

Introduction to Henryk Grossman,
'The value-price transformation in Marx and the problem of crisis'
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The transformation of values into prices of production, in volume 3 of *Capital*, was a vital step in Marx's exposure of the anatomy of capitalism and the laws of capital accumulation. In 'The value-price transformation in Marx and the problem of crisis', Henryk Grossman dealt with the fundamental context and significance of the transformation and its implications for theories of economic crisis. While the issue at stake has been the coherence of Marx's entire analysis of capitalism, almost all of the controversy over the transformation has been preoccupied with the narrower question of the theoretical adequacy of his mathematics. This was the case both before Grossman's essay, as he pointed out, and over the subsequent eighty years.¹



The starting point in Grossman's discussion was the method that underpinned the structure of *Capital* and the procedure of successive approximation [*Annäherungsverfahren*]. After dealing with capitalism's most basic features at a very abstract level, achieved by means of a series of simplifying assumptions, Marx progressively lifted them to explain further aspects of concrete reality. Grossman had dealt with this procedure in a series of earlier works, paying particular attention to its implications for Marx's account of how crises, arising from the growing organic composition of capital were intrinsic to capitalism production, and the division of surplus value into its phenomenal forms.² In this essay, he focussed on the place of the reproduction schemas in *Capital* volume 2 and the discussion of the general (or 'average') rate of profit and prices of production, that is the value-price transformation, in volume 3.

Marx's schemas in volume 2 assumed that commodities exchanged at their values and that there was a uniform rate of surplus value in the two departments of production. Consequently, the rates of profit in the departments differed. The rate of profit was lower in the more capital-intensive department I, producing means of production, than in department II, which makes means of consumption. According to Marx, the value schemas had some historical validity.³ Under precapitalist commodity production, when there were substantial obstacles to the movement of capital among branches of production, profit rates were not generally equalised across industries. But, with the emergence of generalised commodity production that characterises the dominance of the capitalist mode of production this was no longer the case. The schemas contradict the contemporary reality that, where monopoly is not an issue,⁴ rates of profit tend to be similar across industries and commodities do not exchange at their values, but at prices of production which reflect the general rate of profit.

1 Kliman 2007 provides a valuable account of the debate and a persuasive response to the 'transformation problem'.

2 Grossman 2000, p. 171; Grossman 1924; Grossmann 1928, pp. 183–4; but especially Grossmann 1992, n.b. pp. 29–31 and Grossman 2013.

3 Cf. spurious criticisms of Engels for his contention that Marx's method was at once logical and historical, e.g. Heinrich 2012, p. 30.

4 Marx 1981, pp. 278–9.

The redistribution of surplus value across industries in the formation of the general rate of profit that gives rise to prices of production has, Grossman noted, an important political implication. The transformation gives each capitalist an interest in the exploitation of the entire working class, because the profit they make may derive not only from their own workers but also from those in other industries.

The equalisation of profit rates occurs through competition, an important feature of the real world excluded from the first stages of Marx analysis of value and surplus value. Grossman noted, in one of his important, content-packed footnotes, that competition was introduced in Volume 3 of *Capital*, in the discussion of the transformation of values into production prices. He also demonstrated that, according to Marx value is determined prior to circulation and is not affected by competition i.e. the realm of circulation.⁵

According to Marx, competition operates to establish the average rate of profit and prices of production through the movement of capital among industries. Faced with lower rates of profit if commodities are sold at their value, capitalists in capital-intensive industries will tend to look for investment opportunities elsewhere and their output of commodities will decline. The short supply will result in the prices of these commodities being bidded up and a deviation between their resulting prices of production and values. Through the mechanism of the exchange of commodities among industries at their prices of production, more surplus value is realized in capital-intensive industries than was produced in them and their profitability improves. In labour-intensive industries, higher initial profit rates lead to capital inflow, expanded output and prices of production below values. The deviation between prices of production and values in particular industries tends to be to the extent necessary to equalise the rate of profit across the whole economy.⁶

Prices of production were not the end of the story of transformation in Marx. Grossman, following him, outlined the necessity of further transformations, starting with prices of production, to take into account not only the formation of the general rate of profit in production, but the general rate of profit including commercial capital, the effects of the credit system and ground rent. Commodities' market prices fluctuate around these multiply transformed values. Prices deviate from values but in consistent, if complicated ways. Furthermore, commercial profit, interest, ground rent and unproductive investment associated with their appropriation of a proportion of surplus value slow down productive accumulation.

Having explained the significance of the transformation, Grossman's criticised the most influential Marxist theories of economic crisis. He dealt a greatest length with Rosa Luxemburg's approach, because he had great political respect for her revolutionary politics and affinity with her insistence on the intrinsic nature of crises under capitalism and the system's tendency to break down. The 'neo-harmonists' like Karl Kautsky and Rudolf Hilferding, on the other hand, argued that disproportion in production could be overcome by means of government policy and, particularly in Otto Bauer's case, that capitalism was characterised by a tendency to equilibrium, i.e. a major capitulation to bourgeois economics.

5 There have been controversies amongst Marxist over the issues of Marx's treatment of competition and the related concept of 'capital in general', and the determination of values prior to the sale of commodities. For very useful defences of Marx's approach to the former see Mosley 1995 and 2002; and to the latter, Carchedi 2011, pp. 85–114; and Moseley 2013.

6 Marx 1981, pp. 296–8.

Luxemburg dealt only with value schemas, even through the division of surplus value into distinct revenue streams has direct bearing on her contention that a purely capitalist system will break down because a portion of the surplus value it produces, in the form of consumer goods, cannot be sold. Her conclusion depended on the assumption, derived from the value schemas, that there is no transfer of surplus value between departments of production. Yet this is precisely what occurs through the formation of prices of production and the average rate of profit.

In their accounts of economic crises, Hilferding and Bauer also relied on value schemas in which rates of profit vary across industries, even though it is prices of production and the average rate of profit which regulate production and accumulation, and the transformation means that crucial proportions differ between value and production prices schemas. Bauer attempted to refute Luxemburg by demonstrating that proportional, crisis-free growth, in which surplus value was fully realised, was possible. He did so by arbitrarily reallocating surplus value from one department to another. The transformation, which brings about a redistribution of surplus value among department of production through exchange, renders this illegitimate procedure redundant. Hilferding's extensive discussion of bank and financial capital likewise failed to go beyond value schemas, even though these are only concerned with productive capital and that at a high level of abstraction.

Explanations of crisis in terms of underconsumption (Luxemburg) and disproportionality (Hilferding and Bauer) are flawed because their analyses are conducted at the level of value rather than price of production schemas. They failed to go beyond the theoretical framework of classical political economy, which had grasped the reality of the formation of the general rate of profit but had been incapable of explaining it. A further crucial weakness in Luxemburg's argument was the Ricardian assumption that surplus value cannot shift between departments of production because of the natural form⁷ of the commodities in which it is embodied.

Grossman's work on the transformation also gave rise to a university course, documented in unpublished student notes, and an unfinished manuscript. These including critical and detailed surveys of hostile assessments of Marx's value theory and addressed procedures for calculating the transformation. He did not publish anything on the calculation of the transformation, which suggests that he was not entirely satisfied with his reasons for endorsing Marx's approach.⁸ But he extended his critique of the Ricardianism of many economic theorists who identified themselves as Marxists in 'Marx, classical political economy and the problem of dynamics'.⁹ In that substantial essay, he emphasised the alien equilibrium assumptions, including the simultaneity of economic processes, shared by bourgeois economics in both its classical and contemporary forms, that had been imported into Marxism. As later critics of such assumptions have pointed out, they underpin not only the arguments of neo-Ricardian and neoclassical critics but also those of most 'Marxists' for rejecting Marx's transformation procedure and explanation of the crisis-prone nature of capitalism in terms of the tendency for the rate of profit to fall.¹⁰

7 Luxemburg 1913, p. 311, uses the term 'objective form'.

8 Grossman 1932, Grossman 1937.

9 Grossman 1977.

10 See Carchedi 2011, pp. 53–130; Freeman 2010; and Kliman 2007; and Moseley 1993. Luxemburg's assumption that the objective form and quantity of commodities constrains the movement of surplus value between

Grossman was the first to give prominence to Marx's explanation of the inherently crisis prone nature of capitalism and its tendency to break down, on the basis of the tendency for the rate of profit to fall that results from the logic of capitalist *production* (rather than distribution or exchange). In reviews of *The Law of Accumulation*, Arkadij Gurland accused Grossman himself of relying on Bauer's value schemas;¹¹ and Hans Neisser charged him with ignoring the transformation of values into prices of production.¹² Grossman's approach was, however, immune from these criticisms. His value schemas, unlike Bauer's, did not deal with separate departments but aggregates across the whole of commodity production. A tacit response to these criticisms, in another long and important footnote, pointed out that he was concerned with "*primarily general* crises of over-accumulation that affect all spheres. For society as a whole, 'the distinction between values and prices of production loses all significance', since here the dimensions of the two are identical."¹³

The transformation makes the vital step of introducing the average rate of profit into his analysis but, according to Marx's own procedure, total surplus value is the same as total profit, the total value of all commodities and their total price of production are identical, as are the value and price of production rates of profit. While the formation of the general rate of profit is preliminary to the discussion of the 'The law of the tendential fall in the rate of profit' in the third volume of *Capital*,¹⁴ Marx's (and Grossman's) account of the law is unaffected by the transfer of surplus value between department of production and the disparity between the values and prices of production of particular commodities, and subsequent transformations. This is not the case for all the 'Counteracting factors'. It is important, Grossman stressed, to conduct analyses of economic crises on as real a basis as possible, in particular taking the general rate of profit and prices of production into account. And indeed Marx did discuss the counteracting effects that arise from foreign trade and the rise in share capital.¹⁵ In the very substantial third chapter of *The Law of Accumulation*, Grossman himself presented extensive discussions of counteracting factors that arise at more concrete levels of analysis beyond introduction of competition and the establishment of the average rate of profit and production prices.¹⁶

Theories that explained economic crisis in terms of underconsumption or disproportionality, that is, ultimately, in the sphere of the *circulation* of commodities should have embraced one of Marx's most important breakthroughs in the understanding of capitalism by taking the value-price transformation, which had immediate implications for their theories, into account. Instead, Luxemburg, Hilferding, 'Bukharin and other theorists of communism' leapt from value schemas to much more concrete levels of analysis, notably discussions of imperialism, finance and state policy.

departments of production can be identified with the broader, mistaken framework which Kliman's calls 'physicalism', pp. 13, 35; also see Moseley 1993.

11 Gurland 1930, pp. 79–80.

12 Neisser 1931, p. 73–4.

13 Grossmann 1929, pp. 107, 211. In the abridged English translation, Grossmann 1992, the first passage Grossman referred to is missing, while the second has been condensed. Jairus Banaji's full translation of *The Law of Accumulation* will be published in the Historical Materialism Book Series as one of the volumes of Grossman's works. For Grossman's responses to other criticisms of his account of Marx's crisis theory see Grossman 2014, pp. 76–85.

14 Marx 1981, pp. 241–313, 317–38.

15 Marx 1981, pp. 344–48.

16 Grossmann 1992, pp. 142–201 passim.

Bukharin drew heavily on Hilferding and, by 1932, although still very well-known was a vulnerable and marginal figure in the Communist Party of the Soviet Union. At this stage Grossman identified politically with the international Communist movement and the Soviet Union. But he had not succumbed to the general subordination of Marxist theory to orthodoxies decreed in Moscow. Criticising Bukharin was therefore safe but Grossman's phrase could entail rejection of official Stalinist economics, whose custodian from 1930 was Jenő Varga. Despite his proclaimed hostility to Luxemburg, in accord with the international Communist line since 1924 (to which Bukharin's critique of Luxemburg's economics, including the idea that capitalism had an economic tendency to break down, contributed),¹⁷ Varga's theory of economic crises drew heavily, but without acknowledgement, on her underconsumptionist arguments.¹⁸ Grossman had described Varga, before he became Stalin's authoritative lieutenant in economics, as one of the 'epigones of Marx' and Varga's misconceived review of *The Law of Accumulation*, published in Russian and German had been savage.¹⁹

In contrast to the work of the most influential Marxist economists of previous decades of the 20th Century, Grossman's essay emphasised that prices of production and the average rate of profit are a crucial link in establishing the relationship between the labour theory of value and reality. This link was absent in the classical political economy and had been established by Marx. Before Grossman, discussions of the value-price transformation were preoccupied with Marx's mathematical procedure. Its implications for crisis theory were not considered. Despite Marx's own statements and Grossman's reminder, the preoccupation with methods of calculation continued and this broader significance of the transformation story has been little explored since.

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17 Bukharin 1972, especially pp. 269–770.

18 Day 1981, pp. 148–51, 187, 202–11.

19 Grossmann 1992, p. 186; Varga 1930a, 1930b.

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