HOSTILE BROTHERS:
MARX’S THEORY OF THE DISTRIBUTION OF SURPLUS-VALUE
IN VOLUME 3 OF CAPITAL

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Capitalists are like hostile brothers who divide among themselves the loot of other people’s labor.

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

Rent, interest, and industrial profit are only different names for different parts of the surplus-value of the commodity, or the unpaid labor enclosed in it, and they are equally derived from this source, and from this source alone.

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 my no means its ultimate proprietor. He has to share it afterwards with capitalists who fulfil other functions in social production taken as a whole, with the owner of 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.
It is argued in this paper that the overall main subject of Volume 3 of *Capital* is the \textit{distribution of surplus-value}, i.e. the division of the total amount of surplus-value into individual component parts, first into equal rates of profit across branches of production and then the further division of surplus-value into commercial profit, interest, and rent. This subject of Volume 3 is clearly stated in the various quotations at the beginning of this paper and in the many subsequent quotations presented throughout the paper.

The paper argues further that Marx’s analysis of the distribution of surplus-value is based on the fundamental premise that \textit{the total amount of surplus-value has already been determined by the prior analysis in Volume 1}. The main question addressed in Volume 3 is how this predetermined total amount of surplus-value is divided up into its component parts. The division of the total surplus-value into individual parts does not in any way affect the magnitude of the total surplus-value, since this total surplus-value is taken as a predetermined given in the analysis of its division. We will see that this key premise is explicitly stated and emphasized many times in Volume 3 and in the earlier drafts of Volume 3, especially in the important concluding Part 7 on “Revenue and its Sources”. (Marx’s discussions of this key premise in the earlier drafts of *Capital* are examined more extensively in Moseley 1997.)

I argue that this distinction between the determination of the total amount of surplus-value in Volume 1 and the distribution of surplus-value in Volume 3 is closely related to Marx’s distinction between “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. Since this common property is shared by \textit{all} capitals, the analysis of capital in general is necessarily an analysis of all the capitals taken together, that is of the total social
capital. 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 individuals capitals, and, in particular, to the distribution of surplus-value among capitals.

Marx’s theory of the production of surplus-value in Volume 1 is often presented in terms of an individual capital. However, Marx’s theory in Volume 1 is not just about the surplus-value produced by a single capital. Rather, it is about what all capitals have in common: the production of surplus-value. Therefore, any given individual capital is analyzed as a representative of all capitals and hence of the total social capital. The determination of the amount of surplus-value produced by one capital is representative of determination of the amount of surplus-value produced by all capitals together, and hence the determination of the total surplus-value produced by the total social capital. Marx expressed this representative nature of the analysis of individual capitals in Volume 1 in an important outline at the end of the Manuscript of 1861-63, as follows:

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

Marx’s theory of the distribution of surplus-value in Volume 3 explains the individual parts of surplus-value - equal rates of profit, industrial profit, merchant profit, interest, and rent - as the necessary “forms of appearance” of the unifying substance of surplus-value, which is
produced by the unpaid labor of workers. These different forms of surplus-value appear to the agents of capitalist production - and in general also to economists - to originate from separate and independent sources (e.g. interest from capital, rent from land, etc.). But Marx’s theory demonstrates that these forms of surplus-value are all derived from the same source: the surplus labor of workers. In other words, Marx’s theory demonstrates the “inner connection” of the different forms of appearance of surplus-value. Furthermore, Marx’s theory explains how the illusion that these individual parts of surplus-value come from separate and independent sources is a “necessary appearance,” i.e. an appearance that, although false, necessarily arises on the basis of capitalist production. Therefore, another purpose of Volume 3 is to explain, not only these important phenomena related to the distribution of surplus-value, but also why these phenomena appear differently to the agents of capitalist production (and to economists). Marx announced his intention to explain these more concrete forms of appearance in the first paragraph of Volume 3:

> Our concern is rather to discover and present the concrete forms which grow out of the process of capital’s movement as a whole... The configurations of capital, as developed in this book, thus approach step by step the form in which they appear on the surface of society, in the action of different capitals on one another; i.e. in competition, and in the everyday consciousness of the agents of production themselves. (C.III. 117)

The overall logical structure of Volume 3 and its relation to Volumes 1 and 2 has hardly been discussed in the Marxian literature. Sweezy’s classic Theories of Capitalist Development discussed Part 2 (the “transformation problem”) and Part 3 (the “falling rate of profit”), but did not discuss the rest of Volume 3, and presents no interpretation of the overall structure of Volume 3 and it relation to the first two volumes. Mandel’s Introduction to the Penguin (1981) edition of Volume 3 briefly mentions once, but does not emphasize, that the subject of Volume 3 is the distribution of surplus-value, and he does not explicitly discuss the relation between the whole and the individual parts of surplus-value. The currently dominant Sraffian interpretation of Marx’s theory argues that Volume 1 is about the “value system” and Volume 3 is about the
“price system”. However, discussion of the “price system” is almost always limited to Part 2 of Volume 3 only (the “transformation problem”). Little or nothing is said about the rest of Volume 3, not even Part 1, which is a crucial preliminary to Part 2. Parts 4 through 7 are seldom if ever discussed, and no explanation is given of how these other parts relate to Part 2. At an international conference on Volume 3 in 1994 in Bergamot, Italy (commemorating the 100th anniversary of the publication of Volume 3), there was very little discussion of the overall logical structure of Volume 3 (see Bellofiore 1997). The main exceptions to this general neglect of the overall logical structure of Volume 3 and its relation to Volumes 1 and 2 have been Mattick, Rosdolsky, Foley, and Dussel. But no one has yet presented a comprehensive and detailed interpretation of Volume 3 as a whole. That is what this paper aims to do.

This paper reviews the individual parts of Volume 3 in order to demonstrate these three main points: (1) the main subject of Volume 3 is the distribution of surplus-value; (2) the total amount of surplus-value is assumed to be already determined and taken as given in Volume 3; and (3) the necessary appearance that the individual forms of surplus-value originate from separate and individual sources. The paper concludes with a discussion of a very important letter written by Marx to Engels in 1868 which summarizes the overall aims and logic of Volume 3, and which provides further support for the interpretation of Volume 3 presented here.

**Part 1: Profit and the Rate of Profit**

Part 1 of Volume 3 provides a transition from Marx’s analysis of capital in general to his analysis of competition. Before Marx analyzed the division of the total surplus-value into individual parts, he first derived new “forms of appearance” acquired by surplus-value - profit and the rate of profit. Profit is defined by Marx as surplus-value which is related to the total capital invested (including constant capital), rather than just to the variable capital only (which according to Marx’s theory is the source of surplus-value). The rate of profit expresses this relation as a ratio, as the ratio of surplus-value to the total capital, as distinguished from the rate of surplus-value which is the ratio of the same surplus-value to the variable capital only (the
source of surplus-value). Profit is thus *the same magnitude as surplus-value*, and this magnitude has already been determined by the prior analysis of capital in general in Volume 1. The amount of surplus-value obviously does not change as a result of this different measure of the same amount of surplus-value in relation to the total capital as profit. The same amount of surplus-value is simply related to the total capital, rather than just to the variable capital.

In the first two drafts of Volume 3 of *Capital* (in the *Grundrisse* and the *Manuscript of 1861-63*), Marx made it clear in the first paragraph that, in this analysis of profit and the rate of profit, the quantity of surplus-value is assumed to be already determined by the prior analysis in Volumes 1 and 2, and is now taken as a given (predetermined) magnitude. In the *Grundrisse*, Marx wrote:

> Capital is now posited as the unity of production and circulation and the surplus-value it creates in a given period of time ... In a definite period of time, ... capital produces a *definite surplus-value* ... A capital of a certain value produces in a certain period of time a *certain surplus-value*. Surplus-value thus measured by the value of the presupposed capital, capital thus posited as “self-realizing value” - is profit ... (G. 746-47; italicized emphasis added)

And in the *Manuscript of 1861-63*:

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

> The *surplus value* produced within a given period of circulation ... when measured against the *total capital* which has been advanced is called - profit...

> Considered with respect to its material, profit *is absolutely nothing but surplus value itself*. Considered with respect to its absolute magnitude, it therefore does *not differ from the surplus value* produced by capital over a particular turnover time. *It is surplus value itself, but calculated differently.* (MECW.33. 69; italicized emphasis added)

In Part 1 of Volume 3 (at least as we have it from Engels), Marx did not begin with this important methodological comment. Instead, he just started right in with a specific numerical example. However, the analysis still clearly assumes that a given quantity of surplus-value has already been determined. In Marx’s main numerical example, the given
quantity of surplus-value is £100 (the same numerical example as in Chapter 9 of Volume 1). Profit is defined in the same way as in the earlier drafts: as a given predetermined quantity of surplus-value related to the total capital, rather than just to the variable capital.

As this supposed derivative of the total capital advanced, the surplus-value takes on the transformed form of profit. (C.III. 126)

Marx emphasized further that, in these forms of appearance of profit and the rate of profit, the source of surplus-value is obscured and not recognized by capitalists (and economists). Profit appears to arise from both constant capital and variable capital equally. Marx argued that this illusion is not an accident; rather it necessarily appears to capitalists because capitalists make no distinction between constant capital and variable capital; to capitalists, both components of capital are equally “costs” and therefore surplus-value appears to arise equally from both of these “costs”.

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; emphasis added)

Marx’s analysis of profit and the rate of profit in Part 1 of Volume 3 is presented in terms of an individual capital, as his theory of surplus-value in Volume 1. However, Part 1 of Volume 3 remains at the level of abstraction of capital in general and thus is about what all individual capitals have in common. In this case, what they have in common is that surplus-value appears to be the result of both constant capital and variable capital, rather than just the variable capital alone. So the individual capital in Part 1 is analyzed as a representative of the total social capital, or as “an aliquot part of the total social capital”, just as in Volume 1. Therefore, when Marx assumes that the surplus-value has been determined, he means not just that the surplus-value produced by a single individual capital has been determined, but rather that the surplus-values produced by all capitals have been determined, and hence that the total social surplus-value has been determined.
Marx expressed this point explicitly in the *Manuscript of 1861-63*:

Just as the surplus-value of the individual capital in each sphere of production is the measure of the absolute magnitude of the profit - merely a converted form of surplus-value - so is the *total surplus-value produced by the total capital* the absolute measure of the total profit of the total capital, whereby profit should be understood to include all forms of surplus-value, such as rent, interest, etc. It is therefore the absolute magnitude of value ... which the *capitalist class* can divide among itself in various headings. (MECW.33: 98)

This assumption of a given, predetermined total amount of surplus-value remains the basic premise of Marx’s theory of the distribution of surplus-value throughout the remainder of Volume 3.

**Part 2: The General Rate of Profit and Prices of Production**

Part 2 is the beginning of Marx’s analysis of competition and the distribution of surplus-value. The distribution of surplus-value is first considered across different branches of production. Marx assumed more or less as an empirical fact that the rates of profit in different branches of production tend to be equalized as a result of competition among capitalists (although he certainly recognized the many obstacles to this equalization). The important point is that this empirical fact of equal rates of profit (or at least a tendency toward equality) appears to contradict the labor theory of value and surplus-value, because profit appears to arise from the total capital, rather than from the variable capital alone. This apparent contradiction between the labor theory of value and equal rates of profit was of course the main “stumbling block” of Ricardian economics.

Marx called attention to this apparent contradiction in Chapter 11 of Volume 1 of *Capital*, and promised to explain this contradiction at a later stage of his analysis, according to his logical method of first determining the total amount of surplus-value and then later determining the individual component parts of surplus-value, such as the average profit collected in each industry. Marx commented that “for the solution of this apparent contradiction, many intermediate terms are still needed.” (C.I. 421) The main “intermediate term” that is needed for
the explanation of this apparent contradiction is the determination of the total amount of surplus-value and the general rate of profit prior to the explanation of equal profit rates across industries.

The equalization of profit rates across industries is accomplished through the determination of the prices of production of individual commodities, which are different from the values of individual commodities. Therefore, Marx’s explanation of the equalization of profit rates across industries is necessarily concerned with the determination of these prices of production. The key point that I wish to emphasize is that Marx’s theory of prices of production and the equalization of profit rates is based on the premise that the general rate of profit (to which individual rates of profit are equalized) has itself already been determined prior to the determination of prices of production, and is taken as given in this determination of prices of production.

The general rate of profit (R) is defined as the ratio of the total amount of surplus-value (S) to the total capital invested (C) in the capitalist economy as a whole:

\[ R = \frac{S}{C} \]  

(1)

The total amount of surplus-value is determined by the prior analysis of capital in general in Volume 1 of Capital, and the total capital invested is taken as given in this prior analysis of capital in general, as the amount of money-capital (M), invested in the first phase of the circulation of capital (M-C ... P ... C’-M’) in the capitalist economy as a whole (see Moseley 1993 and 1997b for a further discussion of the initial givens in Marx’s theory as quantities of money-capital).

The general rate of profit depends in part on the distribution of capital across industries. Some industries have a higher “value” rate of profit (the rate of profit that would occur if individual prices were equal to their values) than other industries, because the former industries have a higher proportion of labor for a given amount of capital (i.e. a lower composition of capital). If a given amount of capital is redistributed from industries with relatively more labor to industries with relative less labor, then, because there is now less labor in the aggregate, there is also less surplus-value produced in the aggregate, and hence a lower general rate of profit.
In order to show this dependence of the general rate of profit on the distribution of capital, Marx also expressed the general rate of profit as a weighted average of the individual “value” rates of profit in different industries ($S_i / C_i$), with the weights determined by the relative size of the capital in each industry as a share of the total social capital ($C_i / C$), as follows:

\[
RP = \frac{\sum_i S_i}{\sum_i C_i} \frac{C}{C}
\]

Marx called the rate of profit determined in this way the “average rate of profit”.

This expression of the general rate of profit as the average rate of profit obviously does not change its magnitude. Since the sums of the individual amounts of surplus-value and capital are by definition equal to the social totals, the average rate of profit is identically equal to the general rate of profit as the ratio of the social totals, which can be easily seen as follows:

\[
\frac{\sum_i S_i}{\sum_i C_i} = \frac{\sum_i S_i}{C} = \frac{S}{C}
\]

That is why Marx used these two terms synonymously (“general or average rate of profit”) in many passages throughout his manuscripts (including the title of Chapter 9 of Volume 3). The average rate of profit is simply a way of showing the dependence of the general rate of profit on the distribution of capital across industries.

In the Manuscript of 1861-63, Marx expressed the determination of the general rate of profit mostly in terms of the ratio of the total surplus-value to the total capital. To take a few examples:

*The general rate of profit is formed through the total surplus-value produced being calculated on the total capital of society* (of 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, the amount of surplus-value which falls to the share of a block of capital of given size, for example £100, ... constitutes the average profit or the general rate of profit ... (TSV.II: 433; italicized emphasis added)

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; emphasis added)

But it was also shown that considering the sum total of the capitals which are employed in the various particular spheres of production, the total amount of the social capital, or, and this is the same thing, the *total capital of the capitalist class*, the *average rate of profit is nothing other than the total surplus-value related to and calculated on this total capital*. (MECW.33. 104; emphasis added)

Marx also expressed the determination of the general rate of profit as the ratio of the aggregate totals in Volume 3 of *Capital*:

The *total sum of capitals* applied in the five spheres is 500; the *total sum of surplus-value* they produce 1100 the total value of commodities they produce 610. If we treat 500 as one single capital, with I-V simply forming portions of it, ... then the average composition of the capital of 500 is 78c + 22c. Treating the capitals of 100 as each simply a fifth of the total capital, its composition would be this average one of 78C + 22v; in the same way the average surplus-value of 22 would accrue to each of these capitals of 100, the average rate of profit would thus be 22 per cent ... (254-55; emphasis added)

... the average rate of profit depends on the level of *exploitation of labor as a whole by capital as a whole*. (299; emphasis added)

... the value level of the *total capital* advanced (both constant and variable), ... [together] with a *given size of surplus-value or profit for the entire capitalist class*, determines the rate of profit ... (299-300; emphasis added)

Let us assume that the *total industrial capital* advanced during the year is 720c + 180v = 900 (say in millions of pounds sterling), and that s' = 100 per cent. The product is then 720c + 180v + 180s. If we call this product or the commodity capital produced C, then its value or price of production (since the two coincide when we take the totality of commodities) = 1,080 and the rate of profit on the total capital of 900 is 20 per cent. This 20 per cent, as explained already, is the average rate of profit, since here we are reckoning surplus-value not on this or
that capital of particular composition, but rather on the total industrial capital with its average composition. (398; emphasis added)

In Volume 3, Marx also emphasized the determination of the general rate of profit as a weighted average, in order to highlight the dependence of the general rate of profit on the distribution of capital:

For the formation of the general rate of profit, therefore, it is not only a question of the difference in rates of profit between the various spheres of production, from which a simple average is taken, but also of the relative weight which these different rates of profit assume in the formation of the average. This depends however either on the relative size of the capital invested in each particular sphere or on which particular aliquot part of the total social capital is invested in each particular sphere of production...

The general rate of profit is determined therefore by two factors: (1) the organic composition of the capitals in the various spheres of production, i.e. the different rates of profit in the particular spheres; and (2) the distribution of the total social capital between these different spheres ...

(C.III: 262-63)

The general or average rate of profit thus determined, it then becomes a given, a “prerequisite” for the determination of prices of production:

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

Prices of production are then determined according to the following equation:

\[ P_i = K_i + R C_i \]

where \( R \) is taken as predetermined by the prior aggregate analysis of capital in general, \( K_i \) is the costs of production of the given commodity (the sum of constant capital and variable capital) (a flow variable), and \( C_i \) is the total stock of capital invested in the given industry. The magnitudes of individual capitals consumed and invested in each industry (\( K_i \) and \( C_i \)) are taken as given, as the sums of money which initiate the circulation of capital in each industry. 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 predetermined total amount of surplus-value is distributed such that all industries receive the same rate of profit.

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; emphasis added)

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. This can be trivially shown as follows:

\[ i \left( R C_i \right) = R \left( i C_i \right) = R C = \left( \frac{S}{C} \right) C = S \]

This result follows tautologically from Marx’s logical method employed in the determination of prices of production. Because the total amount of surplus-value (the “limit”) is taken as given in the determination of prices of production, the total amount of surplus-value cannot possibly change as a result of this determination (cannot “abolish the limits”).

The transformation of values into prices of production does not abolish the limits on profit, but simply affects its distribution among the various particular capitals of which the social capital is composed ... (C.III. 1000; emphasis added)

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 it 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. (TSV.II. 190-91; emphasis added)
The equalization of profit rates across industries further obscures the origin of surplus-value. Because profit is in fact distributed across industries according to the total capital invested, and not according to the amount of variable capital, profit appears to come equally from both the constant capital and variable capital components of the total capital. Marx argued that this illusion is a “necessary form of appearance” in capitalism because competition enforces the equalization of profit rates across industries. It is now purely accidental if the surplus-value actually produced in a particular sphere of production, and therefore the profit, coincides with the profit contained in the commodity’s sale price... The actual difference in magnitude between profit and surplus-value in the various spheres of production... now completely conceals the true nature and origin of profit, not only for the capitalist, who has a particular interest in deceiving himself, but also for the worker.  (C.III. 267-68).

Profit does not merely *seem* to be different, but *is* now in fact different from surplus-value... Capitals of equal magnitude yield equal profits; in other words, profit is proportional to the size of the capital. Or profit is determined by the value of the capital advanced. The relation of profit to the organic composition of capital is completely obliterated and no longer recognizable in all these formulae. (TSV.III. 483)

Marx argued that Ricardo and his followers were not able to provide a satisfactory explanation of equal rates of profit and prices of production precisely because they failed to follow the logical method of the prior determination of the general rate of profit. Instead, Ricardo simply assumed equal rates of profit and prices of production in the very first chapter of his *Principles* without first explaining how the rate of profit is determined. Instead of postulating this general rate of profit, Ricardo should have examined how far its existence is consistent with the determination of value by labor-time and he would have found that instead of being consistent with it, prima facie, it contradicts it, and that its existence would therefore *have to be explained through a number of intermediary stages*, a procedure very different from merely including it under the law of value. (TSV.II. 174; emphasis added)

The most important “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 prices of production.
I have argued in Moseley (1993) that, if the interpretation of Marx’s logical method presented here is accepted, including the key premise of the prior determination of the general rate of profit, then the following conclusions follow: (1) Marx’s theory of prices of production is not “incomplete”, i.e. Marx did not fail to transform the inputs of constant capital and variable capital from values into prices of production, because these inputs are taken as given as quantities of money capital, not derived as the values or prices of production of given means of production and means of subsistence. The same quantities of money capital taken as given in Marx’s theory of surplus-value in Volume 1 and in his theory of prices of production in Volume 3. The only difference is that in Volume 3 the disaggregated quantities of constant capital and variable capital in each industry are taken as given, rather than the aggregate quantities of constant capital and variable capital, as in Volume 1 (the sum of the disaggregated quantities of capital are by assumption equal to the aggregate quantities of capital). (2) Marx’s two aggregate equalities both are true simultaneously, as Marx himself concluded. (3) The rate of profit does not change as a result of the determination of prices of production. Instead, the rate of profit is taken as given in Marx’s theory of prices of production, as determined in the prior aggregate analysis of capital in general in Volume 1. (4) The labor theory of value is not “redundant”, because values as defined by Marx cannot be derived from the technical conditions of production. The prices of production as determined by Marx’s theory are different from the prices of production determined by the technical conditions of production (as in the Sraffian interpretation of Marx’s theory), or in Sraffian theory. The question of which of these two theories provides a better explanation of prices of production remains, but it is not true that these two theories are the same, and therefore that value theory is redundant.

**Part 4: Commercial Profit**

The next component of surplus-value explained in Volume 3 is commercial profit, or the profit collected by commercial capital. Commercial 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 existence of commercial profit appears to contradict this assumption of unproductive labor.

Marx called attention to this apparent contradiction between the labor theory of value and commercial profit in Chapter 5 of Volume 1, and again promised to explain this apparent contradiction at a later stage of his theory, according to his logical method of first determining the total amount of surplus-value and then later determining the individual parts of surplus-value, such as commercial profit. Marx remarked that in order to explain these apparently contradictory phenomena, “a long series of intermediate steps” is necessary, which are “entirely absent” in the analysis so far.

In the course of our investigation, we will find that merchants’ capital and interest-bearing capital are derivative forms [of industrial capital]. (C.I. 267)

Marx’s explanation of this apparent contradiction is that commercial capital receives its profit as a deduction from the surplus-value produced by industrial capital. The general mechanism through which this deduction of commercial profit from the total surplus-value occurs is through the difference between commercial capital’s buying price and its selling price. Commercial capital buys commodities at less than their price of production and then sells these commodities at their price of production. This difference enables commercial capital to recover its cost and to collect the average rate of profit. In this method of determination of commercial profit, the prior determination of the total amount of surplus-value is very clear. Commercial profit is “a portion of the surplus-value produced by productive capital as a whole.” The “limits of surplus-value” (i.e. the total amount of surplus-value) is given, prior to the distribution of surplus-value through competition among individual capitalists. The general rate of profit is not determined by competition, but rather by the prior analysis of capital in general.

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)

Commercial capital does not have a direct effect on the creation of profit or surplus-value and it enters as a determining element into the formation of the general rate of profit only as far as it draws its dividends from the mass of profit that industrial capital produces, according to the proportion that it forms in the total capital. (C.III. 424)

If the limits of value and surplus-value are given, it is easy to perceive how the competition between capitals transforms values into prices of production and still further into commercial prices, transforming surplus-value into average profit. But without these limits, there is absolutely no way of seeing why competition should reduce the general rate of profit to one limit rather than to another, to 15 per cent instead of 1,500 percent. (C.III. 429)

How then are the purchase price and the selling price of commercial capital determined?xii

With the inclusion of commercial capital, 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:

(6) \[ R' = \frac{S}{C_p + C_c} < R = \frac{S}{C} \]

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

Commercial capital’s buying price or “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):

(7) \[ WP = K_p + R' (C_p) \]

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, or price of production (\(P\)):

\[
P = WP + R'(C_c)
\]

(8)

Prices of production are now different from those determined in Part 2, because the proportion of commercial capital will vary across industries and because the addition of commercial capital reduces the general rate of profit that is taken as given.

This then is Marx’s explanation of how commercial capital receives a share of the total surplus-value even though it produces no surplus-value. It is trivial to show that the sum of industrial profit (R’\(C_p\)) and commercial profit (R’\(C_c\)) determined in this way is equal to the predetermined total amount of surplus-value:

\[
R' C_p + R' C_c = R' (C_p + C_c) = \left[ \frac{S}{(C_p + C_c)} \right] (C_p + C_c) = S
\]

(9)

The only difference is that a part of this total amount of surplus-value is now collected by commercial capital, rather than by industrial capital, by means of the above relative price mechanism. (Marx presented a numerical example of this method of determination on p. 398 of Volume 3, and gave a similar example in an 1868 letter to Engels to be discussed below.)

The appropriation of profit by commercial capital further obscures the origin of surplus-value. Since commercial profit receives a profit proportional to its total amount, just like industrial capital, it looks like profit is produced by commercial capital as well as by industrial capital. This illusion is enhanced by the effect that the rate of turnover of commercial capital has on the rate of profit, e.g. a faster rate of turnover of commercial capital increases the rate of profit (see Chapter 18 of Volume 3). Again, these illusions arising from circulation necessarily arise in capitalism because the products of capitalism are commodities which must pass through the phases of circulation and because capital must be invested to carry our these necessary
functions of circulation, even though these functions do not themselves directly product surplus-value.

As the reader will have recognized in dismay, the analysis of the real, inner connections of the capitalist production process is a very intricate thing and a work of great detail; it is the task of science to reduce the visible and merely apparent movement to the actual inner movement. Accordingly, it will be self-evident that, in the heads of the agents of capitalist production and circulation, ideas must necessarily form about the laws of production that diverge completely from these laws and are merely the expression in consciousness of the apparent movement. The ideas of a merchant, a stock-jobber or a banker are necessarily quite upside-down. (C.III. 428)

**Part 5: Interest**

The next component part of surplus-value explained in Volume 3 is interest. According to Marx’s theory, 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 in the analysis of the division of this total surplus-value 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)

The ratio in which profit is divided, and the different legal titles by which this division takes place, already assume that profit is ready-made and presuppose its existence... *(P)rofit is produced before this division takes place* and before there can be any talk of it. (C.III. 504-05; emphasis added)

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.* (C.III. 1001; emphasis added)
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. (TSV.III. 470-71; 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 and demand for capital as loan capital. The most relevant point for our purposes is that the maximum rate of interest is the rate of profit. This maximum limit for the rate of interest follows from the prior determination of the rate of profit, before the division of the total surplus-value into “profit of enterprise” and interest.

Marx called interest the “most fetishistic form of surplus-value,” because interest appears to arise solely for the nature of capital itself, with no necessary relation to labor or even production. Marx argued that this fetishism necessarily arises in capitalism because of the actual emergence of loan capital and the consequent actual division of the total surplus-value into interest and profit of enterprise. Even capitalists who do not operate with borrowed capital nonetheless often divide their “gross profit” into interest and “net profit.”

The division of profit into profit of enterprise and interest ... completes the autonomization of the form of surplus-value, the ossification of its form as against its substance, its essence... (I)nterest then seems independent both of the wage-labor of the worker and the capitalist’s own labor; it seems to derive from capital as its own independent source. (C.III. 968)

It is in interest-bearing capital - in the division of profit into interest and profit - that capital finds its most objectified form, its pure fetish form, and the nature of surplus-value is presented as something which has altogether lost its identity. Capital - as an entity - appears here as an independent source of value ... (TSV.III. 498-99)
Part 6: Rent

The final component of surplus-value explained in Volume 3 is land rent. Rent is explained as 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.

All ground-rent is surplus-value, the product of surplus labor. (C.III. 772-73)

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)

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... (C.III. 779; emphasis added)

Marx’s theory of rent 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.

Capital-profit (profit of enterprise plus interest) and ground-rent are thus nothing but particular components of the surplus-value; categories in which this surplus-value is distinguished according to whether it accrues to capital or landed property; designations which in no way affect its essence. Added together, they form the total of surplus-value. Capital directly pumps from the workers the surplus labor that is expressed in surplus-value and surplus product. (C.III. 959-60)

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)

The collection of rent by landlords further obscures the origin of surplus-value because it makes it appear as if surplus-value arises from the natural fertility of the land. Indeed to some, like the Physiocrats, it even appears that all of surplus-value, not just rent, originates from the natural fertility of the land.

Finally, besides capital as an independent source of surplus-value, there appears landed property, as a limit to the average profit which transfers a portion of the surplus-value to a class that neither works itself not directly exploits workers, and cannot even, like interest-bearing capital, launch forth in edifying homilies about the risk and sacrifice in lending capital. Since in this case one part of the surplus-value seems directly bound up not with social relations but rather with a natural element, the earth, the form of mutual alienation and ossification of the various portions of surplus-value is complete, the inner connection definitively torn asunder and its source completely buried, precisely through the assertion of their autonomy vis-a-vis each other by the various relations of production which are bound up with the different material elements of production process. (C.III. 968)

Part 7: Revenue and its Sources

We come finally to Part 7, entitled “Revenue and its Sources,” which is seldom discussed in the literature, but which I think is very important. Part 7 provides a culminating of Marx’s theory of the distribution of surplus-value in Volume 3 of Capital. It makes very clear the main points of Volume 3: (1) the distribution of surplus-value into its component parts, (2) the prior
determination of the total amount of surplus-value, and (3) the necessary appearance of the individual parts of surplus-value as separate and independent “sources” of value.

The quantitative premise of the prior determination of the total surplus-value is clearly expressed throughout Part 7. The predetermined total surplus-value is the “limit” of the sum of the individual parts. 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)

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. 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. 998-1000; emphasis added)

This last passage is a concise summary of Marx’s theory of prices of production, in which it is clearly stated that the general rate of profit (the “surcharge”) is determined prior to prices of production, and it determined by the aggregate ratio of the total surplus-value to the total capital.
Marx’s theory of the total amount of surplus-value, presented in Volume 1, is of course based on the labor theory of value. The labor theory of value is itself based on essentially the same premise - that the total amount of value, or the total price, is determined prior to its division into individual parts, or individual forms of income. Leaving aside the constant capital component of the total price, the total new-value produced in a given period may be divided into wages plus the various forms of surplus-value discussed in Volume 3. Marx emphasized repeatedly in Part 7 (and especially in Chapter 50) that the labor theory of value assumes that the total amount of new-value is determined prior to its division into wages plus profit plus rent, etc. The distribution rather presupposes this substance as already present, i.e. the total value of the annual product, which is nothing more than objectified social labor. (C.III. 961)

Apart from the confusion produced by the transformation of values into prices of production, a further confusion derives from the transformation of surplus-value into various separate, mutually independent forms related to the various elements of production, into profit and rent. It is forgotten that the value of commodities is the basis and that the breakdown of this commodity value into particular components, and the further development of these value components into forms of revenue, their transformation into relations that the various owners of the different agents of production have to these particular value components, their distribution among these owners according to particular categories and titles, in no way alter the value determination and its law. Just as little is the law of value affected by the fact that the equalization of profit, i.e. the distribution of the total surplus-value among the various capitals ..., gives rise to governing average prices for commodities that diverge from their values. This again affects only the addition of surplus-value to the various commodity prices; it does not abolish surplus-value itself, not the total value of commodities as the source of these various price components. (C.III. 984-95; emphasis added)

The commodity value of $250 thus produced, and determined by the amount of labor objectified in it, sets the limit to the dividends that worker, capitalist, and landlord can draw from this value in the form of revenue - wages, profit, and rent. (C.III. 994)

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 portions 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 ... (C.III. 998)
Marx also contrasted his theory of value and surplus-value with essentially the opposite view held by the “vulgar economists” - that the forms of income are first determined separately and independently and then the total amounts of value and surplus-value are determined as the sum of these individual forms of income. According to this view, 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”. Another version of this opposite view is of course Adam Smith’s “cost of production” theory of value.

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

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)

This new value of 100 is all that is available for division into the three forms of revenue. If we call wages x, profit y and ground-rent z, the sum of x+y+z, in our present case, is always = 100. In the minds of the industrialists, merchants and bankers, and the vulgar economists as well, things proceed quite differently. For them it is not the commodity value that is given as 100, after this 100 then being divided up into x, y, and z. Instead, the price of the commodity is simply put together out of the value magnitudes of wages, profit, and rent, which are determined independently of the commodity’s value and of one another ... (C.III. 1007)
Marx argued that this illusion (the opposite view) necessarily arises in capitalism because individual capitalists, in their everyday practical calculations, do in fact regard these different forms of income as given and independent magnitudes, i.e. as the magnitudes then prevailing in the economy. Individual capitalists are not interested in a scientific analysis of value and distribution. They simply take the forms of income as given, as they actually exist in the economy. These forms of income appear to be determined in separate and independent ways, and the total price appears to be determined as the sum of these individual parts.

The breakdown of surplus-value, that is, of part of the value of commodities, into these special headings or categories, is very understandable and does not conflict in the least with the law of value. But the whole matter is mystified because these different parts of surplus-value 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 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 ...

How their apparent independence as conditions of the process is regulated by the inherent law and that they are only apparently independent, does not become evident at any moment in the course of the production process, nor does it act as a determining motive. The highest consistency which can be assumed by this semblance of results taking the form of independent conditions becomes firmly established when parts of surplus-value - in the form of conditions of production - are included in the price. (TSV.III. 511)

Marx also argued in Part 7 that “vulgar economics” simply took these everyday perceptions of individual capitalists at its starting point and tried to give these perceptions some coherence and profundity.

Vulgar economics actually does nothing more than interpret, systematize, and turn into apologetics the notions of agents trapped within bourgeois relations of production. (C.III. 956)

The vulgar economist does nothing more that translate the peculiar notions of the competition-enslaved capitalist into an ostensibly more theoretical and generalized language, and attempt to demonstrate the validity of these notions. (C.III. 338)
Therefore, at the end of Volume 3, Marx arrived at the point that he promised in the first paragraph of Volume 3 - the explanation of the different forms of appearance of surplus-value on the surface of capitalist society and in the consciousness of individual capitalists.

1868 Letter

There is one final important piece of textual evidence to be discussed concerning the aims and logic of Volume 3: a letter that Marx wrote to Engels in April of 1868, three years after he had written the full draft of Volume 3 (in the Manuscript of 1864-65) and one year after the publication of Volume 1. In this letter, Marx explained to Engels what Volume 3 is all about. By this time in his life and theoretical development, Marx had a very clear idea of the subject matter and the overall logical structure of Volume 3, and its relation to Volumes 1 and 2. Therefore, this letter provides very important evidence concerning the nature of Volume 3. I think it should be considered Marx’s final and definitive statement on Volume 3. The reader is urged to read the four-page letter in its entirety. xv

In previous letters, Marx and Engels had been discussing the effect of a change in the value of money on the rate of profit, an issue raised and discussed by Marx in a letter of 22 April (MECW. 43: XX). Engels replied, in a letter of 26 April, that he agreed with Marx’s analysis, but raised the following objection:

The only thing that is unclear to me is how you can assume \( m / (c + v) \) as the rate of profit, for \( m \) does not flow solely into the pockets of the industrialist who produces it, but has to be shared with the merchant, etc.; unless you are taking the whole branch of business together here, therefore disregarding how \( m \) is divided up between manufacturer, wholesaler, retailer, etc. In general, I am very keen to see your exposition on this point. (MECW. 43: XX) xvi

We can see that Engels’ objection had to do with the division of the total profit into different individual parts, precisely the main subject of Volume 3.
In order to explain this point to Engels, Marx replied in the letter of 30 April with a long and detailed summary of what he then called “Book III” (which is what we know as Volume 3) (MECW. 43: XX; SC XX). Marx stated his intention: “It is proper that you should know the method by which the rate of profit is developed.” (emphasis added). xvii

Marx began his summary of “Book III” by clearly stating its main overall subject:

In Book III, we then come to the conversion of surplus value into its different forms and separate component parts.

In other words, we come to the distribution of surplus-value.

The letter then summarizes each of the seven parts of Volume 3, which correspond exactly to the seven parts of Marx’s draft of Volume 3 in the Manuscript of 1864-65, which Marx no doubt had in front of him as he wrote the letter to Engels. I will briefly review excerpts from this letter that are especially relevant to the main points of this paper.

The summary of Part 1 begins with the main points emphasized above: that profit is only “another name” for surplus-value, and that there is no quantitative difference between them. Profit is for us, for the time being, only another name or another category of surplus value. As owing to the form of wages, the whole of labor appears to be paid for, the unpaid part of labor seems necessarily to come not from labor but from capital, and not from the variable part of capital but from capital as a whole. As a result, surplus value assumes the form of profit, without there being any quantitative difference between the one and the other.

After discussing the important concept of cost-price, Marx then summarized his analysis of the determination of the rate of profit by the rate of surplus-value and the quantities of constant capital and variable capital (i.e. the composition of capital), which Marx said “has of course been hitherto inexplicable to everybody.” Then Marx made the following important methodological comment:

The laws thus found ... hold good no matter how the surplus-value is later divided among the producer, etc. This can only change the form of appearance. Moreover, they remain directly applicable if m/(c+v) is treated as the relation of the socially produced surplus value to the social capital. (italicized emphasis added)
In other words, the laws derived concerning the rate of profit derived in Part 1 apply directly to the “socially produced surplus-value” and the “social capital”. These laws “hold good no matter how surplus-value is later divided up among the producer, etc.” The later division of the total surplus-value only changes the forms of appearance of this total surplus-value; it does not change its magnitude. As discussed above, Marx’s theory in Part 1 is discussed in terms of an individual capital, but this individual capital represents what all capitals have in common, and thus represents the total social capital.

Marx’s summary of Part 2 clearly states the determination of the general rate of profit by the ratio of the total surplus-value to the total capital, prior to the determination of prices of production.

This rate of profit, expressed absolutely, can be nothing but the surplus value produced (annually) by the capitalist class in relation to the total social capital advanced. For instance, if the social capital = 400c + 100v and the surplus value annually produced by it = 100s, then ... the rate of profit is 20 per cent. This is the general rate of profit.

...The price thus equalized, which divides up the social surplus-value equally among the various masses of capital in proportion to their sizes, is the price of production of commodities, the center around which the oscillation of the market prices moves. (emphasis added)

Marx called this equalization of profit rates through prices of production a kind of “capitalist communism”, in which each capital receives a “fractional part of the total surplus-value proportionate to the part of the total social capital that it forms.” (emphasis added)

Marx’s summary of Part 4 is another clear and unambiguous statement that the total amount of surplus-value is determined prior to its division into individual parts, in this case, prior to its division into industrial profit and commercial profit. Marx extended the numerical example in his summary of Part 2 (see above) to include a merchant capital = 100. Since the total amount of surplus-value remains the same (= 100), the general rate of profit is reduced from 20% to 16%. This new, lower general rate of profit is then taken as given in the determination of both the selling price of industrial capital (what I have called the “wholesale
Until now we have only dealt with productive capital. Now there enters modifications through merchant capital. According to our previous assumption the productive capital of society = 500 (millions or billions, n ’importe’). And the formula was 400c + 100v + 100m. The general rate of profit p’, = 20%. Now let the merchant capital = 100.

So, the 100m has now to be calculated on 600 instead of 500. The general rate of profit if therefore reduced from 20% to 16 %. The price of production ... now = 583 ». The merchant sells at 600 and therefore realizes ... 16 % on his 100, as much as the productive capitalists; or in other words, he appropriates 1/6 of the social surplus value.

The summary of Part 5 is very brief, but again makes clear that the total surplus-value is determined prior to its division into profit and interest:

Next comes the division of this profit into entrepreneur’s gain and interest. (emphasis added)

For Part 6, there is only one phrase (perhaps Marx was running out of steam in his letter):

Transformation of surplus profit into rent.

This phrase by itself is not completely clear, but we know from all that has gone before that this phrase means that a part of the predetermined total surplus-value is “transformed into rent”, by the pricing mechanism discussed above.

Finally, Marx’s summary of Part 7 emphasizes his critique of the “vulgar conception”, according to which each of the different forms of income (wages and profit and rent) has a separate and independent source, and the value of commodities is determined by adding up these independent forms of income. As discussed above, Marx’s conception is the opposite: that the total value is determined prior to its division into individual parts, or individual forms of income. At last we have arrived at the forms of manifestation which serve as the starting point in the vulgar conception: rent, coming from the land; profit (interest), from capital; wages, from labor. But from our standpoint things now look different. The apparent movement is explained.

Therefore, I think this letter provides very strong evidence in support of the interpretation of Volume 3 presented in this paper. The main overall subject is the distribution of surplus-
value and the key quantitative premise of the prior determination of the total amount of surplus-value is clearly and unambiguously stated, especially in the summaries of Part 2 and Part 4.

Conclusion

This paper has presented a considerable amount of textual evidence to support the interpretation of Volume 3 that: (1) the main subject of Volume 3 is the distribution of surplus-value into its individual component parts; (2) this analysis of the distribution of surplus-value is based on the fundamental premise that the total amount of surplus-value has already been determined by the prior analysis of capital in general in Volume 1; and (3) these components parts of surplus-value are explained as “necessary forms of appearance” of the common substance of surplus-value.

It is hoped that this paper will stimulate further research and discussion of Marx’s logical method in *Capital*, especially the overall logical structure of Volume 3 and its relation to the first two volumes. With a better understanding of Marx’s logical method, we should then be able to move beyond *Capital* and to further develop Marx’s theory toward more concrete levels of abstraction.
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When I say that the total amount of surplus-value is determined prior to its division into individual parts, and that this total amount is not affected by this division, I mean the determination of surplus-value within a given period. It is of course possible (and likely) that the distribution of surplus-value in a given period will affect the total amount of surplus-value produced in subsequent periods. However, the methodological principle of the prior determination of the total surplus-value still applies within a given period. I thank Tony Smith for clarifying this distinction for me.

Volume 3 of Capital as we know it was written in 1864-65, just after the Manuscript of 1861-63, which includes the Theories of Surplus Value. In this Manuscript of 1861-63, Marx developed for the first time his theory of the distribution of surplus-value which is presented in Volume 3 of Capital. The full Manuscript of 1861-63 has been recently translated into English and published as Volumes 30-34 of the 50-volume set of the Marx-Engels Collected Works, by International Publishers.

Parts 1 and 3 of Volume 3 remain at the level of capital in general prior to the analysis of the distribution of surplus-value. The distribution of surplus-value into individual parts is not considered in these parts. Part 1 is a key transition from capital in general to competition that introduces the concepts of profit and the rate of profit, and will be discussed below. Part 3 is of course about Marx’s theory of the falling rate of profit. This theory clearly applies to the general rate of profit for the total social capital. Marx emphasized explicitly the tendency of the rate of profit to decline is derived prior to the division of surplus-value into industrial profit, merchant profit, interest and rent.

We are deliberately putting forward this law before depicting the decomposition of profit into various categories which have become mutually autonomous. The independence of this presentation from the division of profit into various portions, which accrue to different categories of persons, shows from the start how the law in its generality is independent of the division and of the mutual relationships of the categories of profit deriving from it. Profit, as we speak of it here, is simply another name for surplus-value itself, only now depicted in relation to the total capital, instead of to the variable capital from which it derives. The fall in the rate of profit thus expresses the falling ratio between surplus-value itself and the total capital advanced; it is therefore independent of any distribution of this surplus-value we may care to make among the various categories. (C.III. 320)

Part 2 is discussed after Part 1 because of the logical connection between “the transformation of surplus-value into profit” in Part 1 and “the transformation of profit into average profit” in Part 2. Surplus-value is first transformed into profit by relating it to the total capital, and then profit is further transformed into average profit by the equalization of profit rates across industries. Marx argued that the second transformation is a necessary consequence of the first transformation. Since capitalists measure surplus-value in relation to the total capital and attempt to maximize the rate of profit rather than the rate of surplus-value, competition among capitals tends to equalize rates of profit across industries. Therefore, Part 2 is discussed after Part 1 in order to maintain this necessary connection between these two transformations of
surplus-value into profit. But the distinction between capital in general and competition would have been clearer if the order of Parts 2 and 3 had been reversed. Part 3 will not be discussed further in this paper because it is not directly related to the distribution of surplus-value. But the distinction between capital in general and competition would have been clearer if the order of Parts 2 and 3 had been reversed. Part 3 will not be discussed further in this paper because it is not directly related to the distribution of surplus-value.

iv Chris Arthur has argued in his paper “Capital, Competition, and Many Capitals” (this volume) that Volume 3 remains at the level of abstraction of capital in general, even though he agrees that Volume 3 is about the distribution of surplus-value. I will discuss Arthur’s interpretation in a separate comment on his paper. However, for the purposes of my paper, the precise meaning and boundaries of capital in general and competition is less important than the distinction between the production of surplus-value in Volume 1 and the distribution of surplus-value in volume 3, and the determination of the total amount of surplus-value prior to its distribution, both of which Arthur accepts.

v This aspect of Volume 3 of explaining the “necessary forms of appearance” of surplus-value is emphasized by Patrick Murray’s paper in this volume.

vi This very interesting draft of Volume 3 included in the Manuscript of 1861-63 has recently been published in English for the first time in Volume 33 of the Marx-Engels Collected Works (International Publishers).

vii A little earlier in this manuscript (in a part included in the Theories of Surplus-Value), Marx stated very clearly this important methodological point:

When in general we speak of profit or the rate of profit, then surplus-value is supposed to be given. The influences therefore which determine surplus-value have all operated. This is the presupposition. (TSV.III. 228)

viii Chris Arthur has argued in his paper “Capital, Competition, and Many Capitals” (this volume) that the average rate of profit is determined in a fundamentally different way from the general rate of profit (although he acknowledges that the two rates are identically equal). I disagree, for the reasons just explained. I will discuss Arthur’s argument in a separate comment on his paper (in this volume).

ix Tony Smith’s paper in this volume takes this interpretation of Marx’s method a step further and applies it to the determination of what he calls “prices of expanded reproduction”, which differ from prices of production in that profit rates are not equalized due to the effects of technology rents, monopolies, etc. Smith’s interpretation of the determination of these “prices of expanded reproduction” is based on the same key premise emphasized in this paper - that the total amount of surplus-value is determined prior to its distribution and is not affected by this distribution. Smith adds the further corollary that the total amount of surplus-value is also not affected by the inequalities due to monopolies, etc. If monopoly industries are able to secure for themselves a higher than average rate of profit, this necessarily comes at the expense of lower than average rates of profit in competitive industries.

x It is just as easily shown that the sum of individual prices of production is equal to the aggregate price determined in the Volume 1 analysis of capital in general; see Moseley 1993. Contrary to the widely-accepted Sraffian interpretation, both of these aggregate equalities are true simultaneously, if Marx’s own logical method is followed.

xi We can see from this sentence that the same method of investigation also applies to Marx’s analysis of interest.
I will consider here only the simple case in which there are no additional costs of circulation beyond that necessary to purchase the commodities. For a consideration of the more complicated case with additional costs of circulation, see Moseley (1997).

Similarly, the sum of the “retail” prices of commercial capital is equal to the total price of commodities determined in Volume 1 and the sum of prices of production in the earlier case without commercial capital.

For a further discussion of Chapter 48 on “The Trinity Formula,” see Patrick Murray’s paper in this volume.

There is also a very good, short summary of Volume 3 in Volume 3, in the important, but often overlooked two-page introduction to Part 7 of Volume 1 (pp. 709-10). This paragraph is quoted at the beginning of this paper.

$m$ here stands for surplus-value, presumably because the German word for surplus-value is *mehrwert*.

This letter is a very clear indication of how little Engels knew about Volume 3.

There is one terminological difference between this letter and the 1864-65 draft of Volume 3: prices of production are here defined as the selling price of industrial capital (the “wholesale price”), rather than the selling price of commercial capital (the “retail price”), as in the 1864-65 draft. So either Marx changed his mind or perhaps he remained undecided about which of these two prices should be called prices of production. But the method of determination of these two prices is exactly the same, as described above, with the general rate of profit taken as given, as determined by the ratio of the total surplus-value to the total capital, now including commercial capital.
Furthermore, Marx’s analysis of the distribution of surplus-value is based on the fundamental premise that the total amount of surplus-value has already been determined by the prior analysis contained in Volume I. The main question addressed in Volume III, then, is how this pre-determined total amount of surplus-value is divided into its component parts. The analysis of these individual component parts does not in any way affect the size of total surplus-value, as this total surplus-value is taken as a pre-determined given in this analysis. Marx’s Work on Volume III After 1865: Why Did Marx Not Finish Volume III? Understanding Capital. Marx’s Economic Theory. Duncan K. Foley. Marx conceives of the social reality he is analyzing as a process that evolves in response to its own internal contradictions. In other words, the phenomena he discusses cannot be understood independently of the history that produced them. This approach contrasts with the view that phenomena will tend to reassert themselves regardless of historical context. Likewise, in the whole first volume of Capital Marx talks about an average or typical capital, which is in fact the aggregate capital, or a scale model of the aggregate capital. Self-Determination and Tautology. For Marx the abstractions that constitute a theory define each other.