

# On Capitalism's Historical Specificity and Price Determination

## Comments on the Value-Form Paradigm

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### Abstract

Value-form theorists have sought to develop a historically specific concept of value. The author of this paper applauds and shares this aim, but argues that a production-centered concept of value can be historically specific; one need not embrace the market-centered concept commonly held by value-form theorists. The paper also argues that the market-centered concept of price determination is incompatible with Marx because it implies that surplus labor is not the sole source of profit; that the quantity theory of money is right; and that revenues and costs associated with intra-firm trade are not “actual” revenues and costs.

### Introduction

What is now commonly called the value-form paradigm is an approach to value, inspired by Marx's work, which has been developed since the 1970s. In opposition to Sraffian and other physicalist theories that dominated Marxian economics, value-form theorists have sought to develop a *historically specific* concept of value. Although I

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applaud and share this aim, I believe that the typical value-form concept of value is unduly market centered.

This paper explores the position, commonly though perhaps not universally held by value-form theorists, that products acquire their values—and, *a fortiori*, their prices—if and when they are sold.<sup>2</sup> Value-form theorists frequently suggest that this market-centered concept of value and price goes hand-in-hand with a historically specific understanding of capitalism, while a contrary production-centered concept of value (in which products acquire their values when they are produced, before and irrespective of sale) goes hand-in-hand with an ahistorical understanding. I argue in the next section that this dichotomy is untenable and, in particular, that Marx's value theory escapes its confines.

The final section shows that the market-centered concept of price determination is incompatible with Marx because it implies that surplus labor is not the sole source of profit; that the quantity theory of money is right; and that revenues and costs associated with intra-firm trade are not “actual” revenues and costs. Since the value-form paradigm is not generally intended to be an exegetical interpretation of Marx, my intention is not to challenge it on that ground, but to highlight some implications of the market-centered concept of price determination that might not be apparent, and thereby to encourage some rethinking.

### **The Historical Specificity of Capitalism**

A fundamental feature of the value-form paradigm is the effort to elaborate a social (historically specific), rather than asocial (transhistorical or naturalistic), concept of value. I fully agree with this aim, and I appreciate their work for calling attention to this issue. However, I disagree with the common value-form position that a concept of value in which products become values when they are sold is historically specific, while a concept in which they become values when they are produced, before and irrespective of sale, is transhistorical.

Before I argue against this and related distinctions, I wish to point out that the identification of the market with the historical specificity

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<sup>2</sup> I believe that a literal interpretation of such statements is by far the most plausible, so I shall interpret them literally, except in some comments in the paper's final section that tease out some other possibilities.

of capitalism (or commodity production) is not as self-evident as value-form theorists often seem to regard it.<sup>3</sup> My own thinking about this issue has been much influenced by Dunayevskaya's (1992; 2000) works. In order to theoretically ground her contention that Stalinist Russia was a state-capitalist society, she rejected the notion that capitalism's historical specificity is located principally in the market rather than in production. On the basis of a reinterpretation of *Capital*, she argued that market and state forms of capitalism were significantly like one another, and different from other societies, because of their historically specific production relations. In her view, their production relations were distinctive, and alike, both in the technological sense (alienation of labor, the real subsumption of labor under capital, and expanded reproduction) and in the sense that value production, abstract labor, and the law of value prevailed.

In 1943, an unsigned article in a leading Russian theoretical journal revised past doctrine by arguing that commodity production, abstract labor, and the law of value persist under "socialism." Dunayevskaya translated this article and wrote a critique, publishing both in the *American Economic Review* (no auth., "Teaching of Economics in the Soviet Union" 1944, and Dunayevskaya 1944). She argued that, in light of the historically specific character of value, abstract labor, and commodities, the facts about "socialism" which the Russians had acknowledged sufficed to show that the USSR was capitalist.

It is noteworthy that, since the economy of the USSR was not primarily a market economy, *neither* side in this debate equated "market economies" with economies in which commodity production, abstract labor, or the law of value prevail. This is another linkage that has not been self-evident to everyone.

### **The Value-Form Dichotomies**

Value-form theorists typically treat the distinction between social and asocial concepts of value as synonymous with the distinction between what they often call *abstract-labor* and *labor-embodied* concepts of value (Reuten 1993, 101–05). The former concept is market-centered. Workers' labor "takes the form of abstract labor expressed in money" when the products they have produced are sold, so "value is ...

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<sup>3</sup> I say that they seem to find it self-evident because, as far as I know, arguments have not been offered in support of this identification.

established in the market (hence a market concept) rather than having existence prior to it" (Reuten 1993, 104, 105).<sup>4</sup> The latter concept is production-centered. Commodities are values because they embody human labor, and the socially necessary labor-time required for a commodity's production (which does not depend upon the price the commodity later fetches in the market) determines the magnitude of its value (Eldred and Hanlon 1981, 24). Thus commodities are values when they are produced, before and irrespective of sale.<sup>5</sup> Value-form theorists regard this as an asocial, "Ricardian" concept (Eldred and Hanlon 1981, 36).

Reuten notes that the term "abstract labor" has not always been given the above, market-centered meaning. He says (correctly, I believe) that "we can safely say that Marx presents an abstract-labor embodied theory of value" (Reuten 1993, 99, emphasis added). But he regards this fusion as indicative of Marx's "half-way break with the classical naturalistic labour-embodied theory" (Reuten 2000, 153). Murray (2000, 56) concurs that "an abstract labour-embodied theory is an asocial one that represents no fundamental break with classical political economy."<sup>6</sup> Heinrich (2004) similarly argues that Marx was "ambivalen[t]," wavering between two concepts of value much like (though perhaps not identical to) those sketched above.

Table 1 summarizes the typical value-form dichotomies. I do not find them tenable. Because of space limitations, I cannot fully detail my objections, so I will restrict myself to two arguments. First, al-

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<sup>4</sup> A more nuanced version of this is the argument that, because capitalist production is production for exchange, an "ideal precommensuration" of commodities to money takes place before exchange, giving commodities an "ideal" or "anticipated" (but not "actual") value ahead of time (Reuten 1988, 53–55). Arthur (2002, 13) endorses this position, and Murray (2005, 72) upholds a similar position (which he attributes to Marx) that "value is 'latent' in the sphere of production; it can be actualized only by being sold."

A comment on the term "actualization" is *a propos*. As we shall see below, Marx did speak of the "realization" of commodities' prices in circulation, but the term he used was *Realisierung*, not *Verwirklichung* (actualization). *Realisierung* is German for "realization" in the ordinary accounting sense. A capital gain, for example, "accrues" to the owner of an asset when its price rises (i.e., s/he becomes wealthier), while this *already existing* capital gain is "realized" when the asset is sold at this higher price.

<sup>5</sup> See McGlone and Kliman (2004) for a defense of this position.

<sup>6</sup> However, Murray (2000, 56) denies that Marx had any kind of "labour-embodied" value theory, notwithstanding his use of such terminology.

**Table 1. The Typical Value-Form Dichotomies**

social / historically specific	asocial / transhistorical
market-centered	production-centered
abstract labor	embodied labor
non-Ricardian	Ricardian

though Marx's "embodied labor" concept of value is production-centered, it is also historically specific and non-Ricardian. Second, by identifying the historically specific character of value with market phenomena, value-form theorists tend to efface the historically specific character of capitalist value production.<sup>7</sup> The first argument calls into question the notion that Marx's abstract-labor embodied theory of value is a half-way break with Ricardianism, and both arguments suggest that what appear, in light of the above dichotomies, to be ambivalences or inconsistencies in Marx may instead be indications that these dichotomies are an inadequate tool for understanding his work.

I am not denying (nor affirming) that there are ambivalences and inconsistencies in Marx. The point is rather that the exhibition of apparent problems, taken by itself, is inconclusive. Hegelians in particular should be sensitive to the fact that blithely using categories to prove points is "dogmatic," since the adequacy of the categories must itself be proved. Thus a putative ambivalence or inconsistency calls into question the interpretive framework that produced it, not only the text itself. And since the goal of exegetical interpretation is to make the texts make sense, students of interpretation hold that interpretations which find texts inconsistent should be rejected as inadequate if an alternative interpretation is available that finds the opposite (see Kliman 2007, Chap. 4, for further discussion).

### **The Historical Specificity of Embodied Labor**

As noted above, value-form theorists hold that "labor-embodied" value theory is Ricardian. Yet the term "embodied labor" and its

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<sup>7</sup> McGlone and Kliman (2004) put forward a third argument challenging these dichotomies: Marx's concept that value is created by abstract labor is historically specific but also production-centered.

synonyms (congealed, materialized, etc. labor) do not appear in Ricardo's *Principles*. He referred instead to the labor "bestowed" on the product or "required" to produce it. This is not a quibble over a harmless anachronism. The substantive point is that Ricardo (consciously) thought of labor only as living, not dead, embodied, etc. He held that commodities' values depend on the amounts of (living) labor required to produce them, but did not regard commodities as "congealed quantities of ... labor" (Marx 1990a, 128).

The reason he did not is precisely that he had an asocial, naturalistic understanding of capitalist production. He construed the capitalist labor process simply as one in which—as in every society—labor is bestowed upon objects. He did not discern its non-natural, fetishistic aspect, the embodiment of labor as value, i.e., the process by which labor becomes a property that an object "contains." (In a material sense, objects *contain* no labor, though labor is *expended* in their production.) The labor embodied as value in commodities is a "phantom-like objectivity," a purely "social substance" (Marx 1990a, 128).

Marx himself stressed that the embodiment of labor is *not* a transhistorical phenomenon: "*it is only a historically specific epoch of development which presents the labour expended in the production of a useful article as an 'objective' property of that article, i.e. as its value. It is only then that the product of labour becomes transformed into a commodity*" (Marx 1990a, 153–54, emphasis added).

To appreciate the social significance of the embodied labor concept, consider the following from Marx's (1964, 122–23, emphases in original) 1844 essay, "Alienated Labor":

The worker puts his life into the object, and his life no longer belongs to himself but to the object .... The *alienation* of the worker in his product means not only that his labour becomes an object, assumes an *external* existence, but that it exists independently, *outside himself*, and alien to him, and that it stands opposed to him as an autonomous power. The life which he has given to the object sets itself against him as an alien and hostile force.

I see no conceptual difference between what is termed "embodiment" (etc.) in *Capital* and what is here referred to as life that "belongs ... to the object," labor that "exists independently, *outside himself*," and "life ... given to the object." And what is characterized in 1844 as "labour ... that stands opposed to him as an autonomous power ... an alien and hostile force" reappears decades later in formulations such as "the rule of things over man, of dead labour over the

living, of the product over the producer” (Marx 1990b, 990) and “in capitalist production, [man] is governed by the products of his own hand” (Marx 1990a, 772). Marx's concept of labor embodiment expresses the historically specific alienation of labor and “inversion of subject and object which ... occurs in the course of the process of production itself” (Marx 1991, 136).

### **The Historical Specificity of Capitalist Production**

On the other hand, it is undeniable that Marx's view that the *magnitude* of value is determined exclusively by the amount of labor socially necessary for its production is partly of Ricardian provenance. But does this concept's provenance and rootedness in production make it asocial and transhistorical, as value-form theorists maintain? I do not think so. In Marx's (1990a, 153–54) view, as we have seen, the value form of the product of labor, i.e. the very fact that the product is a value as well as a use-value, is part and parcel of a “historically specific epoch of development.”

He was also aware that, although “the labour-time it costs to produce the means of subsistence must necessarily concern mankind,” it does not concern mankind “to the same degree at different stages of development” (Marx 1990a, 164). Efficient utilization of labor becomes an overriding concern only when the goal of production becomes the potentially infinite production of abstract wealth, rather than a satisfactory amount of concrete useful products. It is only then that the average amount of labor required to produce something acquires practical significance as a regulative law of production, a norm that producers must not exceed if they hope to survive as producers. So only then does the law of value emerge as a law dominating production. The products' “character as values has already to be taken into consideration during production” (Marx 1990a, 166), and to such a degree that expenditures of labor which exceed the average amount of labor required no longer count as social labor, for they create no additional value.

I fail to see how this production-centered concept of the determination of the magnitude of value (which is based on my understanding of Marx's texts) is any less historically specific than the market-centered concept.

To be sure, in order for the law of value to regulate production, products must (generally) be “produced for the purpose of being exchanged” (Marx 1990a: 166), and the law is enforced by comp-

etition, which (generally) takes the form of competition in the market.<sup>8</sup> So the above production-centered concept of value determination does contain elements of the determination of value “in exchange”—where exchange refers to “a social form of the process of reproduction.” However, this sense of “exchange” is not the relevant one here. The difference between the concept of value determination sketched above and the typical value-form concept turns on whether the magnitude of value depends upon exchange in the sense of “a particular phase of th[e] process of reproduction, alternating with the phase of direct production” (i.e. the sale of an article subsequent to its production).<sup>9</sup> My contention is thus that the concept of value determination sketched above, which denies the dependence of value on exchange *in this latter, temporal sense*, is not on that account less historically specific than the typical value-form concept.

If I am correct about this point, why has it not been generally recognized? Why have Marx's concepts of embodied labor and the determination of value by socially necessary labor-time been construed as transhistorical Ricardian residues, merely because they are production-centered? I believe the answer is that, ironically, value-form theorists have tended to regard relations of production as transhistorical—just like Ricardo and the Ricardian-influenced authors they oppose. Thus the source of capitalism's distinctiveness is displaced to the sphere of exchange, and this perspective seems natural because of its consonance with everyday thinking. “It is typical of the bourgeois horizon, ... where business deals fill the whole of people's minds, to see the foundation of the mode of production in the mode of commerce corresponding to it, rather than the other way around” (Marx 1992, 196).

Closely related to this is the tendency to regard money as capitalism's distinctive feature. This is particularly pronounced in the work of Arthur (2006, 8–9), who argues that “[c]apitalism is essentially a monetary system” and that money is “the actuality of value.” In short, “Money rules.” This, too, is consonant with everyday thinking. But it has not been obvious to everyone. Marx (1992, 195, cf. pp.

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<sup>8</sup> Dunayevskaya (2000, 135) argued—correctly, in my view—that competition between the U.S. and the USSR for world domination also served to enforce the law of value.

<sup>9</sup> This distinction between the two senses of exchange, well known to value-form theorists, was made by I. I. Rubin (1973, 149), whose formulations I have quoted.



113–14), for instance, explicitly rejected the very concept of a “money economy” because what it “stresse[s] as the distinctive feature ... is actually not the economy proper, i.e. the production process itself, but rather the mode of commerce.”

What he singled out as capitalism’s distinctive feature was, of course, that labor-power appears as a commodity. Lest it be thought that he thereby made money the distinctive feature through the back door, as it were, “because in the form of wages labour is bought *with money*,” let me note that he explicitly rejected this notion as well (Marx 1992, 113, emphasis in original). Nor was Marx indirectly making exchange the distinctive feature of capitalism. He noted that “once labour-power is found on the market as a commodity, ... its sale and purchase is no more striking than the sale and purchase of any other commodity. What is characteristic [of capitalism] is not that the commodity labour-power can be bought, but the fact that labour-power appears as a commodity” (Marx 1992, 114). In other words, the continually renewed separation of working people from means of production of their own, which turns their labor-power into a commodity, is capitalism’s characteristic feature.

The relationships between the mode of production and the mode of commerce, and between the commodity and money, are of great political significance, especially today, when what might be termed neo-Proudhonism has made a strong comeback. Marx’s development of the form of value in Section 3 of Chapter 1 of *Capital*, Vol. 1 was in one respect a demonstration aimed against proposals made by Proudhon and his followers to abolish money or reform the monetary system, proposals that Marx battled for decades. By developing the money form of value from out of the duality inherent in each commodity, he showed that the money relations against which Proudhonists railed are manifestations rather than essences, merely the necessary consequence of the inherent contradictions of commodities and commodity production. Thus efforts to abolish money while leaving capitalist production relations in existence are analogous to, and just as self-contradictory as, efforts to “abolish the Pope while leaving Catholicism in existence” (Marx 1990a, 181 n4; cf. Marx 1990a, 161 n26; Marx 1970, 84–86). Value-form theorists have not, as far as I know, taken a position on this issue, but those who emphasize the mode of commerce, or hold that capitalism is “essentially a monetary economy” in which “[m]oney rules,” do seem to focus on the Pope rather than on Catholicism.

## Price Determination

To their credit, proponents of the value-form paradigm are generally careful to distinguish between their own views and (their interpretations of) Marx's views (see, e.g., Reuten 1993, 98–99 and Arthur 2005, 190). I believe, however, that the extent of the differences between the value-form paradigm and Marx is underappreciated, particularly regarding the *implications* of some value-form ideas that may seem to be “reconstructions” of Marx's ideas, i.e., developments of his “social” theory of value that clear off “labor-embodied” residues.<sup>10</sup>

A full exploration of this topic is beyond the scope of the present paper. My more modest goal is to explore three indirect implications of the widely held position among value-form theorists that commodities acquire their (“actual”) values at the moment they are exchanged and through the act of exchange. Obviously, if this is true of *values*, it must be true also of *prices*. I shall argue that this position is incompatible with (a) Marx's theory that surplus-value cannot arise in circulation, and therefore his theory that the exploitation of workers is the exclusive source of profit, (b) his critique of the quantity theory of money, the forerunner of modern monetarism, and (c) his theorization of what is now known as intra-firm trade, in which firms' outputs become their own inputs without passing through the market. In all three cases, Marx's arguments rest squarely on the premise that commodities have determinate prices (and not only values) before they enter into circulation.

### The Origin of Surplus-Value

In Chapter 5 of *Capital*, Vol. 1, Marx sought to demonstrate that surplus-value cannot arise in exchange. This demonstration was of course crucial to his conclusion in Chapter 7 that the exploitation of workers is the exclusive source of profit. Marx acknowledged that an individual business can obtain profit by selling its products for more than they are worth, but argued that such “fraud” cannot explain the

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<sup>10</sup> As far as I am aware, the implications I shall discuss here have not been discussed elsewhere in the literature, except in a brief passage in McGlone and Kliman (2004, 142–43).

existence of profit or surplus-value in the economy as a whole. The crucial and necessary premise underlying his demonstration is that commodities have determinate prices, as well as values, before they enter into the market. Before showing that this is the case, it will be helpful to review his argument.

Marx maintained that surplus-value cannot arise in exchange because, in each and every exchange, one side's gain is exactly offset by the other side's loss. If a machine worth \$10,000 is sold for \$11,000, its manufacturer gains \$1000 in exchange, but the buyer loses \$1000. Marx then argued that this result holds true even if all commodities sell for more than they are actually worth. If everything sells for 10% more than it is actually worth, the manufacturer gains 10% by selling its machine for \$11,000 rather than \$10,000, but loses 10% when it buy the inputs and services needed to produce the machine for \$11,000 rather than \$10,000.<sup>11</sup> The manufacturer therefore loses as a buyer exactly what it gains as a seller.

Before demonstrating these points, Marx (1990a, 260, emphases added) stated, "The value of a commodity is expressed in its price *before* it enters into circulation, and it is therefore a *pre-condition* of circulation, not its result." He then approvingly quoted Le Trosne in a footnote: "It is not the parties to a contract who decide on the value; that has been decided *before* the contract" (quoted in Marx 1990a, 260 n4, emphasis added).<sup>12</sup> This premise is crucial and necessary to Marx's demonstration because, at every point in the demonstration, he assessed gains and losses from exchange by comparing the amount of money for which a commodity exchanges to the amount of money it is actually worth. But these two amounts can be compared only if the actual worth of the commodity is (potentially) different from the

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<sup>11</sup> If the inputs and services are actually worth less than the machine, say \$8000, then the machine already contains a surplus-value of  $\$10,000 - \$8000 = \$2000$  prior to exchange. If everything sells for 10% more than it is worth, the only effect is that this given surplus-value is now 10% greater in *nominal* terms, since  $\$11,000 - \$8800 = \$2200$ .

<sup>12</sup> As I interpret Marx, his claim that a commodity's price is determined prior to circulation means only that it is not determined by the parties to the contract. He does not deny, and he frequently affirms elsewhere, that the price is determined partly by demand—which also exists apart from and prior to actual sale. Thus, the idea that the price is determined independently of the parties to the contract does not mean that it is determined in the market as a whole, but that it is determined by production and demand conditions that exist apart from and prior to sale.

amount of money for which it exchanges, and this is possible only if the actual worth of the commodity is already determined prior to and apart from exchange.

To understand the crucial role of this premise, note that Marx's demonstration does *not* depend upon the assumption that commodities exchange at their values. (Marx does not make this assumption until the end of Chapter 5, after the demonstration is concluded.) In the above summation of his argument, I referred to commodities' "worth," not their "values." Thus the statement that the machine is "worth" \$10,000 can be taken to mean that this is its average price, and the conclusion that surplus-value does not arise in exchange will hold up just as well. Indeed, we can assess the "worth" of commodities in terms of *any* structure of prices (determined partly by monopoly conditions, rent, imbalances between supplies and demands, etc.) and Marx's conclusion still holds up. For instance, if I manage to buy a software program that has a monopoly price of \$300 for only \$250, I gain \$50 in exchange while the seller loses \$50. What matters is that the commodities' prices—whatever they might be—are determined *before* the commodities enter into circulation. It is this premise, rather than the assumption that prices equal values, that underlies Marx's argument.

If, on the contrary, the act of exchange determines (or establishes, etc.) what the commodity is actually worth, and whether it is worth anything or not, then the worth of anything is just "so much money as 'twill bring" (Samuel Butler, quoted in Marx 1990a, 126 n7), so the very notion of gains and losses in exchange becomes meaningless. We cannot say that the net gain is zero, or positive, or negative. Marx's theory that the sole source of profit is workers' surplus labor extracted in production consequently goes out the window. Indeed, it becomes impossible to attribute *any* generation of profit to what occurs in production, since doing so requires us to decompose the profit into an amount generated in production and an amount (equal to zero in the aggregate in Marx's theory) later generated in exchange.<sup>13</sup> There is

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<sup>13</sup> As Carchedi (2002, 178–79) points out, this "solves" the so-called "transformation problem," which pertains to the relationship between surplus-value and profit, by eliminating the distinction between them. Indeed, the value-form approach to price and profit determination seems originally to have arisen as a way to circumvent this "problem," which cannot be solved within the framework of the simultaneous dual-system interpretation of Marx's value theory that was ubiquitous during the 1970s. The temporal single-system interpretation of his theory, developed since the early 1980s, eliminates the alleged internal incon-

now no difference, insofar as the generation of profit is concerned, between production, commerce, and speculation.

Arthur (2002, 14) is right to stress that “[p]rice is a hugely overdetermined phenomenon,” but wrong, I believe, to suggest that this phenomenon can be theorized on the basis of the notion that commodities’ prices are determined at the moment of, and through the act of, exchange. I concur with Carchedi (2002, 179): “this position leaves the value form approach without a theory of prices.” To properly theorize prices, as Arthur (2002, 14) rightly notes, one must separate out their various determinants and the relationships among them. This is simply not possible, however, if we are prevented from understanding price determination in terms of several different processes taking place at different times, and from decomposing profit into one part that arises in production and another that arises in circulation.

In response to this objection, Arthur might argue (as he does on the preceding page, in a slightly different context) that value can indeed “be posited as prior to” exchange in his theory, in the sense that capitalists are “forced to ‘precommensurate’ (to borrow a term from Reuten), assigning an ‘ideal value’ to be tested against actuality in exchange and competition.”<sup>14</sup> However, I do not see how this would help. Instead of a distinction between profit generated in production and profit generated in circulation, what we have here is a distinction between anticipated and actual prices, and thus a distinction between anticipated and actual profit. This has no bearing upon the manner in which *actual* prices and profit are themselves determined.<sup>15</sup>

### The Quantity Theory of Money

The notion that commodities’ prices are determined prior to exchange is also crucial to Marx’s critique of the quantity theory of money. According to that theory, the general level of prices is determined by the quantity of money for which commodities exchange. Given the mass of commodities on the market, an increase or decrease in the

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sistency in Marx’s account of the value-price transformation, as well as the other alleged inconsistencies in his value theory and law of the tendential fall in the rate of profit (see Kliman 2007).

<sup>14</sup> See note 2, above.

<sup>15</sup> See Posner and Gonzalez’s (2010) contribution to this symposium for a similar critique of Arthur’s argument.

quantity of money in circulation causes a corresponding increase or decrease in the commodities' total price. Thus, proponents of the quantity theory of money and their descendants have attributed economic slumps, as a general rule, to insufficiencies in the supply of money, and they have accordingly proposed monetary expansion as the solution.

Like many other monetary theorists, Marx argued to the contrary that changes in the quantity of money in circulation are the consequence, not the cause, of changes in the general level of prices. "[T]he quantity of the medium of circulation is determined by the sum of the prices to be realized" (Marx 1990a, 214).<sup>16</sup> To understand this claim, imagine that, because of technological progress or because investment demand slackens, the price level—"the sum of the prices to be realized"—declines. Less money is now needed to realize the total price of the commodities on the market, so money will be withdrawn from circulation. Thus, in general, factors such as declining values and investment demand are the causes of economic slumps and declining prices, while reductions in the supply of money are merely the consequence.<sup>17</sup> Accordingly, slumps cannot be prevented or overcome by government efforts to force into circulation more money than is actually needed to realize the total price of the commodities on the market.

The foregoing is fairly well known. What is less well known is that Marx's rejection of the quantity theory of money follows immediately from his premise that commodities' prices are already determined before they enter the market.

In Chapter 3 of *Capital*, Vol. 1, Marx (1990a, 213, emphases added) begins his critique of the quantity theory by stating, "In their prices, the commodities have *already* been equated [prior to exchange] with definite but imaginary quantities of money." The sum of prices to be realized is not determined in exchange, but prior to and apart from it. Thus, if commodities directly exchange with money, as he assumes at this point, "it is clear that the amount of means of circulation required is determined *beforehand* by the sum of the prices of all

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<sup>16</sup> This conclusion depends on his assumptions, at this point in *Capital*, that gold is the money commodity and that its value remains constant (Marx 1990a, 188, 214).

<sup>17</sup> Marx (1990a, 218 n28) does recognize that slumps can occur if the quantity of money in circulation is not enough to realize the *actual* sum of prices: "an actual shortage of the circulating medium resulting from, say, bungling government interference with the 'regulation of currency' may ... give rise to stagnation."

these commodities.” Hence, if the sum of prices rises or falls, “it follows that the quantity of money in circulation must rise or fall to the same extent.”

This is Marx’s (only) theoretical argument against the quantity theory of money. He evidently regarded it as sufficient and decisive (as do I). Several pages later, however, he returned to the issue of when prices are determined, arguing that the quantity theory has its origin in the “absurd hypothesis” that commodities come to the market without a price:

The illusion that ... prices ... are determined by the quantity of the circulating medium ... has its roots in the *absurd hypothesis* adopted by the original representatives of this view *that commodities enter into the process of circulation without a price*, and money enters without a value, and that, once they have entered circulation, an aliquot part of the medley of commodities is exchanged for an aliquot part of the heap of precious metals.<sup>18</sup> [Marx 1990a: 220, emphases added]

Indeed, the quantity theory of money seems undeniable once we accept the “absurd hypothesis” that prices are determined in exchange rather than beforehand. If the “medley of commodities” brought to market is exchanged for \$40 billion worth of gold, their total price is \$40 billion. Now if this total price is determined in and through exchange, if the commodities only acquire their prices by being exchanged, the specific price they acquire is obviously determined by the specific quantity of money for which they exchange, \$40 billion worth of gold.

As far as I am aware, no value-form theorist has taken a stand on the quantity theory of money. Perhaps they wish to reject it. Yet it is unclear to me how it might be rejected by those who hold that values and prices are determined (or established, constituted, etc.) at the moment of exchange and through the act of exchange.

They might argue that what they mean by prices being established (or whatever) in exchange is that prices depend partly upon demand conditions. But no other theory denies this, so the value-form notion that prices are determined in exchange rather than beforehand

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<sup>18</sup> Cf. Marx’s (1970, 160–65) critique of David Hume’s quantity theory. On p. 164, Marx writes, “According to Hume, commodities without price and gold and silver without value enter the process of circulation.”

becomes a distinction without a difference. Or they might argue that, although the magnitudes of prices are determined prior to exchange and by processes other than exchange, and that commodities' values are expressed in terms of "ideal" prices prior to exchange, the commodities only acquire "actual" prices at the moment of sale. But once it is agreed that prices are both qualitatively *and* quantitatively determined prior to exchange, this idea also becomes a distinction without a difference. There is no longer a difference between the "realization" (*Realisierung*) and the "actualization" of the predetermined prices. Both terms now mean only that a commodity owner exchanges value in the commodity form for value in the money form.

Yet perhaps value-form theorists have not *meant* anything more. Perhaps they have simply wanted to remind us that demand is a determinant of price and that capitalists (at times) want cash instead of commodities. If that is so, however, questions concerning the quantitative determination of price and profit, and the internal consistency of Marx's theories of how they are determined—questions that value-form theorists or their predecessors circumvented by appealing to the notion that values and prices are established in exchange—can no longer properly be circumvented. Once the implications of "established in exchange" are restricted to "demand is a determinant of price and capitalists (at times) want cash instead of commodities," the notion that values and prices are established in exchange no longer functions as an answer to questions about how prices and profits are actually determined, prior to their realization through sale.

### **Intra-Firm Trade**

Marx did not consider exchange between juridically distinct owners to be necessary in order for a product to be a commodity, or for it to have value (and, presumably, a price). In "Results of the Immediate Process of Production," he considered the case of capitalist farmers who produce seed, some of which they then employ as an input into their own production, rather than selling it on the market. He argued that this "is immaterial. ... It is unimportant ... whether, as in the case of seed in farming, a portion of the product is at once employed by the producer as the means of labour, or whether it is first sold and then converted back into a means of labour." "Where [means of labour such as seed] are not changed into actual money, they are converted into accounting money ... and the element of value they add to the



product is precisely calculated.” Capitalist agriculture “calculates its costs, treats each item as a commodity (regardless of whether it buys it from another or from itself, i.e. from *production*)” (Marx 1990b, 951–52, emphases in original). Products produced by the farmer that he himself then employs as inputs

become commodities he has *bought* (or that *can be bought*). They have long since become commodities in his eyes, since they are articles, means of labour, that are at the same time *values* forming part of his capital. (When he returns them to production in nature [*in natura*, without passing through the market—AK] he therefore includes them in his calculations as things sold him qua *producer*.) [Marx 1990b, 952–53, emphases in original]

Clearly, this line of argument makes sense only if the products have determinate values and prices before they enter into circulation and irrespective of whether they enter into circulation. It is also noteworthy that, whereas the value-form position under consideration posits a crucial difference between the merely “ideal” or “anticipated” values and prices that commodities possess before being sold, and the “actual” values and prices they acquire by being sold, Marx regarded it as “immaterial” whether they are “changed into actual money ... [or] converted into accounting money.”

The phenomenon he was discussing here, now known as intra-firm trade, is far from being an isolated, exceptional case. As of 2003, “International trade within single firms account[ed] for around one-third of goods exports from both Japan and the United States, and a similar proportion of all US goods imports and one-quarter of all Japanese goods imports” (Turner and Richardson 2003). The volume of intra-firm trade within countries is undoubtedly quite substantial as well.

How can the view that commodities obtain *actual* values and prices only when they are sold make sense of this phenomenon? What is the difference between the portion of the seed that the farmer sells to others and the portion he “sells” to himself? What justifies a sharp distinction between revenues obtained in the market and those obtained through intra-firm trade, or costs incurred in the market and costs incurred through intra-firm trade? Are the latter costs only ideal, anticipated, and latent, rather than *actual*? If not, then how can the revenues obtained in the same transaction be other than *actual*? How are the profits of firms that engage in intra-firm trade determined? Are the revenues and costs associated with intra-firm

trade excluded? Does intra-firm trade ever generate any *actual* profit? Are purchases of one's own products as inputs *actual* investments of value?<sup>19</sup>

In short, does the distinction between ideal (anticipated, latent, etc.) and *actual* pinpoint a real and essential difference? I do not think so.

This suggests that value-form theorists have gone astray by focusing on money in its function as a medium of circulation (Marx's "actual money") in a case where what really matters is its function as measure of value ("accounting money"), and especially by privileging sales in the market in a case where what really matters is valorization (the "self-expansion" of value), expressed in monetary terms but taking place prior to and irrespective of sale. The underlying reason why value-form theorists focus on sale is presumably that they want to say (as Marx did) that products which *cannot be sold* are not commodities; they have neither a value nor a price.<sup>20</sup> But as the case of intra-firm trade makes clear, there is a crucial difference between *cannot be sold* and *have not been sold*. I suspect that failure to adequately recognize this difference is a major reason why value-form theorists have put an undue and misplaced emphasis on sale.

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<sup>19</sup> Note that in the case of products such as seed, there exists no eventual "final consumer" whose purchase turns ideal price into *actual* price.

<sup>20</sup> This does not imply that a product only acquires a value and a price when it is sold. In Marx's theory, a product that can no longer be sold is no longer a use-value, and if it "loses its use-value it also loses its value" (Marx 1990a, 310). This implies that the product did have a value originally, since a product cannot *lose* a value it never had. If it *could have been sold* when it was produced, then, according to Marx's theory, it was at that time both a use-value and a value.

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