Market Value and Market Price

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Marx defines the labour value of a commodity as the total (direct and indirect) abstract labour time required for its production. It is his contention that under capitalism the movements of commodity prices are dominated by changes in labour value magnitudes. This thesis, which he calls the law of value, requires him to connect labour values to the different *regulating prices* which act as centres of gravity of market prices under various assumed conditions of production and sale. He therefore undertakes to systematically develop the category of regulating price by introducing successively more complex factors into the analysis, linking it at each step to its foundation in labour value. It is only near the end of this developmental chain, when he begins to analyse the manner in which differences among conditions of production within an industry influence the process of regulating market prices, that we encounter the concept of *market value* (Marx, 1984, ch. X). To grasp its significance, we must first consider the steps which precede it.

The simplest expression of the law of value is when exchange is directly regulated by labour values. If we define direct price as a money price proportional to a commodity's labour value, then the simple case corresponds to the situation in which the direct price of a commodity is the regulating price (i.e. centre of gravity) of its market price. Marx begins with this premise in Volume I of *Capital*, concretizes it in Volume II to account for turnover time and circulation costs, transforms it in Volume III into the notion of prices of production (prices reflecting roughly equal rates of profit) as regulating prices, and then goes on to develop even this concept further, to account for rental payments, trading margins and interest flows. It is important to note that throughout this whole process of developing the various forms of regulating price, the aim is not only to encompass the complexity of the determinants of market prices, but also to show their connection to labour values.

The above path focuses on the complex character of the centres of gravity of various types of market prices. But the very concept of a gravitational centre

itself requires some discussion of the forces of supply and demand, because it is through their variation that the market price of a commodity is made to orbit around its (generally moving) centre of gravity. Accordingly, Marx also engages in a second, parallel, discussion of the manner in which a regulating price exerts its influence over market price. And here, the basic idea is that when (for instance) the growth of demand exceeds that of supply, market price will rise above regulating price, and the resulting rise in profitability above its regulating level (as embodied in the assumed regulating price) will induce capitalists to accerate supply relative to demand. The original gap between supply and demand will thereby be reduced or even reversed, thus driving the market price back towards or even below the regulating price. In this way, the dynamic adjustment of supply to demand serves to keep market price oscillating around the regulating price. Note that the whole argument is cast in terms of the relative *growth rates* of supply and demand rather than merely in terms of their (implicitly static) levels, and that market prices continually oscillate around regulating prices without ever having to converge to them in any mythical 'long run equilibrium' (Shaikh, 1982).

The preceding analysis implicitly ignores any variations in unit production costs and unit labour values, so that the regulating price itself is assumed to be unchanged during the regulation process. This is adequate as long as we abstract from differences among conditions of production within a given industry, because then each individual producer in effect embodies the average conditions and the whole story can be told simply in terms of the average producer. Under these circumstances, it is the *social* (i.e. average) unit labour value which ultimately regulates the movements of market prices, through the mediation of a particular regulating price. As Marx puts it, it is the social value of the commodity which functions here as the labour value which is regulative of market price, i.e. as the *market value.*

The obvious next step is to introduce the issue of differences among producers within an industry. Accordingly, Marx examines the situation which there are three types of production conditions in use, ranked in order from lowest efficiency (1), to medium (2), to best (3). The ranking of individual unit labour values (and unit production costs, other things being equal) will of course be in reverse order. As before, the social unit value is the total labour value of the total product divided by the amount of this total product. But this average now represents not only 'the average [unit] value of commodities produced' in this industry, but also the unit 'individual value of the . . average conditions' in the industry. Note that although the unit social value will be 'midway between the two extremes', it can nevertheless differ from the medium (2) unit value precisely because the average of existing conditions can differ from the medium (2) condition according to the weights of low (1) and high (3) conditions in total output.

The important thing at this juncture is to identify the specific conditions of production which operate to regulate market price through the ebb and flow of supply, *because it is the labour value* ***of*** *these particular conditions which will*

therefore function as the market value. This leads him to identify three types of response to a deviation of market price from some pre-existing regulating price. The first case is when all three conditions of production are able to adjust their respective rates of supply, so that the average production condition continues to regulate the market. Here, the regulating price still rests upon the average unit production cost, and the unit social value is still the market value. The only new consideration is that the regulating price and market value may vary within certain strict limits, because the functioning average condition of production may itself change insofar as the weights of its three constituent types of production conditions alter over the adjustment process. To the extent that better conditions accelerate more in the up phase and worse conditions decelerate more on the down side, even this effect will more or less cancel out over a given oscillation of market price around regulating price.

At the other extreme, Marx considers situations where the deviation of market price from regulating price goes so far as to bring either the worst or best production to the fore as the foundation of new regulating prices and market values. It is plausible, for instance, that the utilization of capacity is usually inversely correlated with the efficiency of production. Then, if demand rises sufficiently, the bulk of the slack will be taken up at first by the best, then by the intermediate and finally by the worst conditions of production. A situation may therefore arise in which the unit production costs of the worst conditions of production will come to determine the regulating price, so that the individual unit labour value of these conditions becomes the market value. Conversely, a sufficiently rapid fall in demand relative to supply may precipitate just the opposite situation, in which only the best conditions survive to regulate the market price and thus determine the regulating price and market value. It should be noted, incidentally, that while the shift of regulating conditions to one extreme or the other is precipitated here by 'extraordinary combinations' of supply and demand, this need not be the case when we consider technical change (in which the regulating conditions will be the best ***generally accessible*** methods of production) or production in agriculture and mining (in which the regulating conditions are often the ones on the margin of cultivation and location, hence among the worst of the lands and locations in use). From this point of view, Marx's initial discussion of Market Value is merely prelude to the much broader question of regulating value and conditions of production.

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