) but leads to erroneous results because it omits some essential links and directly seeks to prove the congruity of the economic categories with one another. (MECW. 390; TSV.II. 164-65; emphasis added)

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. He would then have gained an altogether different insight into the nature of profit and would not have identified it directly with surplus-value. (MECW.31. 401; TSV.II. 174; emphasis added)

The most important "essential link" and "intermediary stage" omitted by Ricardo is the prior determination of the total amount of surplus-value and the general rate of profit, which is then taken as given in the subsequent determination of cost prices. Marx summarized his discussion of Ricardo's faulty logical method in the following passage:

The equalization of the surplus-values in the different spheres of production does not affect the absolute size of this total surplus-value; but merely alters its distribution among the different spheres of production. The determination of this surplus-value itself, however, only arises out of the determination of value by labor-time. Without this, the average profit is the average of nothing, pure fancy. And it could then equally well be 1,000 per cent or 10 per cent... One can see that though Ricardo is accused of being too abstract, one would be justified in accusing him of the opposite: lack of power of abstraction, inability, when dealing with the values of commodities, to forget profits, a factor which confronts him as a result of competition. (MECW.31. 416; TSV.II. 190-91; emphasis added)

Later in the manuscript, after sections on Ricardo's theory of rent, Smith's theory of rent, and Ricardo's theory of surplus-value (which contain nothing new for our purposes), Marx returned to Ricardo's theory of profit. Here again, Marx emphasized that a correct understanding of equal rates of profit requires the "intermediary link" of the prior determination of the total amount of surplus-value. Equal rates of profit are bound to be misunderstood if they:

are not connected by a series of intermediary links with the general laws of value etc: in short, if profit and surplus-value are treated as identical, which is only correct for the aggregate capital. Accordingly, Ricardo has no means for determining the general rate of profit. (MECW. 32. 61; TSV.II. 427)

Marx also emphasized again the prior determination of the general rate of profit as the ratio of total surplus-value to total capital:

The general rate of profit is formed through the total surplus-value produced being calculated on the total capital of society (the class of capitalists). Each capital, therefore, in each particular branch, represents a portion of a total capital of the same organic composition ... As such a portion, it draws its dividends from the surplus-value created by the aggregate capital, in accordance with its size...

The surplus-value thus distributed ... constitutes the average profit or the general rate of profit, and as such it enters into the costs of production of every sphere of production. (MECW.32. 69; TSV.II. 433)

c. Revenue and its sources

The next important section of the 1861-63 manuscript for our purposes is the section entitled "Revenue and Its Sources. Vulgar Political Economy", which is a first draft of what later became Part 7 of Volume 3 of Capital. This section includes Marx's first extended discussion of interest, another form of the distribution of surplus-value, besides profit and rent. Marx emphasized that interest, like rent, is a part of the total surplus-value and that the total surplus-value is determined prior to its division into profit, rent, and interest.

Interest is therefore nothing but a part of the profit (which, in turn, is itself nothing by surplus-value, unpaid labor), which the industrial capitalist pays to the owner of the borrowed capital with which he "works", either exclusively or partially. Interest is a part of profit - of surplus-value - which, established as a special category, is separated from the total profit under its own name, a separation which is by no means based on its origin, but only on the manner in which it is paid out or appropriated. (MECW.32. 469; TSV.III. 470-71; emphasis added)

Marx also contrasted his premise of the prior determination of the total amount of value and surplus-value with the diametrically opposed premise of the vulgar economists, according to which the surplus-value is determined as the sum of profit plus interest plus rent.

But the whole matter is mystified because these different parts of surplus-value [profit, rent, and interest; FM] acquire an independent form, because they accrue to different people, because the titles to them are based on different elements, and finally because of the autonomy with which certain of these parts of surplus-value confront the production process as its conditions. From parts into which value can be divided, they become independent elements which constitute value ... (MECW.31. 511; TSV.III. 511; emphasis added).

Finally, Marx also devoted a few pages in this section to a discussion of the relation between interest-bearing capital, mercantile (or commercial) capital, and industrial capital. Marx argued that interest-bearing capital and mercantile capital are derived from or secondary to the basic form of industrial capital. In other words, the analysis of interest-bearing capital and merchant capital follow that of industrial capital, and the incomes received by interest-bearing capital and merchant capital are parts of the total surplus-value produced by industrial capital (or, more precisely, by the labor employed by industrial capital). Marx returned in the next section, to be discussed below, to a more extended discussion of mercantile capital and mercantile profit, yet another form of distribution of the total amount of surplus-value.

d. Mercantile capital

We come now to an important part of the 1861-63 manuscript which has only recently been published in English in Volume 33 of the Marx-Engels Collected Works. As a direct continuation of the section on "Revenue and its Sources," in which mercantile capital was briefly discussed, two of the next three sections present a more extended discussion of mercantile capital and the mercantile profit derived from it.

Mercantile capital is capital which functions solely in the sphere of circulation, i.e. performs only the pure circulation functions of buying and selling, and activities related to buying and selling (accounting, advertising, credit, etc.). Since according to Marx's theory, these functions by themselves are "unproductive", i.e. produce no value or surplus-value (see Moseley 1992, Chapter 2, for a further discussion of Marx's concept of unproductive labor), the question arises of how this mercantile capital receives a profit, since of course it must, just like any other capital.

Marx's brief answer to this question in this manuscript is that mercantile capital receives its profit as a deduction from the surplus-value produced by industrial capital. As with the other forms of the distribution of surplus-value already discussed, the total amount of surplus-value is determined prior to the deduction of mercantile profit and is taken as given in the analysis of mercantile profit. Marx briefly sketched the general mechanism through which this deduction of mercantile capital from the total surplus-value occurs - through the difference between mercantile capital's buying price and its selling price. This difference enables mercantile capital to recover its cost and to collect the average rate of profit. (Further details of this pricing mechanism are presented Part 4 of Volume 3 of Capital, which will be discussed below).

e. Capital and Profit

In between the two sections on mercantile capital just discussed is a section entitled "Third Chapter. Capital and Profit". According to Marx's plan since the Grundrisse, the part of his book on Capital in General would consist of three chapters: (1) The Production Process of Capital; (2) The Circulation Process of Capital; and (3) Capital and Profit. (MECW.29. 511-16; MECW. 40. 287). At this point in his year-long detour from his draft of Chapter 1 and into the "Theories of Surplus-Value" and the various aspects of the distribution of surplus-value discussed above, Marx decided to write a draft of Chapter 3. (Marx began a separate notebook with the draft of this chapter and wrote "Ultimum" on the front of this notebook, suggesting that this was more of a final draft than the exploratory work of the previous and succeeding notebooks; see MECW.33. 506, note 4). As we shall see, this draft remained primarily at the level of abstraction of capital in general, although the determination of the average rate of profit was touched upon because it related directly to the subject matter of this chapter. A likely explanation of this

decision to write a draft of "Chapter 3" was to explore the relation between this chapter and the various aspects of the distribution of surplus-value that Marx had been working on.

The subject that receives the most attention in this draft of "Chapter 3" on "Capital and Profit" is the tendency of the rate of profit to decline (MECW.33. 104-45), which Marx calls "the most important question in this section" (MECW.33. 91). The chapter also includes an important discussion of the "two transformations of surplus-value into profit," which is more relevant to our subject of the distribution of surplus-value.

In the first transformation, surplus-value is transformed into profit, i.e. is related to the total capital invested, and not just to 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 recognized 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 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 - treating all parts of this overall capital as uniform, and relating to the whole of it as a homogeneous sum of value, without regard to the organic relation in which the different components of this capital stand towards the creating of its surplus-value. (MECW.33. 100)

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 recognized 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.III. 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 that capital (or rather by the labor employed by that capital). This redistribution of surplus-value is accomplished by means of the formation of a general or average rate of profit, which is equal to the total profit divided by the total capital, and prices of production based on this average rate of profit. 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 second transformation to average profit, Marx again emphasized clearly that this average rate of profit is determined as the ratio of the total surplus-value to the total capital.

The empirical, or average, profit can therefore be nothing other than the distribution of that total profit (and the total surplus-value represented by it or the representation of the total surplus labor) among the

individual capitals in each particular sphere of production, in equal proportions ... It therefore 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 in only determined by the absolute quantity of the total profit or the total surplus-value. (MECW.33. 99; emphasis added)

Empirical or average profit ... 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, in exactly this way - it relates the total surplus-value as profit to that total capital of society, without regard to the organic relation in which the individual components of that total capital have participated directly in the production of that total surplus-value ... (MECW.33. 100)

The average rate of profit is nothing other than the total surplus-value related to and calculated on this total capital. (MECW.33. 104)

Marx also commented that a closer investigation of the determination of the average rate of profit and the consequent distribution of surplus-value "belongs to the chapter on competition". (MECW.33. 94 and 101). Therefore, Marx was still thinking at this time that this third chapter on capital and profit would be concerned only with capital in general. However, the close relation between the "two transformations" of surplus-value into profit required at least some discussion of the average rate of profit in this chapter.

f. Outlines of Volume 3 of Capital

As mentioned above, after completing the draft of "Capital and Profit", Marx returned to a further discussion of merchant capital, which has already been discussed in section (2.d) above. Marx then returned to the "Theories of Surplus-Value" and wrote three concluding sections on Ramsay, Cherbuliez, and Jones. Marx's main emphasis in these sections was the glimpses by these authors of the crucial distinction between constant capital and variable capital and the falling rate of profit that followed from this distinction. For our purposes, the most important parts of these sections are two draft outlines of what later became Volume 3 of Capital, which are contained as digressions in the sections on Cherbuliez and Jones. These draft outlines will be discussed in the reverse order in which they appear (about 50 printed pages apart) because the second outline is more general than the first and is clearly presupposed in the latter.

The second outline is for what Marx calls the third "section" (instead of the third "chapter") on "Capital and Profit". This outline is as follows:

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.

6. Law of the fall of the rate of profit. Adam Smith, Ricardo, Carey.

7. Theories of profit...

8. Division of profit into industrial profit and interest. Mercantile capital.

Money capital.

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; TSV.I. 415-16)

The most striking feature of this outline is that the contents of "Capital and Profit" is now radically expanded compared to the draft of just a few months before. It no longer includes just aspects of capital in general (the first transformation of surplus-value into profit and the falling rate of profit), but also includes all the aspects of competition or the distribution of surplus-value which Marx had been working on for the previous year: the general or average rate of profit and prices of production, rent, interest, merchant profit, and revenue and its sources. Evidently, Marx's work on these subjects over the previous year convinced him that they should be included in the third "section" on "Capital and Profit", rather than waiting for a subsequent volume on competition. (Oakley 1983, pp. 82-110, also emphasizes Marx's expansion of the content of "Capital and Profit" to include these aspects of competition and the distribution of surplus-value, besides capital in general.) 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).

The other outline is a more detailed outline of "the second chapter of Part 3, on 'Capital and Profit, where the formation of the general rate of profit is dealt with" (MECW.33. 299). (Note that this title presumes the more general outline just discussed of the entire "Part" 3 on "Capital and Profit".) Excerpts from this outline are:

1. Different organic composition of capitals ...
2. Differences in the relative value of the parts of different capitals which do not arise from their organic composition...
3. The result of those differences is diversity of the rates of profit in different spheres of capitalist production.
4. For the total capital, however, what has been explained in Chapter 1 holds good. In capitalist production each capital is assumed to be a unit, an aliquot part of the total capital. Formation of the general rate of profit. (Competition).
5. Transformation of values into prices of production...
6. To take up the Ricardian point: the influence of general variations in wages on the general rate of profit and hence on prices of production. (MECW.33. 299; TSV.I. 415-16; emphasis added)

Again, this outline is very close to the final version of Part 2 of Volume 3, with (1)-(3) the subjects of Chapter 8, (4)-(5) the subjects of Chapter 9, and (6) the subject of Chapter 11. (Chapters 10 and 12 are not included in this outline). Note especially (4), which is a very important methodological comment and which clearly supports the main point of this paper that the total amount of surplus-value is determined prior to its distribution and is not affected by this distribution. Note also the second sentence of (4), which clarifies the important point that the individual capitals which Marx often used as illustrations in Volume 1 of Capital (i.e. in "capitalist production") is not an actual individual capital per se, but instead is an ideal representative of the total capital ("is assumed to be a unit, an aliquot part of the total capital"), and thus that the real subject of Volume 1 is this total capital or capital in general. Finally, note also that the "competition" in parentheses clearly indicates that the theory of the equal rates of profit and prices of production belongs at the level of abstraction of competition.

Thus we can see that Marx's year-long study of various aspects of the distribution of surplus-value clarified Marx's thinking on these issues, and led Marx to include them in "Capital and Profit," along with the aspects of capital in general already included. The next major manuscript written by Marx in 1864-65 was the first and only full draft of Volume 3 of Capital, as we know it today. Evidently, Marx's work on the 1861-63 manuscript clarified Marx's thinking to such an extent that he was now ready to write this volume. The fact that this first draft, although certainly not polished for publication, is as clear and complete as it is, is further evidence of the clarity Marx achieved while working on the 1861-63 manuscript. To this 1864-65 manuscript of Volume 3 we now turn.

3. Volume 3 of Capital

As indicated by Marx's outline just discussed, Volume 3 of Capital is primarily concerned with an analysis of the distribution of surplus-value into its component parts - first the equalization of profit rates across branches of production and then the further division of surplus-value into merchant profit, interest, and rent at the level of abstraction of competition. A full discussion of Volume 3 is obviously beyond the scope of this paper. Instead, a brief survey will be presented of each of the specific aspects of the distribution of surplus-value which are discussed in Volume 3 with two main objectives: (1) to provide further support for the main point of this paper - that the total amount of surplus-value is taken as a predetermined magnitude in this analysis of the distribution of surplus-value in Volume 3; and (2) to examine in greater detail Marx's specific theories of the determination of the particular forms of surplus-value. The versions of these specific theories presented in this draft of Volume 3 are Marx's final and most complete versions of these theories.

a. Equal rates of profit and prices of production. (Part 2)

Marx's theory of the equal rates of profit and prices of production presented in Volume 3 may be briefly summarized as follows (see Moseley 1993 for a more thorough discussion): First, the general rate of profit is determined as the ratio of the total amount of surplus-value produced (S) to the total capital invested © in the capitalist economy as a whole. Algebraically:

$$(1) R = S / C$$

As discussed many times above, the total amount of surplus-value (S) is determined at the prior level of analysis of capital in general and is taken as given in the analysis of the distribution of surplus-value. The total amount of capital invested © is also taken as given, as the initial sum of money (M) in Marx's "general formula for capital", M - C - M'.

The prerequisite [of prices of production] is the existence of a general rate of profit ...
(C.III. 257)

The general rate of profit is determined in fact (1) by the surplus-value that the total capital produces, (2) by the ratio of this surplus-value to the value of the total capital, (3) and by competition, but only in so far as this is the movement through which the capitals invested in particular spheres of production seek to draw equal dividends from this surplus-value in proportion to their relative size. (C.III. 489)

Next, the price of production for each commodity (P_i) is then determined according to the following equation:

$$(2) P_i = K_i + R C_i$$

where K_i is the costs of production of the commodity (the sum of variable capital and constant capital consumed) (a flow variable) and C_i is the total stock of capital invested in the given industry. In this determination of prices of production, the general rate of profit (R) is taken as given, as determined in the prior analysis of capital in general. The magnitudes of individual capitals invested and consumed in each industry (C_i and K_i) are also taken as given, as the sums of money which initiate the circulation of capital in each industry, as is the total capital in the analysis of capital in general. Therefore, prices of production are determined by adding the average profit to the given costs of production for each commodity, with the average profit determined as the product of the general rate of profit and the given capital invested in each industry, and the general rate of profit determined by the prior analysis of capital in general. In this way, the total amount of surplus-value is distributed in such a way that all industries receive the same rate of profit.

The formula that the price of production of a commodity = $k + p$, cost price plus profit, can now be stated more exactly; since $p = kp'$ (where p' is the general rate of profit), the price of production = $k + kp'$.
(C.III. 265) [Marx is here ignoring the difference between the stock and flow of capital; FM]

The prices of production arise from an adjustment of commodity values under which, after the reimbursement of the respective capital values consumed in the various spheres of production, the total surplus-value is distributed, not in the proportion in which it is produced in the individual spheres of production, ... but rather in proportion to the size of the capitals advanced... It is the constant tendency of capitals to bring about, by competition, this adjustment of the total surplus-value which the total capital produces ... (C.III. 895)

The average profit included in the price of each commodity ($= R C_i$) 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 equal to its value or proportional to the labor-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 according to the total amount of capital invested. Taken all together, 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 1993a for an algebraic derivation of this result.)

We have thus an absolute limit for the value component that forms surplus-value ... ; 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. If we call this surplus-value whose limits are thus determined profit, when it is calculated on the total capital advanced, as we have already done, then this profit, considered in its absolute amount, is equal to the surplus-value, i.e. it is just as regularly determined in its limits as this is. It is the ratio between the total surplus-value and the total social capital advanced in production. If this capital is 500 ... and the surplus-value is 100, the absolute limit to the rate of profit is 20 percent. The division of the social profit as measured by this rate among the capitals applied in the various different spheres of production produces prices of production which diverge from commodity values and which are the actual averages governing market prices. But this divergence from values abolishes neither the determination of prices by values nor the limits imposed on profit by our laws... This surcharge of 20 per cent ... is itself determined by the surplus-value created by the total social capital, and its proportion to the value of this capital; and this is why it is 20 percent and not 10 percent or 100 percent. The transformation of values into prices of production does not abolish the limits to profit, but simply affects its distribution among the various particular capitals of which the social capital is composed ... (C.III. 999-1000; emphasis added)

In my previous paper (Moseley 1993a), 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 recognize 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. If Marx's logical method is followed, including this key premise of the prior determination of the general rate of profit, then there is no logical error in Marx's theory of prices of production.

b. Commercial profit (Part 4)

Commercial capital is what Marx called mercantile capital in the 1861-63 manuscript, i.e. capital engaged in the functions of buying and selling (and related activities). As discussed above, the unique feature of commercial capital is that the circulation functions which it performs do not produce value or surplus-value. Therefore, the question arises of how commercial capital receives a profit if it produces no surplus-value. We have already seen above that Marx's general answer to this question is that commercial capital receives its profit as a deduction from the surplus-value produced by industrial capital and that the mechanism through which this deduction of surplus-value takes place is the difference between the "wholesale" price at which commercial capital purchases commodities from industrial capital and the "retail" price at which commercial capital sells commodities to consumers. The total amount of surplus-value is taken as given and remains the same, but it must now be shared (at equal rates of profit) with commercial capital:

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? ...

It is clear that the merchant can obtain his profit only from the price of the commodities he sells, and also that this profit which he makes on the sale of his commodities must be equal to the difference between his purchase price and his sale price; it must be equal to the excess of the latter over the former. (C.III. 395-96; emphasis added)

How then are the purchase price and the selling price of commercial capital determined? Marx first considers the simple case in which there are no additional costs of circulation beyond that necessary to purchase the commodities. The general rate of profit (R') is now determined as the ratio of the predetermined total amount of surplus-value to the sum of industrial capital (C_p) and commercial capital (C_c), not just to the industrial capital as before:

$$(3) R' = S / (C_p + C_c) < R = S / C$$

Therefore, the general rate of profit is less than what it was in the absence of commercial capital.

Commercial capital's "wholesale" price (WP) (or industrial capital's selling price) is then determined as follows (considering both the total industrial capital and the total commercial capital, rather than individual capitals):

$$(4) WP = K_p + R'(C_p)$$

where K_p is the cost of production (the sum of variable capital and constant capital consumed). Since $R' < R$, the average profit added to the costs of production by industrial capital is less than in the absence of commercial capital. In this way, industrial capital appropriates a smaller share of the total surplus-value.

The remainder of the total surplus-value is then received by commercial capital by adding the average profit to its buying price to determine its selling or "retail" price (RP):

$$(5) RP = WP + R'(C_c)$$

This then is Marx's explanation of how commercial capital receives a profit even though it produces no surplus-value. It can easily be shown that the sum of industrial profit and commercial profit determined in this way is equal to the predetermined total amount of surplus-value, and that the "retail" price is equal to the total price of commodities in the earlier case of assuming no commercial capital. Marx presented a numerical example of this method of determination on p. 398 of Volume 3. (Marx gave a similar example in a 1868 letter to Engels, which will be discussed in Section 6 below; see SC. 194-95.)

Marx did not clearly present all the details of the more complicated case with additional costs of circulation (K_c), but the general principles just discussed still apply, with the following modifications: (1) The general rate of profit is even lower because of the greater commercial capital which now includes (K_c). (2) K_c is subtracted from the "wholesale" price and added to the "retail" price, so that the equations for determining these prices become:

$$(6) WP = K_p + R'(C_p) - K_c$$

$$(7) RP = WP + R'(C_c) + K_c$$

In this way, commercial capital is able both to recover its additional costs of circulation and to collect the average rate of profit out of the surplus-value produced by industrial capital. Throughout this analysis, Marx assumed that the total amount of surplus-value is predetermined and is not affected by this division into industrial profit and commercial profit. In Marx's examples, the total amount of surplus-value is assumed to be a given \$180.

In Volume 2 of Capital, Chapter 6 ("The Costs of Circulation"), Marx stated that the "general law" for

these costs of circulation is that they are recovered out of the surplus-value produced by productive capital, which is taken as given in this analysis of commercial profit.

The general law is that all circulation costs that arise simply from a change in the form of the commodity cannot add any value to it. They are simply costs involved in realizing the value or transferring it from one form to another. The capital expended in these costs (including the labor it commands) belongs to the faux frais of capitalist production. The replacement of these costs must come from the surplus product, and from the standpoint of the capitalist class as a whole it forms a deduction of surplus-value ... (C.II. 225-26; emphasis added)

c. Interest (Part 5)

According to Marx's theory of interest, interest is simply a part of the total surplus-value which the "functioning" capital (either industrial capital or commercial capital) has to pay to the lenders of capital for the use of the lenders' capital. Again, the total amount of surplus-value is predetermined and taken as given and not affected by its division into "profit of enterprise" and interest.

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.III. 493)

Where a given whole such as profit is to be divided into two, the first thing that matters is of course the size of the whole to be divided ... And the circumstances that determine the magnitude of the profit to be divided, the value produce of unpaid labor, are very different from those that determine its distribution among these two types of capitalist ... (C.III. 482; emphasis added)

Marx argued that there are no general, systematic laws that determine the rate of interest, as there is with the rate of profit. Therefore, there are no general laws that determine the relative shares of "profit of enterprise" and interest in the total surplus-value. The rate of interest is instead determined by the supply of and demand for capital as borrowed funds. For our purposes, the crucial point is that the maximum rate of interest is the rate of profit, which is determined prior to and independent of the division of the total surplus-value into "profit of enterprise" and interest.

With the division into interest and profit of enterprise, the average profit itself sets the limit for the two together. It supplies the given amount of value they have to share between them, and this is all they have to share. The specific ratio of this division is accidental here, i.e. it is determined exclusively by competition... (C.III. 1001; emphasis added)

d. Rent (Part 6).

Marx began his analysis of rent by clearly stating that we was not concerned with a complete analysis of landed property, but only with rent as a form of the distribution of surplus-value.

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.III. 751; emphasis added)

Marx posed the question of differential rent at the beginning of Chapter 38, in the following way, which also clearly indicates that rent is analyzed as a part of the total surplus-value, which is predetermined and taken as given.

In our analysis of ground-rent, we intend to proceed first of all from the assumption that products that pay a rent of this kind - which means that a part of surplus-value ... is reducible to rent - are sold like all other commodities at their prices of production... The question then arises: How a ground-rent can develop on this assumption, i.e. how a portion of profit can be transformed into ground-rent ...(C.III. 779; emphasis added)

Marx assumed that agriculture is organized on a capitalist basis, and that capital invested in agriculture receives the same average rate of profit as all other industries. However, agriculture is unique in that productivity differentials of different lands are due in part to unequal natural fertilities, which cannot be eliminated by competition and the transfer of capital. As a result, the price of production of agricultural goods is determined by the labor-time requirements on the least fertile land, rather than the labor-time requirements on the land of average fertility. The greater quantity of goods produced by the same amount of labor on the more fertile lands will sell at the same price as goods produced on the least fertile land. Therefore, the goods produced on the more fertile land will contain a sustainable "surplus profit", i.e. a profit over and above the average rate of profit. This surplus profit is transformed into differential rent that must be paid to landlords because of the landlords' private ownership of the land and thus their monopolization of the benefits of the greater natural fertility.

In Chapter 45, Marx also explained in greater detail the possibility of absolute rent on the least fertile land. Marx argued that absolute rent (which arises even though the price of agricultural goods is not greater than their value) is possible because the composition of capital in agriculture may be less than the average composition for the total economy, in which case the value of agricultural goods will be greater their price of production. Hence the actual price of agricultural goods may rise above their price of production without necessarily being greater than their value, and this excess of the actual price over the price of production is the source of absolute rent on the least fertile land. Because competition among capitalists tends to eliminate a higher than average rate of profit on capital in agriculture, this extra surplus-value accruing to agriculture is appropriated by landlords as absolute rent. Once again, it is clear that rent is a part of a predetermined total amount of surplus-value.

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.III. 898)

e. Revenue and its sources (Part 7)

Part 7 is a kind of summary of Marx's theory of the distribution of surplus-value in Volume 3 which has not received the attention it deserves. The main emphasis in this part is on the fundamental premise that the total amount of surplus-value is determined prior to its division into individual parts. A few passages, among many similar passages in Part 7, include:

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.III. 971; emphasis added)

The sum of average profit plus ground-rent can never be greater than the quantity of which these are parts, and this is already given before the division. (C.III. 972; emphasis added)

The value freshly added each year by new labor ... can be separated out and resolved into the different revenue forms of wages, profit, and rent; this in no way alters the limits of the value itself, the sum of the value that is divided between these different categories. In the same way, a change in the ratio of these individual portion among themselves cannot affect their sum, this given sum of value... What is given first, therefore, is the mass of commodity values to be divided into wages, profit, and rent ... 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.III. 998-99; emphasis added)

Marx also contrasted his premise with essentially the opposite premise of the vulgar economists, according to which the different forms of revenue - wages, profit, and rent - are themselves independent "sources" of value, rather than being parts of a predetermined total value. Marx called this opposite view the "Trinity Formula" or the "illusions created by competition".

Thus if the portion of commodity value representing labor freshly added ... breaks down into different portions, which assume mutually independent shapes in the form of revenues, this does not in any way mean that wages, profit, and ground-rent are now to be considered as the constituent elements, with the governing price of commodities ... itself arising from their combination or sum ... In actual fact commodity value is the quantitative premise, the sum total value of wages, profit and rent, whatever their relative mutual magnitudes might be. In the false conception considered here, however, wages, profit and rent are three independent value magnitudes, whose total produces, limits and determines the magnitude of commodity value. (C.III. 1002; emphasis added)

4. Volume 1 of Capital

In the final draft of Volume 1 of Capital, which was written in 1866-67, there are a number of anticipations of Marx's theory of the distribution of surplus-value in Volume 3, which provide further evidence of Marx's method of first determining the total amount of surplus-value and then analyzing the division of this total amount into individual parts. The main anticipations are: (1) in Chapter 5 (pp. 266-67), a preview of Marx's theories of merchant profit and interest as parts of a predetermined total amount of surplus-value; (2) in Chapter 10, the theory of the determination of the length of the working day by the class struggle between capitalists and workers; (3) in Chapter 11 (pp. 421-22), a preview of Marx's theory of equal rates of profit and prices of production; (4) in Chapter 12, the derivation of technological change as an inherent tendency of capital in general; and (5) in the Introduction to Part 7, a preview of Volume 3 as a theory of the distribution of surplus-value into its various fragments. Because of space limitation, it will not be possible to discuss these anticipations in detail (see Moseley 1995 for a further discussion). One example will have to suffice from the Introduction to Part 7:

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 person, 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.I. 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.I. 710; emphasis added)

5. Letters to Engels, 1867-68

Further evidence of Marx's method of the prior determination of the total amount of surplus-value is provided by three important letters to Engels written in 1867-68, i.e. soon after the publication of the first edition of Volume 1 of Capital. 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)

Marx repeated the same point in a letter in January 1868, in which he stated that his treatment of surplus-value was 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)

Finally, in an important letter in April 1868, Marx outlined for Engels the contents of Volume 3 of Capital. Excerpts from this letter clearly indicate that the main subject of Volume 3 is the division of surplus-value into its component parts:

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.

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... (T)he 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 equalized, 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)

7. Conclusion

This paper has presented a considerable amount of textual evidence to support the argument that Marx's theory of the distribution of surplus-value is consistently based throughout the various drafts of Capital on the fundamental premise that the total amount of surplus-value is determined prior to and independent the division of this total amount into individual parts. If anything, Marx became increasingly clear about this premise as he worked out his specific theories of the different forms of revenue into which the total surplus-value is divided.

The burden of interpretation would now seem to be on others - especially the neo-Ricardians - who have heretofore ignored this fundamental premise of Marx's theory, especially in their interpretation of the "transformation problem". I have shown in my earlier paper (Moseley 1993a) that if Marx's theory is correctly interpreted to include this premise, then there is no logical error to his solution to the "transformation problem".

In response, the neo-Ricardians need to show how their interpretation of Marx's theory, and of the "transformation problem" in particular, is consistent with this fundamental premise. Otherwise, it can only be concluded that their criticisms of Marx's theory do not in fact apply to Marx's theory, at least not in terms of Marx's own logical method, but instead apply only to their misguided attempts to interpret Marx's theory in terms of linear production theory.

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