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Marx's Theory of the Circuit of Capital and the Transformation: Commenting on Fred Moseley's Macro-Monetary Interpretation

A voluminous literature has been produced on the "transformation problem" since the days even before Volume III of Capital was published. Until the 1970s, the literature concluded that Marx's value theory (labor theory of value) in Volume I of Capital was not only redundant to determine production prices but also fatally flawed. As a result, it was claimed that Marx's value theory was not applicable to the real economy.

Since the 1980s, however, some new interpretations that questioned the traditional interpretation of Marx's value theory have appeared. They not only reinterpret Marx's value theory but also try to make it directly applicable to a real economy. The most famous one is the "new interpretation" presented by G. Duménil and D. Foley. A characteristic of it is to use the concept of the "value of money" (or "monetary expression of labor time"), instead of gold, to bridge the difference of dimension between price and labor time. Another interpretation ("single system interpretation") goes further and argues that Marx's value theory is based on the theory of the circuit of capital and therefore the dimension of Marx's value theory is price.

The "single system interpretation" has two versions: one considers the value of the constant capital as the current cost (replacement cost), and the other considers as the historical cost (or its modified form). An example of the former is Fred Moseley's "macro-monetary interpretation" that is comprehensively argued in his new book (Money and Totality: A macro-monetary interpretation of Marx's logic in Capital and the end of the "transformation problem"). The latter is the "temporal single system interpretation" presented by A. Kliman and A. Freeman. It stresses the temporal nature of the circuit of capital and argues that the constant capital cannot be revalued after it was advanced (therefore the value of the constant capital is the historical cost).

In my presentation, I mainly comment on Fred Moseley's "macro-monetary interpretation" as follows. First, I agree with his interpretation that Marx's value theory is based on the theory of the circuit of capital, in contrast to the traditional interpretation that bases Marx's value theory on the reproduction schema in Volume II of Capital. Second, his interpretation that consider "capital in general" as the "total social capital" and that Volume I of Capital explains the determination of the total surplus-value in a macro economy are highly controversial: the concepts "general" and "macro" are different, though what is true in general is also true in total. Third, his interpretation that prices of production are "long-run centre-of-gravity prices" (p.289, in his book) and hence the value of the constant capital is the "current cost" is also controversial: although I agree with his argument that “it is not relevant to introduce technological change into a discussion of the transformation problem” (p.303, in his book), I think it is proper to consider prices of production as temporary/short-run equilibrium prices in a given period of time. Forth, as a result, we have to make clear what prices of production are. My view is that prices of production in Volume III of Capital are temporary/short-run equilibrium prices around which market prices tend to fluctuate in a given period of time. What the proponents of the “iterative procedure” (e.g. N. Okishio and A. Shaikh) made clear is these temporary/short-run equilibrium prices converge on prices determined by simultaneous equations of the technology and the real wage rate (both of which are of course given in a specific period of time).

In addition, I also plan to comment on Makoto Itoh’s interpretation and the “temporal single system interpretation” of Marx’s value theory.