Notes on Marx's *Capital*, Volume 3, Part Two: The Transformation of Profit into Average Profit

Chapter 8: Different Compositions of Capital in Different Branches of Production, and the Resulting Variation in Rates of Profit

- Previously, we assumed the rate of surplus value was constant for one capital and showed how changes in the composition of that capital and its turnover time resulted in changes in the rate of profit. Now, we will assume a constant rate of surplus value across many different capitals and show how each differs from the other on the basis of composition and turnover.
- "*By the composition of capital we mean, as already stated in Volume 1, the ratio between its active and its passive component, between variable and constant capital.*" (pg. 244)
- This composition involves two relations: the actual relationship between labour and means of production (technical composition) and the relationship between these as variable and constant capital (value composition).
- "*The organic composition of capital is the name we give to its value composition, in so far as this is determined by its technical composition and reflects it.*" (pg. 245)
- In capitals of the same size and with the same rate of surplus value, organic composition, both in terms of technical and value compositions, determines the rate of profit. In terms of technical composition, the same value may employ vastly different proportions of labour and means of production. 100C may be broken down as 50v + 50c in one capital and 30v + 70c in another, the first employing 50 workers, the second employing 30. If the rate of surplus value is 100%, the first will have 50s at the end, while the second has 30s.

In terms of value composition, the same quantities of labour and means of production may be employed but with different proportions in value. 50v +50c and 30v + 70c may employ the same number of workers, machines, etc, just at different prices (values). A similar change in the mass of surplus value (and thus in the rate of profit) will be experienced.

- Rates of profit vary from country to country largely because of different organic compositions of capital, as well as different rates of surplus value.
- "*We have already seen in Chapter 4 that with the same composition of capital, other things being equal, rates of profit vary in inverse proportion to the turnover time, and similarly that the same variable capital, taking different periods of time to turn over, brings in unequal masses of surplus-value in the course of the year. Variation in the turnover time is thus a further reason why capitals of equal size do not produce equally large profits in equal periods of time, and why rates of profit thus vary between the different spheres.*" (pg. 250)
- Different proportions of fixed and circulating capital only indicate different rates of profit if they first indicate different organic compositions or turnover times.

Chapter 9: Formation of a General Rate of Profit (Average Rate of Profit), and Transformation of Commodity Values into Prices of Production

- "*The prices that arise when the average of the different rates of profit is drawn from the different spheres of production, and this average is added to the cost prices of these different spheres of production, are the prices of production.*" (pg. 257)
- "*The rates of profit prevailing in the different branches of production are accordingly originally very different. These different rates of profit are balanced out by competition to give a general rate of profit which is the average of all these different rates. The profit that falls to a capital of given size according to this general rate of profit, whatever its organic composition might be, we call the average profit.*" (pg. 257)
- Profit rates become standardized and generalized in spite of organic composition and different rates of surplus value. This seems to be due to the fact that the later two are phenomena invisible to the capitalists while the former appears to them to be the heart of the entire venture.
- The fact that the average rate of profit represents less realization of surplus for some and more for others means, as these happen in proportion to each other, than the total prices of all commodities produced are the same as their total value. (pg. 259)
- This may seem contradictory because the profits of one industry may represent cost-prices of another and therefore get counted twice. However, if you count cost-prices without profits and then count profits without cost-prices, the equation is relatively easy to balance. If A goes into B as both a cost-price and a profit, subtract the profit and deal

only with the cost-price. Then, after cost-prices are totaled up, as well as profits, add it all together for an average that represents the total value in the economy.

- "*With the whole of capitalist production, it is always only in a very intricate and approximate way, as an average of perpetual fluctuations which can never be firmly fixed, that the general law prevails as the dominant tendency.*" (pg. 261)
- "*The general rate of profit is determined therefore by two factors: (1) the organic composition of capitals in the various spheres of production, i.e. the different rates of profit in the particular spheres; (2) the distribution of the total social capital between these different spheres, i.e. the relative magnitudes of the capitals invested in each particular sphere, and hence at a particular rate of profit; i.e. the relative share of the total social capital swallowed up by each particular sphere of production.*" (pg. 263)
- Capitals with a composition equal to the social average are considered to have average composition. Those with greater relative constant capital are considered to have a higher composition. Those with lower relative constant capital are considered to have a lower composition.
- Cost price is always less than the actual value of the commodity, as this value contains a surplus. From the point of view of the total social capital, price of production (or production price) is equal to value and therefore also greater than cost price.
- Production price is equal to cost price plus profit. Said another way, price of production = k + kp'
- Price of production in one sphere may change based on a change in the general rate of profit independent of that sphere, a change in the value in that sphere, or both.

- It takes a long time and a lot of fluctuation before a real change is effected in the general rate of profit. Any changes that happen in shorter periods of time than that should be accounted for, usually, by a change in the actual value of the commodities being produced, ie, by a change in the quantity of labour which makes them up.
- In social capital, the total value of the commodities produced = c + v + s. If s is stable, then it can only change as a result of an alteration in c or v (c + v = C).
- "*the general rate of profit can change, with the value of commodities remaining constant, if the level of exploitation of labour changes.*" (pg. 267)
- The establishment of the general rate of profit further breaks profit away from surplus value and obscures the relationship entirely to the capitalists as well as the workers. (There is no way to reproduce every point here without reproducing word for word the contents of pages 267-269.)
- The general laws we observed to govern the rate of profit in Part One now show themselves to be acting also at the level of the total social capital, but much slower and with more checks and balances.
- From the point of view of the individual capitalist, the general rate of profit being what it is and resisting changes in the composition of individual capitals, it makes complete sense to minimize the use of labour in production as a way to cut costs and maximize individual profits.

Chapter 10: The Equalization of the General Rate of Profit through Competition. Market Prices and Values. Surplus Profit

- Individual capitals tend towards the general rate of profit regardless of their compositions. However, there is a point or composition in which they align with the social average and thus realize their values in the prices (almost) exactly. This social average becomes the focal point for competition, and so the individual capitals strive towards average composition.
- Average profit is the same as total surplus value. (pg. 274)
- If commodities were all sold at their values, there would be massive differences in rates of profit between different spheres of production. When they are sold at production price, they are sold based on the average profits yielded by a capital investment of a certain size. These two are very different.
- A general rate of surplus value is established by a general destabilizing and undermining of the working class.
- On page 275, Marx says that "economic laws" are merely tendencies and that the theoretical model he is producing for capitalism in the work will become more clear once capitalism is able to work its way through the early and muddied stages of development. This is worth quoting at a bit of length: "*We assume a general rate of surplus-value of this kind, as a tendency, like all economic, laws, and as a theoretical simplification; but in any case this is in practice an actual presupposition of the capitalist mode of production, even if inhibited to a greater or lesser extent by practical frictions that produce more of less significant local differences, such as the settlement laws for*

agricultural labourers in England, for example. In theory, we assume that the laws of the capitalist mode of production develop in their pure form. In reality, this is only an approximation; but the approximation is all the more exact, the more the capitalist mode of production is developed and the less it is adulterated by survivals of earlier economic conditions with which it is amalgamated."

- "*The exchange of commodities at their values, or at approximately these values, thus corresponds to a much lower stage of development than the exchange at prices of production, for which a definite degree of capitalist development is needed.*" (pg. 277)
- On pages 277-278, Marx makes the very important point that commodities are both logically and historically exchanged (and bearers of value) before they take on the form of production prices. This means they pre-exist capitalism, and in fact go back to the ancient world, and that they will outlive capitalism, thus existing along the periphery of communistic communities.
- The individual value of commodities may different from their market, or average, value. One commodity may, through accident or innovation, take more or less time than the average, but this does not affect how it exists on the market alongside its average kin.
- Prices of production take over as market prices and follow the same laws.
- The total value of commodities governs total surplus value. Total surplus value governs total profit and the rate of profit. Therefore, the law of value regulates the prices of production. All "laws" here are general or governing forces of fluctuations.
- Competition brings about, first in one sphere of production and then in social production in general, an average market value or price and then a generalized rate of profit between.

- Demand and supply regulate market price, but market price also regulates supply and demand. The market value of a commodity determines how much should be or can be produced which determines supply and demand, and any movements away from that equilibrium are checked by counter-movements in supply and demand.
- The "social need" which constitutes "demand" is determined by class society, that is, by who is able to make demands because they have wealth. The rich are disproportionately more "demanding" than the poor. Supply and demand in themselves are secondary to class and production/circulation in general.
- "*To say that a commodity has a use-value is simply to assert that it satisfies some kind of social need.*" (pg. 286)
- In dealing with a single commodity, you only have to deal with its use-value in terms of quality. As the commodity is multiplied and offered on a larger scale, you start to have to deal with it as a quantitative amount.
- There is a disconnect between the amount of labour-time spent on the production of a supply of commodities and the actual demand in society. As a result, it is possible to overproduce and waste labour-time. Only under communism, when production is taken up collectively and purposefully, can this antagonism be resolved and labour-time be more coherently made to fit demand.
- "*The exchange or sale of commodities at their value is the rational, natural law of the equilibrium between them; this is the basis on which divergences have to be explained, and not the converse, i.e. the law of equilibrium should not be derived from*

contemplating the divergences.” (pg. 289) (The abstract is made concrete, or the universal breaks apart [self-sunders, as Hegel might say].)

- We should never forget that the capitalists “true purpose is the production of surplus-value.” (pg. 290)
- The market demand, how much can be bought, is not the same as the actual social need or demand, how much is actually needed/desired or how much would be bought at a different price.
- Demand and supply never match up at any one point in reality, but they do on average over time, and it is necessary to abstract away from them to deal directly with the laws governing market values. Even the bourgeois economists recognize this.
- “*On top of this confusion - the determination of price by demand and supply, and the determination of demand and supply by price - demand slo determines supply and conversely supply determines demand, production determines the market and the market determines production.*” (pg. 292)
- “*price, in its general concept, is simply value in the money form*.” (pg. 295)
- In the competition between buyers and sellers (demand and supply), both sides find themselves in a state of competition with themselves, more intense when they are losing and less intense when they are winning.
- With the formation of a general rate of profit, and the sale of commodities at “production prices,” capital becomes an explicitly social power and loses the illusion of privacy.
- Each capitalist benefits from the growth of the total social capital and general rate of profit regardless of how many (if any [exaggeration]) workers or machines they employ.

- Vulgar economists reject labour as the source of value but point to production price as the point of supply-demand equilibrium for market prices. They do this based on first impressions and not on investigation. If they had looked deeper, they would realize they are rejecting the essence in favor of the warped appearance.
- "*The concept of market price means that the same price is paid for all commodities of the same kind, even if these are produced under very different individual conditions and may therefore have very different cost prices.*" (pg. 301)
- This leaves out those companies which, through monopoly or other means, are able to resist the fall to production prices.

Chapter 11: The Effects of General Fluctuations in Wages on the Prices of Production

- For a capital of average composition, a rise in wages causes a decline in profits and no change in production price.
- For a capital of lower than average composition, the production price rises but not as much as profits fall.
- For a capital of higher than average composition, the production price falls as does profit, but not necessarily at the same rates.
- "*[A] general fall in wages leads to a general rise in surplus-value, in the rate of surplus-value, and with other things remaining equal, also in the profit rate, even if in a different proportion; it leads to a fall in production prices for the commodity products of capital of lower than average composition and a rise in production prices for the commodity products of capital of higher than average composition. Exactly the opposite result as that which arose from a general rise in wages.*" (pg. 305)

Chapter 12: Supplementary Remarks

1. The Causes of a Change in the Price of Production

- The price of production may change either because of a change in the general rate of profit (the value of the commodity itself remaining the same) or due to an actual change in the value of the commodity (the general rate of profit remaining the same).
- "*All changes in the price of production of a commodity can be ultimately reduced to a change in value, but not all changes in the value of a commodity need find expression in a change in the price of production, since this is not determined simply by the value of the particular commodity in question, but rather by the total value of all commodities.*" (pg. 308)

2. The Production Price of Commodities of Average Competition

- Production price for a particular commodity may diverge from its real value because the average profit is added to the cost price not the actual surplus value or because a component used in the production of the commodity itself has been affected by such a change (ie, the means of production are bought at a price different from their value and so the cost price of the commodity is affected).
- Cost price can diverge from the real value of what it is meant to represent, as both constant and variable capital may have been bought at a price different from their value.
- Whatever effect this may have, the fact that the capital advanced is of average composition (in terms of c:v) is not affected, and so commodities are still sold at their value. Any disturbance in the price of c or v is met with a corresponding change in the rate of profit and surplus value, one which brings the production price back to true value.

3. The Capitalist's Grounds for Compensation

- Not just competition but also the flight of capital to and from different spheres of production, causes a general equalization of the rate of profit.
- Competition obscures any study of the values which constitute the essence of the market. Average profits obscure differences in composition. Changes in wage-level cause changes in prices of production, and this seems to be also a change in the value of commodities. Prices of production that become standardized in spite of actual value. "*All these phenomena* ***seem*** *to contradict both the determination of value by labour-time and the nature of surplus-value as consisting of unpaid surplus labour.* ***In competition, therefore, everything appears upside down.*** *The finished configuration of economic relations, as these are visible on the surface, in their actual existence, and therefore also in the notions with which the bearers and agents of these relations seek to gain an understanding of them, is very different from the configuration of their inner core, which is essental but concealed, and the concept corresponding to it. It is in fact the very reverse and antithesis of this.*" (pg. 311) Extremely important section. (Emphasis from original)
- The capitalists become aware of the fluctuations in price and capital investment per sphere, and so they factor them into their calculations.
- In this factoring, they come to standardize an average rate of profit. Those at more risk for losing product and therefore not realizing that profit are also compensated with higher prices. Those with higher insurance costs also charge higher rates. The capitalists do not see that they all profit off of the total social capital (and at an average rate) because every movement and countermovement has its own little justification (risk, time, etc).