

# Introduction ✓

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Marx's only full draft of Volume III of *Capital* was written in the *Economic Manuscript of 1864–65*.<sup>1</sup> Marx's 'Book III' manuscript was heavily edited by Engels for the first German edition of Volume III in 1894 (after working on the project off and on for 11 years). A long-standing question in Marxian scholarship has concerned just how much Engels changed Marx's manuscript and whether there are significant differences between the two. Marx's original manuscript was published for the first time in German in 1992 in the *Marx/Engels Gesamtausgabe* (MEGA), Section II, Volume 4.2, but this important manuscript had not been translated into English, until this volume. Therefore, the publication of an English translation of Marx's original manuscript is an important event in Marxian scholarship. English-speaking Marxist scholars can finally compare Engels's Volume III with Marx's original manuscript and evaluate for themselves the significance of the differences. I am very grateful to Ben Fowkes, the eminent translator of Marx's works, for taking on this important task.

This publication of Marx's original Book III manuscript is part of the monumental MEGA project, the comprehensive 110-volume collected works of Marx and Engels (in German) (publication still ongoing).<sup>2</sup> Especially important is Section II, which includes all the economic manuscripts related to *Capital*: the *Grundrisse* (Volumes 1.1–1.2), the *Economic Manuscript of 1858–61* (*Contribu-*

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1 According to Müller et al. 2002, the *Economic Manuscript of 1864–65* was a complete draft of all three volumes of *Capital*. The draft of Volume II was published in 1988 in MEGA Section II, Volume 4.1. The draft of Volume I has never been found. Müller and his co-authors are the editors of the MEGA volume in which Marx's Volume III manuscript was published (Section II, Volume 4.2).

2 For a history of the MEGA project and a complete list of all the MEGA volumes, see Bellofiore and Fineschi 2009.

tion to a Critique of Political Economy and the Urtext) (Volume 2), the *Economic Manuscript of 1861–63* (Volumes 3.1–3.6),<sup>3</sup> the *Economic Manuscript of 1863–67* (Volumes 4.1–4.3), and the manuscripts after 1867, including all the published editions of Volume I, the little-known manuscripts written in the 1870s, and Engels's edited Volumes II and III (Volumes 5–15).<sup>4</sup> All of Marx's manuscripts in Section II have now been published (in German). The editors of the MEGA are to be thanked profusely for so expertly carrying out this extremely important task.

This Introduction will highlight the main differences between Marx's original manuscript and Engels's edited Volume III, in the view of this editor. It is hoped that other Marxian scholars will explore further this important question. The translator Ben Fowkes has very helpfully distinguished in the text between parts of Marx's manuscript that are included in Engels's Volume III (marked off by < and >) and parts of Marx's manuscript not included (by default marked off by > and <) (see Translator's Note #2). Fowkes has also prepared a useful Appendix that lists all the pages in Marx's text that were *not* included in Engels's Volume III.<sup>5</sup>

In comparing Marx's manuscript and Engels's volume, the first point to clarify is that Engels converted Marx's chapters into 'parts' and converted Marx's sections of chapters into chapters and created some chapters and sections of

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3 The *Economic Manuscript of 1861–63* was published for the first time in its entirety in German in the MEGA in 1976–82. The English translation was published in 1988–94 by International Publishers, as Volumes 30 to 34 of the 50-volume *Marx-Engels Collected Works*. The manuscript is the second draft of *Capital*, and is the manuscript in which Marx developed for the first time his theory of the distribution of the total surplus-value that would later be presented in Volume III of *Capital*. About two-thirds of this manuscript is what we know as the *Theories of Surplus-Value*, much of which is about the distribution of surplus-value. The other third of the manuscript has been published for the first time in the new MEGA edition, and includes a second draft of Volume I of *Capital* (which is very interesting and important), and, what is most relevant to this volume, approximately 250 pages about material related to Parts 1, 3, and 4 of Volume III. See Dussel 2001b for a detailed textual study of this manuscript, and Moseley 2001b for an introduction to Dussel's book.

4 Each of these volumes also includes a companion volume, called the *Apparat* ('Apparatus'), which presents a wealth of detailed information about the history of the manuscript being published, editorial decisions and variations to these decisions, and further explanatory notes. The MEGA website is: <http://mega.bbaw.de/>.

5 For further detailed comparisons between Marx's manuscript and Engels's edited Volume III, see Müller et al. 2002 and Vollgraf and Jungnickel 2002. Jungnickel was an editor of Volume 4.2 and Vollgraf is also a MEGA editor. And for an exhaustive comparison (in German) of all the changes Engels made, see the *Apparat* to Volume 15 (Engels 1894, Volume III).

his own. In the discussion that follows, I will try to make it clear whose chapters I am talking about. This Introduction will discuss each of Marx's seven chapters (Engels's parts) in turn.

I would like to emphasise to begin with what a daunting task Engels faced in editing Marx's manuscript. In the first place, the manuscript was very uneven, with some chapters in close to finished form (Chapters Two, Four, and Seven), while other chapters (most notably Chapter Five and also Chapter One) were very rough – in some parts little more than a collection of notes and quotes. But more importantly, when Engels started this very difficult project, he appears to have had very little knowledge and overall understanding of Marx's Book III.

Engels's scant knowledge of Book III is evidenced by a series of letters between Marx and Engels in April 1868. Engels asked Marx how he explained merchant profit and how the general rate of profit is determined with merchant capital.<sup>6</sup> In order to answer this question, Marx replied with a long and detailed summary of Book III.<sup>7</sup> Unfortunately, Engels's question and Marx's long answer indicate how little Engels understood about Book III at the time. Marx appears to be explaining all this to Engels for the first time. Marx starts off: 'It is proper that you should know the method by which the rate of profit is developed ... In Book III we then come to the conversion of surplus-value into its different forms and separate component parts'.<sup>8</sup>

This letter gives a very clear explanation of Chapters I, II and IV of Marx's Book III, enough to answer Engels's question about merchant profit and also enough to give Engels a basic understanding of these parts for the purpose of editing them. The summary of Chapter III on the falling rate of profit is only three sentences. After Chapter IV (on merchant profit), the summaries of the remaining parts are only a few sentences, perhaps because these chapters were not necessary to answer Engels's question about merchant profit, and/or perhaps because Marx was running out of steam in writing this long substantial letter. Chapter V on interest (which later gave Engels the most trouble) is only a few lines and a bare outline. But this letter appears to be all Engels had to go on in understanding and editing Volume III.

There is no evidence (that I know of) of any further discussions between Marx and Engels in the last 15 years of Marx's life about the contents of his Book III, and certainly no instructions to guide Engels in his editing. Marx

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6 Marx and Engels 1988, p. 19; letter of 26 April 1868 from Engels to Marx.

7 Marx and Engels 1988, pp. 20–5; letter of 30 April 1868 from Marx to Engels. This letter provides an excellent summary of Book III, which I highly recommend. To abbreviate, I will refer to this letter in this Introduction as Marx's '1868 letter'.

8 Marx and Engels 1988, p. 21; letter of 30 April 1868 from Marx to Engels.

probably avoided discussing his work on Books II and III with Engels because Engels would have pressured him to finish the books.<sup>9</sup> Indeed, Marx apparently did not even tell Engels directly and in person to edit these remaining books, but instead told his daughter Eleanor to tell Engels.<sup>10</sup> In light of Engels's limited knowledge of Book III before embarking on this enormous editing task and Marx's scant to non-existent instructions about what needed to be done, I think it is quite a remarkable achievement that Engels was able to do as good a job as he did (which does not mean that there are no problems).<sup>11</sup>

The main general difference between Marx's manuscript and Engels's Volume III is that Engels's editing made Marx's manuscript appear to be much better organised and more complete and finished than it actually was, especially Chapter Five and also Chapter One.<sup>12</sup> However, Engels's improved organisation did not change the overall logical structure of Marx's manuscript (the order of the chapters/parts is exactly the same) and does not necessarily change Marx's emphasis or the meaning of specific passages. We will investigate below the extent to which Engels's editing did change Marx's meaning or emphasis.

The first important misleading change that Engels made was the *title* of the book! Marx's title of the *Manuscript of 1864–65* was *Die Gestaltungen des Gesamtprozesses* [*The Forms of the Processes as a Whole*]. We know from the contents of the book that the 'forms' presented in this book are *particular forms of appearance of capital and surplus-value* – profit, average profit, commercial capital and commercial profit, interest-bearing capital and interest, and landed capital and rent. In my view, a better title for Volume III would be *The Forms of Appearance of Capital and Surplus-Value*. That is what Volume III is primarily about.<sup>13</sup>

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9 This was Engels's explanation to Bebel as to why he knew so little about the state of Marx's Books II and III: '... had I known, I should have pestered him night and day until it was all finished and printed. And Marx knew that better than anyone else'. Marx and Engels 1995, p. 53; letter of 30 August 1883 from Engels to August Bebel.

10 Marx and Engels 1995, p. 39; letter of 24 June 1883 from Engels to Laura Lafargue.

11 It took Engels 11 years to complete the editing and publication of Volume III. Engels sacrificed his own theoretical work to edit Marx's manuscript, and he died of throat cancer one year after the publication of Volume III. Vollgraf and Jungnickel 2002, p. 40, referred to Engels's editorial work on Marx's manuscript as his 'editorial road to Calvary', and this seems like an apt description.

12 Most of the entries in Fowkes's Appendix (which lists all the pages in Marx's manuscript that were not included in Engels's Volume III) are from Chapters One and Five.

13 *Gestaltungen* was translated by David Fernbach in the Vintage edition of Volume III as 'Configurations'. This translation does not capture the concept of *form*, which is very important in Marx's theory and in Book III in particular. Book III is about *forms* – the particular forms of appearance of capital and surplus-value.

Unfortunately, Engels deleted *Gestaltungen* from the title, and changed the title to *Gesamtprozess der kapitalistischen Produktion* [*The Process of Capitalist Production as a Whole*]. This title misses the main point of Marx's manuscript (which Engels maybe did not fully understand, as discussed above). Book III is indeed about capitalist production as a whole, in the sense of the unity of the process of production (Book I) and the process of circulation (Book II). But more precisely, Book III is about the *particular forms of appearance of capital and surplus-value* (profit, average profit, etc.) that develop out of the processes as a whole already theorised.<sup>14</sup>

Vollgraf and Jungnickel argue that pressure from the publisher forced Engels to change the title.<sup>15</sup> It had been so long since the publication of Volumes I and II that a new title was needed that would make a clearer connection to the first two volumes. They also argue that neither Marx's title nor Engels's fit the contents of the book and they suggest a slight variation of Engels's title: *The Process of Capitalist Reproduction as a Whole*. However, I argue that this title does not fit the contents of the book any better than Engels's title. *Gestaltungen* is missing again, and *Gestaltungen* is the key word of the title, because the contents of the book are the forms of capital and surplus-value.

*Gestaltungen* is a new and unusual term in Marx's manuscripts. To my knowledge, it was not used in Marx's earlier manuscripts and is used only seven times in this manuscript (besides the title),<sup>16</sup> and its full meaning is not entirely clear. The usual translation of *Gestaltungen* is 'forms', i.e., as a synonym for the German word *Form*. But then why didn't Marx simply use the word *Form*? What additional connotation of *Gestaltungen* did Marx have in mind with this unusual choice of words in his title?

An indication of Marx's full meaning of *Gestaltungen* is given in the first paragraph of this manuscript:

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14 Thanks to Paul Mattick Jr. for clarifying the meaning of Engels's title for me.

15 Vollgraf and Jungnickel 2002, pp. 43–4.

16 See the following pages of the present volume: pp. 49, 308, 359, 433, 715, 895 and 897; Marx 1981 [Engels], pp. 117, 301, 367, 445, 753, 967, and 969. There are also two other later instances in which Marx used the word *Gestaltungen* as the title for his Book III: in a letter to Kugelmann of 13 October 1866 (where it is poorly translated as 'structures'), Marx and Engels 1987, p. 328; and in the Preface to the first German edition of Volume I (also poorly translated as 'configurations'), Marx 1977, p. 93. These later uses suggest that Marx really did intend *Gestaltungen* to be the title of his Book III, but they do not provide any clarification of Marx's full meaning of the word. Thanks to Michael Heinrich for pointing out these other two instances to me.

What is necessary is rather to discover and present the **concrete forms** [*Formen*] which grow out of the process of capital, considered as a whole ... The forms [*Gestaltungen*] of capital, as we develop them in this book, thus come closer, step by step, to the form [*Form*] in which they appear at the surface of society, in the everyday consciousness of the agents of production themselves and finally in the action of the different capitals upon each other, namely competition.<sup>17</sup>

Thus we can see that the aim of this book is to present the *concrete forms* (or the particular forms) that grow out of the capitalist process as a whole, as they *appear* on the surface of capitalist society, and in the everyday consciousness of capitalists (and economists).<sup>18</sup> Therefore *Gestaltungen* seems to mean more specifically the *concrete (particular) surface forms of appearance* of capital and surplus-value.

Inwood's *Hegel Dictionary* defines *Gestalt* as follows:

Objects that have a *Gestalt* ... are thought of as ORGANIC unities, appreciable only as a whole, not by the piecemeal consideration of their parts.<sup>19</sup>

This connotation certainly fits with Marx's theory of the particular forms of surplus-value in the *Manuscript of 1864–65*. All the particular forms of surplus-value are explained on the basis of a unifying principle – they all come from the same source, the surplus labour of workers – and thus they are apprehensible only as an 'organic unity' and cannot be understood by the 'piecemeal consideration of their parts'.

One more point of general introduction: Müller, et al., argue that Marx began writing this manuscript with Chapter Two, and then wrote Chapters One and Three in that order.<sup>20</sup> After Chapter Three, Marx switched to Book II and wrote a complete draft of Book II (published in the MEGA, Section II,

17 Marx, this volume, p. 49; Marx 1981 [Engels], p. 117; bold emphasis added, italicised emphasis in the original, and German words in square brackets and italics. This convention will be followed throughout this introduction.

18 In the *Grundrisse*, Marx described these particular forms of surplus-value as 'developments coming out of the germ' of the general form of surplus-value. Marx 1973, p. 310. Another possible translation of *Gestaltungen* is 'formations', which is a process noun like *Gestaltungen*, connoting the process of development of the particular forms of capital and surplus-value.

19 Inwood 1992, p. 108; capitalisation in the original.

20 Müller et al. 2002, p. 18.

Volume 4.11, in 2008), after which he returned to Book III and wrote the remaining chapters in order. Their argument about the backward order of the composition of Chapters One and Two is based primarily on the pagination of the two chapters – Marx originally gave letters rather than numbers to pages in Chapter Two, and then later numbered Chapters One and Two consecutively. However, I will discuss below other reasons that have to do with the *content* of Chapter Two that suggest to me that Chapter Two was written after Chapter One. I don't think it really matters much which chapter was written first, but it is interesting to speculate and it might turn out to be important.

I will now discuss in turn each of seven chapters in Marx's manuscript, starting with Chapter One.

## Chapter One

Chapter One ('The Transformation of Surplus Value into Profit') (Engels's Part One) is one of the chapters with the biggest differences between Marx's manuscript and Engels's Volume III. Engels said in his Preface:

For Part One, the main manuscript could be used only with major limitations. The mathematical treatment of the relationship between the rate of surplus-value and rate of profit (corresponding to our Chapter 3) was introduced in full right at the beginning, while the subject of our Chapter 1 appeared only later and in passing. Two attempted revisions came to the rescue here, each with folio sheets, though even these did not entirely fill the gap. The present Chapter 1 was put together from these drafts.<sup>21</sup>

Marx's 'two attempted revisions' that Engels mentions and that he used as the primary basis of his Chapter 1 were written in 1867–8 and were recently published for the first time (2012) in German in the MEGA, Section II, Volume 4.3; this volume has not yet been translated into English. A translation of this volume into English should be a top priority for Marxian scholarship.<sup>22</sup>

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<sup>21</sup> Engels 1981a, p. 94.

<sup>22</sup> This volume also contains sections on other interesting and important topics, including the effect of turnover on the rate of profit (perhaps written to fill the missing section on this subject in Chapter One of the *Economic Manuscript of 1864–65*), and also an intriguing and heretofore unknown 30-page section on the determination of prices of production, including with unequal turnover times and unequal rates of surplus-value across industries (the only time Marx discussed these important topics).

After the first paragraph of Marx's Chapter One, which is similar to the first paragraph of Engels's Chapter 1, there are four important paragraphs in Marx's chapter that are missing in Engels's chapter. In these paragraphs, Marx argues that the theory of surplus-value presented in the previous two books has determined the magnitude of surplus-value produced by a given capital in a year. If this predetermined magnitude of surplus-value is related to the total capital advanced, instead of variable capital alone (which is the true source of surplus-value), then this magnitude of surplus-value is transformed into 'profit'. The magnitude of profit is the same as the magnitude of surplus-value; the difference is that this predetermined magnitude is viewed subjectively from a different perspective (the capitalists' perspective). Here are excerpts from these missing paragraphs:

In one year, a capital produces a **certain quantity of surplus-value** ... If one now calculates the surplus-value produced in a year ... in relation to the *total capital advanced*, which consists of the constant capital advanced plus the variable capital advanced, the surplus-value is transformed into *profit*.

From the point of view of its material, the *profit* ... is nothing other than the *surplus-value* itself. Its **absolute magnitude does not therefore differ** from the absolute magnitude of the surplus-value which capital produces during a given turnover time. It is **surplus-value itself, but calculated differently**, or, as it initially appears, viewed subjectively in a different way.

*Profit*, in a material sense, and therefore as an absolute magnitude or quantity, is not at all different from *surplus-value* ... e.g. £100<sup>23</sup>

The earlier drafts of this chapter in the *Grundrisse* and the *Manuscript of 1861–63* started off with similar paragraphs.<sup>24</sup>

On the basis of this assumption that the magnitude of profit is equal to the predetermined magnitude of surplus-value, Marx derives in this chapter some

<sup>23</sup> Marx, this volume, pp. 49–50.

<sup>24</sup> Marx 1973, pp. 745–57 and Marx 1991, pp. 69–70. Marx made the same point in his 1868 letter: 'As a result, *surplus-value* assumes the form of *profit*, **without there being any quantitative difference** between one and the other. It is only an illusory manifestation of surplus-value'. Marx and Engels 1988, p. 21; letter of 30 April 1868 from Marx to Engels.



'laws' which have to do with the relation between the rate of surplus-value ( $S/V$ ) and the rate of profit ( $S/C+V$ ). These laws are discussed in terms of a single capital and they also apply to the total social capital; the single capital represents the total social capital. In Marx's 1868 letter, he made this point explicitly:

These laws, moreover, remain *directly* applicable if  $S/C+V$  is treated as the relation of the **socially produced surplus-value to the social capital**.<sup>25</sup>

Marx made a similar statement in the first draft of this chapter in the *Manuscript of 1861–63*:

Just as the surplus value of the individual capital in each sphere of production is the measure of the absolute magnitude of the profit – merely a converted form of surplus value – so is the *total surplus value* produced by the total capital the absolute *measure of the total profit of the total capital*, whereby profit should be understood to include **all forms of surplus value**, such as rent, interest, etc ... It is therefore the **absolute magnitude of value ... which the capitalist class can divide among its members under various headings**.<sup>26</sup>

Thus we can see that, at the beginning of Book III, the total amount of surplus-value produced in the economy as a whole in a year is taken as a *predetermined given*.

After these opening paragraphs, Marx launched into a very long footnote (34 printed pages) (pp. 53–81 of this volume), which the MEGA editors brought into the text, and which is a detailed analysis (with many tedious numerical examples) of the *difference* ( $d$ ) between the rate of surplus-value ( $s'$ ) and the rate of profit ( $p'$ ) ( $d = s' - p'$ ) and the effects on this difference of changes in constant capital and/or variable capital. But Marx realised in the process of this analysis that it is better to analyse the relation between the rate of surplus-value and rate of profit *directly*, rather than in terms of the difference between them, and that is what he did later in this chapter (as we will see below).<sup>27</sup> Engels (rightfully) did not include any of this long (dead-end) footnote in his Chapter 3.

<sup>25</sup> Marx and Engels 1988, p. 23; letter of 30 April 1868 from Marx to Engels.

<sup>26</sup> Marx and Engels 1991, pp. 98–9.

<sup>27</sup> Marx said at one point in this long footnote: 'It is perhaps better to derive the laws **directly** from  $s'$  and  $p'$  than from the **difference** between them'. Marx, this volume, p. 64.

The next section of Marx's manuscript (this volume, pp. 84–92) was given the title 'Cost Price' by the MEGA editors, and contains subject matter related to Engels's Chapter 1 ('Cost Price and Profit') and also Engels's Chapter 2 ('The Rate of Profit').

After this section, there is another long detailed analysis of the relation between the rate of surplus-value and rate of profit (which the MEGA editors gave the title 'The Relationship between the Rate of Surplus-Value and the Rate of Profit', borrowed from Engels), but this time the analysis is in terms of the following equation (which is a much better framework):

$$p' = s' (v / C)$$

where  $v$  is variable capital and  $C$  is the total capital ( $C = c + v$ ;  $c$  is constant capital). (This equation is included in Engels's Chapter 3, but it is less prominent.) Marx's main (and obvious) point is that the rate of profit depends not only on the rate of surplus-value, but also on the relative proportions of variable capital and constant capital in the total capital. This point was intended as a critique of Ricardo (and classical economists in general), who tended to ignore constant capital and the composition of capital and identify the rate of profit and the rate of surplus-value (or the profit-to-wage ratio). Marx stated during this analysis:

As can be studied with the Ricardians, etc., it is completely wrong-headed to seek directly to present the laws of the rate of profit as laws of the rate of surplus-value, or vice versa.<sup>28</sup>

One can therefore see that the movement of the rate of profit can be very complicated and that its analysis is by no means as simple a matter as the political economists have so far imagined.<sup>29</sup>

With the help of Samuel Moore, Engels condensed Marx's 44 printed pages of detailed numerical examples into 20 pages in his Chapter 3, which he gave

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<sup>28</sup> Marx, this volume, p. 95.

<sup>29</sup> Marx, this volume, p. 124. Marx had presented an earlier critique of Ricardo on this point in the *Economic Manuscript of 1861–63* (Marx and Engels 1989b, pp. 9–18), which Marx summarised as follows: 'It has already been shown in some detail that the laws of surplus value – or rather the rate of surplus value – ... do not so directly and simply coincide with, nor are they applicable to, the laws of profit, as Ricardo supposes. It has been shown that he wrongly identifies surplus value with profit ...' Marx and Engels 1989b, p. 60.

the title 'The Relationship between the Rate of Profit and the Rate of Surplus-Value'.

This equation seems to imply that the rate of profit will always vary directly with the variable capital. However, Marx realised in the course of this exploratory analysis that this 'law' is valid *only if the wage rate per worker is assumed to remain constant*, so that variable capital serves as what Marx called an 'index' of the *number of workers employed*, which changes *only* if the number of workers changes. With this assumption, a change of variable capital will leave the rate of surplus-value unaffected and will change the rate of profit in the same direction. However, if variable capital changed as a result of a *change in the wage rate per worker*, then (assuming a constant working day) the rate of surplus-value would also change and would vary *inversely* with variable capital, and thus the rate of profit might also vary inversely to variable capital, and this 'law' would no longer be valid. Therefore, in Marx's further analysis of this 'law', he generally assumed that the wage rate remains constant and thus  $v$  serves as an index of the number of workers employed.

On the other hand, Marx emphasised in these pages that *constant capital is different* in this respect. With respect to effects on the rate of profit (the crucial point here), it is *irrelevant* whether a change of constant capital is due to a change in the *quantity* of means of production or to a change in the *prices* of the means of production (analogous to the wage rate); in both cases, the change of constant capital does not affect the rate of surplus-value and thus the rate of profit will always vary inversely to a change of constant capital.

Marx expressed this key difference between the effects of changes of variable capital and constant capital on the rate of profit in the following important passages in this section of Chapter 1:

This shows precisely the special **organic relationship** that the **variable capital** has with the movement of the capital as a whole and its valorisation, as well as its **distinction from the constant capital**. The latter, to the extent that the creation of value comes into consideration, is important only on account of the value that it has. It is **quite immaterial** here, as far as value formation is concerned, whether a constant capital of £1,500 represents 1,500 tons of iron at £1 a ton or 500 tons at £3. The **quantity of actual material** is **completely unimportant** for the formation of value and its **influence on the rate of profit**. The rate of profit is inversely related to it, whatever relationship the increase or decrease in the exchange-value of the constant capital has to do with the **material elements**, the **use-values**, which it represents.

The situation is **completely different** in the case of *v*. What is important is not the value which it has, the labour which is objectified in it, but that this value is an **index** of the total labour that it sets in motion, and which is not expressed in it.<sup>30</sup>

And in the concluding paragraphs of Chapter One, Marx stated again:

If we consider the **influence of *c* on the rate of profit**, the reasons why *c* falls are **entirely irrelevant**, although differences between the causes for a fall have a very evident impact on the prices of commodities. What is of *decisive importance*, however, is whether *v* changes because a smaller or larger number of workers is technologically required for the production of the same value; whether, therefore, the decrease or increase in *v* is an **index** of the amount of labour set in motion ... or *v* rises or falls because the *wage* rises and falls ...<sup>31</sup>

Engels included the first passage above in his Chapter 3 (p. 144), but did not include the second concluding paragraph, and this omission weakens this important point.

After the second paragraph just quoted, Marx stated in a brief preview of his Chapter Two (which unfortunately Engels also did not include) that what has been analysed in Chapter One as *changes* over time in a given capital will be analysed in Chapter Two as *differences* between capitals (different proportions of constant capital and variable capital) in different industries at the same time.

It should finally be remarked that what we have presented here as movements of different constituents of the same capital over a period of time could just as well be presented as *differences between different capitals in various areas of investment lying alongside each other in a spatial sense* and that what has been presented so far *will be utilised in this latter form in the next chapter*.<sup>32</sup>

The important point about the different effects on the rate of profit of *changes* in variable capital and constant capital is also applied in Chapter Two to the different effects on the rate of profit of *different proportions* of constant capital and variable capital across industries.

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30 Marx, this volume, p. 106; Marx 1981 [Engels], p. 144.

31 Marx, this volume, p. 143.

32 Marx, this volume, p. 143.

After this long section on the rate of profit and the rate of surplus-value, the rest of Marx's Chapter One is very similar to Chapters 5, 6, and 7 of Engels's Part One. Marx's Section 3 ('Economy in the Use of Constant Capital') becomes Engels's Chapter 5, Marx's Section 4 ('The Effect of Changes in Raw Material Prices') and Section 5 ('Release and Tying-up of Capital, Depreciation and Appreciation, Revaluation and Devaluation of Capital') become Engels's Chapter 6, and Marx's Section 7 ('Profit (as it appears to the bourgeois)') becomes Engels's Chapter 7, now with a less informative title ('Supplementary Remarks'). Engels's chapters are somewhat condensed, with fewer and shorter examples and some material rearranged, but I do not find any significant differences in the content and meaning.

Marx's Section 6 was only a title ('The Influence of Changes in Circulation Time, its Shortening and Lengthening'), and Engels wrote his short Chapter 4 ('The Effect of the Turnover on the Rate of Profit') on this subject and moved its location up in front of the chapters mentioned in the last paragraph, perhaps because Marx's 1868 letter suggests this earlier location. The main point of this chapter is not controversial – that the annual rate of profit varies inversely with the turnover time of capital (e.g., a reduction of turnover time would increase the annual rate of profit). When Engels wrote his Chapter 4 in the 1880s, Marx had already discussed in Volume II the effect of turnover time on the quantity of advanced capital, and the effect of turnover time on the rate of profit follows from this earlier analysis. Engels discussed in his chapter examples of reductions in turnover time due to railroads, steamships, and the Suez Canal.

## Chapter Two

Chapter Two ('The Transformation of Profit into Average Profit') is the pivotal chapter in Marx's Book III, in which he presented his theory of the general rate of profit and prices of production (i.e., the infamous 'transformation problem'). This chapter is the beginning of Marx's theory of the distribution of surplus-value, and it has to do specifically with the division of the total surplus-value into average amounts for each industry, so that each industry receives the same general rate of profit on the capital invested in that industry. And this theory of the distribution of surplus-value takes as a presupposition the total amount of surplus-value produced in the economy as a whole in a year that is to be distributed across individual industries, which has been determined by the prior theory of the production of surplus-value in Volumes I and II. The presupposed total annual surplus-value ( $S$ ) is used to determine the general rate of profit ( $R$ )

=  $S / C$ ), and the general rate of profit is then a prerequisite in the determination of prices of production ( $P_i = (C_i + V_i)(1 + R)$ ). In Marx's main numerical example in this chapter, the total annual surplus-value is 110 and the total capital advanced is 500, so that the general rate of profit is 22 percent.<sup>33</sup>

Chapter Two (Engels's Part 2) is of course very controversial, and many (myself included) have wondered whether Marx's original Chapter Two was significantly different from Engels's Part 2. But this turns out largely not to be the case. Chapter Two in Marx's manuscript is much better organised and more finished than Chapter One, and Engels's Part Two is almost the same as Marx's Chapter Two, with very little editing. Marx's Chapter Two is divided into five sections with titles, which Engels converted into his Chapters 8–12.

Geert Reuten has argued that Engels's editing of Chapter Two 'polished away most of Marx's worries' that Marx expressed in Section 3 (Engels's Chapter 10) about his theory of prices of production presented in Section 2 (Engels's Chapter 9).<sup>34</sup> But in comparing the two texts, I find no evidence to support this conclusion and Reuten provides no specific examples. Marx's Section 3 is almost identical to Engels's Chapter 10. I find no worries expressed in Marx's Section 3 that were polished out by Engels. In Fowkes's Appendix to this volume, which lists all the passages in Marx's manuscript that were not included in Engels's Volume III, there are no entries for Section 3 of Chapter Two (i.e., Engels's Chapter 10).

However, there are a few significant passages that are in Marx's manuscript, but are missing in Engels's volume. The first important set of passages that are missing in Engels's Part Two (Chapter 8) are several intermittent paragraphs between pp. 200 and 205 in this volume that have to do mainly with unequal turnover times of different capitals, which is another source of unequal rates of profit besides unequal compositions of capital.<sup>35</sup> Engels's omission of these paragraphs obscures this important further complication in Marx's theory of prices of production.

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33 In Marx's 1868 letter: 'This rate of profit, expressed absolutely, can be nothing but the *surplus-value* produced (annually) by the *capitalist class* in relation to the total of *social capital* advanced'. The result is a kind of '*capitalist communism*' in which each capital gets 'a fractional part of the total surplus-value proportionate to the part of the total social capital that it forms'. In Marx's numerical example in this letter, the total annual surplus-value = 100 and the total capital = 500, so that the general rate of profit = 20 percent. Marx and Engels 1988, p. 23; letter of 30 April 1868 from Marx to Engels.

34 Reuten 2009.

35 The reader can use the translator's indicators of > and < to identify the missing paragraphs in these pages; see Translator's Note #3.

The second important passage that is missing in Engels's Part Two is three paragraphs that should be in Engels's Chapter 9. This omission was first pointed out by Alejandro Ramos.<sup>36</sup> The passage is missing from p. 263 of Engels's Chapter 9 (it should be in the middle of the page, after the paragraph that begins 'In Volumes 1 and 2 ...'),<sup>37</sup> and it presents a concise algebraic formulation of the determination of the value and price of production of commodities and the conditions under which value is > than, < than, or = to price of production. An excerpt from the missing passage:

<i>Value</i> = Cost Price + surplus-value	$V = K + s$
or profit as identical with surplus-value	or $K + p$
cost price = value – surplus-value	or $K = V - s$
<i>price of production</i> = <i>cost price</i> + <i>profit</i>	$P = K + p'$
calculated according to the general rate of profit = $p'$ ...	

Since  $V = K + s$  or  $p$ , and  $P = K + p'$ ,  $V = P$  when  $s = p'$ ,  $> P$  when  $p' < s$ , and  $< P$  when  $p' > s$ .<sup>38</sup>

The important point here is that the *cost price* component ( $K$ ) is the same in the determination of both value and price of production in all these formulations. The only possible difference between value and price of production is the second component – whether surplus-value is > than, < than, or = to profit. This very clear passage provides important new evidence that *the cost price is supposed to be the same* in the determination of both values and prices of production in Marx's theory, as I and others have argued.<sup>39</sup> In other words, there are not two cost prices in Marx's theory, one equal to values and the other equal to prices of production, but *only one cost price*, which is the *actual* cost price (the sum of the actual constant capital and variable capital advanced to purchase means of production and labour-power consumed in production), which in turn is equal to the prices of production of the inputs. Thus, according to this interpretation and contrary to the traditional interpretation, Marx did *not* 'fail to transform the inputs' because the inputs (the cost prices) are not supposed

<sup>36</sup> Ramos 1998.

<sup>37</sup> The page reference here and in future references to Engels's edited text is to the Random House edition of 1981. For the purpose of clarity, the reference will be given as Marx 1981 [Engels].

<sup>38</sup> Marx, this volume, pp. 275–6. Please note that Marx is using  $p'$  here to stand for the *amount* of profit, not the *rate* of profit (which is different from Chapter One).

<sup>39</sup> Wolff, Roberts, and Callari 1982; Ramos 1998; Moseley 2016.

to be transformed (as is commonly alleged), but are instead supposed to be the *same magnitude* (K) in the determination of both values and prices of production.<sup>40</sup>

Another important passage that is missing in Engels's Part Two is at the very end of Marx's Chapter Two as one of four 'Supplementary Remarks'. Engels included Marx's other three 'supplementary remarks' in his Chapter 12, but did not include a very important one which is entitled 'Transition from Chapter One to Chapter Two'. This supplement obviously belongs at the end of Chapter One, but it was written at the end of Chapter Two. Instead of relocating this supplement at the end of his Part One, Engels chose not to include it, which I think was unfortunate.

One important difference between Marx's Chapters One and Chapter Two is that in Chapter Two the relative proportion of variable capital and constant capital is discussed throughout in terms of the concept of the *organic composition of capital*. The three related definitions of the *technical* composition of capital, the *value* composition, and the *organic* composition are presented in the opening pages of Chapter Two and these concepts are utilised throughout the chapter. However, in Chapter One, these concepts are not used at all, even though the relative proportion of variable capital and constant capital also plays a crucial role in this chapter, as we have seen above. It appears that Marx gained greater clarity about these concepts while working on Chapter Two, and he wrote this summary of Chapter One and transition to Chapter Two in terms of these concepts.

It is worth quoting this important supplement in full:

*Supplement to the Transition from Chapter One to Chapter Two of this Book*

We have considered the subject under three aspects: (1) *a change in the mode of production* and as a result in the composition of capital; (2) no change in the mode of production, a change in the *value relation* between constant and variable capital, involving no change in the relative amounts of these elements of capital but a *change in the value* of the commodities which enter into the formation of the constant and variable capital; and (3) a change in the mode of production and in the value of the elements of constant and variable capital, or of one or other of them etc.

What was considered here as a *variation* within the **organic composition** of a *single* capital can equally appear (make itself felt) as a *difference*

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40 I have discussed this important passage further in Moseley 2016, Chapter 4, Section 4.3.



between the **organic compositions** of *the capitals of different spheres of production*.

*Firstly*: instead of a *variation* in the **organic composition** of *one and the same capital*, a *difference* in the **organic composition** of *different capitals*.

*Secondly*: an alteration in the **organic composition** of capital as a result of a *change in the value* of the two parts of *the same capital* – a *difference in the value of the machinery, raw material etc. applied* on behalf of capitals in different trades. This is **not true for variable capital**, since we assume *an equal wage* in the *different* trades. The difference in the *value* of different days of labour in different trades has nothing to do with the matter in hand. If the labour of a goldsmith is dearer than that of a labourer, the surplus time of the goldsmith is of greater value than that of the peasant in the same proportion.<sup>41</sup>

It is clear in this passage that the organic composition of capital across industries may be different for *two reasons*: both because of differences in the technical composition of capital and also because of differences in the values of the means of production. The reason that differences in the value of the means of production are included in Marx's definition of the organic composition of capital is that such differences *have the same effect on the rate of profit* as different technical compositions of capital, as discussed above.

But variable capital is different. Variable capital per worker (or wages per worker) is assumed to be *equal* across industries, because, unlike constant capital, unequal wages across industries have a *different effect* on the rate of profit than unequal quantities of labour employed across industries, as Marx discussed at length in both Chapter One and Chapter Two (and as we discussed above).

Ben Fine and Alfredo Saad-Filho have offered a different interpretation of Marx's concept of the organic composition of capital, according to which the organic composition differs across industries for *only one reason* – because of unequal technical compositions of capital *only*, and *not* because of unequal values of the means of production.<sup>42</sup> Their interpretation is contradicted by Marx's very clear summary of Chapter One (discussed above) and also by the transition to Chapter Two (just discussed) and indeed by Marx's discussion throughout Chapter Two. For example, another clear statement that the organic composition of capital in different industries may be different for these *two reasons* is

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41 Marx, this volume, pp. 317–18.

42 Fine 1983 and Saad-Filho 1993.

the first sentence of Section 2 of Chapter Two in Marx's manuscript (which is the first sentence of Chapter 9 of Engels's Volume III).

At any one given time, the organic composition of capital depends on **two factors**: firstly, on the **technological proportion** between the labour-power and the means of production applied, and secondly, on the **price of those means of production** in the different spheres of production.<sup>43</sup>

Finally, this supplement to Chapter Two is one of the main pieces of textual evidence that leads me to think that Marx wrote Chapter One before Chapter Two, contrary to Müller et al. (as mentioned above). If Chapter One had not yet been written when Marx wrote this supplement at the end of Chapter Two, why wouldn't he write this supplement in Chapter One (to be written next) where it belongs? It seems more plausible to me that Marx realised after first writing Chapter One and then writing Chapter Two that this summary and transition from Chapter One to Chapter Two was necessary, so he wrote this transition at the end of Chapter Two, intending to relocate it later.

Also, the same conclusion is suggested by the fact that the concept of the organic composition of capital, which Marx developed and used extensively in Chapter Two, is not mentioned at all in Chapter One. If Chapter One had been written after this Supplement to Chapter Two, it seems likely that Marx would have used the concept of the organic composition of capital explicitly in Chapter One, especially in the concluding paragraphs of Chapter One discussed above (which are about the ratio of constant capital and variable capital without this ratio being called the organic composition of capital). The fact that he did not use this concept in Chapter One suggests to me that he wrote Chapter One before he developed the concept in Chapter Two.

A final piece of evidence for this interpretation is the beginning of Chapter Two. In the first few pages, Marx wrote a detailed summary of the main points of Chapter One, including points that Marx had not hitherto discussed in his previous manuscripts. For example, assuming a constant rate of surplus-value, the rate of profit will vary as a result of changes in constant capital or variable capital and the proportion between them (discussed extensively in Chapter One, as we saw above, and not before); and also the 'tie-up and release' of capital. These details suggest to me that Marx had recently written Chapter One and these details were fresh in his mind as he started Chapter Two.

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43 Marx, this volume, pp. 265–6; Marx 1981 [Engels], p. 252.

## Chapter Three

Chapter Three is of course the chapter in which Marx presents his famous theory of the falling rate of profit ('The Law of the Tendency of the Rate of Profit to Fall with the Advance of Capitalist Production'),<sup>44</sup> and like Chapter Two is also very controversial. Engels made the following changes to Marx's Chapter Three, which are of varying degrees of significance.

In the first place, Marx's chapter was not divided into any sections, and Engels divided his Part Three into three chapters, the well-known Chapters 13, 14, and 15, with Chapters 14 and 15 further divided into sections. The titles of the chapters and sections were also added by Engels. This structure of course makes Marx's manuscript look more organised and more complete than it actually was, but it does not necessarily change its meaning or emphasis.

Secondly, Engels left out an important footnote from early in his Chapter 15, which states clearly that the rate of profit (the ratio of the total surplus-value (or profit) to the total capital advanced) is independent of the division of the total surplus-value into industrial profit, interest, and rent.

$$\text{Rate of Profit} = \frac{\text{Surplus-value}}{\text{Capital Advanced}} \dots$$

If profit = P, industrial profit = P', interest = Z and rent = R, P = P' + Z + R. And it is clear that whatever the absolute magnitude of P may be, P', Z and R may rise or fall in proportion to each other, independently of the magnitude of P or a rise or fall in P. The reciprocal displacement of P', Z and R **amounts to no more than a change in the distribution of P** under its different headings.<sup>45</sup>

Marx had already emphasised this point earlier in his Chapter Three, and Engels included this passage in his Chapter 13,<sup>46</sup> so perhaps Engels thought that this footnote was redundant.

Another change made by Engels was to relocate five pages from the middle of his Chapter 15 (pp. 350–5 in this volume) to the end of his Chapter 13 (pp. 332–8 in Engels's Volume III), and Engels also added two pages of his own in the middle of these pages (pp. 334–5), which are marked as an addition. The relocation of these pages makes some sense, since these pages are primarily

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44 We can see that Engels abbreviated Marx's title by deleting the last phrase.

45 Marx, this volume, p. 346.

46 Marx, this volume, pp. 322–3; Marx 1981 [Engels], p. 320.

about an increase in the *mass* of profit in spite of a decrease in the *rate* of profit, and this subject is also discussed in the preceding pages in Chapter 13. Again, this relocation is not necessarily inconsistent with Marx's intentions.

Geert Reuten has argued that Engels's relocation gives more weight to Chapter 13, which Engels entitled 'The Law as Such', and thus gives the impression that Marx concluded that the rate of profit would definitely decline over the long run as a secular trend, instead of fluctuating between periods of decline and periods of increase, without a definite trend over the long run (the latter is Reuten's interpretation).<sup>47</sup> I agree in part, but I think that the additional weight given to Chapter 13 and to the 'Law as Such' interpretation by this relocation is minor and hardly noticeable. And, as mentioned, this relocation makes sense in that the topic of the relocated pages is the same as the end of Chapter 13 to which it is joined.

Reuten has also pointed out that Engels inserted the following important sentence towards the end of the relocated text that he did not mark as an insertion:

In practice, however, the rate of profit will fall in the long run, as we have already seen.<sup>48</sup>

This sentence clearly gives the impression that Marx concluded that the rate of profit would definitely decline in the long run; but this is a misleading impression, as Reuten argues, because the sentence was written by Engels, not Marx. On the other hand, the end of Marx's title of Chapter Three ('... with the Advance of Capitalist Production'), which Engels deleted, seems to suggest a long-run secular decline.

Vollgraf and Jungnickel have noted another misleading modification that Engels made in his Chapter 15, in the last paragraph of Section 1.<sup>49</sup> Marx stated in parentheses that the centralisation and concentration of capital would cause a 'shake' [*Klappen*] in capitalist production if there were not counteracting tendencies.<sup>50</sup> Engels removed the parentheses and changed the mild word *Klappen* to the stronger *Zusammenbruch* [collapse or breakdown].<sup>51</sup> Vollgraf and Jungnickel argue that this one change encouraged the 'breakdown' theorists of the Second International (e.g., Kautsky).

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<sup>47</sup> Reuten 2002.

<sup>48</sup> Marx 1981 [Engels], p. 337.

<sup>49</sup> Vollgraf and Jungnickel 2002, p. 62.

<sup>50</sup> Marx, this volume, p. 350.

<sup>51</sup> Marx 1981 [Engels], p. 337.

Heinrich has argued that the section of Marx's chapter that Engels turned into his Chapter 15 ('Development of the Law's Contradictions') is no longer systematic, but is only a 'large mass of remarks, additions, and argumentative approaches, in unelaborated and incomplete form'.<sup>52</sup> This description is accurate for the last 10 pages of this section, which Engels turned into his Section 4 of Chapter 15, entitled 'Supplementary Remarks', since these pages are indeed a few remarks presented in non-systematic fashion. However, the first three sections of this chapter are systematic in the sense that they are all various aspects of the tendency of the rate of profit to fall. Section 1 makes three main points: the relative proportions of industrial profit, interest, and rent may have been different from the overall rate of profit; a decrease in the rate of profit may be accompanied by an increase in the mass of profit; and the decline in the rate of profit is not due to reduced exploitation, but to a decline in the number of workers employed. The main point of Section 2 is that the development of the productivity of labour in capitalism has two main effects – an increase of surplus labour per worker and a decrease in the number of workers employed – and these two effects in turn have opposite effects on the rate of profit. Section 3 presents a sketch of a pioneering theory of capitalism's boom-bust cycle, which follows directly from Marx's theory of the falling rate of profit. If capitalist crises are caused by a falling rate of profit, then a recovery from crises requires above all else a restoration of the rate of profit to previous higher levels. Furthermore, if the underlying cause of a falling rate of profit is an increase in the value composition of capital (the ratio of constant capital to variable capital), then a restoration of the rate of profit requires a reduction in the value composition of capital, which is typically accomplished during capitalist depressions by the *devaluation of capital* that results from widespread bankruptcies of capitalist enterprises. Thus Marx's theory not only predicts recurring capitalist crises, but also predicts that a precondition for recovery from crises is the devaluation of capital and widespread bankruptcies. The sketch of a theory of capitalist cycles in this section is certainly a long way from a complete theory, but it was way ahead of all other economic theories at the time (which barely even recognised capitalism's tendency toward crises), and I think remains today a useful and unique framework within which to analyse capitalism's boom-bust cycles. Heinrich misses Marx's important theoretical achievement in these pages.<sup>53</sup>

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52 Heinrich 1996–7, p. 459.

53 This chapter also contains eloquent summaries of the '*barriers* to capitalist production' (e.g., 'capital itself'; i.e., the main motive and purpose of capitalist production is the valorisation of capital).

Heinrich has also argued that Engels changed a key phrase in Section 3 of Chapter 15 in such a way as to change Marx's meaning into its opposite. Marx stated that a closer analysis of the phenomenon of the overaccumulation of capital (i.e., of crises) 'belongs to the study of the apparent movement of capital, where interest capital etc. and credit etc. will be examined in more detail'.<sup>54</sup> This is an important statement by Marx – that a more complete theory of crises requires more than the falling rate of profit; the role of credit and debt must also be incorporated.

Engels changed Marx's phrase just quoted to the following: 'its closer analysis follows later'.<sup>55</sup> Heinrich argues that the meaning of Marx's phrase is that a further analysis will come *after this book*, but the meaning of Engels's phrase is that a further analysis will come later *in this book*. However, the subjects that Marx explicitly referred to in his phrase – interest capital and credit – were in fact included later in Marx's Book III of *Capital* (Chapter Five in Marx's manuscript and Part Five in Engels's Volume III, to be discussed below), and of course Engels knew this since he was editing Marx's manuscript, and Chapter Five was giving him fits. Therefore, Engels's phrase in this case is accurate, although it is unfortunate that Engels leaves out the specific topics of 'interest capital' and 'credit' that 'follow later' in this book. This later discussion in Chapter Five is still a long way from a complete theory of crises, but it is an extensive discussion of interest-bearing capital and interest and credit. While working on Chapter Three, Marx may not have intended to write so much about the credit system in this book, but he ended up writing quite a lot about the credit system, and that is what Engels was dealing with and referring to in this phrase.

## Chapter Four

Marx's Chapter Four ('The Transformation of Commodity Capital and Money Capital into Merchant's Capital (Commodity-Dealing Capital and Money-Dealing Capital)') presents his theory of merchant profit (i.e., how merchant capital receives a share of the total surplus-value produced, even though merchant labour does not directly produce value and surplus-value), and presents his modified theory of prices of production to include merchant profit and the

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54 Marx, this volume, p. 360.

55 Heinrich is quoting from the International Publishers edition of Volume III, p. 251. In the Vintage edition of Volume III, Fernbach translates Engels's phrase as 'we shall study it in more detail below'. Marx 1981 [Engels], p. 359.

distinction between wholesale prices and retail prices of production, with the assumption again that the total surplus-value is pre-determined and does not change.

Since mercantile capital does not itself produce any surplus-value, it is clear that the surplus-value that accrues to it in the form of the average profit forms a portion of the surplus-value or surplus labour produced by the *productive capital* as a whole.<sup>56</sup>

Thus, in moving from Chapter Two to Chapter Four, the total surplus-value remains the same (as determined in the prior volumes) and the total capital increases with the addition of merchant capital. Thus the general rate of profit is reduced, which allows merchant capital to receive its share of the total surplus-value. In Marx's main numerical example in this chapter, the total surplus-value = 180 and the total social capital is increased from 900 to 1000, and thus the general rate of profit is reduced from 20 percent to 18 percent.<sup>57</sup>

Marx had previously written an initial exploratory draft of this chapter towards the end of the *Economic Manuscript of 1861–63*,<sup>58</sup> so he was able to write the second draft of this chapter in fairly finished form. Marx's chapter is divided into sections (with titles) that Engels converted into chapters in his Part Four. There are a few changes of terminology and notation, but nothing of significance. In several places, Engels changed Marx's term 'productive capital' into 'industrial capital',<sup>59</sup> but this does not indicate that Engels was altering Marx's concepts of productive and unproductive capital; Engels clearly accepted Marx's assumption that only productive capital (capital invested in the sphere of production) produces value and surplus-value.<sup>60</sup>

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56 Marx, this volume, p. 390; Marx 1981 [Engels], p. 395.

57 In the numerical example in Marx's 1868 letter, the total surplus-value remains = 100 and the total social capital is increased from 500 to 600, so that the general rate of profit is reduced from 20 percent to 16⅔ percent. Marx and Engels 1988, p. 24; letter of 30 April 1868 from Marx to Engels.

58 In a part of the manuscript which was published for the first time in 1980 in Volume 3.5 of the MEGA and translated into English in Volume 33 of the *Marx-Engels Collected Works* (published in 1991).

59 Compare this volume, pp. 376, 385, and 395 with Marx 1981 [Engels], pp. 379, 389, and 396. Marx's concept of *industrial capital* was a more general concept that included commodity capital and money capital as well as productive capital.

60 For example, in Volume II, Engels added two sentences in Chapter 8 which criticised 'Political economy since the time of Adam Smith' for failing to make the distinction

Engels also added a title to Marx's final section (p. 421 in this volume; Engels's Chapter 20: 'Historical Material on Merchant's Capital'). Other than these minor examples, Engels's Part Four is almost the same as Marx's Chapter Four and I find nothing more to comment on.

## Chapter Five

Chapter Five ('The Division of Profit into Interest and Profit of Enterprise (Industrial or Commercial Profit). Interest-Bearing Capital') is the longest chapter in Marx's manuscript (250 pages). This chapter explains interest as part of the total surplus-value, with the assumption that the total surplus-value is taken as a pre-determined given amount (determined by the prior theory of the production of surplus-value in Books I and II) and this total does not change as a result of its division into profit and interest.

Engels said in his Preface that Chapter Five gave him 'the major difficulty' in preparing Marx's manuscript for publication. However, when looked at more closely, it becomes clear that almost all of the difficulty was in the last half of Marx's chapter (pp. 598–692) (which became Engels's Chapters 30–5), and this last half is the least important part of this chapter (consisting in large part of excerpts of parliamentary reports). The first four sections of Marx's Chapter Five (which became Engels's Chapters 21–4) are about interest-bearing capital and interest and the division of the total surplus into profit and interest, and are the most important sections in this chapter for the main subject of this volume (the distribution of surplus-value and the particular forms of capital and surplus-value, including interest). These sections are in almost finished form (Engels said 'basically completed')<sup>61</sup> and Engels made no important changes, besides converting sections into chapters. The main conclusion of these four sections is that there is no 'general law' of the determination of the rate of interest, and thus that there is no general law of the division of the total surplus-value into profit and interest. Instead, Marx argued, the rate of interest is determined by the accidental relation between the supply and demand for loanable funds on the money market, which vary a lot over the cycle of expansion and contraction.

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between productive capital and capital in the sphere of circulation (Marx 1978 [Engels], p. 247). These sentences are not marked as Engels's insertion, but Rolf Hecker, one of the MEGA editors, informs us that Engels did insert them (Hecker 2009, p. 22).

61 Engels 1981a, p. 95.



There are no subsections with titles for the first 98 pages of Section 5 ('Credit. Fictitious Capital') of Marx's Chapter Five. There are only three subsections marked with Roman numerals. The MEGA editors added titles to these subsections in the text (but not in the contents page), using Engels's titles of his chapters. Engels converted the first 50 pages of Section 5 of Marx's Chapter Five into his Chapters 25 through 29, and these pages also did not require much editing.<sup>62</sup> Chapters 27 ('The Role of Credit in Capitalist Production') and 29 ('Bank Capital's Component Parts') are taken almost directly from Marx's manuscript. Engels did more editing revisions in his Chapters 25 ('Credit and Fictitious Capital'), 26 ('The Accumulation of Money Capital ...'), and 28 ('Means of Circulation and Capital ...'), but there do not appear to be any substantial changes of meaning, with one possible exception in the first sentence of Chapter 25, to be discussed below.

Engels said in his Preface that his main difficulties were with the rest of Section 5 (pp. 598–692). Engels made six chapters out of these pages (Chapters 30 through 35). There are substantial rearrangements and relocations of the text, but by and large Engels's edited version follows Marx's manuscript fairly closely. Engels said in his Preface that he tried three times to make this large part of Section 5 into more coherent chapters, but he finally gave up; and these failed attempts to improve this part of Section 5 were one of the main reasons for the long delay in the publication of Volume III (this part of Section 5 will be discussed further below).

Finally, the last section of Chapter Five (Section 6: 'Pre-Bourgeois Relations') is taken with very few changes by Engels for his Chapter 36 (Engels: 'completed in full').<sup>63</sup>

Heinrich has argued that Engels's improved organisation of Section 5 'shifted the emphasis' in this chapter from interest-bearing capital (Marx) to credit (Engels).<sup>64</sup> I tend to agree with Heinrich on this point. Engels's improved organisation makes Section 5 look more like a theoretical work than a set of research notes, and thus implicitly places more weight on this section. It also gives the misleading impression that all of Section 5 belongs in this book

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62 The title of Section 5 is Marx's title, but is somewhat misleading. By 'fictitious capital' Marx meant stocks and bonds, which are legal claims to ownership and/or to future profits, not real capital in the sense of the value of capital invested in capitalist enterprises. But not many of the 250 pages of Section 5 are about fictitious capital in this sense. Instead, almost all of this section is about bank loans to industrial capitalists and merchant capitalists.

63 Engels 1981a, p. 96.

64 Heinrich 1996–7, p. 461.

on competition and the distribution of surplus-value, but most of it does not belong (see below).

Vollgraf and Jungnickel have criticised Engels for making a misleading alteration in Section 2 of Chapter Five of Marx's manuscript: Engels omitted curly brackets around the following sentence, which they argue transformed a 'crutch for thought' into a 'penetrating triviality'.<sup>65</sup>

{Where a given whole – such as profit – is to be divided between two people, the first thing that matters is of course the *size* of the whole to be divided, and this, the magnitude of *profit*, is determined by the average rate of profit.}<sup>66</sup>

I argue that this sentence in brackets is not a 'crutch for thought' nor a 'penetrating triviality', but is instead an important methodological remark (Marx often put his methodological remarks in brackets). This sentence is related to the fundamental assumption on which the whole of Marx's theory of the distribution of surplus-value in the *Economic Manuscript of 1864–65* is based, including Chapter 5 on interest – that the total surplus-value (the 'whole') is determined prior to its division into individual parts, including the division into profit and interest. According to Marx's logical method, the total surplus-value (as determined in Volumes I and II) is used to determine the general rate of profit ( $R = S / C$ ), and then the general rate of profit is used to determine the average profit in each industry ( $\pi_i = R C_i$ ), and finally this average profit is divided into profit of enterprise and interest in each industry ( $\pi_i = \pi_{ie} + int_i$ ) (this last step is what Marx was talking about in the passage quoted:  $\pi_i$  is determined prior to its division into  $\pi_{ie}$  and  $int_i$ ). I am glad that Engels included this important methodological comment, although he should have left the brackets.

The main interpretive issue with respect to Chapter Five has to do with the long Section 5 on the credit system (Engels's Chapters 25–35) and the logical relation between the credit system and the rest of Marx's Chapter Five and Book III as a whole. The following is my interpretation:

In April 1858, toward the end of his work on the *Grundrisse*, Marx wrote the following outline of his 'book on capital' in a letter to Engels, in which 'Credit' is the third section, after capital in general and competition:

65 Vollgraf and Jungnickel 2002, p. 50.

66 Marx, this volume, p. 463; Marx 1981 [Engels], p. 482.

*I. Capital contains four sections:*

- a) *Capital in general* (this is the *subject-matter of the first part*).
- b) *Competition*, or the action of the **many capitals** upon one another.
- c) *Credit*, here capital as the general principle confronts the individual capitals.
- d) *Share capital* as the most highly developed form (turning into communism) together with all its contradictions.<sup>67</sup>

I argue that this very clear outline remained the basic logical structure of Marx's theory of capital in all the later drafts of *Capital*, including the *Economic Manuscript of 1864–65*. Capital in general has to do primarily with the production of surplus-value and the determination of the total amount of surplus-value produced in the economy as a whole, and competition has to do primarily with the distribution of surplus-value and the division of the pre-determined total amount of surplus-value into particular forms and individual parts. The *Grundrisse* is almost entirely about the section on capital in general (except for a few incidental remarks).<sup>68</sup> The *Economic Manuscript of 1861–63* started out in the section on capital in general (a second draft of the theory of the production of surplus-value; what later became Parts 2–4 of Volume I), but Marx's work on this manuscript moved progressively into an initial exploration of the particular forms of surplus-value (average rate of profit, rent, interest, merchant profit) and the distribution of surplus-value and thus into the section on competition.<sup>69</sup> And the *Economic Manuscript of 1864–65* (presented in this volume) consists mostly of the section on competition; it develops more fully the theory of the distribution of surplus-value begun in the *Manuscript of 1861–63*, except for Chapters 1 and 3 (profit and the falling rate of profit), which belong to the section on capital in general.<sup>70,71</sup>

From this perspective, the interpretive issue is: does Section 5 of Chapter 5 on the credit system belong to the section on competition or to the section on credit? In my view, almost all of Section 5 belongs to the later section on credit. Just the common name suggests this conclusion. This conclusion is also suggested by the first section of Marx's Section 5:

<sup>67</sup> Marx and Engels 1985, p. 298; letter of 2 April 1858 from Marx to Engels.

<sup>68</sup> Moseley 2011.

<sup>69</sup> Moseley 2009.

<sup>70</sup> Moseley 2002.

<sup>71</sup> Some authors have argued that Marx abandoned this logical framework after encountering difficulties in the *Economic Manuscript of 1861–63*; e.g., Vollengraf and Jungnickel 2002 and Heinrich 1996–7. This interpretation is discussed in the concluding section.

It is **outside the scope of our plan** to give an analysis of the **credit system** and the instruments this creates (credit money, etc.)<sup>72</sup>

This statement seems to suggest that Section 5 on the credit system does not really belong in this chapter or this manuscript, which is mainly about competition and the distribution of surplus-value.

Heinrich has noted that Engels added a key word to Marx's first sentence of Section 5, which he argues significantly changes its meaning.<sup>73</sup> Before the word 'analysis' [*Analyse*], Engels added the word '*eingehende*', which has been translated as 'exhaustive' or 'detailed'. Heinrich argues that Engels's added adjective suggests that Section 5 on the credit system *does* belong in this chapter to some extent, but not a complete consideration of the credit system; more details would come later.

Engels may have thought that Marx's second sentence justified his additional adjective:

Only a few points will be emphasised here, which are necessary to characterise the capitalist mode of production in general.<sup>74</sup>

This sentence suggests the possibility that at least part of Section 5 on the credit system *does* belong in this chapter (but 'only a few points') because these points are 'necessary to characterise the capitalist mode of production in general'. Unfortunately, Marx did not clearly specify which topics discussed in Section 5 on the credit system are necessary to characterise the capitalist mode of production in general, and which topics are not necessary and belong instead to the later section on the credit system.

In my view, there are only a few parts of Section 5 that could be considered as 'necessary to characterise the capitalist mode of production in general'; most of Section 5 is not necessary in this general sense. The main part that is about such general points is presented in five pages early on in Section 5 (pp. 535–40), which Engels turned into his Chapter 27 with the title 'The Role of Credit in Capitalist Production' (there is no title in Marx's manuscript; the MEGA editors added Engels's title to their volume). I think this chapter provides the kind of broad general statements about credit that Marx had in mind by 'necessary to characterise capitalism in general'. These pages discuss the following important

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72 Marx, this volume, p. 500; Marx 1981 [Engels], p. 525.

73 Heinrich 1996–7, pp. 461–2.

74 Marx, this volume, p. 500; Marx, 1981 [Engels], p. 525.

aspects of the role of credit in capitalism: (1) it reduces the costs of circulation (less gold and silver required) and the time of circulation (related to Chapter One of Book III); (2) it is necessary 'to bring about the equalisation of the profit rate or the movement of this equalisation, on which the whole of capitalist production depends' (related to Chapter Two of Book III); (3) it leads to the development of joint-stock companies (which Marx optimistically characterised as 'the abolition of capitalism within capitalism'); and in the most general terms (4) it accelerates the development of the productive forces in capitalism, and therefore also intensifies the contradictions in capitalism, especially the contradiction of recurring crises ('credit is the principal lever of overproduction and excessive speculation'), and with crises the 'dissolution' of capitalism.<sup>75</sup>

These important pages are not marked off in the manuscript in any way, and are immediately preceded by 25 pages of excerpts from parliamentary reports on the causes of the economic crisis of 1847 (most of which were included by Engels in his Chapter 26). This striking juxtaposition of very concrete analysis and broad general theory illustrates the unevenness of Section 5.

A second topic discussed in Section 5 that could be considered 'necessary to characterise capitalism in general' are discussions in Engels's Chapters 25 and 29 about the *concentration of loanable money capital in the hands of banks*, so that bank loans represent in a concrete form the capital of the capitalist class as a whole as distinguished from individual capitalist borrowers (industrial capitalists or merchant capitalists). We saw above that Marx expressed this same idea in his 1858 outline of the four sections of his theory in his descriptor for section c) on credit: 'capital as the general principle confronts the individual capitals'. Marx also expressed the same idea in the *Grundrisse* (probably written a few weeks or months before the April 1858 letter): bank loans function as 'capital in general' in relation to concrete, particular capitals.<sup>76</sup>

A third topic that could be considered 'necessary to characterise capitalism in general' is discussions of the *quantity of money under the credit system*

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75 Marx commented humorously that this 'dual character' of the credit system gives to its spokesmen the dual character of both 'swindler and prophet'. This volume, p. 540; Marx 1981 [Engels], pp. 572–3. Marx repeated this point in two paragraphs in Section 6 of Chapter 5 on 'Pre-Bourgeois Relations': 'Banking and credit, however, therefore, become the most powerful lever for driving capitalist production beyond its limits, and one of the most effective vehicles for crises and swindling ... Finally, there can be no doubt that the credit system will serve as a powerful lever in the course of the transition from the capitalist mode of production to the mode of production of associated producers'. This volume, p. 709; Marx 1981 [Engels], pp. 742–3.

76 Marx 1973, p. 449.

(Engels's Chapters 28, 33, and 34). The main point of these discussions is that the 'law' of the quantity of money in circulation that Marx derived in Chapter 3 of Volume I still applies:

It has already been shown, in our consideration of simple money circulation, that if the velocity of circulation and an economical use of the means of payment are assumed, the quantity of money really circulating is simply determined by the prices of the commodities and the number of transactions. **The same law applies to the circulation of notes.**<sup>77</sup>

This important general statement was relocated by Engels from material corresponding to his Chapter 31 to his Chapter 33 (p. 655). The next five pages in Engels's Chapter 33 elaborate on this general statement and emphasise that banks do not have the power to increase the quantity of bank notes in circulation *beyond what is needed for the circulation of commodities*, and these pages are taken from several different places in Section 5 of Chapter Five.<sup>78</sup>

Engels added the following key sentence at the beginning of a paragraph in these pages without marking it as an insertion:

It already emerges from this that it is in no way in the power of the note-issuing banks to increase the number of notes in circulation, **as long as these notes are exchangeable at any time against metal money.**<sup>79</sup>

Engels marked the rest of this paragraph as his insertion, thus leaving the erroneous impression that this first sentence was written by Marx. This sentence is an accurate statement about Marx's theory – that the laws of the quantity of money in circulation also apply to bank notes *as long as bank notes are convertible into gold or silver at legally fixed rates* – and it was good for Engels to remind readers of this important institutional context of Marx's theory of the quantity of money. However, he should not have implicitly attributed this sentence to Marx.<sup>80</sup>

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<sup>77</sup> Marx, this volume, p. 589; Marx 1981 [Engels], p. 655.

<sup>78</sup> See MEGA, Section II, Volume 15, Apparat, pp. 963–4, for details about where in Marx's manuscript these pages in Engels's Chapter 33 come from. Thanks to Regina Roth for informing me about this source.

<sup>79</sup> Marx 1981 [Engels], p. 656.

<sup>80</sup> The problem was compounded by the Fernbach translation of the Vintage edition of Engels's Volume III, which explicitly attributed the unmarked first sentence of the paragraph to Marx by name.

However, all three of these general topics together account for only a small part of the 175 pages of Section 5. Much of Section 5 has to do instead with various *critiques of the classical economists' theories of money and capital and credit*, rather than a systematic presentation of Marx's own theory. Most of Marx's discussion of the quantity of money under the credit system mentioned in the previous paragraph occurs in the context of critiques of the classical economists. A brief summary of some of these critiques include: as mentioned above, Engels's Chapter 26 consists almost entirely of excerpts from parliamentary reports on the views of the classical economists on the causes of the crisis of 1847 (pp. 324–44);<sup>81</sup> Engels's Chapter 28 is a critique of Tooke's and (especially) Fullarton's confusion between money as means of circulation and money as capital (pp. 349–60); and Engels's Chapters 30–32 are mostly about the failure of the classical economists to distinguish between money capital (in the sense of banks' loanable money capital) and real capital (invested in productive enterprises) (pp. 368–422). The rest of Section 5 (pp. 422–65) consists mostly of more excerpts of statements by economists and bankers from parliamentary reports on the crises of 1847 and 1857, which Marx entitled critically 'The Confusion', and which Engels converted with considerable editing into his Chapters 33, 34, and 35 (placing a few quotations in other chapters), without including 'The Confusion' in the title.

In light of all this material on the critique of the classical economists, I think that a better title for most of Section 5 would be 'Theories of Money and Capital and Credit', similar to Marx's earlier 'Theories of Value' and 'Theories of Money' in the *Contribution to a Critique of Political Economy*, and his 'Theories of Surplus-Value' in the *Manuscript of 1861–63*, which belong at the ends of chapters or in a later volume ('Volume IV' of *Capital*). Engels remarked that in order to make all this material into more coherent chapters, he 'would have to go through the whole of the literature in this field',<sup>82</sup> which is perhaps what Marx was planning to do.

Marx may have intended at the outset of Section 5 to limit his discussion of the credit system to those topics which are 'necessary to characterise the capitalist mode of production in general', but in fact Section 5 goes way beyond such general topics, and is almost entirely about much more concrete topics and Marx's critiques of the classical economists' theories of money, capital, and credit. Earlier in Section 2 of Chapter Five, Marx commented that 'short term fluctuations in the money market **fall outside the scope of our discus-**

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81 Pages in parentheses in this paragraph refer to this volume.

82 Engels 1981a, p. 95.

sion'.<sup>83</sup> But there are many pages in Section 5 of Chapter Five which are about precisely 'short term fluctuations in the money market'.

I think that the main reason for Marx's diversion into these more concrete aspects of the credit system is that he was especially interested in understanding economic crises in capitalism, and the role of credit in crises (as we saw above), and the specific crises of 1847 and 1857 that he had experienced. So he read and took notes on the parliamentary reports on these specific crises, even though logically this concrete analysis belongs at a lower level of abstraction and thus to a later volume. In addition, Marx also commented earlier in Section 2 of Chapter 5 that 'nothing is more amusing' than to read these parliamentary reports and the statements of economists and bankers who 'chatter back and forth' without understanding the fundamentals of money and credit in capitalism.<sup>84</sup> I think this was part of what Marx was doing in much of Section 5 – he was amusing himself criticising these economists, who had no clue! Many of his comments on the economists in this section are humorous or satirical. While working on this section, Marx mentioned in a letter to Engels the 'utter nonsense' in these reports and said that he intended to write a critique of these reports in a later paper.<sup>85</sup> This intention was partially realised in Section 5, even though it is logically out of place in this volume.

Perhaps the few 'general' parts of Section 5 mentioned above belong to a kind of *transition* between the section on competition and the section on the credit system. Marx had suggested such a transition earlier in the *Manuscript of 1861–63* in the following passage:

Credit is both the result and the condition of capitalist production and this provides a convenient **transition** from **competition** between capitals to capital as **credit**.<sup>86</sup>

However that may be, my conclusion is that almost all of Section 5 does *not* belong to the section on competition, and thus does not belong in Book III. Competition is primarily about the distribution of surplus-value, i.e., about the division of the total surplus-value into individual parts, including its division into interest and profit; and Section 5 is not about the determination of interest or the rate of interest or the division of the total surplus-value into profit and

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83 Marx, this volume, p. 461; Marx 1981 [Engels], p. 480.

84 Marx, this volume, p. 467; Marx 1981 [Engels], pp. 485–6.

85 Marx and Engels 1987, pp. 185–6; letter of 19 August 1865 from Marx to Engels.

86 Marx and Engels 1989a, p. 435.



interest. That determination had already been accomplished in the first four sections of Marx's chapter (Engels's Chapters 21 to 24), especially Section 2 (Engels's Chapter 22). As we have seen, in these earlier sections Marx argued that there is 'no general law' that determines the rate of interest, and thus that there is no general law that determines the division of the total surplus-value into interest and profit. Instead, the rate of interest is determined by the accidental relation between supply and demand in the loanable funds market. Therefore, there is nothing left to investigate concerning the general laws of the rate of interest and the division of the total surplus-value into interest and profit, since there are no such general laws. Most of Section 5 belongs to the later section on the credit system and some parts of it could perhaps be considered a transition from the section on competition to the section on credit.

Heinrich has argued that *Capital* is supposed to be a general abstract theory of capitalism that is applicable to more or less all capitalist economies; therefore, including all the material about the banking institutions of nineteenth-century England in Engels's Volume III gave the impression that the English banking institutions were generalisable to all capitalist economies.<sup>87</sup> That may be true (I don't really think so), but I don't think that was Engels's intention. I don't think Engels had this distinction between general and historically specific in mind while he was editing Marx's manuscript. Engels was not trying to decide what material goes in Volume III and what material does not. Instead, he was trying to figure out the best way to include *all* the material Marx wrote, and this was difficult because Marx's Section 5 was so uneven and unorganised. Engels said in his Preface: 'In this way I finally managed to introduce into the texts *all* of the author's statements that were in any way pertinent to the matter at hand'.<sup>88</sup> Therefore, the ultimate blame for this problem, if there is a problem, should go to Marx, who wrote all this historically specific content in Section 5. But I don't think this is a problem in the first place. It just needs to be recognised that most of this material belongs to the later section on the credit system, and that it would have been better and logically more correct and consistent to move this more concrete section to the end of the book, or perhaps to another book altogether, as Marx planned.

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87 Heinrich 1996–7, pp. 462–3.

88 Engels 1981a, p. 96; Engels's emphasis.

## Chapter Six

Chapter Six ('The Transformation of Surplus Profit into Ground Rent') is another long chapter, but is much more finished than Chapter Five. Marx had already written extensively on this subject in the *Economic Manuscript of 1861–63*,<sup>89</sup> so he was able to write a fairly complete chapter in this manuscript, although there were a few incomplete topics, to be discussed below.

Rent is analysed in this chapter as a part of the total surplus-value that is appropriated by landlords because of their monopoly ownership of the land. As in the previous chapters and the other individual parts of surplus-value, the total amount of surplus-value is taken as a pre-determined given magnitude in the theory of rent. This total amount of surplus-value is 'split' into profit and rent, and rent does not enter into the equalisation of profit rates across industries.

The analysis of *landed property* in its various historical forms lies outside the scope of the present work. We are concerned with it only in so far as a portion of the *surplus-value* that capital produces falls to the share of the landowner.<sup>90</sup>

Marx divided Chapter Six on rent into three sections: (a) Introduction; (b) Differential Rent; and (c) Absolute Rent. In the manuscript, Marx actually wrote section (c) (pp. 737–97 of this volume) before section (b) (pp. 798–883).<sup>91</sup> Section (c) was not subdivided by Marx, but Engels subdivided it into three chapters: Chapters 45 ('Absolute Rent'), 46 ('Rent of Buildings. Rent of Mines. Price of Land') and 47 ('The Genesis of Capitalist Ground-Rent'). The contents of these three unmarked subsections in Marx's manuscript that Engels turned into chapters were quite distinct (as Engels's chapter titles suggest), but there were no headings or even extra line spaces in Marx's manuscript to mark the transitions from one topic to another.

The long section (b) on differential rent was well structured, but it was also not explicitly divided into subsections. The first implicit subsection is about the 'first form of differential rent' (due to unequal fertilities of land) (this volume, pp. 806–23) and the second implicit subsection is about the 'second form of differential rent' (this volume, pp. 824–83) (due to unequal

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89 Marx and Engels 1989a, pp. 250–550.

90 Marx, this volume, p. 713; Marx 1981, p. 752.

91 See Marx, this volume, p. 737 for an explanation of this structure.

capital investments). The discussion of the second form was in turn subdivided into three clearly marked 'cases' with titles (prices of production constant, decreasing, and increasing; for the last case there is only a title). And the first two cases are in turn subdivided into three or four variants (the productivity of the additional capital constant, decreasing, and increasing). The main question throughout this detailed analysis of the second form of differential rent is the following: *what are the effects of additional capital accumulation in agriculture on the amount of surplus profit*<sup>92</sup> *produced in agriculture*, and thus on the amount of rent and the structure of differential rent across lands of unequal fertility and productivity?

Engels turned this long section into seven chapters: his Chapters 38–44. Except for this division into chapters, Engels made very few changes in the content of what Marx wrote. He changed some of the numbers in Marx's tables in order to eliminate fractions and make them clearer. The main addition was that Engels wrote the first half of his Chapter 43 ('Differential Rent II – Third Case'; pp. 847–50) because Marx only had a title for this case.<sup>93</sup> Engels's first half of Chapter 43 also included a helpful detailed recapitulation of the seven variants analysed by Marx for the first two cases, with different and more realistic tables, and the six variants for Engels's third case. Engels's main conclusion is that in 10 of the 13 variants he considered, additional capital investment in agriculture resulted in an *increase* in the total rent of landlords, which 'explains the amazing vitality' of landlords. On the other hand, the other three variants explain why this vitality 'is gradually approaching its end', due to the more fertile lands in North and South America, Russia, etc., being brought into cultivation.<sup>94</sup>

The rest of Engels's Chapter 43 is Marx's own conclusion of his analysis of differential rent II,<sup>95</sup> which is much more theoretical and complicated, and is focused on the second variant of the first case (constant price of production, declining capital productivity). Marx's main conclusion is that the necessity to pay rent creates an 'artificial barrier' for the investment of capital in agriculture,

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92 Surplus profit is profit that is greater than the average rate of profit due to lower than average costs of production. In non-agricultural industries, surplus profit is temporary and is generally eliminated by competition among capitals. But in agriculture, surplus profit that is due to unequal natural fertility cannot be competed away and thus becomes the basis for ground-rent.

93 Marx, this volume, p. 864.

94 Marx 1981 [Engels], p. 859.

95 Marx, this volume, pp. 864–83; Marx 1981 [Engels], pp. 860–71.

which requires an 'earlier and more rapid rise' in the price of agricultural goods 'in order thereby to guarantee the increased supply ... that has become necessary'.<sup>96</sup>

Just before this conclusion, Marx inserted the following detailed outline of his chapter on rent:<sup>97</sup>

*Rent should be discussed under the following headings:*

- A1. *The concept of differential rent as such. The example of water-power. Then the transition to agricultural rent proper.*
- A2. *Differential rent I, arising from the varying fertility of different tracts of land.*
- A3. *Differential rent II, arising from successive capital investments on the same land. This should be divided further into:*
  - (a) *differential rent with the price of production stationary,*
  - (b) *differential rent with the price of production falling,*
  - (c) *differential rent with the price of production rising,*
  - and (d) *the transformation of surplus profit into rent.*
- A4. *The influence of this rent on the rate of profit.*
- B. *Absolute rent.*
- C. *The price of land.*
- D. *Final considerations on ground-rent.*

We can see that the basic structure of this outline is the same as in Marx's draft that he was working on, in the sense that differential rent comes before absolute rent, and differential rent is subdivided into 'first form' and 'second form', and the second form is in turn subdivided into three cases. The 'price of land' (a short draft of which was included in the section of the manuscript on absolute rent, as mentioned above) is given a section of its own. The remaining topics of this outline (A3(d), A4., and D) remained to be written.

The planned subsection on 'the transformation of surplus profit into rent' (A3(d)) would have been interesting. This topic has to do with the actual historical conditions that determine how much of the surplus profit produced in agriculture by additional capital investment is in fact transferred from capitalist farmers to landlords, which depends on the class conflict between capitalist farmers and landlords. The long discussion of the second form of differential rent in this manuscript assumed that all the surplus profit produced in agricul-

96 Marx, this volume, p. 875; Marx 1981 [Engels], p. 870.

97 Marx, this volume, p. 864; Marx 1981 [Engels], p. 860.

ture was transferred as rent to landlords, without considering the conditions under which the transfer of this surplus profit from capitalists to landlords is actually made.<sup>98</sup> It appears that this final subsection would have discussed these concrete historical conditions.

A4 ('The influence of this rent on the rate of profit') is an important topic and it is unfortunate that Marx did not write a draft of this section. But we can infer from Marx's theory of surplus-value and rent (as part of the total surplus-value) that the effect of rent on the rate of profit would be as follows: The existence of rent means that at least part of the surplus profit produced in agriculture is appropriated by landlords and as a result does not enter into the equalisation of the general profit rate across all industries in the economy. Thus the general rate of profit that is equalised across industries and that determines prices of production is modified for a second time (it was modified earlier in Chapter Four to take commercial profit into account). In this second modification, rent appropriated by landlords is subtracted from the gross surplus-value in the numerator of the general rate of profit.

The precise magnitude of the modified rate of profit depends on how much of the surplus profit produced in agriculture is appropriated by landlords and how much (if any, as a residual) goes into the equalisation of the profit rate across industries. If landlords are able to appropriate the whole surplus profit, then differential rent would have a maximum effect on the general rate of profit that is equalised across industries (i.e., it would be reduced by a maximum amount), because none of this surplus profit goes through the equalisation process. On the other hand, if capitalist farmers are able to keep part of the surplus profit for themselves, then this surplus profit would go into the equalisation process and thus the general rate of profit would be reduced by a smaller amount.

In the section on absolute rent, Marx briefly discussed the influence of absolute rent on the rate of profit,<sup>99</sup> and the effect of differential rent is the same – the effect depends on who gets the surplus profit produced in agriculture: capitalists or landlords. In Marx's numerical example in this discussion, he assumes that all the surplus profit is appropriated by landlords and that the general rate of profit that is equalised across industries is reduced from 20 percent to 15 percent.

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98 Marx stated in the beginning of his analysis of differential rent II: 'Let us start by considering simply the formation of *surplus profit* in the case of differential rent II, without troubling ourselves yet about the *conditions* under which this surplus profit can be transformed into ground-rent'. Marx, this volume, p. 832; Marx 1981 [Engels], pp. 815–16.

99 Marx, this volume, pp. 750–2; Marx 1981 [Engels], pp. 896–8.

So we can see that a fair amount of work remained to be done on Chapter Six, but that the basic structure of the chapter and Marx's theory of absolute and differential rent were clear and mostly settled. Engels's editing certainly made the logical structure of this chapter much more apparent to the reader, but this logical structure was implicit in Marx's manuscript and was made explicit by his outline toward the end of the chapter, which Engels followed.

Marx's theory of rent was clearly a significant advance over Ricardo's theory of rent in three important respects: Marx's theory explained the possibility of absolute rent on the basis of the labour theory of value; his analysis of differential rent was much more detailed and thorough than Ricardo's; and his analysis of differential rent did not depend on the 'ridiculous and arbitrary' assumption of declining productivity in agriculture.<sup>100</sup> On his advances over Ricardo's theory of rent, Marx remarked in this manuscript:

From this we can see the very complicated combinations to which differential rent can always give rise, and particularly when Form II is taken together with Form I, whereas Ricardo for instance deals with the matter quite one-sidedly and 'in simple terms'.<sup>101</sup>

## Chapter Seven

Chapter Seven is another chapter in Marx's manuscript that was close to being publication-ready. Marx had written a first draft of much of the material in Chapter Seven in his previous *Economic Manuscript of 1861–63*,<sup>102</sup> so Chapter Seven in the *Economic Manuscript of 1863–65* was a second draft and close-to-final form. It is at times eloquently written and presents a kind of summary of Marx's theory of the production and distribution of surplus-value presented in the three volumes of *Capital*. This chapter (part) is seldom discussed in the literature, but I think it is very important.<sup>103</sup>

The main point of Chapter Seven (and indeed of Book III as a whole) is that all the different forms of surplus-value come from the same source – the surplus labour of workers – and thus that the total amount of surplus-value

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<sup>100</sup> Marx 1985, p. 397; letter of 2 August 1862 from Marx to Engels.

<sup>101</sup> Marx, this volume, p. 834; Marx 1981 [Engels], p. 817.

<sup>102</sup> Marx 1989b, pp. 449–541.

<sup>103</sup> An important exception is Murray 2002.

is determined logically prior to the division of this total surplus-value into individual parts, i.e., its division into profit, interest, and rent, which also depend on other factors. For example:

*Profit* (profit of enterprise plus interest) and *rent* are but characteristic forms assumed by particular portions of the *surplus-value* in commodities. The size of the *surplus-value* sets a *quantitative* limit to the parts into which it can be divided.<sup>104</sup>

We thus have an absolute limit for the value component that forms surplus-value and can be broken down into profit and ground-rent; this is determined by the excess of the unpaid portion of the working day over its paid portion, i.e. by the value component of the total product in which *this surplus labor* is realised.<sup>105</sup>

However, this is not the way it looks to capitalists and economists. Instead, each individual part of surplus-value appears to them to have its own source and determinants. And then the total surplus-value appears to be determined by *adding up* these mutually independent individual parts. This distorted, inverted misunderstanding of the relation between the total surplus-value and its individual parts was a characteristic feature of what Marx called 'vulgar economics'.

Because of its almost complete condition, Engels made very few substantive changes in his Part Seven. Marx's manuscript had five sections, which Engels turned into chapters. One misleading rearrangement that Engels made has to do with the order of the three fragments with which Engels began his Part Seven. For complicated reasons that have to do with the fact that Marx actually wrote these fragments while working on Chapter Six, and also unclear pagination by Marx, Engels did not realise that his fragment #3 was supposed to go at the beginning of Chapter Seven (Marx referred in the beginning of Chapter Seven to the page in Chapter Six and said that 'the passage should be transferred here'),<sup>106</sup> and his fragments #1 and #2 were supposed to go five pages into the chapter. Engels's mis-location makes it appear as if Marx's manuscript is more disjointed than it was and makes it harder to follow Marx's argument. Engels's fragments #1 and #2 are in their proper location

104 Marx, this volume, pp. 898–9; Marx 1981, p. 971.

105 Marx, this volume, pp. 923–4; Marx 1981, p. 999.

106 See Marx, this volume, p. 884.

in this volume (pp. 888–90) and fragment #3 remains in Chapter Six where it was written.<sup>107</sup>

The main substantive change in Chapter Seven was a key phrase added by Engels to Marx's text, which comes five pages from the end of Section 1 ('The Trinity Formula'). Engels's insertion is in square brackets and bold type in the second line below:

We have already demonstrated, in connection with the simplest categories of the capitalist mode of production [**and in commodity production in general**] the *commodity* and *money*, the mystificatory character that transforms the social relations for which the material elements of wealth serve as bearers in the course of production into properties of these things themselves (*commodities*), and still more explicitly transforms the relation of production itself into a thing (*money*).<sup>108</sup>

Marx's sentence makes it clear that the beginning of his theory in Part One of Volume I of *Capital* is about the capitalist mode of production (the 'simplest categories' of the capitalist mode of production). Engels's insertion suggests that Part One is also about commodity production in general (i.e., applies to all commodity producing societies). Marx's next sentence might provide some justification for Engels's insertion:

All forms of society participate in this distortion, in so far as they involve commodity production and monetary circulation ...<sup>109</sup>

This sentence appears to mean that the 'distortion' of perception discussed in Part One, although derived on the basis of the capitalist mode of production, also applies to all commodity-producing societies, and perhaps this is what Engels meant by his insertion. However, Engels argued elsewhere (including in his Preface and his Supplement to Volume III) that Part One of Volume I applies to 'simple commodity production' as the historical presupposition of capitalism,<sup>110</sup> and Engels's interpretation has been followed by Kautsky and

107 The fragment to be transferred is the second half of the very long paragraph on pp. 764–7 of this volume; the fragment begins: 'Since vulgar economics ...' For further details on Engels's mistake, see Vollgraf and Junnickel 2002, p. 48.

108 Marx, this volume, p. 894; Marx 1981 [Engels], p. 965.

109 Marx, this volume, p. 894; Marx 1981 [Engels], p. 965.

110 Engels 1981a and 1981b; see also Engels's 1857 review of Marx's *Introduction to a Contribution to the Critique of Political Economy*: Engels 1970.



Meek and others. There is no textual justification for this pre-capitalist 'simple commodity production' interpretation of Part One either in this manuscript or elsewhere.<sup>111</sup>

The paragraph just discussed is the beginning of a remarkable five-page summary of all the 'distortions of perception' of vulgar economics that are caused by capitalist production and that have been discussed in the three volumes of *Capital*: production relations among people appear as exchange relations among things; the productive power of labour appears as the productive power of capital; surplus-value is transformed into profit and appears to come from constant capital as well as variable capital and from circulation as well as production; surplus-value is divided into profit and interest and interest appears to come from money capital by itself. Surplus-value is further divided into profit and rent, and rent appears to come from the fertility of the land. But, according to Marx's theory, all these forms of appearance of surplus-value come from the same source: the surplus labour of workers.<sup>112</sup>

## Conclusion

The main conclusions that I draw from this comparison of Marx's *Manuscript of 1864–65* and Engels's Volume III of *Capital* are the following: (1) Marx's manuscript was very uneven, with Chapters Two, Four, Six, and Seven close to being ready for publication, but Chapter One and Chapter Five, Section 5, still very unfinished and mostly just research notes; (2) Engels's editing makes Marx's manuscript look much more complete and organised than it actually was (especially Chapters One and Five), but he mostly did not change the content of what Marx wrote (with a few exceptions, as discussed); (3) Engels changed the title of Marx's manuscript, and left out the key word *Gestaltungen* [forms], which is the main subject of Marx's manuscript – the particular forms of appearance of capital and surplus-value; (4) Engels left out one of Marx's 'supplements' to Chapter Two, which was intended as a transition from Chapter One to Chapter Two, and which clarified the meaning of Marx's key concept of the 'organic composition of capital' – that variable capital is an index of the quantity of labour employed, but constant capital depends on both the quantity and the price of means of production employed; (5) Engels left out several

111 See Arthur 1997 for a further discussion of Engels's interpretation of Part One of Volume I.

112 The first draft of this sweeping summary of the three volumes of *Capital* is in the *Economic Manuscript of 1861–63*. Marx and Engels 1989b, pp. 482–6.

paragraphs in Marx's Chapter Two that had to do mainly with unequal turnover times of different capitals, which is a further complication of Marx's theory of prices of production; (6) Engels left out another key paragraph in Chapter Two that clarified the meaning of 'cost price' in Marx's theory – that the cost price is the same in the determination of both values and prices of production – which implies that Marx did *not* fail to transform the cost price from values to prices of production in his theory of prices of production; (7) Engel's organisation of Chapter Three and a key sentence inserted by Engels (without marking it as such) left the possibly misleading impression that Marx definitely concluded that the rate of profit would fall in the long-run; (8) Section 5 of Chapter Five is the part of Marx's manuscript that Engels worked on the most and changed the most. Engels's improved organisation made Marx's Section 5 look more like a finished chapter than it actually was. It also gave the misleading impression that all of Section 5 on the credit system belongs in this book on competition and the distribution of surplus-value, even though most of it does not belong.

Engels tried hard to organise the disorganised Section 5 as best he could, but in my view he tried too hard to include all of this section in his Volume III. Much of Section 5 was just research notes on parliamentary reports on the economic crises of 1847 and 1857 and other aspects of the financial system in England, interwoven with criticisms of the classical economists. Most of this more concrete material does not belong to the subject of competition and the distribution of surplus-value (the particular forms of surplus-value), which is the main subject of Book III. Instead this more concrete material belongs to the later analysis of the credit system. It would have been better if Engels had separated out this more concrete material on the credit system and relocated it at the end of his Volume III, or perhaps not included it at all and saved it for a later volume. Perhaps Engels did not fully understand Marx's logical distinction between competition and the credit system, in which case this option would not have occurred to him. If Engels had not tried to include all this material, his Volume III could have been published several years earlier.

To say that a large part of Marx's manuscript was close to being 'publication-ready' does not mean that the theory presented in this manuscript was a complete theory of capitalism and that no further work needed to be done. There were (and are) a number of important points that remained to be developed further, which included: (1) obviously Marx felt that more work was needed on the relation between the rate of profit and the rate of surplus-value, because Marx returned to this subject in his *Manuscript of 1875* (MEGA, Section II, Volume 14); (2) a more complete discussion of his theory of prices of production, including a clarification of the determination of the cost price in this theory (which has turned out to be the most controversial issue in the

century-long debate over the ‘transformation problem’) and also taking into account unequal turnover times across industries;<sup>113</sup> (3) a more complete theory of the trends and cycles of the rate of profit and their relation to crises;<sup>114</sup> (4) with respect to commercial capital, a more complete theory of modified prices of production (and wholesale prices and retail prices) is needed, taking into account the operating costs of commercial capital; (5) the credit system requires much more analysis, and especially the role of the credit system in economic crises; (6) a more complete theory of rent is needed, which would include the historical conditions that affect the actual transfer of the surplus profit in agriculture into differential rent II.

In spite of this long list of important further tasks that remained to be done, in my view the basic logical structure of Marx’s theory (capital in general – competition – credit system) was settled in Marx’s mind and is logically sound. All this remaining work would take place within this basic logical structure, and would not involve any fundamental changes in this structure.

Müller, et al., and Heinrich have argued that Marx encountered difficulties in the *Economic Manuscript of 1861–63* in maintaining the logical distinction between capital in general and competition and that he abandoned this logical structure thereafter.<sup>115</sup> I have argued, to the contrary, that Marx did not encounter these difficulties in the *Manuscript of 1861–63* and did not abandon this logical structure after that.<sup>116</sup> The main aspect of Marx’s logical structure of capital in general and competition is the production of surplus-value and the distribution of surplus-value – i.e., the determination of the total surplus-value prior to its division into individual parts. Marx definitely did not abandon this fundamental quantitative premise of his theory after 1863, and thus did not abandon the logical structure of capital in general and competition.

The main textual evidence to support this conclusion is the *Economic Manuscript of 1864–65* itself, which we have just reviewed. This manuscript is about the particular forms of surplus-value and the individual parts into which the

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<sup>113</sup> As mentioned in footnote 21, Marx wrote a short preliminary draft of this latter topic in the *Economic Manuscript of 1867–68*, published in the MEGA, Section II, Volume 4.3, which has not yet been translated into English, and which should be very interesting.

<sup>114</sup> I concur with Reuten’s conclusion regarding Marx’s theory of the rate of profit: ‘I guess that anyone studying Chapters 13–15 of Marx’s *Capital* III ... cannot but be impressed by the conscientious and thorough exhibition of that theory up to the minutest detail ... It may also appear a very realistic theory ... Nevertheless, that theory is insufficient and must be developed further’. Reuten 1997, p. 170.

<sup>115</sup> Müller et al. 2002, pp. 16–17; Heinrich 1989, pp. 68–72.

<sup>116</sup> Moseley 2002 and 2008.

total surplus-value is divided, and the quantitative premise for the entire book is the prior determination of the total surplus-value. This quantitative premise is repeated in all the chapters of this manuscript, including in the concluding Chapter Seven on 'Revenue', in which Marx's logical structure – the whole of surplus-value is determined prior to its parts – is contrasted with the opposite logical structure of 'vulgar economics' – the parts of surplus-value are determined prior to and independent of the whole and the whole is determined by adding up the parts.<sup>117</sup> Therefore, it is clear Marx did not abandon the logical structure of capital in general (production of surplus-value) and competition (distribution of surplus-value) after 1863.<sup>118</sup>

Vollgraf-Jungnickel and Heinrich conclude that, because of the many changes that Engels made to Marx's manuscript, Engels's Volume III should not be considered as Volume III of Marx's *Capital*.<sup>119</sup> I think this conclusion is too drastic; it seems to miss the point that the main subject of Marx's Volume III is the distribution of surplus-value and the particular forms of surplus-value, and that Marx's theory of the distribution of surplus-value is by and large faithfully and accurately presented in Engels's Volume III, with a few exceptions discussed above. In this most important respect, Engels's Volume III should be considered Marx's Volume III (with the caveats noted). However, I agree with these authors that future research concerning Volume III should focus primarily on Marx's manuscript, published here in English for the first time.

It is my hope that the publication of this English translation of Marx's *Manuscript of 1864–65* (at long last) will stimulate further research on all the remaining tasks listed above, in order to further develop Marx's theory for twenty-first-century capitalism. The basic logical structure is in place – the prior determination of the total surplus-value by surplus labour. Our task is to further develop Marx's theory in relation to the incomplete topics outlined above, especially concerning the distribution of surplus-value and the credit system and, ultimately, economic crises.

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117 See Moseley 2002 for a review of Marx's many statements of this fundamental quantitative premise throughout Volume III.

118 Additional important textual evidence to support this interpretation is Marx's 1868 letter, which has been discussed in a number of places in this Introduction, and in which the prior determination of the total surplus-value is clearly assumed (= 100 in Marx's numerical example) in the summaries of Parts I, II, and IV (the main parts summarised in this letter) (Marx and Engels 1988, pp. 20–5; letter of 30 April 1868 from Marx to Engels).

119 Vollgraf and Jungnickel 2002, pp. 68–9; Heinrich 1996–7, pp. 464–5.