How is value determined: an exchange with a reader

Nick Beams
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To Nick Beams,

I've read the article, carefully, & have a problem with the surplus value equation. Surplus value comes from labour but also from technology, marketing, and quirks such as favourable reviews & fads. What is the surplus value part of a best selling book, movie, CD, painting, restaurant, orchestra? Value can be added by salespeople, luck....The selling price of most items is determined by much more than the basic labour involved in their production. And when machines do 100% of the work?? Your entire platform rests on what seems to me to be a simplistic concept of wealth generation rooted in 19th century progressive economic theory. Times change. I can't accept your concept of surplus value as being correct. If this has been misconceived by you, the structure built on this erroneous fundamental cannot stand. Have you ever had intimations of doubt? Is it possible that you are even a teeny weeny bit wrong? No, you will order & analyze events according to your polemic which does provide a fulfilling life. I envy your faith.

SR

Dear SR,

Before dealing with the question of surplus value, we have to tackle the question of value itself. Let us suppose that a particular commodity sells for $100. And suppose that after the sale the revenue is distributed in the following way: $50 for the raw materials, $10 for the machinery used up, $20 for the wages of the workers directly employed in its production, $10 for the wages of the sales and promotions staff, and $10 profit for the capitalist who produced the commodity.

What now is the value of the commodity? According to you, we should add up the amounts laid out on wages, raw materials, sales and promotion, plus the costs to the capitalist and machinery used up and obtain $100. As you can see, we have merely gone round in a circle.

Before we get to technology, marketing, luck and favourable reviews, let us consider the basic problem at hand: How is the labour available to society allocated? More particularly, how is it allocated in a society of independent producers, who own the means of production, who are not dominated by feudal obligations and personal ties and who produce for the market? Production in this commodity-producing society is at one and the same time private, in that each producer owns his means of production and determines what he will produce, and social because each producer produces not for himself--this is not a peasant-based subsistence economy--but for society as whole.

In this society, the distribution of social labour is regulated by the law of value. The proportions in which commodities exchange are determined by the amount of labour time which it takes on average to produce them. If, for example, productivity increases in the production of a particular commodity so that it takes less time to produce, the value of that particular commodity will fall. There will be a tendency for labour to leave the production of that commodity and shift to other forms of production.

To those who claimed that he had not "proved" his theory of value Marx replied:

"All that palaver about the necessity of proving the concept of value comes from complete ignorance both of the subject dealt with and of scientific method. Every child knows that a nation which ceased to work, I will not say for a year, but even for a weeks, would perish. Every child knows, too, that the masses of products corresponding to different needs require different and quantitatively determined masses of the total labour of society. That this *necessity* of the *distribution* of social labour in definite proportions cannot possibly be done away with by a *particular form* of social production but can only change the *mode* of its *appearance*, is self evident. No natural laws can be done away with. What can change in historically different circumstances is only the *form* in which these laws assert themselves. And the form in which this proportional distribution of labour asserts itself, in a state of society where the interconnection of social labour is manifested in the *private exchange* of the individual products of labour, is precisely the *exchange value* of these products" [Marx, Letter to Kugelmann, *Selected Correspondence*, page 209].

We might add at this point is that the distribution of social labour can only take place in this way. The commodity producers are private individuals, they do not communicate with each other, save through their relations on the market, they produce not according to a plan, but according to their own assessment of the situation. How does such a society maintain itself? Why does it not lead to a situation where too little of this and not enough of that is produced?

So far, of course, we have only been considering a simple commodity society. With the development of a *capitalist* commodity society we have no longer commodity producers who own their own means of production but the division of society into capitalists--the owners of the means of production--and wage labourers, who have nothing to sell but their labour power or capacity to work. Of course, as Marx explained, mankind did not come down from the trees so divided--the creation of a class of wage labourers encompassed a whole historical epoch.

The crucial question which had to be answered was the following: how was it possible for profit to arise in a society in which the exchange of commodities was governed by the law of value? If equivalents exchanged for equivalents, if commodities which exchanged in the market contained equal amounts of labour, then how did profit arise? Faced with this problem, Adam Smith concluded that whereas the law of value prevailed in a simple commodity-producing society it did not apply in a capitalist society. The value of a commodity was not determined by the labour time taken to produce it but was simply the sum of the costs of production.

Ricardo realised that Smith's retreat meant the abandonment of a scientific analysis. He insisted that the value of commodities was determined by the labour they embodied. This meant that the source of profit was the additional value added by labour to raw materials and machinery used up in the production process.

But he ran up against another problem--how to explain the formation of an average rate of profit across the whole of the capitalist economy. If labour is the source of value, and indeed the source of profit, then how is it that the rate of profit in each industry will tend to be the same, no matter what the different ratios of labour to capital are employed. That is, the rate of profit will tend to be the same whether the industry concerned is labour intensive or capital intensive. But how could this be the case if, as Ricardo insisted, labour was the source of value?

Both these problems were resolved by Marx. He showed how surplus value arose under conditions where equivalents exchanged for equivalents. The origin of surplus value lay in the fact that, unlike the commodity producer who owned the means of production, the worker did not sell to the capitalist the fruits of his day's labour, but rather his capacity to work for a day, his labour power. The value of this commodity was quite different from the value which the worker added in the course of the working day.

What was the value of labour power? It was determined by the value of the commodities required to reproduce it, embodying say four hours of labour time. But the capitalist having purchased the commodity labour power had the right to use it for the full eight hours. The last four hours of the working day were surplus labour, embodied as surplus value in the commodities produced by the worker.

The total value of a commodity consisted of the value of the raw materials and machinery used up in production plus the additional value added by the labour expended during the working day. Suppose, for example, raw materials and machinery used up embodied four hours of labour time, and the value of labour power was four hours of labour time and the worker was employed for eight hours. The value of the commodity produced would be twelve--the machinery and raw materials embodying fours of labour time plus the additional eight hours added by the worker. Out of this twelve, the capitalist would replenish his raw materials and machinery, and labour power, and receive a surplus value of four.

Marx's analysis showed how surplus value arose on the basis of the exchange of equivalents.

The problem upon which Ricardo ran aground--the equalisation of the rate of profit--was resolved in Volume III of *Capital*. There Marx demonstrated that each capitalist does not appropriate all the surplus value which he has extracted. Rather the total mass of surplus value extracted by capital as a whole from the working class as a whole is divided up between the different sections of capital according to their share of the total capital of society. The total mass of surplus value is determined by the value relations operating at the level of society as a whole. The division of this mass of surplus value does not take place according to a plan, but is effected through competition. Prices in the market will tend to fluctuate not around the value of commodities (determined by the amount of labour time embodied in them) but will fluctuate around the level at which firms producing that commodity will receive the average rate of profit.

The average rate of profit will be formed by the relationship of the total mass of surplus value produced in society as a whole to the total amount of capital used to produce it.

Now we can consider some of your objections. In the struggle in the market between capitalist firms to appropriate their share of surplus value all sorts of factors come into play: clever advertising campaigns, a good review, luck, etc. All of these factors will increase the profit of the individual firm. But they do not create additional surplus value. They enable one particular firm to increase its share of the available surplus value at the expense of its rivals, but they have not increased the overall mass of surplus value.

In the case of the extreme case you cite, where machines do 100 percent of the work, that firm will make a profit at the average rate, even though it employs no labour at all and no surplus value is produced. It will, however, share in the overall mass of surplus value created in society as a whole according to its share of the total capital.

When the issue is examined at the level of the capitalist firm, the real situation is turned upside down. Every capitalist knows, if he knows anything, that the way to increase profits is to cut costs, and the way to cut costs is to reduce labour. Consequently, it appears to the capitalist and his mouthpiece, the professional economists, that there are a myriad of factors which determine profits.

But as we know from other areas of scientific endeavour, appearances can be deceptive. After all it appeared for most of mankind's history that the sun went round the earth. Only in the last four hundred years has science demonstrated that opposite.

I will not claim to have dealt with all the issues here--after all we are covering three volumes of *Capital*. But I hope this reply will stimulate you to examine the question for yourself. A good place to start is Marx's pamphlets, *Value Price and Profit* and *Wage--Labour and Capital* before having a look at *Capital* itself.

Yours sincerely,
Nick Beams,
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