MARX'S ABSTRACT THEORY OF VALUE IN CHAPTER 1 OF *CAPITAL* A CRITIQUE OF HEINRICH'S VALUE-FORM INTERPRETATION

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> We began with an *individual commodity* viewed as an autonomous article in which a *specific amount of labour-time is objectified* and which therefore has an exchange-value of a definite amount. (Marx 1977, p. 953)

> It follows from this that, firstly, that the valid exchange-values of a particular commodity *express something equal*, and secondly, exchange-value cannot be anything other than the *mode of expression*, the '*form of appearance*' of a *content distinguishable from it*. (Marx 1977, p. 127)

> Let us now take two commodities, for example corn and iron. Whatever their *exchange relation* may be, it can always be represented by an *equation* in which a given quantity of corn is equated to some quantity of iron, for instance 1 quarter of corn = *x* cwt of iron. *What does this equation signify*? It signifies that a *common element of identical magnitude exists in the two different things*, in 1 quarter of corn and similarly in *x* cwt of iron. (Marx 1977, p. 127)

> The *common factor* in the *exchange relation*, or in the *exchange-value of the commodity,* is therefore its *value*. *The progress of our investigation will bring us back to exchange-value as the necessary mode of expression, or form of appearance, of value*. For the present, however, we must first *consider the nature of value independently of its form of appearance***.** (Marx 1977, p. 128)

> What *exclusively determines the magnitude of the value* of any article is therefore the amount of labour socially necessary, or the *labour-time socially necessary for its production.* (Marx 1977, p. 129)

> Chapter 2: "*The Process of Exchange*".
> *Commodities cannot take themselves to the market*. Therefore, we *must have recourse to* their guardians, who are *the possessors of commodities*. (Marx 1977, p. 178)

> Here, however, we have to *look at the phenomenon in its pure shape*, and must therefore *assume it has proceeded normally*. (Marx 1977, p. 203)

> *How can we account for the origin of capital on the assumption that prices are regulated by the average price*? (Marx 1977, p. 269)

Emphasis in the quotations in this paper is added unless otherwise noted.

There are the four main points of my paper:

1. The title of Chapter 1 is "The Commodity", which indicates that the *subject of Chapter 1 is the properties that each commodity shares with all other commodities*, especially the exchange-value of each commodity and the value hidden behind the exchange-value of each commodity. The subject of Chapter 1 is not a barter exchange of two commodities on the market (as Michael interprets it)

2. The common property of commodities that determines their exchange-values is *derived in Section 1 from the general relation of equality of each commodity with all other commodities*, not from a barter exchange of two commodities on the market.

3. The magnitude of value of each commodity – the *socially necessary labor-time* (SNLT) contained in it – is determined by the *average labor-time required to produce each commodity*, and does not depend on the demand for each commodity on the market and thus is not determined in market exchange.

4. Marx's theory of value (and surplus-value) in Volume 1 of *Capital assumes that supply = demand* (S = D); not actually every period (in fact, seldom), but as a tendency. Thus the prices that are determined in Marx's theory are *abstract long-run equilibrium prices* (the center of gravity prices around which market prices fluctuate). The abstract equilibrium price of each commodity in Volume 1 is *determined "exclusively" by the SNLT required to produce it* and is not affected by S ≠ D. Marx's theory of value and surplus-value in *Capital* is not about disequilibrium market prices that depend on S and D.

I will discuss each of these main points in the four sections of this paper.

1. The subject of Chapter 1 is the properties of "The Commodity", not market exchange

What is the subject of Chapter 1 of Volume 1 of *Capital*? In order to answer that important question, I will first briefly review Marx's Introduction to the *Grundrisse* on the "Method of Political Economy". This review will clarify the *starting point* of *Capital* in Chapter 1.

Very briefly, Marx explained that his logical method consists of "two paths": first from the concrete to the abstract and then the return path from the abstract to the concrete.

The first path begins with the actual concrete ("modern bourgeois society") and move analytically from the chaotic unexplained concrete towards ever more simple concepts, ever thinner abstractions, until the investigation arrives at the simplest abstraction, the *most abstract universal element* of the presupposed concrete totality.

The second path retraces the journey from the most abstract element back to the actual concrete, but this time the concrete is *explained* by means of levels of abstraction, in succession incorporating more and more elements of the concrete totality. In this way, theory "reproduces the concrete in thought".

For Marx, the most abstract element of "modern bourgeois society" (i.e. of capitalism) is *the commodity*. Therefore, the *starting point* of Marx's theory of the actual capitalist economy is *the commodity*. The commodity is the end of the investigatory first path and the beginning of the explanatory second path. In his Preface to the 1st German edition of Volume 1, Marx describes the commodity as the "economic cell-form" of bourgeois society. Biology starts with the cell and Marx's theory of capitalism starts with the commodity. The title of Chapter 1 is "The Commodity".

Chapter 1 is not an analysis of either production or market exchange. Chapter 1 is an analysis of the commodity and the general properties that each commodity shares with all other commodities: use-value and exchange-value (the "dual character of *the commodity*"). Michael thinks that Section 1 is about the barter exchange of two commodities, and he thinks that I think that Section 1 is about production. But I argue that Section 1 is not about either production or barter exchange. Rather, Section 1 (and Chapter 1 as a whole) is about *the commodity*. Figuratively speaking, Marx holds a representative commodity in his hands (e.g. a quarter of wheat) and analyzes its properties, especially the property of exchange-value.

In Marx's analysis of "The Commodity", each commodity *is assumed to have been produced and to contain a given quantity of labor-time*. Marx succinctly expresses this important starting point of his theory of capitalism in his summary of Volume 1 in the "Results" manuscript:

> We began with an *individual commodity* viewed as an autonomous article in which a *specific amount of labour-time is objectified* … (Marx 1977, p. 953)

2. The necessity of a common property of commodities is derived from the general relation of equality of each commodity and all other commodities, not from the exchange of two commodities on the market

The title of Section 1 of Chapter 1 is "The Two Factors of *the Commodity*: Use-Value and Exchange-Value (Substance of Value, Magnitude of Value)". Thus the subject of Section 1 is the dual character of *the commodity* (use-value and exchange-value) and its fundamental properties of the substance of value and the magnitude of the value of each and every commodity. The subject of Section 1 is not the exchange of commodities on the market.

Section 1 begins with an analysis of a representative commodity, the "elementary form" of "an immense collection of commodities" which is the result of capitalist production. After a brief discussion of the use-value of the commodity, Marx moves on to an analysis of the *exchange-value of the commodity*. With Samuel Bailey in mind, Marx notes that "an *intrinsic value*, inherent in each commodity, seems to be a contradiction in terms". Thus the issue in Section 1 is *whether or not each commodity has an inherent value*.

In the next paragraph, Marx elaborates that each commodity (e.g. a quarter of wheat) has not just one exchange-value with one other commodity, but instead has many exchange-values (as many exchange-values as there are other commodities); in other words, *each commodity is in theory exchangeable with all other commodities in definite proportions*. Since all the exchange-values of a quarter of wheat are exchangeable with one quarter of wheat, they must themselves, as exchange-values, be "of identical magnitude". Therefore, *each commodity is in theory equal to all other commodities in definite proportions* that are mutually consistent.

And Marx argues further in the rest of this paragraph that such a *general relation of equality* between all commodities *implies that each and every commodity must possess some common property* that determines their exchange-values, i.e. that determines the quantities in which they are *equals*.

> It follows from this that, firstly, that *the valid exchange-values of a particular commodity express something equal*, and secondly, *exchange-value* cannot be anything other than the *mode of expression*, the '*form of appearance*' of a *content distinguishable from it*. (Marx 1977, p. 127)

Thus, the exchange-value of each commodity is a *general relation of equality* with all other commodities, which implies that each commodity possesses an equal amount of a common property.

Marx then *illustrates* this *general relation of equality* between a particular commodity and all other commodities with a *relation of equality between* two commodities which can be expressed as a simple *equation*:

> Let us now take two commodities, for example corn and iron. Whatever their *exchange relation* may be, it can always be represented by an equation in which a given quantity of corn is equated to some quantity of iron, for instance 1 quarter of corn = x cwt of iron. *What does this equation signify*? *It signifies that a common element of identical magnitude exists in the two different things,* in 1 quarter of wheat and similarly in x cwt of iron. (Marx 1977, p. 127)

This passage is the beginning of Marx's answer to Bailey.[1]

Michael interprets the "exchange relation" in this passage to mean an *act of barter exchange* between corn and iron on the market:

> Here two use-values are *equated in exchange.* (Heinrich 2021, p. 58; see also pp. 53-55 and p. 60, and also Michael's definition of "exchange relation" in the Glossary of this book, p. 398)

However, I argue that this is not Marx's meaning of "exchange relation". Instead, "exchange relation" is a s*ynonym* for the "*exchange-value*" of a commodity, which is the *form of appearance of the value of a commodity* (e.g. corn) in terms of its relation of equality with another commodity (e.g. iron).

A clear expression of these synonyms (separated by "or") is on the next page:

> The common factor in the *exchange relation*, *or* in the *exchange-value of the commodity*, is therefore its *value*. The progress of our investigation will bring us back to *exchange-value as the necessary mode of expression, or form of appearance, of value*. For the present, however, we must first *consider the nature of value independently of its form of appearance***.** (Marx 1977, p. 128)

I will come back to this key passage below.

And in the introduction to Section 3, referring back to Section 1, Marx again clearly expressed these synonyms (again separated by "or"):

> In fact we started from *exchange-value, or* the *exchange relation* of commodities, in order to track down the value that lay hidden within it. We must now return to this *form of appearance of value*. (Marx 1977, p. 139)

Later in Section 3, Marx described the exchange relation as the *daily prices* of commodities, a very concrete form of appearance of the value of commodities:

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[1] In *Theories of Surplus-Value*, Marx criticized Bailey for failing to recognize that the *relation of equality between two commodities* implies that the commodities *must possess a common property* that determines their exchange-values, and Marx provided a good summary of his argument, which is the same argument as in Section 1 of Chapter 1.

> He even forgets the simple consideration that if *y* yards of linen *equal x* lbs. of straw, this [implies] a *parity* between the two unequal things – linen and straw – making them *equal magnitudes*. The *existence of theirs as things that are equal* must surely be different from their existence as straw and linen. It is not as straw and linen that they are *equated*, but as *equivalents*. *The one side of the equation must, therefore, express the same value as the other.* The value of the straw and linen must, therefore, be neither straw nor linen, but *something common to both commodities* considered as straw and linen. What is it? He does not answer this question. (Marx 1971, pp. 139-40; brackets in the English translation; see also pp. 124-47)

Nothing is said in Marx's critique of Bailey about an *act of barter exchange* of straw and linen on the market implying the existence of a common property of value in both commodities. That is an entirely different argument from Marx's argument. Marx's argument is that the existence of value as a common property of the two commodities is *derived from their existence "as things that are equal"*. I think this is a very succinct expression of Marx's derivation.

> For them [Mercantilists], accordingly, there exists neither value, nor magnitude of value, anywhere except in the expression by means of the *exchange relation*, that is, in the *daily list of prices on the Stock Exchange*." (Marx 1977, p. 153)

Clearly, "exchange relation" means the exchange value of individual commodities in terms of other commodities, not an act of barter exchange between two commodities on the market.

Acts of exchange (barter or otherwise) are not analyzed by Marx until Chapter 2. The title of Chapter 2 is "*The Process of Exchange*". Chapter 2 begins with the sentence:

> *Commodities cannot take themselves to the market*. Therefore, we *must have recourse to* their guardians, who are *the possessors of commodities*. (Marx 1977, p. 178)

These sentences imply that the exchange of commodities on the market is not analyzed in Chapter 1. There are no commodity owners in Chapter 1 and commodities cannot take themselves to the market. Therefore, there is no analysis of the exchange of commodities on the market in Chapter 1. Chapter 2 introduces commodity producers for the first time and commodity producers take commodities to the market for the first time, and the process of exchange on the market is analyzed for the first time.

Michael agrees that there are no commodity owners in Chapter 1, but he argues that barter exchange on the market nonetheless takes place somehow in Section 1. (Heinrich 2021, pp. 187-88) But how can there be barter exchange of commodities on the market without commodity owners if commodities cannot take themselves to the market?

On the other hand, there can be an analysis of the property of the exchange-value of a representative commodity as a general relation of equality of each commodity with all other commodities without assuming commodity owners. And that is what Marx does in Section 1 of Chapter 1 (and in his critique of Bailey; see footnote 1).

Michael states that it is a "puzzle" why Marx would assume a direct barter exchange between two commodities in Section 1, because the first sentence in Section 1 states that the commodities that are the subject of Chapter 1 are the products of capitalist production, and direct barter seldom if ever happens in capitalism. (Heinrich 2021, pp. 53-55)

However, this puzzle is a consequence of Michael's own misinterpretation of Marx's "*exchange-relation*" in Section 1 as an act of barter exchange of two commodities. If "*exchange-relation*" in Section 1 is instead understood to mean a *general relation of equality* of each commodity with all other commodities, which is illustrated by the relation of equality between two commodities, then no barter exchange is assumed and there is no puzzle. What is assumed is the *general relation of equality* between each and every commodity. That is the fundamental nature of "The Commodity", from which the necessity of a common property is derived.

Michael summarizes his argument about the meaning of the "exchange relation" between corn and iron as an act of exchange between them as follows:

> Marx attempts to ascertain what commodities have in common: their "value." In doing so, he does not consider the production process of a single commodity, but rather the *exchange relation of two commodities* [i.e. an act of exchange on the market]. (Heinrich 2021, p. 60; brackets added)

I agree that Marx did not consider production in Section 1. Marx assumes that a representative commodity" has been produced and he analyzes its "dual character". But I argue that Marx also did not consider an act of exchange of two commodities on the market. Instead, Marx analyzes the *property of exchange-value possessed by each and every commodity*. He first derives the exchange-value of a commodity as a general relation of equality with all other commodities, from which it follows that all commodities possess a common property of equal magnitude. And then he *illustrated* this conclusion with a relation of equality between two commodities. As Marx nicely put it in his critique of Bailey, the necessity of a common property between two commodities follows from their "*existence as things that are equal*".

In the rest of Michael's summary paragraph, he indicates what is at stake in this issue:

> Therefore, only based on the exchange relation can Marx say that there is an abstraction from the use-value of the commodity, and then go on to draw further conclusions. This is important because of the long debate about whether the value of commodities is already established in production, or if it requires the unity of production and circulation (see chapter 3.4 of my Introduction to the Three Volumes of Capital, 52ff). Here one must not only pay attention to what Marx says about value, but also on what basis he makes the statements.

Thus, Michael argues that the important conclusion that Marx derives in Section 1 – that each commodity possesses a definite quantity of value – is derived on the basis of this barter exchange between corn and iron on the market; and without this exchange on the market, neither the corn nor the iron would possess value.

However, I argue that this important conclusion is not derived from the act of barter exchange of corn and iron on the market, but is instead derived from the exchange-value property of each and every commodity, which is a *general relation of equality* of each commodity with all other commodities, from which it follows (Marx argues) that all commodities possess a common property of equal magnitude. And Marx argues further in the rest of Chapter 1 that the common property of all commodities that determines their exchange values is *objectified abstract labor*, which is determined in production, prior to exchange (which is not considered until Chapter 2). This further derivation of the common property of commodities as objectified abstract labor is the subject of the next section.

3. The magnitude of value is determined by socially necessary labor-time in production

As just discussed, Marx argues on pp. 127-28 that the common property of all commodities that determines their exchange values is *objectified abstract labor*, the *substance* of value. Marx summarizes his derivation of objectified abstract labor as the substance of value in the following well-known passage:

> *Let us now look at the residue of the products of labour*. There is nothing left of them in *each case* but the same *phantom-like objectivity*; they are merely *congealed quantities of homogeneous human labour*, i.e. of human labour-power expended without regard to the form of its expenditure. *All these things now tell us* is that human labour-power has been expended to produce them, human labour is accumulated in them. As *crystals* of this *social substance,* which is *common* to them all, they are *values* – commodity values. (Marx 1977, p. 128)

In this summing up, Marx is still examining the properties of commodities ("let us look at the residue of the products of labor" and "all these things now tell us"). The substance of value is described as a "phantom-like objectivity" because the abstract labor contained in each commodity is not directly observable as such. This is the conclusion of Marx's answer to Bailey – commodities do indeed possess an intrinsic value that determines their exchange-values with other commodities – the objectified abstract labor contained in them.

The next paragraph (briefly discussed on p. 5) is very important for our subject of whether or not SNLT is determined in production prior to exchange. It is a transition from Marx's derivation of objectified abstract labor as the substance of value in the previous pages to a discussion of the *determination of the magnitude of value by socially necessary labor time* in the pages to come. In this paragraph, Marx briefly restates his previous conclusion and then previews his later derivation in Section 3 of money as the necessary form of appearance of value, and he notes that "we must first *consider the nature of value independently of its form of appearance*":

> The *common factor* in the *exchange relation*, or in the *exchange-value of the commodity,* is therefore its *value*. *The progress of our investigation will bring us back to exchange-value as the necessary mode of expression, or form of appearance, of value*. For the present, however, we must first *consider the nature of value independently of its form of appearance***.** (Marx 1977, p. 128)

We can see again that in these sentences, "exchange relation" and "exchange-value of the commodity" and "form of appearance of the commodity" are synonyms. So when Marx writes that "we must first *consider the nature of value independently of its form of appearance*", this means that we must first consider the nature of value *independently of exchange-value* or *independently of the exchange relation*. And indeed in the pages that follow, Marx discusses the determination of the *magnitude* of value of a single commodity *independently* of its exchange-value or its exchange relation with another commodity.

Even with Michael's definition of "exchange relation" as an exchange on the market, Marx's statement would mean that, in the discussion that follows, the nature of value (i.e. the magnitude of value) is considered *independently of exchange on the market.*

In his book, Michael does not comment on the important last sentence in this passage that "we must first *consider the nature of value independently of its form of appearance*"**.** But this sentence clearly contradicts his interpretation that SNLT does not exist before exchange.

On the next page, Marx defines the *magnitude* of value as the *amount of labor-time* (e.g. hours, days, etc.) *contained in a single commodity* ("the article").

> How then is the magnitude of value to be *measured*? By means of the '*value-forming substance'***,** the *labour*, contained in the article. The quantity is measured by its *duration*, and the labour-time itself is measured on the particular scale of hours, days, etc. (Marx 1977, p. 129).

In the next paragraph, Marx clarifies that the magnitude of value is not measured by the actual hours of concrete labor, but is instead measured by the *social average* quantity of labor-time required to produce each commodity, or what he calls "*socially necessary labour-time*":

> *Socially necessary labour-time* is the labour-time required to produce *any* use-value under the *conditions of production normal* for a given society and with the average degree of skill and intensity of labour prevalent in that society. (Marx 1977, p. 129)

Please note that nothing is said in this passage about exchange and demand in this definition of socially necessary labor-time, which is determined entirely by "conditions of production normal in a given society", independently of exchange.

And in the next paragraph, Marx summarizes that the magnitude of value of each commodity is "*exclusively determined*" by the quantity of socially necessary labor-time required to produce the commodity (hereafter abbreviated at times as SNLT):

> What *exclusively determines the magnitude of the value of any article* is therefore the amount of labour socially necessary, or the *labour-time socially necessary for its production.* (Marx 1977, p. 129)

Again, nothing is said about exchange and demand in the determination of the magnitude of value; "exclusively determines" means that there is *no other determinant* of the magnitude of value of a commodity besides the social average labor-time necessary for its production.

In the next two pages, Marx explains that, since the magnitude of the value of each commodity is "exclusively determined" by the labor-time required to produce them, the magnitude of value will change if and only if the SNLT required to produce them changes, i.e. if the *productivity of labor* changes.

> The *value of a commodity*, therefore, *varies* directly as the quantity, and *inversely as the productivity, of the labour* which finds its realization within the commodity. (Marx 1977, p. 131)

And the productivity of labor is determined by the conditions of production in each industry, independently of exchange.

In his forthcoming book, Michael acknowledges that Marx says nothing about SNLT depending on exchange in Section 1 (or in Chapter 1 as a whole). However, he makes *two arguments that SNLT is nonetheless determined in exchange in Marx's theory*.

The *first argument* is that SNLT is the average labor-time in an industry, and the average labor-time in an industry depends on which commodities are brought to the market out of all the commodities produced in the industry.

> Socially necessary labor-time is an "average magnitude" that depends upon "normal" production conditions. But it is only through market exchange that the normal state of technology and worker qualification can be determined. *What is "normal" depends upon the kinds of producers that actually appear on the market*. (Heinrich 2021, p. 71)

I would say that in general the kinds of producers that appear on the market in a given society are the producers that are engaged in production in that society in a given period of time, which are taken as given. *This is a distinction without a difference*. Why would companies produce commodities, but not sell what they have produced? Michael does not present any reason why some producers who have produced commodities do not appear on the market. Nor does he present *any* textual evidence from any of Marx's writings to support his interpretation of this point. And Marx clearly states in the passage on p. 128 just discussed that SNLT is determined independently of exchange.

"Normal" conditions of production in an industry means conditions of production with the average productivity in that industry in a given society in a given period of time. In the determination of the average productivity in an industry, the productivity of each producer in the industry is taken as given in production independently of exchange, and thus the average productivity of all producers in the industry together is determined in production independently of exchange. Marx discussed the determination of this average productivity in an industry at greater length in Chapter 10 of Volume 3. He took as given the proportions of different levels of productivity in an industry (average, better than average, worse than average), and the productivity of the industry as a whole is determined by the weighted average of these different levels of productivity, with their relative proportions as the weights. All this is based on given conditions of production independently of exchange.

Michael's *second* (and more important) *argument* is that the supply of the commodity produced in an industry might exceed the demand for this commodity, which would reduce the SNLT of each commodity in that industry. This second argument regarding the effect of supply and demand on SNLT will be discussed in the next section.

4. Marx's theory of value and surplus-value assumes that S = D as a tendency

Michael argues that, in the final paragraph of Section 1 of Chapter 1, Marx states that a precondition for products to be a commodity is that they must be "use-value for others, social use-values". If a product is not useful for others, then the labor that produces this product does not produce value. And he argues that, based on this general precondition, the effect of supply and demand on SNLT in Marx's theory can be discussed, and he briefly discusses the effect of an excess supply of a commodity on its SNLT. (Heinrich 2021, pp. 75-76) At the end of this paragraph Michael argues that Marx himself explicitly discussed the effect of an excess supply of yarn on its SNLT in Chapter 3 (pp. 201-02), and he refers to his discussion of this passage in his 2004 book (p. 51). So let's examine the Chapter 3 passage.

The passage from Chapter 3 (Section 2, on money as means of circulation) is the following:

> If the market cannot stomach the *normal price* of 2 shillings a yard, this proves that too great a portion of the total social labour-time has been expended in the form of weaving. The effect is the same as if each individual weaver has expended more labour-time on his particular product than was socially necessary. (Marx 1977, p. 202)

The first point to emphasize about this passage is that it starts with the "*normal price*" of the linen. The "normal price" is the average price at which S = D. Thus the normal price is the *equilibrium price* of the linen, the *center of gravity* price around which the market prices fluctuate.

In this case of S = D, even with Michael's interpretation of SNLT, SNLT would not depend on S and D on the market, and the normal price would be determined by SNLT as the average labor-time in production. *I argue that this is what Marx's theory of value in Volume 1 is about – abstract normal equilibrium prices that depend only on the average labor-time in production.*

In the case of S > D, then the market price will be less than the normal price. *But the normal price remains the same* (2 shillings) *and continues to be determined solely by SNLT in production*, and is not affected by S > D (or by S < D). What is affected by S > D (and S < D) are *market prices* that fluctuate around the normal price that is "exclusively determined" by SNLT. Michael does not discuss the meaning and significance of the normal price in Marx's theory, which is a serious weakness of his interpretation. Instead, he interprets Marx's theory of value to be about *disequilibrium market prices* that depend on S and D and that SNLT also depends on S and D, like the value-form interpretation in general.

In both cases mentioned by Marx in the passage quoted by Heinrich, *too much labor time has been expended* on the linen. In the case of a low productivity producer in an industry, too much individual labor time is expended to produce a yard of linen *compared to the average labor-time* required to produce a yard of linen in the industry as a whole, which is determined in production. So the low productivity producer receives less value than the individual value of his commodity. In the case of S > D, too much labor time in the industry as a whole has been expended to produce linen *compared to the total labor time that would satisfy the normal equilibrium demand*. So all the producers in the industry receive less value than the individual value of their commodities. The total labor-time that would satisfy the normal equilibrium demand (L*) is determined by the product of the unit SNLT per yard of linen ($SNLT_i$) (which is determined in production as above) and the quantity of existing demand (D); i.e.: $L^* = (SNLT_i)\ D$. In both cases, the unit $SNLT_i$ required to produce a yard of linen is *determined in production* and determines the normal equilibrium price which is the center of gravity of market prices.

On the *next page* after the passage quoted by Michael, Marx concluded this discussion of S and D as follows:

> Here, however, we have to *look at the phenomenon in its pure shape*, and must therefore *assume it has proceeded normally*. (Marx 1977, p. 203)

Thus, in the analysis that follows, and indeed in all three volumes of *Capital, Marx assumes that S = D, not actually in every period (in fact seldom), but as a tendency*. Marx's theory of value is about *normal equilibrium prices* that are the center of gravity of the fluctuations of market prices. At the level of abstraction of Volumes 1 and 2, Marx assumes that that abstract normal equilibrium prices are solely determined by SNLT in production.

Michael quotes a part of Marx's important sentence ("we have to look at the phenomenon in its pure shape") and he criticizes Marx for not explaining the meaning of this sentence. (Heinrich 2021, p. 238) However, the rest of Marx's sentence explains further the meaning of "look at the phenomena in its pure form", which is that the phenomenon "has proceeded normally", which means that that S = D and price = normal price.

Two chapters later, in a long and very important footnote at the end of Chapter 5, leading up to the theory of surplus-value in Chapter 7, Marx stipulated that his theory of surplus-value is based on the assumption that price = normal price, which he called the "average price" in this footnote, and that assumes that S = D. And he stated again that this assumption enables him to "observe the phenomenon … in its purity" and he added "to prevent our observations from being interfered with by *disturbing incidental circumstances which are irrelevant*" (i.e. S ≠ D).

> The reader will see from the foregoing discussion that the meaning of this statement [assumes that prices = values"] is only as follows: the formation of capital must be possible even though the price and the value of a commodity be the same, for it cannot be explained by referring to any divergence between price and value. If prices actually differ from values, we must first reduce the former to the latter, i.e. disregard this situation as an accidental one *in order to observe the phenomenon of the formation of capital on the basis of the exchange*

of commodities in its purity, and to prevent our observations from being interfered with by *disturbing incidental circumstances which are irrelevant* to the actual course of the process [formation of capital, production of surplus-value]. We know, moreover, that this reduction is not limited to the field of science. The *continual oscillations in prices*, their rise and fall, compensate each other, cancel each other out, and carry out their reduction to an *average price which is their internal regulator*. The average price is the guiding light of the merchant or the manufacturer in every undertaking of a lengthy nature. The manufacturer knows that if a long period of time is considered, commodities are sold neither over nor under, but at, their *average price*. If, therefore, he were at all interested in disinterested thinking, he would formulate the problem of the formation of capital as follows: *how can we account for the origin of capital on the assumption that prices are regulated by the average price, i.e. ultimately by the value of commodities.* I say 'ultimately' because average prices do not directly coincide with the values of commodities, as Adam Smith, Ricardo, and others believe. (Marx 1977, p. 269)

Thus, to assume exchange at values means to assume exchange at average prices, and *average prices assume that S = D*. Therefore, *Marx's theory of surplus-value* (the most important part of his theory of capitalism) *is based on the assumption that S = D* and is not affected by S ≠ D.

And Marx's prices of production in Volume 3 are also equilibrium prices, since it is assumed that the rate of profit is equal in all industries, which is the condition of equilibrium in a capitalist economy.

In his forthcoming book, Michael quotes only the last two sentences of this important footnote, and him main comment is about the last sentence in which Marx anticipates his theory of prices of production in Volume 3, according to which the average prices of commodities are prices of production, not values. (Heinrich 2021, p. 307) However, Michael does not mention that, at both levels of abstraction, *the average price is an equilibrium price which assumes that S = D*, both in the abstract theory of value and surplus-value in Volume 1 and in the more concrete theory of prices of production in Volume 3.

Suggestion for a partial resolution

I will close with a suggestion for a partial resolution of our disagreement, along the lines just discussed.

Since average equilibrium prices assume that S = D, *S and D have no effect on the determination of equilibrium prices*. At the level of abstraction of Volume 1, equilibrium prices are determined solely by the fundamental cause of average labor-times in production. S and D determine market prices, not equilibrium prices. And if S ≠ D in an industry, then the *market price of the commodity will be different from its equilibrium price*, but *the equilibrium price will remain the same and will be continue to be determined by average labor-time in production.*

Furthermore, if it is assumed that S = D, as Marx generally assumed in *Capital*, then demand and exchange have no effect on the determination of SNLT, even with Michael's different definition of SNLT including demand. If D = S, then D is not a determining factor of SNLT. So I hope this can be an important point of agreement: if S = D is assumed, then SNLT is determined in production by average labor-times and these quantities of SNLT determine the equilibrium prices of commodities, as Marx assumed.[2] And in the case of S ≠ D, at a lower level of abstraction beyond *Capital*, then I would accept that there is a *second concept of SNLT*, and that these two different concepts of SNLT are *mutually compatible*, not mutually exclusive. These two concepts of SNLT are:

SNLT(E): an equilibrium concept of SNLT = *average labor-time in production*, which is independent of demand and which determines equilibrium prices; and

SNLT(D): a disequilibrium concept of SNLT = *labor-time received through exchange*, which depends in part on demand and market prices.

The second concept of SNLT(D) does not replace the first concept of SNLT(E), but is instead an additional concept that applies to disequilibrium market prices rather than equilibrium center-of-gravity prices. The fundamental concept of SNLT continues to be SNLT(E), because equilibrium prices are more important than market prices (equilibrium prices are the "internal regulators" or the centers of gravity of market prices) and are the main subject of Marx's theory of value.

I hope that our disagreement can be at least partially resolved along these lines.

Thank you for your attention and I look forward to the discussion.

References

Heinrich, Michael 2004. *An Introduction to the Three Volumes of Karl Marx's Capital*. New York: Monthly Review Press.

Heinrich, Michael 2009. "Reconstruction or Deconstruction: Methodological Controversies about Value and Capital, and New Insights from the Critical Edition," in *Re-reading Marx: New Perspectives from the Critical Edition*, eds. Riccardo Bellofiore and Roberto Fineschi. London: Palgrave

Heinrich, Michael 2021. *How to Read Marx's Capital*. New York: Monthly Review Press.

Marx, Karl 1977 [1867]. *Capital*, Volume 1. New York: Random House, with an Appendix "Results of the Immediate Process of Production".

[2] Of course, this theory of equilibrium prices is at a very high level of abstraction. Marx's theory of equilibrium prices was developed more fully in his theory of prices of production in Volume 3, in which prices of production are equilibrium prices that depend on the equalization of the profit rate across industries in addition to SNLT within each industry. But at both levels of abstraction, Marx's theory of prices is a theory equilibrium prices that assumes that S = D and thus are independent of D.