Correspondence from MM

13 August 1999

Dear Editors:

I am writing in response to the letter written by Nick Beams on June 16 entitled "The law of value and the crisis of capitalism". (Please see http://www.wsws.org/articles/1999/jun1999/nb-j16.shtml).

First, I would like to look at one statement made by Mr. Beams. He states (citing Marx) that, "Marx shows how, assuming that equivalents exchange for equivalents and that the commodity owners (both capitalist and worker) receive the full value of the commodity they sell, surplus value is appropriated by capital".

I would like to take exception to whether we may assume that "equivalents are exchanged for equivalents". Instead, I would propose 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.

For example, if I am willing to exchange $2 for a hamburger, and if the owner of a hamburger shop is willing to exchange a hamburger for $2, we may be tempted to say that "an equivalent is exchanged for an equivalent", or, "equal values are exchanged". However, I believe this is quite wrong. Instead I would maintain that both parties value more highly the thing they have received than the thing they have exchanged. In this example it is fair to say that I value a hamburger MORE HIGHLY than $2 (not "equally" with my $2). If it were not so, why would I seek out the opportunity to trade my $2 for a hamburger? The very fact that I am willing and eager to make this trade is indicative of the fact that I value the thing received MORE HIGHLY than the thing given up.

We may also say that the shop owner values the $2 more than he values the hamburger. This is proven by his eagerness to make the exchange. Again, if $2 was EQUAL to one hamburger (in his mind), then he would at best be indifferent to whether he made the trade or not. But, as it stands, he is quite happy to make this exchange, without a moment's thought.

Because past theories of value sought to find some objective basis for the values and exchange relations of various commodities, it was common to assume that various commodities were exchanged on an "equal for equal" value basis. However, when it was realized that there is no intrinsic "common denominator" which determines the exchange value of a commodity, but rather that exchange values are SUBJECTIVELY determined (in the mind of every buyer and seller), then we may begin to see how it is that two parties may each form a different opinion as to the worth of the same thing.

All trade in fact DEPENDS on this "difference" in subjective opinion between two parties as to the value of the same objects. All trade (exchanges) are predicated on the idea that each party values MORE HIGHLY the thing he is receiving than the thing he is losing. If these objects were of "equal" value in the minds of the traders, there would be no reason for the parties to trade and all economic activity would come to a halt. After all, who would exchange two apples for two similar apples? A man may be willing to exchange a dollar for four quarters, but it is unlikely that he would seek out opportunities to make such an exchange or that he would great such opportunities with anything other than indifference.

A creditor, who extends a loan at a 10% annual interest rate, makes a determination that $110 payable in one year is worth more than $100 today. The borrower, of course, makes a determination that $100 today is worth more than $110 one year from now. It is only because of these differences in subjective valuation between the creditor and the borrower that a transaction can take place. It is quite incorrect to say that $100 today is EQUAL to $110 in one year (and to try to "prove" this with a copy of the contract between the creditor and the borrower). What you have "proved" is what we already know, namely that one party valued $100 today MORE HIGHLY than $110 in one year, whereas the other party reversed these judgements.

In short, it is not EQUAL values that are exchanged on markets, but rather each party exchanges what is less highly valued for what is more highly valued. This is only possible once one realizes that all determinations of value are subjective appraisals which occur nowhere else but in the minds of men. Actual trades and transactions represent nothing more than historical data telling us that at such and such a time and place, this person valued such and such a thing more highly than some other thing and therefore he was willing to make some exchange.

Now, using my example above (of the $2 hamburger), we must realize that the decision as to whether this hamburger is worth $2 is subjective. Where I may answer that it is indeed in my interests to make this trade, my friend may think it is not in his interests. He may choose to keep the $2 and to allow the shop owner to keep his hamburger. Perhaps he desires to spend his $2 on some other good which he values more highly than this hamburger (or perhaps he wants to save his $2 for a later opportunity).

In the above we see that the question as to which item has the greater value (a hamburger or $2) is a subjective question and it is resolved differently by different people. Whereas I value the hamburger more highly than the $2, the shopkeeper and my friend both value the $2 more highly than the hamburger.

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 determining whether a hamburger can be produced for $2 or less, we must of course consider the labor cost of such a burger (but not the "quantity" of labor, whether measured by "hours" or some other arbitrary system). We must also give due consideration to the cost of the non-human factors of production (land and capital).

If the selling price of any commodity falls below its cost of production, then the producers of this commodity will suffer losses in its production. This of course would lead to a great cutback in production of this commodity which would continue until supply and demand were once again in balance and production of this commodity could resume at least the average rate of return.

In this way we may say that the selling price of a commodity is related to its production cost (separated only by "interest" on capital and "rent" on land). However, we would be quite wrong to assume that all the costs of producing a given commodity must derive only from the human labor power invested in the production of that commodity. In a system of private ownership of land, one must secure the permission of the land owner before one may proceed to extract value from the land. I cannot take oil from land unless I buy the land from its owner or I agree to pay him for this right. In looking at the cost of a barrel of oil and saying "all its cost is labor cost", we are making a mistake. In fact, part of the cost of the oil is a "labor component" and part represents a "land component", or the price we had to pay to the land owner in order to secure his cooperation with our plans.

Now with regard to the capital cost component of a commodity (good), we may see that capital is "stored up" land and labor from the past. And we may therefore conclude that capital as such merely reflects the labor power expended in the past (to produce the capital good). We may therefore discount the capitalist claim to a share of the social production. However, if yesterday's land and labor were indeed "stored up" (instead of being used immediately for present consumption), then someone must have refrained from consumption in order to raise the financial capital to finance this "storage" process. In so doing the capitalist was making the subjective decision that some amount of money in the future was more valuable than a smaller quantity of money today (as in my above example of the creditor and debtor).

Let us consider the example of a heavy truck. In order to build such a truck many workers must be engaged in the various departments of its production. Now, such a truck, when it is finished, will be serviceable for several years (perhaps ten). If the workers were willing to wait until the truck were finished, and if they were even willing to wait the ten years during which the truck would provide productive services, before they received pay for their work, then they could capture both the "labor" and the "interest" portion of the productive services rendered by the truck that they have built with their labor power. But, as it usually happens, the workers are NOT willing to wait such a long time before receiving their compensation. They demand payment on a regular basis (perhaps weekly or monthly), despite the fact that the truck they are working on has not yet rendered any productive service (or has not yet rendered its full productive service).

If the capitalist were to ask the workers to wait until the truck had rendered its full productive service before they were paid, many could not afford to wait so long. Many would demand interest on their deferred wages. After all, in order to live, the workers would need to borrow money (at interest) until they were finally paid.

I think Marx's mistake was to look for some intrinsic "common denominator" which is present in every commodity and which would explain the exchange ratio (value) between the various commodities. In labor power Marx believed that he had found his "common denominator" (after all, almost all commodities require at least some labor for their production).

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.

Now, no one could complain that workers were being unjustly exploited if all branches of capital were allowed only to earn enough money to pay for the natural depreciation and depletion of capital used in production. In this case enough revenue would be generated by each firm for the replacement of capital used in production, but no additional or "surplus" revenues would be generated. The net rate of return on capital, across all branches of production, would be 0%.

Of course, in our real world, the situation is quite different. The capitalist expects not only a return of his original capital outlay, but he expects some additional or "surplus" amount, above and beyond the annual depreciation of his capital. He expects a net profit or a net "rate of return" on his investment.

To state profits only as some definite monetary amount is not to provide very useful information. It does not convey much information to say that firm X earned $100,000 in a given month or year. Profits only become meaningful when they are expressed as a "rate of return" on a given dollar value of capital.

We must not only know that a profit of $100,000 was earned, but we must also know how much capital was invested to earn this profit. If I say that firm X has capital of $1 million, then we would say the return was 10%. However, if firm X has capital of $1 billion, the return would only be 0.1%. All businesses measure profitability not in any absolute sense (which would be meaningless), but in a relative sense (relative to how much capital was required to generate this profit).

In the market, there prevails a tendency towards an equalization of the rate of return across the several branches of capital. While it is true that a particular branch of capital may temporarily earn more or less than the average, capital will move in an out of this branch and produce an eventual tendency toward equalization. It is also true that this tendency toward the equalization of the rate of return is dependent upon the value of the capital invested in each branch of production, regardless whether a particular branch of production is more or less labor intensive. The equalization is not per unit of labor but per unit of capital.

The phenomena of "interest" may be defined as the discount of future goods (commodities) as against present goods (or the premium of present goods as against future goods). By this I mean that people are not indifferent to time in their economic decision making and market actions. Generally a good (or monetary amount) received sooner is subjectively preferable to the same good (or monetary amount) received later. This subjective reality is reflected in the actions of individuals on the market and by the emergence of monetary interest rates. If it were not so, workers would be indifferent to whether they were paid monthly, quarterly, annually or only one lump sum at the end of their careers.

We say that labor is exploited because the capitalist earns profit on his investment. We see this profit (reflected as "interest" or a "rate of return") as a measure of the exploitation of the workers. We say this is "surplus value" which by rights really belongs to the worker. But the reason we say this is only because we have already subscribed to the idea that all economic value comes from labor power. If all economic value comes from labor power, then any person who extracts a share of the social production, other than by his labor, is seen as appropriating something that does not belong to him. However, if all economic value does not come from labor power, then we may perhaps agree that the capitalist's profit is not in fact exploitation of the workers.

I would agree that labor is the source of all production. Labor power, mated with land, is converted into commodities either directly or indirectly (through the interposition of capital goods). However, even if labor is the source of all production, it does not follow that labor is the source of all economic value. One who moves commodities from a time or place where they are less highly valued to a time or place where they are more highly valued also adds "economic value" to these goods (even if he doesn't change the technical nature of these goods). The proof of this is that, in the market, people appear who are willing to pay a premium for goods which have been moved in time or space over goods not so moved.

In my last letter I wrote the following:

"I would agree that labor is the source of all production. Labor power, mated with land, is converted into commodities either directly or indirectly (through the interposition of capital goods). However, even if labor is the source of all production, it does not follow that labor is the source of all economic value. One who moves commodities from a time or place where they are less highly valued to a time or place where they are more highly valued also adds 'economic value' to these goods (even if he doesn't change the technical nature of these goods). The proof of this is that, in the market, people appear who are willing to pay a premium for goods which have been moved in time or space over goods not so moved."

In this statement I claim that one who moves goods "in time or space" may add economic value to those goods, "even if he doesn't change the technical nature of these goods."

I fear that this statement may be misunderstood, so I would like to elaborate a bit upon my statement.

When I speak of the movement of goods "through time", I do not have in mind the physical transportation of commodities through time, as if with the aid of some sort of "time machine". I am of course well aware that no such technology exists. Nevertheless, the modern capitalist economy does make it possible to move goods "through time" (in a manner of speaking).

We may consider the example of a worker who earns $30,000 per year but who must spend $25,000 per year for the support of himself and his family. This means that our worker has $5,000 available each year which he can either spend or save.

Let's say that our worker desires to purchase an automobile which sells for $20,000. Now, our worker may save his annual $5,000 surplus for four years. After this time he will have accumulated the $20,000 necessary for the purchase of the auto.

However, there is another possibility: our worker may borrow the required $20,000 now and purchase the auto immediately. By the use of the credit markets our worker is able to "move the auto forward in time" by four years.

Of course the worker will be expected to not only repay the $20,000 purchase price of the auto (the principal balance of his loan), but he will most likely also be expected to pay some additional amount as "interest" to his creditor. If the worker is willing to pay this additional amount (in the future) in order to enjoy the use of the auto sooner, it can only be because he subjectively values the earlier delivery of the auto more highly than the later delivery of the auto.

Now, we must understand that there has been no physical movement of this auto from a later period of time to a sooner period of time (such a thing is impossible, of course). What has happened is that the creditor has earned some quantity of money, but instead of spending this money on himself now, he has transferred this right to the debtor. The debtor has acquired the right to spend the creditor's money now. In the future the debtor will restore this principal amount to the creditor (along with an additional amount, which represents the subjectively higher value that the debtor places on receiving the car today as opposed to receiving it in four years).

In this sense only do I speak of the movement of goods "through time". I maintain that even if all production comes from labor, not all "economic value" comes from labor. One who moves goods "through time" 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 situation is not different with regards to the relationship between the capitalist and the workers. The workers expect to be paid for their services immediately, notwithstanding the fact that the capital good they manufacture will not render its full productive service for an extended period of time. If in fact the workers were willing to wait to be paid until the capital good rendered its full productive service, they could realize not only their current wages but also the "surplus value" eventually generated from their labor.

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 than the same good (or sum of money) payable only 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". Current goods will not exchange for future goods except at a premium. Future goods will not exchange for current goods except at a discount.

For this reason I say that the person who defers his own consumption and makes his funds available to another (for the present consumption of the other) performs an economic service. He adds "economic value" to the goods so "moved in time" even if he does not change the technical nature of these goods.

We must understand that labor is the source of all production, but it is not the source of all "economic value". Economic value is ultimately subjective and it is a fact that most people subjectively prefer goods received sooner in time over the same (technical) goods received later in time.

Dear Editors:

I have been reading some of your web pages and I'm afraid I must admit that I do not understand many of your theories.

Specifically, I do not understand how you come to the conclusion that capitalism is a system which contains within itself the seeds of its own destruction. There seems to be this idea of "inherent contradiction" which holds that capitalism cannot be sustained because of some inherent instability in the system.

You say that capitalism exploits workers because it extracts "surplus valueâ€• from them. If I understand you correctly, this fact alone is not the major fault of capitalism, but rather the fact that this extraction of surplus value cannot continue indefinitely.

I must admit that I am completely lost in trying to understand why you feel that "inherent contradictions" within the capitalist system must bring about its eventual crash.

If I understand you correctly, the crisis is brought about by the inability of capital to be profitably invested, which grows worse and worse as the supply of capital increases.

You see new technologies and access to foreign sources of supply and foreign markets as only stop gaps, which may temporarily restore capital to profitability but which do not resolve the fundamental underlying crisis.

I admit that, if the supply of capital increases, the rate of return per unit of capital will probably decline. This will result in lower average rates of return, but I do not see how this average may reduce to zero.

So, I can see that the rate of return on capital will probably decline as the supply of capital is increased, I still do not see how this constitutes some sort of "crisis", which must bring about the destruction of capitalism.