The Organic Composition of Capital Interpretation

Another non-standard interpretation of Marx’s theory of the transformation problem has been presented in recent decades by Ben Fine and taken up by Alfredo Saad-Filho, and is also presented in their joint textbook.\(^1\) For brevity, I will refer by abbreviation to their interpretation as the FSF interpretation (with apologies). This FSF interpretation emphasises the role of the \textit{organic composition of capital} in the transformation procedure. It is argued that Marx’s use of the organic composition of capital (OCC) in Part 2 of Volume III indicates that the inputs of constant capital and variable capital are \textit{not supposed to be transformed} from values to prices of production, but instead are supposed to remain equal to the values of the inputs. This interpretation of the inputs of constant capital and variable capital in turn implies that prices of production are not long-run equilibrium prices.

I agree that Marx presented his theory of prices of production in Part 2 of Volume III in terms of the OCC, and I think FSF’s emphasis on this point is an important contribution. However, I disagree in part with FSF’s interpretation of the OCC, and I don’t agree that Marx’s use of the OCC indicates that constant capital and variable capital are supposed to remain equal to values, nor that prices of production are disequilibrium prices. These are the issues with which this chapter is concerned: What exactly is Marx’s definition of the OCC? What role does the OCC play in Marx’s theory of prices of production? And are Marx’s prices of production long-run equilibrium prices or not? After my discussion of the FSF interpretation, I will also consider their criticisms of the New Interpretation and also their brief criticisms of my interpretation.

\section{Prices of Production as Disequilibrium Prices}

The FSF interpretation accepts the standard criticism of Marx’s theory of prices of production to the extent that, if Marx’s goal was to explain prices of production as long-run equilibrium prices (we will see below that they deny this ‘if’), then he failed to achieve this goal, because he did not transform the inputs of constant capital and variable capital from values to prices of production. They

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also accept that Marx's mistake can be 'corrected', with a modern version of the 'Bortkiewicz solution' (i.e., a Sraffian-type system of equations based on physical input-output coefficients), in which the prices of production of both inputs and outputs are determined simultaneously, and also determined simultaneously with the rate of profit, and all these variables derived from given physical conditions of production.\(^2\)

However, FSF also argue that this criticism 'misses the point', because the goal of Marx's theory of prices of production was not to explain long-run equilibrium prices, but was instead to explain how the total surplus-value is distributed by means of prices of production deviating from values, with the prices of the inputs intentionally held constant.\(^3\) FSF argue that Marx's prices of production are disequilibrium prices, in which the profit component deviates from the surplus-value produced, but the constant capital and variable capital components remain the same. They argue that the simultaneous transformation of input prices would 'obscure' the distribution of surplus-value, and therefore Marx left the input prices of constant capital and variable capital untransformed. But that is not a problem, according to FSF, because Marx's goal was not to explain long-run equilibrium prices, but rather to explain the distribution of surplus-value as clearly as possible.

I strongly disagree with the FSF interpretation that Marx's prices of production are not long-run equilibrium prices. I have already presented in Chapter 9 (on the TSSI) substantial textual evidence to support the interpretation that Marx's prices of production are long-run centre-of-gravity prices that change only if productivity or the real wage changes. This section will present additional textual evidence to support this interpretation of Marx's prices of production as long-run centre-of-gravity prices, including that Marx regarded his prices of production to be essentially the same concept as Smith's and Ricardo's 'natural prices', which were clearly long-run equilibrium prices.\(^4\)

In the Manuscript of 1861–63, in which Marx developed his theory of prices of production for the first time (which he called 'average prices' or 'cost prices' in this manuscript), he discussed Smith's and Ricardo's theory at length (Chapter 10 of Theories of Surplus-Value), and agreed with Smith's and Ricardo's assumption of the equalisation of profit rates across industries and with their focus on 'natural prices' as long-run centre-of-gravity prices as the subject of his theory. The entire discussion of Smith's and Ricardo's theories of natural

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4 See Moseley 1999 for further discussion of this issue and further textual evidence.