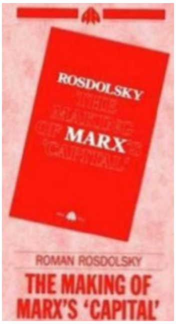

25.
The Transformation of Surplus-Value into Profit. The General Rate of Profit

As the title indicates, the last section of the *Rough Draft* (pp. 745 ff) corresponds in a certain sense to Volume III of *Capital*. However, this is only in a certain sense, since, apart from its sketchy nature,[1] the categories of profit and interest are only examined in this section insofar as they are taken from the analysis of 'capital in general'. This constitutes the key difference between this section and Parts 1-3 of Volume III of *Capital*.[2]

The section on profit and interest begins with the following passage which is very Hegelian in flavour: 'Capital is now posited as the unity of production and circulation' (i.e. after it has described its complete circuit) '. . . realised not only as value which reproduces itself and is hence perennial, but also as value which posits value. Through the absorption of living labour-time and through the move-

[1] Out of the entire section of over 130 pages, 40 at most are devoted to profit and interest. The remaining pages deal with the history of the theory of money, the 'recapitulation' of theories of surplus-value etc. In fact we should also take the preceding section into consideration, since it contains a number of discussions which belong to Section Three. (Marx says on this: 'A very large part of what belongs here has been developed above. But the anticipated material is to be put here.')

[2] Cf. pp.13-14 above.

ment of its own circulation (in which the movement of exchange is posited as its own, as the inherent process of objectified labour), it relates to itself as positing new value, as producer of value. It relates as the foundation to surplus-value as that which it founded[3]. . . In a definite period of time which is posited as the unit measure of its turnovers . . . capital produces a definite surplus-value, which is determined not only by the surplus-value it posits in one production process, but rather by the number of repetitions of the production process, or of its reproduction in a specified period of time. Because of the inclusion of circulation, of its movement outside the immediate production process, within the reproduction process, surplus-value *appears*[4] no longer to be posited by its [i.e. capital's] simple direct relation to living labour; this relation appears, rather, as merely a moment of its total movement. Capital . . . therefore no longer measures the newly produced value by its real measure, the relation of surplus labour to necessary labour, but rather by itself as its presupposition. A capital of a certain value produces, in a certain period of time, a certain surplus-value. Surplus-value is thus measured by the value of the presupposed capital, capital thus posited as self-valorising value – is *profit* . . . and the *rate of profit* is therefore determined by the proportion between its value and the value of capital.'[5]

At first sight this may appear to be a contrived *a priori* construction. In fact this is the point where Marx first begins to expound that same line of thought which we find in a much more developed form in *Capital* (and in the *Theories*), and which forms the basis of his theory of profit. Namely, that the category of profit should not be confused with that of *surplus-value* (as the classical economists did).[6] Rather, profit must be understood as a '*secondary*, derivative . . . form, developed further in the sense of capital . . . the bourgeois

[3] There is a very similar formulation in *Capital*: the advanced money capital 'is capital by virtue of its relation to the other part of M'' – the valorised capital – 'which it has brought about, which has been effected by it as the cause, which is the consequence of it as the ground'. (*Capital* II, p.45.) See note 107 on p.37 above.

[4] 'The essence must appear.' Hegel, *Science of Logic* II, p.107. Cf. *Capital* I, p.682 (542): 'The form of appearance . . . as contrasted with the essential relation manifested in it.'

[5] *Grundrisse*, pp.745-46.

[6] In fact, at the beginning of the *Rough Draft* (in the section on the production process, pp.342-44) the expressions 'rate of profit' and 'rate of surplus-value' are not strictly separated and are even identified.

form, in which the traces of its origin are extinguished'.[7] And what Marx had to say on the subject of 'all forms of appearance and their hidden background' also applies in this case. 'The forms of appearance are reproduced directly and spontaneously as current and usual modes of thought; the essential relation must first be *discovered* by science.'[8]

In fact, profit 'in its immediate form . . . is nothing but the sum of the surplus-value expressed as a proportion of the total value of the capital'.[9] It follows from this, then, (1) that the total sum of profit (of the capitalist class),[10] can never be greater than the total sum of surplus-value, and (2) that – regarded as the rate of profit – profit must '*under all circumstances . . . express a smaller proportion of the gain than the real proportion of the surplus-value.* For under all circumstances it is measured by the total capital, which is always

[7] *Grundrisse*, pp.595, 762. We should not overlook the fact that the subsequent transformation of surplus-value into the form of profit simply represents 'a further development of the inversion of subject and object that takes place already in the process of production'. Marx states that there we have already seen that 'the subjective productive forces of labour appear as productive forces of capital. On the one hand, the value, or the past labour, which dominates living labour, is incarnated in the capitalist. On the other hand, the worker appears as bare material labour-power, as a commodity.' And precisely because 'at one pole the price of labour-power assumes the transmuted form of wages, surplus-value appears at the opposite pole in the transmuted form of profit'. (*Capital* III, pp.37, 45.) Cf. Marx's letter to Engels of 30 April 1868: 'As, owing to the form of wages, the whole of labour appears to be paid for, the unpaid part of labour seems necessarily to come not from labour but from capital, and not from the variable part of capital but from capital as a whole. In this way surplus-value assumes the form of profit.' (*Selected Correspondence*, p.192.)

[8] *Capital* I, p.682 (542).

[9] *Grundrisse*, p.767. The course of the analysis will show how – as a result of the formation of a general rate of profit – 'the alienation goes further, and how profit represents a magnitude differing also numerically from surplus-value'. (*Capital* III, p.48.) Cf. *Theories* III, pp.482-83: 'Furthermore, as a result of the conversion of profit into average profit, the establishment of the general rate of profit and, in connection with it and determined by it, the conversion of values into cost-prices, the profit of the individual capital becomes different from the surplus-value produced by the individual capital in its particular sphere of production, and different, moreover, not only in the way it is expressed – i.e. rate of profit as distinct from rate of surplus-value – but it becomes substantially different, that is, in this context, quantitatively different. Profit does not merely seem to be different, but is now in fact different from surplus-value, not only with regard to the individual capital, but also with regard to the total capital in a particular sphere of production.'

[10] 'Profit as we still regard it here, i.e. as the profit of capital as such, not of an individual capital at the expense of another, but rather as the profit of the capitalist class.' (*Grundrisse*, p.767.)

larger than that employed for wages and exchanged for living labour.'[11] Consequently, the rate of profit 'never expresses the real rate at which capital exploits labour, but always a much smaller relation'. It could 'express the real rate of surplus-value only if the entire capital were exchanged for living labour . . . hence if not only the raw material were = 0, but also the means of production'. However, the latter 'cannot occur on the basis of the mode of production corresponding to capital'.[12]

Thus, since from the outset the rate of profit (as distinct from profit as such) differs qualitatively from the rate of surplus-value, the laws of its movement do not coincide 'so directly or simply' with those of the rate of surplus-value as might appear initially.[13] 'The rate of profit can fall, although real surplus-value increases. The rate of profit can rise although real surplus-value falls.' This already follows from the fact that the rate of profit is calculated on the total value of the capital. It is therefore 'determined (1) by the magnitude of the surplus-value itself; (2) by the relation of living labour to accumulated.'[14] (i.e. by the value composition of capital.) And finally, differences in turnover time also affect the size of the surplus-value produced, and therefore the rate of profit.

This leads to the result that the same rate of profit can in fact be based on very different rates of surplus-value, and conversely, 'one and the same rate of surplus-value may be expressed in the most varying rates of profit'.[15] Thus the degree of exploitation of labour can be the same in different branches of production, with the rate of surplus-value at the same level : however, since the organic composition of capital varies from branch to branch, these branches will produce very different masses of surplus-value, and these masses will be expressed in widely varying rates of profit.[16] Indeed it is precisely 'the inequality of profit in different branches of industry with capitals of equal magnitudes [which] is the condition and presupposition for their equalisation through competition'.[17]

We thus arrive at the problem of the general rate of profit, and

[11] *ibid.* pp.767, 753.
[12] *ibid.* pp.762-63.
[13] *Theories* II, p.426.
[14] *Grundrisse,* pp.747, 817.
[15] *Capital* III, p.68.
[16] On the other hand: 'If capitals whose component parts are in different relations, including therefore their forces of production, nevertheless yield the same percentages on total capital, then the real surplus-value has to be very different in the different branches.' (*Grundrisse,* p.395.)
[17] *ibid.* p.761.

prices of production which diverge from values. We are reminded of Böhm-Bawerk's assertion that there is an 'irreconcilable contradiction' between the first and third Volumes of *Capital*, and that the theory of average profit developed in Volume III is to be understood as basically a retreat 'under fire', as an 'act of self-defence in anticipation'. Hilferding's reply to this was that the relevant section of Volume III was actually written in 1865, i.e. two years before the publication of Volume I. We shall now see that the problem of the average rate of profit was in fact already solved in the *Rough Draft* of 1857-58, i.e. before Marx had even set out his theory of value! We read in the *Rough Draft*: 'Since the profit of capital is realised only in the price which is paid for it, for the use-value created by it, profit is determined by the *excess of the price obtained over the price which covers outlays*' i.e. over 'cost price'.[18] 'Since, furthermore, this realisation proceeds only through *exchange*, the individual capital's *profit is not necessarily restricted by its surplus-value*, by the surplus labour contained in it: but is relative, rather, to the excess of price obtained in exchange. It can exchange more than its *equivalent, and then its profit is greater than its surplus-value*. This can be the case only to the extent that the other party to the exchange does not obtain an equivalent.' On the other hand, profit can also be smaller than surplus-value, i.e. 'it can exist for capital, even without the realisation of the real production costs – i.e. the whole surplus labour set to work by capital'. However, 'the total surplus-value, as well as the *total profit*, which is only *surplus-value itself, computed differently*, can neither grow nor decrease through this operation, ever; what is *modified thereby* is not it, but only *its distribution among the different capitals*.'[19]

How does this distribution take place? The answer is provided in an excursus in the section of the *Rough Draft* dealing with the

[18] 'In relation to profit, the value of the capital presupposed in production appears as advances – production costs which must be replaced in the product. After deduction of the part of the price which replaces them, the excess forms the profit. Since surplus labour . . . costs capital nothing, hence does not figure as part of the value advanced by it . . . it follows that this surplus labour, which is included in the production costs of the product and forms the source of surplus-value and hence of profit as well, does not figure as part of the production costs of capital. The latter are equal only to the values actually advanced by it, not including the surplus-value appropriated in production and realised in circulation. The production costs from the standpoint of capital are therefore not the real production costs, precisely because surplus labour does not cost it anything. The excess of the price of the product over the price of the production costs gives it its profit.' (*Grundrisse*, p.760.)

[19] *ibid.*

circulation process: 'A *general rate of profit* as such is possible only if the rate of profit in one branch of business is too high and in another too low; i.e. if a part of the surplus-value – which corresponds to surplus labour – is transferred from one capitalist to the other. If, in 5 branches of business, for example, the rate of profit is respectively

A	B	C	D	E
15%	12%	10%	8%	5%

then the average rate is 10%; but, in order for this to exist in reality, capitalist A and B have to give up 7% to D and E – more particularly 2 to D and 5 to E – while C remains as it was. It is impossible for rates of profit on the same capital of 100 to be equal, since the relations of surplus labour are altogether different, depending on the productivity of labour and on the relation between raw material, machinery and wages and on the overall volume in which production takes place ... The capitalist class, thus, to a certain extent distributes the total surplus-value so that' the capitalists participate in it 'evenly, in accordance with the *size* of their capital, instead of in accordance with the surplus-values actually created by the capitals in the various branches of business. The larger profit – arising from the real surplus labour within a branch of production, the really created surplus-value – is pushed down to the average level by competition', while 'the deficit of surplus-value in the other branch of business is raised up to the average level by withdrawal of capitals from it . . . This is realised by means of the relation of prices in the different branches of business, which fall *below* their *value* in some, rise *above* it in others.[20] This makes it seem as if an equal sum of capital in unequal branches of business created *equal surplus labour or surplus-value*.'[21] Marx remarks, however, that this question belongs first of all 'in the section on competition', 'of many capitals, not here',[22] where we are only concerned with '*the* profit of *capital*' (i.e. with capital and profit 'in general').[23]

Marx adds: 'It is altogether necessary to make this clear; because the distribution of the surplus-value among the capitals . . .

[20] In this sense Marx already speaks in the Rough Draft of 'price as market price or the general price'. The expression 'price of production (*Produktionspreis*) first appears in the *Theories*. (Cf. on this Kautsky's note on pp.15-16 of Vol.II of his edition of the *Theories* and Marx's letter to Engels of 2 August 1862. *Selected Correspondence*, pp.120-23, where it is referred to as 'cost price'.)

[21] *Grundrisse*, pp.435-36.

[22] *ibid.* pp.435, 760.

[23] *ibid.* p.787.

this *secondary* economic operation – gives rise to phenomena which are confused with the primary ones.' ('It is clear that other aspects also enter in with the equalisation of the rate of profit. Here, however, the issue is not the distribution of surplus-value but its creation.'[24]) However, both levels of the analysis are necessary since 'the greatest confusion and mystification has arisen because the doctrine of surplus profit has not been examined in its pure form by previous economists, but rather mixed in together with the doctrine of real profit, which leads up to distribution, where the various capitals participate in the general rate of profit'.[25] Thus the case of Ricardo, whose theory of profit cannot overcome the contradiction between the determination of the values of products by relative labour-time and the '*real determination of prices, in practice*' precisely because he 'does not grasp profit as itself a derivative, secondary form of *surplus-value*'.[26]

This leads us to the question of the relation of Marx's theory of profit to Ricardo's (and that of the classical economists in general). The difference between the two theories is immediately apparent.

[24] *ibid.* pp.632, 669.

[25] *ibid.* p.684. We should refer above all here to the illusion arising out of the 'division of surplus-value into average portions', according to which 'all parts of capital equally bring a profit'. Of course, 'if I take the total value of the finished product, then I can compare every part of the product advanced with the part of the outlay corresponding to it; and the percentage of profit in relation to the whole product is naturally the same percentage for any fractional part of the product . . . This obviously means nothing other than that if I gain 10 per cent on 100 then the gain on every part of 100 amounts to as much as, when added together, will be 10 per cent on the total sum.' But 'it is impossible to see what use this calculation is'. (*ibid.* pp.723, 567-68.) This illusion seems to have been taken to the absurd in the case of the 'marvellous invention of Dr. Price' (1772), according to which, 'One penny, put out at our Saviour's birth to 5 per cent compound interest, would, before this time, have increased to a greater sum, than would be contained in a hundred and fifty millions of earths, all solid gold.' Price was misled into this fantasy because 'he took no note of the conditions of reproduction and labour, and regarded capital as a self-regulating automaton, as a mere number that increased itself'. However, 'the identity of surplus-value and surplus labour imposes a qualitative limit upon the accumulation of capital. This consists of the total working day, and the prevailing development of the productive forces and of the population, which limits the number of simultaneously exploitable working days. But if one conceives of surplus-value in the meaningless form of interest, the limit is merely quantitative and defies all fantasy . . . Practice has shown the economists that Price's interest-multiplication is impossible; but they have never discovered the blunder contained in it.' (*Capital* III, pp.394-95, 398-99.) Except for the last sentence this passage was taken over, with only slight stylistic changes, from the *Rough Draft*, pp.375, 842-43.

[26] *Grundrisse*, p.554.

Whereas the Ricardian school came to grief on the contradiction between the determination of value by labour and the existence of the general rate of profit, this contradiction provided the point of departure for Marx's new theory of profit. Unlike the Ricardians, he does not attempt to rescue the law of value 'from the contradictions of immediate experience by making a violent *abstraction*',[27] but demonstrates, on the contrary, how, by means of the intervention of the general rate of profit, 'a market price differing from this exchange-value comes into being ... on the basis of exchange-value ... or more correctly, how the law of exchange-value is realised only through its own antithesis'.[28] One can therefore understand the satisfaction which Marx expressed about this particular achievement of his theory in a letter to Engels on 14 January 1858. He writes, 'I am getting some nice developments. e.g. I have overthrown the entire doctrine of profit as previously conceived. In the *method* of working it was of great service to me that by mere accident I leafed through Hegel's *Logic* again.' And he added : 'If there should ever be a time for such work again, I should very much like to make accessible to the ordinary human intelligence – in two or three printer's sheets – what is *rational* in the method which Hegel discovered but at the same time enveloped in mysticism.'[29]

We now know what the 'overthrowing' of previous theories of profit consisted in : namely, the scientific understanding of profit as a 'necessary form of appearance' of surplus-value. But not only that. Marx's solution to the problem of the general rate of profit required many intermediate links; it not only presupposed a theory of production prices and cost prices, but also a correct understanding of the turnover of capital, and above all, of the problem of surplus-value. On the other hand an elucidation of the problem of surplus-value was not possible, so long as the fundamental distinction between variable and constant capital remained unrecognised, which in turn presupposed the discovery of the dual character of the labour contained in commodities. All these intermediate links are absent in Ricardo and the other classical economists. It is no surprise, then, that Ricardo 'seeks *directly* to prove the congruence of the economic categories with one another'[30] and 'arbitrarily' to equalise the

[27] *Capital* I, p.421 (307).

[28] *Contribution*, p.62.

[29] *Selected Correspondence*, p.93. We have been able to confirm many times in the course of this work that 'leafing through' Hegel's *Logic* not only contributed to the solution of the problem of profit, but also many others.

[30] *Theories* II, p.165. ('He never analysed the form of the mediation.' *Grundrisse*, p.327.)

rate of profit with the rate of surplus-value.[31] Hence his attempt 'to derive undeniable empirical phenomena by simple formal abstraction directly from the general law . . . The vulgar mob has therefore concluded that theoretical truths are abstractions which are at variance with reality, instead of seeing, on the contrary, that Ricardo does not carry true abstract thinking far enough, and is therefore driven into false abstraction.'[32] In other words: Ricardo lacks the dialectical incisiveness which is required to understand capital as a 'unity-in-process' and elaborate its contradictions. The chief defect of the Ricardian theory of profit was therefore its inadequate method – and this was the pivot which Marx could use to 'overthrow' this theory. In this respect the service rendered by Hegel's *Logic* cannot be rated highly enough.[33]

[31] *Theories* III, p.338.

[32] *Theories* I, p.89, II, p.437.

[33] As one critic of Marx has rightly said: 'His basic philosophical position is evident through all the fissures in his system. He approaches the object of his study, bourgeois society, with Hegelian methods, Hegelian modes of thought and Hegelian concepts.' (E.Preiser, *Das Wesen der Marxschen Krisentheorie*, p.272.)