A reply to correspondence on Marx's theory of value

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The following is a reply by Nick Beams to a series of questions raised by MM on Marx's theory of value. The initial e-mail, plus selections from subsequent correspondence, can be found at:
http://www.wsws.org/articles/1999/aug1999/val2-a13.shtml

Dear MM,

Thank you for your e-mails on the question of value for they enable us to deal with a series of erroneous conceptions, which have been put forward for the past 200 years and more. I do not know how much of Marx you have actually read or studied, but allow me to point out at the outset that the various objections you raise have all been advanced in the past.

You begin by insisting that it is wrong to assume that in the exchange of commodities "equivalents are exchanged for equivalents" and maintain instead that "the very fact that two commodities are exchanged presumes that the parties doing the exchanging do not place an 'equivalent value' on the commodities exchanged."

You maintain that if I am willing to pay $2 for a hamburger then it is because I subjectively value the $2 as worth less than the hamburger, while the hamburger owner subjectively values the $2 as worth more than the hamburger. Therefore the subjective value placed upon the hamburger is different in the mind of each of the participants in the exchange process and consequently we cannot say that an equivalent has exchanged for an equivalent.

Before dealing with your example, we need to consider the nature of the commodity and the process of commodity exchange itself.

Every commodity is in the first place a use value. That is, it satisfies a definite material want and this property is quite independent of the amount of labour which is required to produce it. Depending on their respective situation, and the amount of a particular commodity they already possess, two individuals may have quite different assessments of the use value of a given commodity.

But in the form of society we are considering, that is commodity-producing society (the highest development of which is reached under capitalism), every commodity is at the same time a material depository of exchange value. In this society a given amount of commodity A exchanges in the market for a certain amount of commodity B. That is exchange relations take the form: an amount X of commodity A = an amount Y of commodity B.

Exchange takes place because so far as the owner of commodity A is concerned his commodity is a non-use-value. He has produced these commodities not for his own needs but for exchange. Likewise commodity B is a non-use-value for its owner. He has produced it in order to exchange it for A and other commodities on the market. In other words, the two commodity owners have different assessments of the use values of the two commodities and that indeed is a pre-condition for their exchange. But this is only the starting point. We have to determine what is being exchanged and what governs the proportions in which the exchange takes place?

In the market we find that commodities A and B exchange in the market such that xA equals yB. The two commodities are equivalent—an exchange has taken place. But what is being equated? Clearly not their use values. Indeed the very act of exchange itself is an abstraction from their use values. Iron and gold have entirely different use values. But we will find in the market that a certain amount of iron will exchange for a certain amount of gold. That is, one commodity is equivalent to another provided it is present in sufficient quantity.

Like many others who have sought to "correct" Marx you write that his "mistake was to look for some intrinsic 'common denominator' which is present in every commodity and which would explain that exchange ratio (value) between the various commodities."

But Marx's search for a "common denominator", as you put it, arises from a consideration of the exchange relationship itself, which forms the basis of commodity-producing society. This relationship x Commodity A = y Commodity B—an objective social fact—tells us that in these two things there is something equal. This equality is objective. It does not arise from the subjective assessments of the commodity owners themselves, nor is it imposed from outside, but is expressed in the act of exchange itself.

When commodities are exchanged their exchange value manifests itself as something independent of their use value, and therefore quite independent of the subjective assessments which the owners of the various commodities might have of their use values. Use-value does not figure in this equation. "[T]he act of exchange," Marx writes, "is evidently an act characterised by a total abstraction from use value. The one use-value is just as good as another, provided only it be present in sufficient quantity" [*Capital*, Volume I, p. 45].

If two commodities are equal to each other—an equality which is established not in the mind but by the objective act of exchange—then there is present in each a common substance in equal quantities. This common substance is the amount of socially necessary labour which they contain. That is, the proportions in which they exchange will be determined by the amount of labour, measured in time, which it takes on average to produce them.

Suppose that it takes on average two hours to produce commodity A and one hour to produce commodity B. Then the proportions in which they will exchange on the market will be give by the equation A = 2B.

Consider a situation in which this were not the case and that, for example, the commodities exchanged in the proportions A = B. In that case, for every two hours they expend, the producers of commodity A will receive in return commodities embodying only one hour of labour in the form of B. Or, to put it the other way, for every hour of labour they expend, producers of commodity B will receive in return two hours of labour embodied in commodity A. In such conditions there would be a movement of producers out of the production of commodity A into the production of commodity B. The supply of B would increase until the proportions in which the commodities exchanged returned to the level of A = 2B.

In attacking Marx's theory of value, you arrive at the conclusion that one must realise that "all determinations of value are subjective appraisals which occur nowhere else but in the minds of men."

Of course with this theory no scientific analysis of economic processes is possible. If value is merely subjective then it is not possible to explain even the simplest economic transactions—such as why a hamburger sells for $2 and not $1 or $5—let alone more complex processes.

And in considering this question you are forced to the conclusion that some objective assessment of value is necessary. Accordingly you write: "Even if it is true that the question as to whether a hamburger is worth $2 is a subjective question (resolved differently by different persons and by the same person at different times), it must be kept in mind that the question as to whether the shopkeeper can profitably sell a hamburger for $2 is not subjective at all. Each hamburger costs a specific and definite amount to produce and sell. If this cost is less than $2, the shopkeeper will make a profit on each hamburger. However, if the cost is more than $2, the shopkeeper will suffer a loss on each burger. He would then need to raise the price, or, if the market would not bear a price increase, he must look for another occupation."

In other words, according to your own reasoning, the subjective theory of value cannot tell us whether a hamburger will even be on sale, and if it is at what price it will be offered. That is, the subjective theory of value can explain absolutely nothing and is therefore completely worthless.

Forced to abandon the subjective theory of value when considering the most basic economic transaction you advance an alternative—the theory of cost of production. According to this theory, the value of the hamburger, or its selling price, is determined by adding up the cost of the "factors of production"—the land, labour and capital—which have been used up in its production.

While this method seems, at first sight, to be more scientific and to accord with the precepts of "sound common sense," it takes us no closer to a scientific analysis of value than the previous subjective theory.

In attempting to explain the value of a product, the cost of production theory reduces its value to the value of the factors of production which have been used to produce it. But the machinery, raw materials etc. which have gone into the production of the particular commodity are themselves commodities. So we have a theory of value which explains the value of a commodity by the value of other commodities. That is, we have a trivial circular argument in which value is explained by value.

No such circularity exists in Marx's theory. According to his analysis, labour is the substance of value, but is not itself a value. It is the use value of a particular commodity, labour power, or the capacity to labour, which is the commodity the worker sells to the capitalist in the wage contract.

The value of a commodity is determined by the amount of labour which it contains (presuming that this labour is socially necessary i.e. it is of average skill and productivity). The labour embodied in any commodity is made up of two components: the labour contained in the raw materials and machinery used up in the production process and the new labour which is added by the worker.

What about land? Let us begin by supposing that land is freely available. Then according to Marx's theory the value of the commodity is determined by the labour embodied in the machinery and raw materials used up and by the fresh labour added in the production process. The source of the surplus value (profit) extracted by the capitalist is the difference between the value of the labour power which the capitalist purchases by paying wages and the value which is added by the worker in the course of the working day.

Suppose the value of commodities used up in the production process embody two hours of labour and the worker works an eight-hour day. Then the commodities produced at the end of the day will embody 10 hours of labour. Suppose that the worker reproduces the value of his labour power in four hours. That is, it takes on average four hours to produce commodities which have a value equivalent to that needed to purchase the commodities needed to sustain the worker and his family. But the worker works not for four hours but for eight. The commodities which the capitalist needs to sell to recoup the value of the commodities he purchased (raw materials, machinery and labour power) embody six hours of labour. But the capitalist has on hand commodities which embody 10 hours of labour time and sells them at their value. The difference of four hours is the difference between the value of the labour power and the value which the worker added during the course of the working day.

Now let us suppose that the land on which production is carried out is privately owned and the landlord extracts a rent from the capitalist. It is clear that so far as the value of the commodities is concerned, nothing has changed. The same amount of raw materials, machinery and labour are used—the fact that the land is no longer freely available but is privately owned has changed nothing in the production process.

However, if the commodities produced are still sold at their value (embodying 10 hours of labour time) the profit realised by the capitalist, now forced to pay rent to the landlord will be less than previously. This means that capitalists in those sections of industry forced to pay rent to landlord will receive a profit at less than the average rate if commodities are sold at their value.

Under these conditions capitalists will be forced out of this industry and the supply of commodities will fall and their price will rise. This movement will continue until the supply of commodities has fallen to the point where the price has risen by a sufficient amount to ensure that the capitalists remaining in the industry will receive the average rate of profit after they have paid rent to the landlord.

This means that the commodities produced in this industry will sell at a price above their value. If these commodities comprise raw materials or machinery for capitalists producing other commodities they will be forced to pay a higher price, increasing their production costs and lowering their profits. If the commodities comprise a component of workers' consumption, this will raise the price of labour power above its value, forcing the capitalists who employ these workers to pay higher wages than would have otherwise been the case, and thereby decreasing their profits.

Considering the issue of rent from the standpoint of the economy as a whole, we find that the effect of the private ownership of land is to bring about a redistribution of surplus value. The landlord is able to appropriate a portion of the surplus value extracted from the working class by the industrial capitalist. Of course, these social processes are hidden from the individual capitalist who is forced to pay rent. In his view, and according to the bourgeois economists who give it "theoretical" expression, the value of the goods he sells is determined by adding up the cost of labour (wages), capital (interest) and land (rent).

Although you are obviously quite unaware of the history of this question, the various theories of value you advance reproduce, in a confused form, the positions adopted at different points by the bourgeois economists in the 19th century as they sought to develop a theoretical basis for capitalism.

The obvious circularity of the cost of production theory posed a series of problems by the middle of the century. In his writings at the beginning of the century, when the bourgeoisie was still a revolutionary class, engaged in clearing away the remnants of feudalism and not yet confronted by the rise of the proletariat, the economist David Ricardo had demonstrated that wages were the workers' share of the final product and that profits were a deduction from the new value created by labour in the production process.

However, by the middle of the century, the working class had announced its arrival on the scene, with the class struggles of the 1820s and 1830s and the revolutionary movements of 1848. Already in the 1820s, socialists had drawn the conclusion from Ricardo that if labour were the source of value then it should receive its full product, that capitalist profit represented an expropriation of what belonged to the working class.

Clearly, there could be no return to Ricardo because of the dangerous implications which his theory contained. How then was capital and profit to be justified? It was in answer to this need that the theory of “sacrifice” or abstinence was advanced. If wages were the reward for the sacrifice of work, then the interest of capital was likewise the reward for the sacrifice of the capitalists in saving, the return for the renunciation of immediate consumption.

Hence, according to these theories capitalists rather than workers receive interest and profit because, unlike workers they are willing to wait before they engage in consumption. Profit is not derived from the exploitation of labour, but is the reward for capitalist saving. Of course such theories never pose, let alone answer the question, why it is that workers are in a position where they cannot wait but must engage in immediate consumption, while another class has accumulated sufficient resources enabling it to save.

It is clear, as Marx put it, that mankind did not descend from the trees divided into a class of capitalists and wage workers. This division is a product of a whole historical epoch. The pre-condition for the development of capitalist production is in fact the separation of the direct producers from the means of production, the accumulation of those means of production in the hands of a minority, and the creation of a social class with nothing to sell but its labour power.

Taking this division as given, as natural, the bourgeois economists then proceeded to develop the theory that profit was the reward for waiting—the position which you reproduce.

Already in the 19th century, this theory was clearly a form of apologetics—a class defence of the bourgeoisie and capital. How much more is that the case in the late 20th century when capitalist enterprise is financed not by abstinence on the part of its owners but through the massive mobilisation of “other people's money,” including workers' pension funds, through the banking and financial system?

Your attempt to prove that the provider of credit creates value by moving goods “through time” by making them available to purchasers who would not otherwise be able to buy them, fares no better than the claim that profit is the reward to capital for abstinence.

Here you employ the argument, to which all defenders of capitalism ultimately resort, that interest and profit—and flowing from these categories, derivatives, share swaps, leveraged buyouts, currency trading and all the other instruments of the modern capitalist market economy—are the result of human nature which socialism cannot possibly change.

You write: “It is a fact of human nature that people are not indifferent to time in their economic actions. Generally speaking, people prefer a good (or a sum of money) payable today more highly that the same good (or sum of money) payable in one, five or ten years. This subjective preference is not an artificial construct of capitalism, it is an existential fact of human nature. It affects the way people behave on the market and this behavior gives rise to the phenomena we call ‘interest'.”

The claim that interest arises from human nature collapses like a pricked balloon as soon as one undertakes even a cursory examination of economic history. If interest is rooted in human nature, as you assert, why is it that for most of the history of mankind—a period of time far more extensive than the capitalist epoch—there have been stringent laws against the charging of interest. In feudal society usury, the charging of interest, was a crime, just as was the employment of wage workers beyond the levels set by the guilds.

Of course a socialist society will have to determine how it allocates its resources between present and future needs, what proportion of society's wealth is set aside to meet immediate needs and what proportion is devoted to meet contingencies or develop the means of production. But such an allocation will not be decided according to the demands of capital for profit, expressed through interest rates, but by the democratic decision-making process through which all members of society will determine and continually adjust a broad-based economic plan.

Such a decision has to be made in any society. But the way it is made depends on the social structure. Saving will be undertaken in a certain manner in ancient Egypt or China, in another way in European feudalism, and through the market and interest rate system under capitalism. Under socialism, for the first time the allocation between present and future needs will be undertaken neither in the interests of lords, pharaohs nor bankers, but will reflect the collective desires and needs of the entire population—the producers of wealth.

In your attempt to prove that interest represents an addition to value, you write that the creditor who “moves goods ‘through time' [by enabling them to be purchased in the present rather than at a point in the future—NB] also adds economic value, even if he does not change the technical nature of the good. I give as my proof the objective fact that millions of people appear on the market who are ready to pay a premium for a good received sooner in time over the same good received later in time.”

The position you advance actually stands the real situation on its head. Whereas you attempt to portray interest as a creation of value, or an addition to value, it is actually a claim on value already created. The provision of funds to consumers to enable them to purchase goods they could not otherwise have acquired does not create value. It merely enables the value which has already been created [and which is embodied in the form of commodities in the manufacturers warehouse] to be realised in the form of cash. Interest represents a claim on income—either the income of the worker in the case of consumer credit or the income of the capitalist in the case of business credit and loans.

Suppose that overnight all debts in society were wiped out. Not at atom of value would have been created or destroyed, everything would exist as it had the previous day. The only difference would be that the claims of one particular form of property upon income would have been repudiated, but the value of commodities would remain unchanged.

The last issue to arise from your correspondence is the theoretical basis for socialism.

Your write that: “It seems that socialism finds its theoretical justification in the idea that capitalism is a system that exploits workers by depriving them of a fraction of the value of their productive power. Capital is the vehicle and mechanism by which the capitalist class generates ‘surplus value,' which represents an objective measure of the magnitude of the unjust exploitation of the working class.”

The theoretical basis for socialism does not lie in the fact that capital exploits the working class. Rather, it is rooted in the understanding that capitalist society, having made possible an enormous advance in human civilisation, now stands as a barrier to mankind's further progress, and represents a danger to civilisation itself and the very advances which it has made possible in an earlier period.

As Marx put it: “At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production or—this merely expresses the same thing in legal terms—with the property relations within the framework of which they have operated hitherto. From forms of development of the productive forces these relations turn into their fetters. Then begins at an era of social revolution.”

The social relations of capitalist society are based on commodity production which reaches its highest development when labour power becomes a commodity, and we have the emergence of a society in which the overwhelming majority of the population becomes wage labourers, whatever the particular occupation, skilled or unskilled, blue collar or white collar, in which they are engaged.

The key to the understanding of every society, as Marx once wrote, is the way in which surplus labour is pumped out of the exploited class. In capitalist society this takes place through the wages system. The source of surplus value (and profit) lies in the difference in the time taken by the worker in the course of the working day (necessary labour) to reproduce the value of his labour power (wages) and the working day as a whole.

From this it follows that there are two sources of surplus value—absolute surplus value, which arises from lengthening the working day, and relative surplus value, which is obtained from a shortening of necessary labour, thereby increasing the time the worker renders as unpaid labour to the capitalist.

Given the limits to the working day—both physical and social (established through the struggle of the working class)—the road to the accumulation of surplus value is through the shortening of necessary labour, that is, the development of labour productivity through the continuous development of the productive forces. This imperative, which arises from the nature of capital itself, is imposed through the competitive struggle in the market. Those capitalists that fail to develop the productivity of labour are eliminated in the struggle for markets and profits by their rivals.

One can say that the great contribution of capitalism to mankind's development was that in seizing hold of the productive process it developed the productivity of labour to the point where the emergence of a truly human society, without the necessity for want and exploitation, has become objectively possible.

But the development of the productive forces under capitalism intensifies the inherent contradictions of the wages system. The sole source of surplus value is the exploitation of the labour power of the working class. However, in the struggle for profit, capital is forced to increase the productivity of labour, that is, it drives labour (the sole source of surplus value) out of the production process.

In one of his most far-sighted analyses of this contradiction, Marx wrote: “Capital itself is the moving contradiction, [in] that it presses to reduce labour time to a minimum, while it posits labour time, on the other side, as the sole measure and source of wealth. Hence it diminishes labour time in the necessary form so as to increase it in the superfluous form; hence posits the superfluous in growing measure as a condition—question of life or death—for the necessary. On the one side, then, it calls to life all the powers of science and of nature, as of social combination and of social intercourse, in order to make the creation of wealth independent (relatively) of the labour time employed on it. On the other side, it wants to use labour time as the measuring rod for the giant social forces thereby created, and to confine them within the limits required to maintain the already created value as value. Forces of production and social relations—two different sides of the development of the social individual—appear to capital as mere means, and are merely means for it to produce on its limited foundation. In fact, however, they are the material conditions to blow this foundation sky-high” [Marx, *The Grundrisse* p. 706].

Concretely how does this contradiction manifest itself? The more the productivity of labour develops the greater the difficulty in maintaining a given rate of profit and in expanding capital. It is not here a question of capital falling to zero as your letter implies. The breakdown of capitalism does not mean that capitalism somehow comes to a grinding halt. On the contrary as the productivity of labour increases its struggle to maintain the rate of profit becomes ever more frenzied—with far-reaching social and political consequences.

The inexorable pressure on profit rates arising from the increase in the productivity of labour sees each section of capital intensify its struggle to eliminate its rivals and so increase its share of the available surplus value. Every area of the globe becomes a battleground between rival groups of capitalists and the states which defend their interests for markets and profits—a struggle which leads eventually to inter-imperialist war.

At the same time, capital conducts an equally intense war on the home front to appropriate every last available amount of surplus value by clawing back previous concessions it was forced to grant to the working class in the form of increased wages, improved social services etc. This is why in every capitalist country today we find on the one hand, an enormous development in the productivity of labour coupled with declining living standards, increased social inequality, rising social tensions and a breakdown of the very foundations of civilisation itself—reflected in rising poverty, crime, drug use, and ever more frequent mass murders.

In revealing the inherent contradictions of capitalism, we by no means intend to suggest that this system will collapse of its own accord. On the contrary, capitalism will only be overturned through the conscious political struggle of the working class, in which wide sections of the population have come to the understanding that if they are to live a human existence and civilisation is to continue, then the social system based on private ownership of the means of production, wage labour, profit, rent and interest must be overturned, and put in the museum alongside chattel slavery and feudalism.

In conclusion, might I suggest that as you have an interest in questions of political economy you undertake an actual study of what Marx has written on these questions. After all, what would someone say of a person who attempted to refute the theories of Einstein or those of quantum mechanics on the basis of seemingly “common sense” observations. In the analysis of the economic workings of capitalist society we are dealing with no less complex matters, which require a scientific analysis. If my reply has done nothing else but make clear the necessity for such work and even stimulate you to undertake it, then it will have served its purpose.

Yours sincerely,
Nick Beams