Abstract: This paper is an introduction to the main points of my recent book by the same title. As the title suggests, the book is a reexamination of the logical method employed by Marx in his theory of capitalism in *Capital*, especially as related to the long-standing controversy over the so-called “transformation problem”, according to which Marx’s theory of prices of production in Volume 3 of *Capital* is supposed to be logically inconsistent with this theory of value and surplus-value in Volume 1. This criticism has been the main reason for rejecting Marx’s theory over the last century. My book and this paper argue that, if Marx’s logical method is correctly understood, then Marx’s theory of prices of production in Volume 3 is logically consistent and there is no transformation problem in Marx’s theory.

The book argues that there are two main aspects of Marx’s logical method that are especially relevant to the transformation problem, and I characterize these two aspects in modern economic terms as *macroeconomic* and *monetary*. Sections 1 and 2 of the paper will discuss in turn these two main aspects of Marx’s logical method, with primary emphasis in this paper on the monetary aspect because it is the most controversial. Section 3 presents an algebraic summary of this “macro-monetary” interpretation of Marx’s theory. Section 4 presents examples of the textual evidence to support this interpretation.

With respect to the macro aspect of Marx’s logical method, I argue that there are two main levels of abstraction in Marx’s economic theory: a macro theory of the production of surplus-value in Volumes 1 and 2 (i.e. the determination of the total surplus-value produced
in the economy as a whole) and a micro theory of the distribution of surplus-value in Volume 3 (i.e. the division of the total surplus-value into individual parts; first the equalization of profit rates across industries in Part 2, and then the further division of the total surplus-value into commercial profit, interest, and rent in Parts 4, 5, and 6). The key point about this logical method is that the production of surplus-value is theorized prior to the distribution of surplus-value, i.e. the total surplus-value produced in the economy as a whole is determined logically prior to the division of the total surplus-value into individual parts (the whole before the parts). The total surplus-value is determined in the first level of abstraction (the production of surplus-value), and then this total surplus-value is presupposed in the second level of abstraction (the distribution of surplus-value or the subsequent division of the total surplus-value into its individual parts). This logical progression from the total surplus-value to the individual parts of surplus-value follows directly from Marx’s labor theory of value and surplus-value, according to which all the individual parts of surplus-value come from the same source – the surplus labor of production workers.

With respect to the monetary aspect of Marx’s logical method, I argue that the logical framework of Marx’s theory of the production and distribution of surplus-value is the circuit of money capital, expressed symbolically by the familiar formula:

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M - C \quad \ldots \quad P \quad \ldots \quad C' - (M + \Delta M)
\]

The circuit of money capital highlights that Marx’s theory is a monetary theory and that the main question of Marx’s theory is the determination of the increment of money \(\Delta M\) at the end of the circuit (at the macro level).

Furthermore, the structure of the circuit of money capital also suggests that the initial money capital \((M)\) advanced at the beginning of the circuit is the starting point of Marx’s theory and is taken as given or presupposed as initial data in Marx’s theory of \(M'\)
and ΔM recovered at the end of the circuit. The initial M exists as a definite quantity of money capital at the beginning of the circuit, prior to production and the recovery of M’ and ΔM, and this pre-existing quantity at the beginning of the circuit is taken as given in order to explain the M’ and ΔM at the end of the circuit.

And the crucial point for the “transformation problem” is that, in Marx’s theory of prices of production in Volume 3, the same quantities of money constant capital and money variable capital are taken as given as in the Volume 1 theory of the total surplus-value – the actual quantities of money capital advanced to purchase means of production and labor-power at the beginning of the circuit of money capital. The only difference between Volume 1 and Volume 3 with respect to C and V is the level of aggregation – in Volume 3 the individual quantities of constant capital and variable capital advanced in each industry are also taken as given, in addition to the total constant capital and variable capital that are taken as given in the macro theory of surplus-value in Volume 1.

That is why Marx did not “fail to transform the inputs” of constant capital and variable capital from values to prices of production – because no such transformation is necessary or appropriate in Marx’s theory. The inputs of constant capital and variable capital in both levels of abstraction are the same actual quantities of money capital advanced in the beginning of the circuit of money capital.

And that is why there is no transformation problem in Marx’s theory!