Market value.

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The market value is a centrepiece of Marx’s price theory. Yet commentators usually overlook it. Marx begins by drawing a distinction between individual value and market value. The *individual value* is “the labour-time that the article costs the producer in each individual case” (Marx, 1976, p. 434). The market value “On the one hand … is to be viewed as the average value of commodities produced in a single sphere, and, on the other, as the individual value of the commodities produced under average conditions of their respective sphere and forming the bulk of the products of that sphere” (Marx, 1967, p. 178). In statistical terms, this latter is the modal value, the product of the modal capital that produces with modal productivity. Thus, Marx’s category of market value would seem to encompass two concepts: the mathematical average of all individual values, or *average value*, and the *modal* or *market value*. Given that the two quantities can coincide or not, it is clear that in the definition above Marx refers to the situation in which they coincide. A page further down, Marx refers to this case as the *average market value* (p. 179). This is the initial point of the analysis.

The modal value regulates the value realized by the whole sector. In fact, the modal producer asks the value of its products. The low productivity producer cannot ask the value of its own product because the modal producer asks less. And the above mode producer could ask less but there is no reason to do that, given that it can ask the value asked by the modal producer. So all commodities sell at the modal value. Then, the products of below modal productivity “are unable to realize a portion of the surplus value contained in them” while those produced with above modal productivity “realize and extra surplus value” (p.178).

In any given sector, the modal value can be different from the average value. They coincide only if the average productivity is the same as the modal productivity. In this case, the equality of demand and supply implies that the value lost by the low productivity capitals to other sectors equals that gained from by the high productivity capitals, also from the other sectors. If demand and supply are not equal, there is a *net* transfer of value between that sector to the rest of the economy.

The existence of a modal productivity indicates a structure of productivities (technologies): the modal, the below mode, and the above mode producer. This introduces a second important distinction. Since capitalists produce with different levels of productivity, individual values can be higher, or lower, or the same as the modal value. Thus the analysis of the market value hinges upon two crucial differences: between individual value and modal value and between average value and modal value. The former indicates which producers cede surplus value to, or gain surplus value from the other sectors. The latter indicates whether this movement results in a net transfer of value from or to other sectors.

Marx assumes initially that demand equals supply. In terms of value, this means that the value contained in the commodity sold must be equal to the value represented by the sum of money used for its purchase by other sectors and thus equal to the value produced by other sectors and represented by that sum of money. It means, in short, “obtaining an equal mass of value in another form – be it that of money or some other commodity” (p.195).[[1]](#footnote-1) If the focus is on the modal value, the modal value of one sector is exchanged through a certain sum of money for an equal value produced by the other sectors.

A simple numerical example will help. Capitals A (high productivity) and C (low productivity) invest one unit of capital each while capital B invests five units and is thus the modal producer.

Table 1.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Capital | c | v | s | OCC | Value  p.u.c. | Output  p.u.c. | Units of  capitals | Total value embodied | Total  output |
| A | 90 | 10 | 10 | 9 | 110 | 100 | 1 | 110 | 100 |
| B | 80 | 20 | 20 | 4 | 120 | 80 | 5 | 600 | 400 |
| C | 70 | 30 | 30 | 2.33 | 130 | 60 | 1 | 130 | 60 |
| Total |  |  |  |  |  |  | 7 | 840 | 560 |

where OCC stands for organic composition of capital (c/v) and p.u.c. stands for ‘per unit of capital’. Productivity is measured by the quantity of output per unit of capital invested. This is the column ‘output per unit of capital’. Conform to Marx, it increases with the increase in the OCC, i.e. with the replacement of labourers by means of production.

In this example, average productivity (560/7 = 80) equals modal productivity (400/5 = 80). It follows that the average value (840/560 = 1.5) is equal to the modal or market value (600/400 = 1.5). By exchanging their output at 1.5 with the other sectors, the low productivity capitals lose surplus value and the high productivity capital gain extra surplus value. Modal capitals realize the value they produce. The realization of the market value by all commodities does not require a *net* transfer of value to or from other sectors. What C loses is gained by A. The equality of demand and supply holds for the sector as a whole.

Table 2.

|  |  |
| --- | --- |
| A realizes (100x1.5)-110 = 150-110 | Gain = +40 |
| B realizes (80x1.5)-120-120 | Gain or loss = 0 |
| C realizes (60x1.5)-130 = 90-130 | Loss = -40 |

C looses not only 30 units of surplus value but also a value of 10. In the next cycle it can invest only 90 instead of 100. Its output will be less than 60. Its share of the market shrinks, while that of A grows. The former dis-accumulates, the latter accumulates. B realizes the surplus value it has produced and can reproduce itself on the same scale.

Marx considers also the case in which the bulk of the commodities is produced either by A or by C, even though he adds that “it is only in extraordinary combinations that commodities produced under the worst, or the most favourable, conditions regulate the market value” (p. 178). In case the modal producer is the low productivity capital, table 1 becomes

Table 3.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Capital | Value  p.u.c. | Output  p.u.c. | Units of  capitals | Tot. value embodied | Total  output | Net transfer of value from other sectors |
| A | 110 | 100 | 1 | 110 | 100 | (100x2.166)-110 = 106.7 |
| B | 120 | 80 | 1 | 120 | 80 | (80x2.166)-120 = 53.3 |
| C | 130 | 60 | 5 | 650 | 300 | (300x2.166)-650=0 |
| Total |  |  | 7 | 880 | 480 | 160 |

The average productivity (480/7 = 65.57) differs from the modal productivity (300/5 =60). Thus, the average value (880/480 = 1.83) differs from the modal value (650/300 = 2.166). There is a net transfer of value. The value realized for those 480 commodities, (2.166x480 = 1040) is higher than the value contained in them (880). The difference (160) is extra surplus value appropriated, which must come from other sectors in the quantities given in the last column. Compared to table 2, all three capitals gain, but the high productivity capital gains more than the low productivity capital. The implication is that the value realized in the other sectors is less by the same amount. There is no equality of demand and supply for this sector because it demands (and obtains) a value of 1040 while giving in exchange (supplying) a value of 880.

In case A is the modal producer, “the market value falls below the average value” (p.184). A invests five units of capital

Table 4.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Capital | Value  p.u.c. | Output  p.u.c. | Units of  capitals | Tot. value embodied | Total  output | Net transfer of value to other sectors |
| A | 110 | 100 | 5 | 550 | 500 | (500x1.1)-(110x5) = 0 |
| B | 120 | 80 | 1 | 120 | 80 | (80x1.1)-120 = -32 |
| C | 130 | 60 | 1 | 130 | 60 | (60x1.1)-130 = -64 |
| Total |  |  | 7 | 800 | 640 | -96 |

The average value (800/640=1.25) is higher than the modal value (550/500= 1.1). The sector loses value. It receives 640x1.1 = 704 instead of 640x1.25 = 800, i.e. -96. In exchanging its output with the rest of the economy, A realizes the surplus value it has produced (10). The loss is born by B (-32) and C (-64) to the rest of the economy. In this case too, there is no equality of demand and supply.

If the modal producer is the average productivity capital (table 2) there is no *net* transfer of value from or to other capitals and demand equals supply. If the modal producer is the low productivity capital, there is a net positive transfer of value because the modal value is higher than the average value. If the modal producer is the high productivity capital, there is a net negative transfer of value because the modal value is lower than the average value. All capitals lose or gain in different measures. The market value is always realized and can be determined by modal, or below mode, or above mode productivity (Rubin, 1972).

The differences between demand and supply are needed for all commodities to realize the value of the modal ones, i.e. for the realization of the market value in the whole sector. However, these differences can cause the market value to rise above its level. In this case, Marx speaks of *market price*. For example, if in table 1 above demand exceeds supply, the price exceeds 1.5. All capitals realize more value or reduce their losses proportionally to the level of their output. Similarly if demand is smaller than supply. However, Marx argues that the differences between demand and supply tend to disappear. He mentions some example. If demand and prices fall causing a fall in the market price below the market value, capital might be withdrawn and supply reduced. Or, the market value might shrink as a result of inventions that reduce the modal value. Or, if the market price rises above the market value, an inflow of capital might swell production thus reducing the market price (190).

Let us now the economy as a whole rather than just one single sector. Each sector realizes a different rate of profit and the various profit rates tend to equalize. Then, the relevant category is the price of production and the market price is given by the fluctuations of demand and supply around the price of production:“ What has been said here of market-value applies to the price of production as soon as it takes the place of the market-value” (op.cit. p.179). We can now see the importance of the market value and thus of the market price. They provide the theoretical frame for the analysis of the price of production, which is where Marx’s price theory ends and his theory of crises begins.

From Marx’s analysis, it would seem that the economy tends towards equilibrium. But this is not the case. The equilibrium between demand and supply presupposes a given, fixed structure of production. Once this structure is allowed to change following productivity-increasing and labour-shedding innovations, the organic composition rises and the average profit rate falls tendentially. Thus, the average profit rate would tend to fall even if demand and supply were in constant equilibrium. The economy tends towards crises rather than towards equilibrium.

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1. This is fundamentally different from the untenable bourgeois notion of equality between monetary expressions of *use values*. See Carchedi, 2011. [↑](#footnote-ref-1)