2016-11-14 From the preparatory notes for Class 28 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

Refresh by going through the two-column diagram handed out previously.

[Break into groups like last time, and read and discuss the following:]

Critique of Marx's 'labour' theory of value

After studying Marx's *Capital*, and after teaching its essential argument to others for many years, the author/compiler of the following critique came reluctantly to the conclusion that the 'labour' theory of value expounded and relied on by Marx is untenable.

According to this critique, the flaws in his 'labour' conception of value all stem from two fundamental, interconnected errors:

(i) Treating value as a social 'substance' immanent in — i.e. an intrinsic characteristic or property of — articles produced for exchange. This is not a materialist conception; it is rather an idealist, metaphysical conception taken over from Hegel.

(ii) Consequently treating value as a category of — i.e. a concept properly belonging to the sphere of — *production*; in other words that the supposed value 'substance' is something *produced as part of the material product*, and which then has to be distributed. On the contrary, value is a category of *appropriation* — i.e. a concept properly belonging to the sphere of socially recognised *entitlement* to material wealth, including the material wealth produced. (The 'property conception of value' which follows from this will be explained more fully later, after the critique of the 'labour' conception.)

<u>Question 1</u>: Was Marx able to maintain the logical foundation for his 'labour' theory of value which he advanced in the first chapter of *Capital* (in the extracts we read last time)?

Remember how Marx — following Hegel — asserted emphatically that if two different articles of utility have equivalent values in exchange, it *must* mean that they have an *intrinsic* characteristic or property in common, which is present in both of them to the same degree. This common property, he said, can *only* be that they are both products of labour. Their equivalence must mean that they each contain *an equivalent quantity of socially necessary labour time*.

Yet Marx would soon be vigorously denying that commodities actually exchange at their labour-values. Writing to his friend Ludwig Kugelmann on 11 July 1868, he said:[1]

> The vulgar economist has not the slightest idea that the actual, everyday exchange relations and the value magnitudes *cannot be directly identical.* [Emphasis by Marx.]

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[1] See *MECW*, vol 43, p 69. Volume 1 of *Capital* had been published the previous year.

This is irreconcilable with the assertion that Marx had made in the first chapter of *Capital*, which was supposed to convince us that a 'labour'-value theory follows as a matter of logical necessity from the exchange of different commodities as equivalents. In a moment, we'll look into why he had to abandon that assertion. But for now let's observe this:

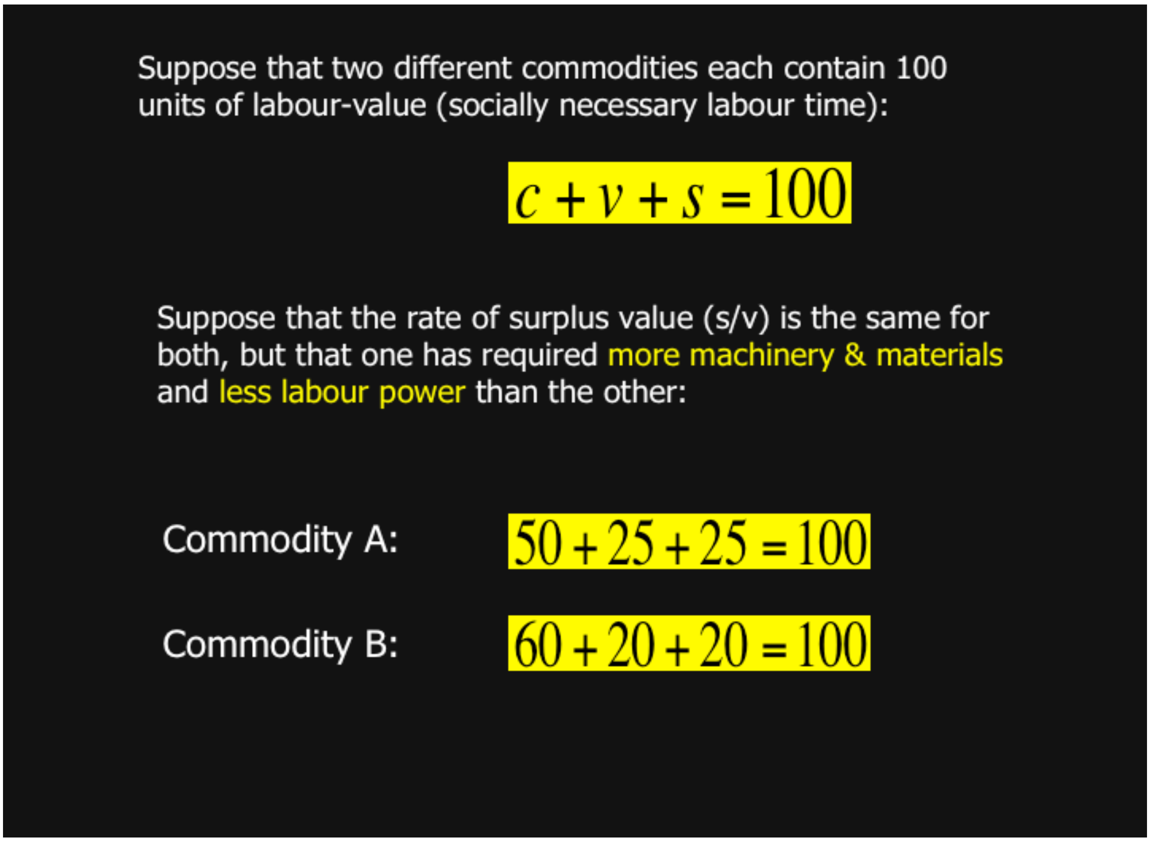
If it is true that, when two different commodities actually exchange as equivalents, they *must* have a third 'something' in common to the same degree, then Marx has effectively conceded now that the third 'something' *cannot* be labour. Yet he never acknowledged it.

<u>Question 2</u>: Why can't articles ordinarily exchange for each other according to their (imagined) 'labour'-values?

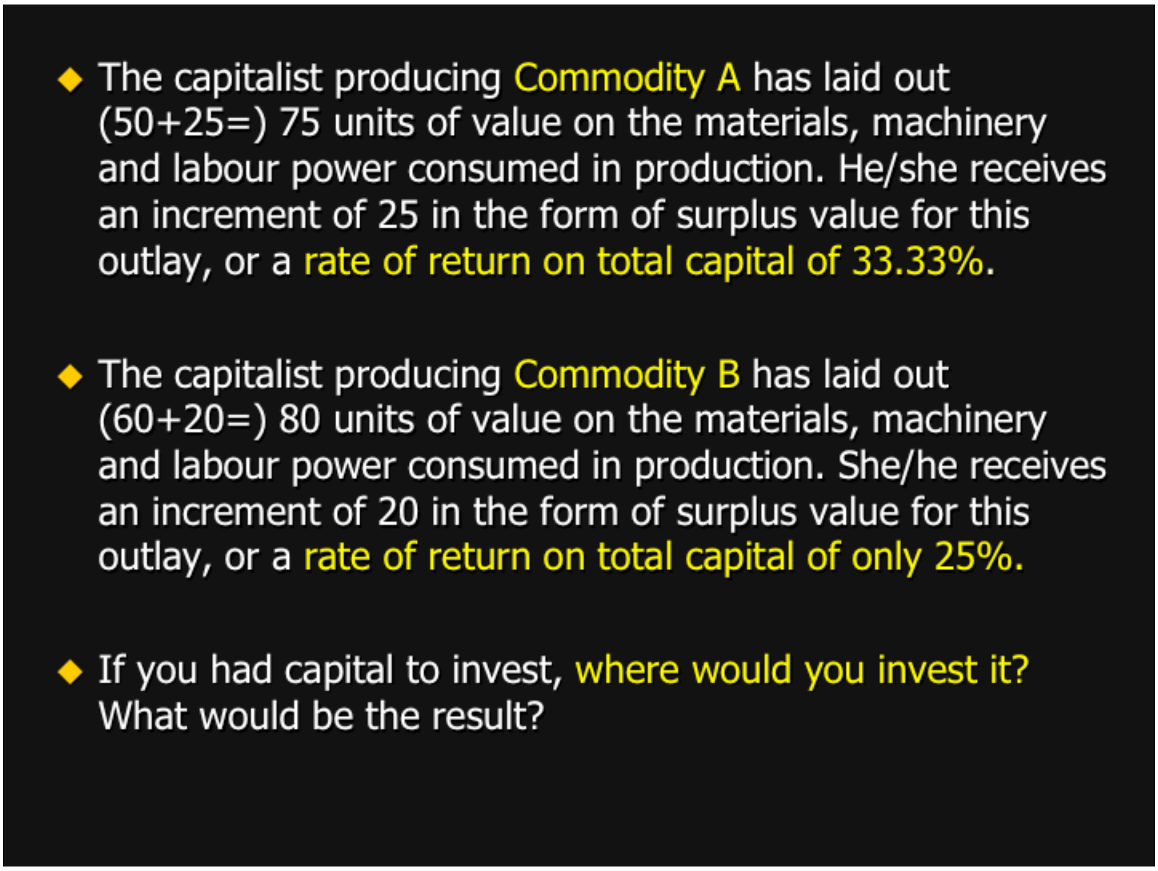
Perhaps because there are constant price fluctuations in *individual* exchanges, whereas the 'labour' conception of value relies on the idea of a *socially necessary* (or average) labour content in each particular kind of article? Unfortunately that explanation doesn't get us very far.

Let's eliminate individual price fluctuations from the analysis. Let's think those fluctuations away, and ask: *Could* particular articles on average be exchanged for other particular articles according to the socially necessary labour time contained in them (i.e., the labour time required respectively for their production)? The answer is *no, they could not*.

Why not? Because the real world of production for exchange makes that impossible.[2]



[2] The first critic of Marx to draw attention publicly to this problem was the Austrian economist Eugen von Böhm-Bawerk, in *Geschichte und Krìtik der Kapitalzins-Theorien*, 1884.



Marx was fully aware of the problem outlined in these slides when he put forward his 'labour' theory of value in Volume 1 of *Capital* (1867) — the only volume published in his lifetime. He noted that experience gave rise to an 'apparent' contradiction to his law of value, but he side-stepped the problem, saying only that for its solution 'a great many intermediate terms are needed'.[3] That 'solution' was not revealed during his lifetime but only much later, in 1894, when Engels published volume 3 of *Capital* compiled from Marx's notebooks that were already in existence in 1867.

The 'solution' involves accepting that competition in the market distributes 'surplus value' among capitalists according to a 'general rate of profit'.

The general rate of profit is known in mainstream economics today as 'normal profit' which is contained in any notional long-run competitive equilibrium price. Marx was right in regarding the idea of a general rate of profit as an essential analytical tool. If we assume competitive conditions and the mobility of capital between the different branches of production, then notionally the long-run rate of profit between the different branches will tend to be evened out.

The solution of Marx to the 'transformation problem' boils down to this:

> **When it comes to establishing the relative proportions in which commodities exchange, the market recognises, on the basis of the mechanism of supply and demand, the competing claims of capital to the social product and (together with it) to the social surplus.**

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[3] See Everyman edition p. 317 (cf Penguin edition p. 421).

> **In recognising these claims, the market is 'transforming' the underlying labour values contained in the various capitals into price.**

However, this 'solution' cannot avoid the fact that the actual ratios in which commodities exchange with each other, even in notional conditions of general equilibrium, will not correspond to the ratio of the labour time socially necessary for their respective production.

Moreover, the 'transformation' problem only arises because we have imagined in the first place that 'value' is simply labour-value ('socially necessary labour time'). Drop that assertion (it is nothing more than an assertion) and the so-called 'transformation' problem is also gone.

Contrary to what some of Marx's opponents argued, the existence of the 'transformation problem' is not in itself enough to refute the labour theory of value conclusively. This is because, in Marx's 'solution' to the problem —

(i) it is still labour-value that is being allocated as surplus-value among the competing owners of capital; and

(ii) capital itself, in Marx's conception, consists of labour-value, so that it is invested labour-value (**c** + **v**) — 'dead' and 'living' labour-value — that is the basis of the owner's claim to the labour-value surplus (**s**).

The conception has an internal consistency in this respect — because it is able to go round in circles without a hitch. But that is not a proof of the validity of the *assumptions* from which the internally consistent deductions flow.

The 'transformation' problem makes the assertion of a *labour* theory of value all the more implausible, as well as tortuous to apply, in real life.

It has already been suggested that the basic idea of a value 'substance' is mistaken. In any event, the notion of 'labour' as the substance of value suffers from dogmatic one-sidedness, taking one ingredient or factor of production as the exclusive source of value. One could imagine a corresponding 'transformation' problem, and a corresponding 'solution', if one were to try to apply the Physiocrats' one-sided *land* theory of value in order to get to exchange-value and prices.

The labour theory of value treats labour as the only *socially relevant* factor of production when it comes to exchange. This is because (and Marx took this over from Ricardo)[4] *nature doesn't charge*. It couldn't be denied that nature's contribution, along with that of current and past labour, is a vital material ingredient.[5] But it is treated by the labour-value theory as *irrelevant to the value relation*. Everything is reduced to labour in that analysis. However, this skips over the vital point. While it is true that nature itself supplies its bounty free of charge, the socially relevant point is that *appropriated nature does charge*. The owners of the earth and its spontaneous production are able to exact a *proprietary* reward for supplying it. Likewise the owners of the past product of labour and nature combined, who supply the machines and the materials which have resulted from past production.

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[4] See *Capital*, vol. 1, Penguin edition, p. 510, n24.

[5] See Marx's critique of the German 'Gotha' program of 1875, quoted during Class 26.

If Marx is compelled to recognise that the system in fact allocates surplus value according to *ownership* of the inputs, why not rather go directly to an analysis of society's recognition of *ownership and its competing claims on the social product*? Does society's recognition of *ownership* in fact rest on a recognition of labour contributed? Surely not. That was the liberal fantasy of Adam Smith, which we criticised in Class 26.

At root, Marx's argument is that society — whether it likes it or not, and whether conscious of it or not — is compelled in fact to recognise the claims of ownership on the surplus *in accordance with his law of labour-value*. In other words, he argues, it flows necessarily from the dependence of society on its *labour*.

After the publication of Volume I of *Capital*, Marx's friend Ludwig Kugelmann told him that in the opinion of many readers, Marx had not proved the concept of value.[6] In the letter of 11 July 1868, referred to previously, Marx responded angrily:

> [E]ven if there were no chapter on 'value' at all in my book the analysis I give of the real relations would contain the proof and demonstration of the real value relation. … Every child knows that a nation which ceased to work, I will not say for a year, but even for a few weeks, would perish. Every child knows too, that the masses of products corresponding to the 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 form in which it appears, 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 operate. And the form in which this proportional distribution of labour operates, 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.
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> … What is reasonable and necessary by nature asserts itself only as a blindly operating average.

But is this right? Assuming competitive conditions, what the market recognises unconsciously, and on the average, is not the socially-necessary labour embodied in the product but *the socially necessary expenditure of the owner on the proprietary inputs of labour-power, materials and implements consumed in the production of the product*. In so doing, the market also unconsciously allocates the net surplus product (more precisely the surplus product expressed as value) *pro rata* to such necessary expenditure on the proprietary inputs.

In this recognition of social necessity the prevailing efficiency with which particular labour is extracted from particular labour-power is assumed. Thus the market, to the extent that it recognises any particular expenditure on labour-power as socially necessary, also brings about the necessary distribution of social labour. There is no need to resort to idealist metaphysics over this.

Question 3: From the need recognised by Marx to 'transform' labour-value into prices which distribute profit *pro rata* to the total capital laid out, a further question arises within

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[6] See I. I. Rubin, *Essays on Marx's Theory of Value,* Black & Red, 1972, p. 77.

the framework of his own conception. **If socially necessary labour time is indeed the hidden 'substance' of value, as he claimed, when would 'exchange-value' actually be equal to 'socially necessary labour time'?**

The answer is: only where the **composition of capital** in an enterprise (the ratio between 'constant' and 'variable' capital — i.e. between **c** and **v**) is ***average***. Only in such a case would exchange-value conform notionally to **c+v+s**. But where in reality would that situation be found? You could never know by looking at an enterprise whether or not its composition of capital equates to the social average, or what that average might be. Moreover, as a mathematician could tell us, **there need not be any actual enterprise with an average composition of capital**.[7]

So what is left of Marx's claim — again following the idealist Hegel — that exchange-value is the 'phenomenal form', or form of *actual appearance*, of the supposedly intrinsic labour-value?

In truth, this imagined substance remains hidden and we have only Marx's say-so to support the notion that labour-value exists and that labour-value is what ultimately determines everything.

Question 4: Inasmuch as Marx rests his entire value theory on a concept of 'socially necessary labour time', making exchange-value dependent on that underlying 'something', is he able in fact to explain 'socially necessary labour time' *without making it dependent on the market*?

So far we've been assuming (as Marx suggests) that 'socially necessary labour time' is real, and that its existence precedes exchange. But now let's examine this foundational concept further.

When, as Marx explains it, is labour time to be considered 'socially necessary', so that it determines the value of a commodity? In volume 1 of *Capital* he wrote:[8]

> The rule that no more than the socially necessary labour time shall be expended in the production of a commodity would **seem**, in commodity production as a general rule, to be established by the force of competition; for, to put the matter simply, each individual producer must sell the commodity at its market price. In manufacture, **however**, the turning out of a given quantity of product in a given amount of labour time is a technical law of the process of production itself. [Emphasis added.]

So far so good. Having regard to the fact that a commodity must ordinarily be produced before it can be exchanged, the technical conditions of production will, in notional conditions of competitive equilibrium, determine the necessary labour content of each individual commodity. In each branch of production there will be at any particular time a prevailing set of technical conditions and a prevailing productivity of labour, so that, given

[7] For example, if A=3 units, B=7 units and C=8 units, their average value is 6 units.

[8] Everyman edition, p. 364.

any particular quantity to be produced, the labour time socially necessary for the production of each individual commodity in that branch of production will indeed exist prior to exchange.[9]

But this is not enough to invest each of the commodities with any definite, 'necessary' quantity of 'social labour time', even on average. How many of the individual commodities is it 'socially necessary' to produce in each different branch? In fact, the proportions in which the aggregate of 'social labour' is 'necessarily' distributed *between* the different branches of production are not determinable *a priori*, or prior to exchange. **The mechanism of exchange is what determines 'social necessity' in this essential respect.** *'Socially necessary labour time' is thus crucially dependent on determinations in the market*; exchange value cannot logically be derived from a pre-existing 'value' consisting of 'socially necessary labour time' existing independently of exchange. The idea that value is an intrinsic labour 'substance' merely finding expression in exchange has no leg to stand on.

Marx was a genius, and an extraordinarily thorough one. He was quite aware of this problem, and he tried to address it. But careful scrutiny shows that his attempt failed. Dealing with the distinction between the division of labour within the workshop or factory and the division of labour within society, Marx wrote:[10]

> Whereas in manufacture the iron law of proportionality subjects particular masses of workers to particular functions, chance and caprice have free play in the distribution of the producers of commodities and their means of production among the various branches of industry in society. It is true that the different spheres of production are continually endeavouring to arrive at an equilibrium, inasmuch as, on the one hand, every producer of commodities must produce a use-value, that is to say must satisfy a particular social want (the extent of these wants differing quantitatively, but the various wants being interconnected by an invisible tie to form a natural system); **whereas, on the other hand, the law of the value of commodities determines how much of the totality of available labour time can be devoted to the production of any particular kind of commodity**. But this persistent tendency of the different spheres of production to establish an equilibrium among themselves, only enters into operation as a reaction against the persistent disturbance of that equilibrium. **The rule** which, as far as the division of labour within the workshop is concerned, operates *a priori* and purposively, **operates, in the case of the division of labour in society, only in an *a posteriori* manner** as a natural necessity (immanent, dumb, **disclosed** in the rise and fall of the barometer of market prices) **overriding** the unregulated and capricious activities of the producers of commodities. [Emphasis in bold type added.]

This argument is surely misconceived. The totality of **'available'** labour-time in a society is by no means the same as the totality of labour-time that the system of production for exchange deems **'socially necessary'**. The argument is also self-contradictory. How can 'the law of the value of commodities' — i.e., their 'socially necessary' labour content — **determine** how much of the totality of available labour time can be devoted to the production of any particular kind of commodity, when it has just been acknowledged that the

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[9] For the sake of argument we are assuming here, in favour of Marx, that 'labour time', no matter what different kinds of labour it entails, can be homogenised (reduced to uniformity) in the abstract. In reality this, too, is untenable.

[10] *Capital*, vol 1. Everyman edition, pp. 375-6. Emphasis added.

distribution of the producers of commodities and their means of production among the various branches of industry **results** from the competitive co-ordination of chance and caprice?

Truly the tendency towards equilibrium (or various equilibria) of supply and demand overrides and thus regulates in the aggregate what are, in their individual manifestations, the unregulated and capricious activities of the individual producers (and consumers). But all this does not get us a jot closer to proving that market prices are an *a posteriori* manifestation of a previously existing 'something' which is labour-value. Fully considered, the acknowledgement that the **determination** is in this crucial respect **the result of competition** demolishes the theory that value is an intrinsic labour 'substance' — and makes the labour conception of value unsatisfactory as an explanation of the proportions in which commodities ever actually exchange.

And it consequently also limps when it comes to explaining **exploitation**, which was its essential aim. Yes, labour-power is indeed exploited in the system of production for exchange, but how exactly is it exploited and is that the only exploited factor of production?

In short, is there a more satisfactory way of approaching value theory and of understanding the capitalist mechanism of exploitation?

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Next: **The property conception of value in more detail** [hand out draft chapter by RP]. Provide a short explanation of its origins.

[see next page for draft chapter]

The 'property' conception of value — an introduction

Adam Smith described the question of the value of commodities in exchange as one which is 'in its own nature extremely abstracted'.[1] If we are to keep our bearings in these foggy realms, we need to keep in mind that the objects, whether tangible or intangible,[2] that enter into relations of exchange are objects of *property*. When production takes place for purposes of exchange, it is objects of *property* that are produced for exchange.[3]

We are accustomed to thinking of property itself as a *thing*, but this is a mental shorthand apt to lead to error. Things are or may be *objects* of property; property itself is a *social relation*.

Property may be defined as a socially recognised exclusive entitlement to material wealth or to the means of producing it. From deep natural roots, human property relations have developed historically, both in their prevailing forms of exclusivity[4] and in their content, and they continue to develop now. When considering the economic value relations of the present day we are in fact considering how property relations find expression, and are continually regenerated and reformed, through relations of exchange and relations of production for purposes of exchange.

Objects of material wealth include anything of utility, whether satisfying a need or a want or

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[1] *The Wealth of Nations* (1776), Random House Modern Library edn., 1937, p. 29.

[2] 'Mental aptitudes, erudition, artistic skill, even things ecclesiastical (like sermons, masses, prayers, consecration of votive objects), inventions and so forth, become subjects of a contract, brought on to a parity, through being bought and sold, with things recognized as things. We may hesitate to call such abilities, attainments, aptitudes, &c., "things", for while possession of these may be the subject of business dealings and contracts, as if they were things, there is also something inward and mental about it, and for this reason the Understanding may be in perplexity about how to describe such possession in legal terms, because its field of vision is as limited to the dilemma that this is 'either a thing or not a thing' as to the dilemma "either finite or infinite". Attainments, erudition, talents, and so forth, are, of course, owned by free mind and are something internal and not external to it, but even so, by expressing them it may embody them in something external and alienate them…, and in this way they are put into the category of "things".' G.W.F. Hegel, *Philosophy of Right* (1821) §43 (translation by T.M. Knox, Oxford University Press, 1967.). By the 'Understanding' Hegel meant the first 'moment' of every logical entity, wherein thought starts out limited by the fixed abstractions which it treats as real, but which it then overcomes by negative and positive ('Dialectical' and 'Speculative') reasoning. See Hegel's *Logic* §79 - §82.

[3] 'The division of labour, ... which ... is based on the natural division of labour in the family and the separation of society into individual families opposed to one another, simultaneously implies the distribution, and indeed the unequal distribution, both quantitative and qualitative, of labour and its products, hence property. ... Division of labour and private property are, after all, identical expressions: in the one the same thing is affirmed with reference to activity as is affirmed in the other with reference to the product of the activity.' Karl Marx and Frederick Engels, 'The German Ideology', *MECW* 5, 46. They identify the slavery latent in the family, though still very crude, as 'the first form of property', entailing the power of disposing of the labour-power of others. Important though this insight is, they err here in treating products one-sidedly as products of *labour*, and in treating *property* as identical with labour-products. We shall return to this issue in due course.

[4] Exclusivity is a core characteristic of property — even though (1) the exclusivity may be that of a group within which complex status and other relations affect individual access to the communal proprietary object, and (2) the exclusivity is subject, as is invariably the case, to conditions and qualifications in relation to those outside its bounds.

providing a means of generating the satisfaction of a need or a want.[5] As beauty is in the eye of the beholder, so utility is in the experience and expectation of the user. What is wealth, asks Marx in his notebooks of 1857-58, 'if not the universality of the individual's needs, capacities, enjoyments, productive forces, etc., produced in universal exchange?'[6] Wealth resides in the developing interrelationship between objects and the subject who uses them — the human individual, a social being, actively caught up in a process of becoming.

The utility of an object to its user is essentially a matter of subjective evaluation — at least, when more than the satisfaction of the most vital needs is involved.[7] Any general hierarchy in this regard will at best be approximate. While individual evaluations are socially influenced, sometimes to a very high degree, utility to the user cannot be quantified objectively, and the different utilities of different objects to different people cannot directly be compared.

We shall consider later whether and, if so, how utility enters into the evaluation of different objects of property when they come to be exchanged. For the moment, it is enough to say that if an exclusive entitlement to a useful object, or the possibility of such an entitlement, is socially recognised, the object takes on the social character of being an object of property: it is *owned*, or is capable of being owned. Not every object of utility is capable of being owned; some things, such as the air we ordinarily breathe, have not so far been made amenable to any exclusive entitlement.

Objects of property are of two kinds: first, those *naturally occurring* without human intervention, but capable of being appropriated; secondly those which, by deliberate human exertion applied to the resources of nature, are capable of being appropriated as they are *produced*.

The real ingredients of any *produced* output — that is to say, the material *input* factors — themselves consist essentially of two kinds. On the one hand there is the contribution made by human exertion, or *labour*, both physical and mental. On the other hand, there is the contribution made by *external nature*. Where raw materials have been extracted and

[5] 'A man is actually and truly rich according to what he eateth, drinketh, weareth, or in any other way really and actually enjoyeth,' wrote Sir William Petty (*A Treatise of Taxes & Contributions*, 1662, Ch. 15.) 'Wealth in itself is nothing but the Maintenance, Conveniencies, and Superfluities of Life,' wrote Richard Cantillon (*Essay on the Nature of Trade in General*, circa 1730, Transaction Publishers edn., 2001, p. 5. Translation from the French by Henry Higgs.) In Adam Smith, a nation's wealth comprises the 'necessaries and conveniences of life' which it consumes together with the means of providing them, whether by production or purchase. (*The Wealth of Nations*, op cit, p. lvii. Cf *The Theory of Moral Sentiments* (1759), Penguin edn., 2009, pp. 62-63.)

[6] *MECW* 28, p. 411. Marx's expression is *'die im universellen Austausch erzeugte'*. The Penguin *Grundrisse* translation of this expression (1973, p. 488) — 'created through universal exchange' — is not quite satisfactory and could mislead.

[7] '[O]ur first and greatest need is clearly the provision of food to keep us alive. ... Our second need is shelter, and our third clothing of various kinds.' Plato, *Republic*, Penguin edn., 1955, pp. 102-3.

prepared for use in further production,[8] these too may be boiled down conceptually to the past contributions of labour and nature combined. Likewise where an implement or a machine (a complex tool) is introduced, it has had its genesis in an earlier combination of human exertion and resources of the earth. We commonly identify the input factors of immediate production by a *threefold* classification — *materials*, *tools* and *labour* — but in the last analysis the real input factors in any output are reducible historically to two.

Confusion in economic value theory tends to arise whenever we fail to distinguish adequately the real input factors or ingredients of production, as well as the real outputs from production, from their *proprietary* — that is to say, their *social* — characteristics.

Note that property — proprietary entitlement — has had no part to play in the basic *material* (i.e. real) analysis of production so far. The influence of property upon the course of production as a *social* process is a different matter, and we shall examine that further on. But the fact that I may 'own' my capacity to labour (my labour-power), or that someone else may own it, does not make of that *ownership* a real material ingredient in production. Likewise, the fact that land, water, minerals and the regenerating fruits of the earth are susceptible of ownership does not make the fact of their *ownership* a factor of production in any ultimately *real* or irreducible, as distinct from *social*, sense. And the earth's gravitation and atmosphere, the sun's rays, the winds that blow, the rains that fall, the great waterways and the bounty of the sea, all make their vital contribution without being owned.[9]

But if property is irrelevant in identifying *the real ingredients of production*, the matter is quite the contrary when it comes to *exchange*. When people exchange one produced item for another, they are exchanging *objects of property* — they are exchanging what they *own* — and the proportions established between these objects in exchange are *socially*, not naturally, established. The same applies when appropriated pieces of nature's providence are entered into exchange: as real ingredients in production or consumption they are simply natural ingredients, but when participating in exchange they do so as objects of property.

Exchange, in bringing rewards to the owners of produced outputs, serves to draw objects of property into production again as material inputs in an on-going process of production for future exchange and future reward. It is nonetheless a fundamental error in value theory to confuse the real material ingredients of production with the *property* in those ingredients and their results. Economic value has no existence as a *substance* derived objectively from any of the physical ingredients in production, including human labour. As a concept,

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[8] '[B]y material I mean the substratum out of which any work is made; thus wool is the material of the weaver, bronze of the statuary.' Aristotle, *The Politics*, quoted from Monroe (ed), *Early Economic Thought: Selections from Economic Literature Prior to Adam Smith*, Harvard University Press, 1951, p. 13.

[9] In Germany, says Marx, the invention of the windmill 'called forth a pretty squabble between the nobility, the priests and the Emperor as to which of the three was the "owner" of the wind.' *Capital*, vol. 1, Penguin p. 496 n8.

properly understood, value is *not* (like labour) a category of *production* but is a category of *appropriation*. In other words, value is essentially an allocative and distributive category, and only by derivation a productive category.

Units of value, expressed as money-values in a society characterised by production for exchange, are in effect units of apportionment of socially recognised entitlements to the totality of real material wealth and the means of producing it. As both the recognition of entitlements and the material objects of that recognition undergo constant and often dramatic change, value itself is dynamic, never static. If we artificially render it static, if we freeze it conceptually for purposes of clarification and analysis, if we extend long chains of causal reasoning from assumed values, we must never lose sight of the tenuous, highly conditional basis on which we have proceeded.

The expression 'value' in our analysis corresponds with what economists have called 'exchange-value' (or 'value in exchange') as distinct from 'use-value'. The distinction is a vital one. For the latter concept, however, it is preferable wherever possible to use the term 'utility', and leave 'value' out of it so as to avoid confusion.[10] And where value in connection with exchange is concerned, it is better to avoid the term 'exchange-value' because that may imply that value arises simply in exchange (which it does not), or that it is confined within exchange (which it is not), or that it is a circulating substance making its appearance in exchange (which again it is not). More on that in due course.

Here, to start with, is a definition of value:

> *Value is the reciprocation to be expected from our fellow human beings in exchange for giving up what we own.*

Value is born from *property* (the property relation) and is quantified with reference to any object of property by way of an *expectation* of what that object will fetch in exchange for another object or objects of property. Any subjective expectation in that regard will be more or less objective in the social sense depending on how widely it is shared. When the expectation is submitted to the judgment of actual exchange — the judgment of the market — that judgment may be more or less objective in the social sense, depending upon how effectively it stamps itself upon future expectations in regard to that and other similar or related objects. Value, therefore, is different in concept and is by no means necessarily identical in fact to any actually realised price.

Anything which affects the expectation of what will be realised in actual exchange affects

[10] This includes avoiding any implication that the usefulness of a thing is capable of being quantified by some objective standard.

value. Since this expectation can be affected without any actual exchanges taking place, it follows that actually realised prices are not by any means the only occurrences which act upon the value of objects of property capable of entering into exchange. Nevertheless actually realised prices, if sufficiently generalised, render supreme judgment on values while executing that judgment at the same time.

Like property generally, *value* is a social relation between people in respect of things. Since exchange relations are reciprocal relations established between proprietors in regard to objects of property, it seems sensible to say that, in a society in which objects of property are almost all potentially available for exchange, and in which production takes place mainly as the production of objects of property for purposes of exchange, *value is the property relation in a universalised, abstract form.*

Thanks to the global evolution of relations of production for exchange — thanks, in other words, to the domination of society everywhere by the world market — value is today the property relation in world-dominating form. It is the predominant form in which property relations — and with that, those who have become endowed with socially recognised entitlements to the objects of material wealth on the most colossal scale — now rule the world. An exploration of the value form of the property relation and its tendencies of development should therefore be a central preoccupation for anyone wanting to understand and, if possible, to change the world.

In contrast to the '*property*' conception of value, the '*labour*' conception of value (the 'labour theory of value' or 'theory of labour-value') holds not simply that value is a social relation but that labour is the substance of value, and that 'socially necessary labour time' is at any moment, in relation to any commodity, an absolute quantum or criterion, which merely makes its appearance as exchange-value when the commodity is exchanged. Marx called exchange value the 'phenomenal form' of value but, as will be discussed in more detail, was unable in the further course of his analysis to show that his exchange value, supposedly manifesting neither more nor less than the socially necessary labour congealed in a commodity, ever necessarily appears. I consider the 'labour' conception of value to be idealist and metaphysical, and propose to demonstrate that it is, on its own internal logic, inconsistent, self-contradictory and unsustainable. That will be a subject of later chapters.

In the 'property' conception of value nevertheless, while value has no absolute substance, it is not the mere expression or outcome of exchange. Value as a social relation does have a relative autonomy from exchange. It is not simply reducible to a realised price. Moreover — and this will be the most crucial outcome of the theoretical value analysis once it is carried through — production for exchange based on unequal prior appropriation, if left to its own spontaneous devices, necessarily results in further and yet more unequal appropriation of the social product.

The ‘property’ conception is radically opposed to the neoclassical economic theories which uncritically assume the endowments preceding and underlying every exchange, which reduce value to the sum of individual exchanges, which falsely claim that a competitive market eliminates profit, and which contrive thereby to conjure away exploitation and rationalise inequality. By means of the ‘property’ conception, drawing upon insights of Marx but without his ‘labour-value’ theory, *the engine of inequality* — the continual process by which, automatically and invisibly, *those who have more get more* — can be simply and clearly explained.

Proprietary entitlements, or claims to entitlement, have their roots outside the market, both in various forms of primary appropriation (so-called ‘primitive accumulation’) and — mainly — in the production of new objects of material wealth. It is nevertheless the case that in a society characterised by production for exchange the claims on material wealth are continually affirmed or denied, repudiated or re-established in and through relations of exchange (the market). The market thus remains the central regulator of the system, irrespective of the layers of regulation that may be overlaid upon it.

‘Value’ (to repeat the point) is not a category of production, but a category of appropriation — expressing social recognition of the appropriation first and foremost of produced material wealth. Through the generalisation of exchange relations, non-produced material wealth, having itself been appropriated, likewise takes on the general value form.

Production for exchange involves the creation of new objects of utility by the productive consumption of pre-existing ones: raw materials, tools and labour-power. Having appropriated these means of production, i.e. these inputs (including the labour-power), prior to the act of production, the owner of the producing enterprise has a socially recognised entitlement to the outputs, to the products of the production process. The owner brings each such product to market not as a labour-product, but as a proprietary offering bound up with a reciprocal proprietary claim.

Therefore we cannot say that new *value* is created by production — until we have first said that new *property* is created by production. And, while one will value this newly created property in anticipation of exchange — and while that valuation will take on real social force to the extent that the expectation is generalised — this remains in fact subject to confirmation, enhancement or repudiation in the market.

The ‘labour’ conception of the value of commodities errs fundamentally in reducing the proprietary claims in essence to the socially recognised labour content of the products —

when these are products in fact of labour plus external nature. The proprietary entitlements or claims resulting from production are in fact predicated from the outset upon the previously-established property relations.[11] These have included the private appropriation of the contribution of external nature, as well as the accumulated instruments of production that have resulted from the earlier production of labour and nature combined: i.e., both land and stock in Adam Smith's expression.[12]

David Ricardo, defending Smith against certain criticisms by Jean-Baptiste Say, wrote this:[13]

> M. Say accuses Dr. Smith of having overlooked the value which is given to commodities by natural agents, and by machinery, because he considered that the value of all things was derived from the labour of man; but it does not appear to me that this charge is made out; for Adam Smith nowhere undervalues the services which these natural agents and machinery perform for us, but he very justly distinguishes the nature of the value which they add to commodities — they are serviceable to us, by increasing the abundance of productions, by making men richer, by adding to value in use; but as they perform their work gratuitously, as nothing is paid for the use of air, of heat, and of water, the assistance which they afford to us, adds nothing to value in exchange.

Marx, commenting on this passage in *Capital*,[14] endorses it insofar as it is directed against Say, but criticises it for losing sight of the embodied labour-value (as he sees it) which machinery gives up to the product in the course of production. Marx raises no objection whatever to Ricardo's argument[15] (which he himself adopted) that the contribution of natural agents adds nothing to value in exchange, because nature's contribution contains no labour. But that is not a satisfactory standpoint. While, obviously, external nature itself does not charge for its contribution, *appropriated external nature does charge*. For so long as and to the extent that this charge is socially recognised, it enters into the value of products. It is not the utility of nature's contribution which itself supplies value in exchange, but the ability of the proprietor of that contribution to charge for it — thereby laying a reciprocal claim to portion of society's material product.

Let us make for the moment the theoretical assumption made for purposes of analysis by the classical economists (and indeed by Marx), of a competitive economy in which supply and

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[11] Screpanti and Zamagni observe in *An Outline of the History of Economic Thought*, 2nd edn., 2005, p. 296, that in a debate over the possibility of rational economic planning in the early 1930s, the free-marketeer von Hayek re-proposed an article written by von Mises in 1920, the gist of which was 'that exchange relationships among goods, and therefore the formation of their prices, presuppose that ownership rights on the goods have previously been established.'

[12] Smith, *Wealth of Nations*, op cit, p. 47.

[13] *On the Principles of Political Economy and Taxation*, in *The Works and Correspondence of David Ricardo* (edited by Sraffa, with the collaboration of Dobb), Liberty Fund edn., 2004, Vol 1, pp. 286-7.

[14] Vol 1 (1867), Penguin edn., 1976, p. 510, n24.

[15] Cf also John Locke, *Second Treatise of Government*, Chapter V, para 43.

demand are in equilibrium in and between all branches of production. The implication of this is that there is only average or so-called 'normal' profit. What later economists have called 'pure profit' (i.e. profit over and above the notional long-run competitive equilibrium norm) can thus for the moment be left out of account. We can then go on to say the following:

What the competitive market recognises unconsciously and on the average as the value of an object produced for purposes of exchange is not the socially-necessary labour embodied in the product but the socially necessary expenditure of the owner of the product on the proprietary inputs of labour-power, materials and tools consumed in its production. In so doing, the market also unconsciously allocates the net surplus product (more precisely the surplus product expressed as value) pro rata to such necessary expenditure on the proprietary inputs.

In this recognition of social necessity the prevailing efficiency with which particular labour is extracted from particular labour-power is assumed. Thus the competitive market, to the extent that it recognises any particular expenditure on *labour-power* as socially necessary, also brings about the necessary distribution of social *labour*. There is no need to resort to idealist metaphysics over this.

This approach provides a complete answer to Marx's argument in his famous letter to Ludwig Kugelmann[16] that, since in all forms of society social labour must necessarily be distributed among the various branches of social production, the distribution of labour in a society whose division of labour is organised through exchange must necessarily occur on the basis of labour-value finding expression in exchange. The conclusion simply does not follow from the premise.

The same approach and analysis applies to the way in which exchange brings about the distribution of *all* the inputs into production. Once we see them all (including labour-power) as *proprietary* inputs, the mystery is cleared up.

Nevertheless, it would be quite wrong to suggest that value, expressing socially-recognised relative entitlements to the appropriation of material wealth, derives simply or essentially from the market, and thus supposedly from free exchange. On the contrary: each proprietary claim is antecedent to exchange, both logically and historically. The prevailing property relations — including both property in the inputs into production and property in the outputs from production — precede and form the basis for each successive act of exchange. This applies irrespective of whether we assume a competitive equilibrium or not.

[16] 11 July 1868, *Marx Engels Selected Correspondence*, Progress Publishers, 3rd edn., p. 196; *MECW* 43, p. 68.

On a historical basis, and by a historical process, the reciprocation to be expected from our fellow human beings for giving up what we own is formed and re-formed. Thus value precedes and is then corrected by the realised price in each successive exchange. The historical foundation is taken up and to one degree or another reconstituted through exchange.

In the market (to repeat the elementary point) it is objects of property, appropriated items of utility, which are exchanged. But whether a particular object of property ultimately realises the value it was assumed or expected to have, whether it achieves the expected reciprocation and thus the extent to which the entitlement bound up with it survives as a general claim on social wealth, is determined in and by the market.

'Value' is thus in constant tension between its retrospective objectivity and its prospective subjectivity — between what it has been and what it may become. The relations of exchange bring together the objective and subjective aspects of value as a process. On this basis, and to this extent, marginal theory (in the sense of equalisation for purposes of exchange at the point where, in each instance, marginal differences coincide) can be synthesised with a property conception of value, without succumbing to 'vulgar economy'.[17]

While exchange cannot create value in general any more than it can create products or use-values in general, it can certainly destroy — or otherwise alter, positively or negatively — the value assumed to be embodied in anything, and so reapportion claims on the totality of social wealth. By its recognition or repudiation of claims, or by adjusting the extent of different claims, upon social wealth it may decisively affect both the production and the distribution of that wealth.

Does value circulate? It follows from the 'property' conception that value does not simply 'circulate', as if it were a constant substance embodied successively in commodities and then in money, and so passed on via exchange by the substitution of the successive owners of the money passing from hand to hand. If value does in a sense 'circulate' in this way, that is to say as money itself circulates,[18] then this circulation is subject not only to the constant interruptions between acts of exchange, but also to the successive reconstitutions of value itself (the value of money relative to commodities and the value of commodities relative to each other in terms of money) both in anticipation of and in every act of exchange. It is only this continual reconstitution that can give value any reality as a social substance.[19]

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[17] Not so, however, the neoclassical 'marginal productivity of factors' theory of distribution and reward — the subject of a later chapter.

[18] 'Properly speaking, money only circulates the titles of ownership.' Note by Marx, *MECW* 29, p. 426.

[19] The South African utopian 'left' make a fundamental error in viewing capital-value generally as some kind of substance that can, as it were, be kept in a bottle, lifted out of the complex of real global exchanges, and simply applied locally as they see fit. Marx, while treating value as a social substance, never regarded it as having any

From the standpoint of the 'property' conception of value, it is important to observe that value does not circulate through the production process. The production process is the vital, central process in which labour combines with materials and tools to produce the product. In modern society — capitalist society — in which production takes place for purposes of exchange, the production process intervenes between and separates what are basically two distinct markets. One is the market (actually a number of markets) for the inputs of the enterprise; the other is the market for its output. In the production process capital-inputs (items of property, including labour-power, that have been acquired for value in exchange) are consumed and so destroyed and, with their physical destruction, their value is destroyed. In the same production process commodity-outputs (items of property having value in anticipation of exchange) are freshly created, and with their creation, value is created. This creation itself is merely provisional, as already noted, depending for its realisation upon its quantitative endorsement in actual exchange. Since value is not a substance, since old property and property-value is destroyed while new property and property-value is created, there is no pass-through of value from inputs to outputs.

Marx, while maintaining to the contrary that existing value (labour-value in his conception) endures through and is merely augmented by new labour added during the production process, had this to say when dealing with the consequent problem of 'realisation' of value in exchange:

> No longer does the capitalist enter into the circulation process merely as an exchanger; he does so now as a *producer* confronting the other exchangers as *consumers*. They are to exchange money to obtain his commodity for their consumption, while he exchanges his product in order to obtain their money. If this process miscarries—and the very separation [of producers and consumers] entails the possibility of miscarriage in the individual case—the money of the capitalist has been transformed into a worthless product; not only has it not gained any new value, it has lost its original value.
>
> But whether this is so or not, the devaluation of capital constitutes a moment of its valorisation process. This is already inherent in the simple fact that the product of the process in its immediate form is not *value*, but must first re-enter circulation to be realised as such. Hence, if capital is reproduced as value and new value by means of the production process, it is simultaneously posited as *non-value*, something still to be *valorised by means of exchange*.[20]

Marx was forced to give metaphysical expression to the real process by his need to maintain the idea of value as a social *substance* (the product of 'socially necessary labour time') whose

static existence. He brilliantly explained why capital 'can be understood only as motion, not as a thing at rest.' (*Capital*, Vol. 2, Progress Publishers edn., 1971, pp. 108-9; Penguin edn., 1978, p. 185.) Bring it to a halt and it evaporates. We shall return to this aspect when examining free trade and protectionism.

[20] *MECW* 29, p 330 (cf *Grundrisse*, Penguin edn, 1973, p. 403) — italics in the original.

general circulation is subject to 'miscarriage in the individual case'.[21] Thus we are treated to a notion of value which is nevertheless not value 'in its immediate form'; which exists but 'is simultaneously posited as *non-value'* in the interval between production and the anticipated exchange. In contrast, the property conception of value is able in principle to account for the real contradictions in the ongoing social process of production, valorisation and circulation without having to resort to idealism.

Obviously the purchase and productive consumption of proprietary inputs by any enterprise would be brought to a halt unless there were adequate grounds for it to expect that the value to be created by the process of production and realised by the exchange of the resulting proprietary outputs would exceed the value necessarily destroyed. The nature of capitalist enterprise is to take proprietary risk by undertaking production in expectation of proprietary reward.

Many students of economics are now routinely taught that 'entrepreneurship' is itself a factor of production — a fourth 'factor' to be added to the recognised inputs of materials, implements and labour (more correctly, labour-power). This doctrine is part of the attempt of official society to maintain that there is in fact no engine of inequality; that in a competitive market everyone gets out what he or she puts in; and that profit neither comes from the exploitation of labour nor goes as a reward to property as such. Mark Blaug, a renowned main-stream historian of economic theory, has shown in detail in his discussion of the theory of profit,[22] why entrepreneurship cannot rationally be regarded as a distinct factor of production. To the extent that it involves organisational or managerial talents that could be bought by a corporation, its cost should simply be treated as part of the purchase of labour-power.[23] To the extent that it commands reward beyond this, its reward derives from pure profit in the output and is not explicable as an input-cost.

'Pure' profit — profit over and above the 'normal' profit returned to property in the form of capital-value that is consumed to produce products exchanged under notional conditions of long-run competitive equilibrium — depends essentially on market power in the sale of the product. To analyse entrepreneurial reward simply as a reward for the taking of exceptional risk in the productive consumption of capital would not be inconsistent with a 'property' conception of value, but it would nevertheless remain one-sided and metaphysical. Society has no way of rewarding, and does not directly reward, the taking of risk. Much risk-taking,

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[21] Marx recognised nevertheless that the valorisation of the product and the realisation of that value by means of exchange was 'external' to the process of production; it existed independently alongside the latter, while the existence of each was a precondition of the other. (Id.). 'Miscarriages' could thus readily take on the proportions of crisis. (See further *MECW* 28, pp. 330 et seq; also Harvey, *A Companion to Marx's* Capital*, Vol 2*, Verso, 2013, Ch. 1.)

[22] *Economic Theory In Retrospect,* 5th edn., Cambridge University Press, 1996, pp. 439-447.

[23] Cf also Aspromourgos, *On the Origins of Classical Economics: Distribution and Value from William Petty to Adam Smith*, Routledge, 1996, p. 154.

indeed, is met by society not with reward but with loss or punishment. Entrepreneurs take super-normal risk in the productive consumption of their capital in order to have a super-normal command of profit in the sale of the output.

The ‘property’ conception of value is fully consistent with, and may even assist in providing, a proper explanation of entrepreneurial reward. However, this conception of value must stand or fall by its ability consistently to account for average or ‘normal’ profit itself as a social allocation of surplus pro rata to the property-value necessarily consumed in the hands of the enterprise in producing its particular part of the aggregate social product.