2016-11-21 & 28 From the preparatory notes for Class 29 and Class 30 of the introductory course on political economy: 'The evolution of property and how it rules the world'.

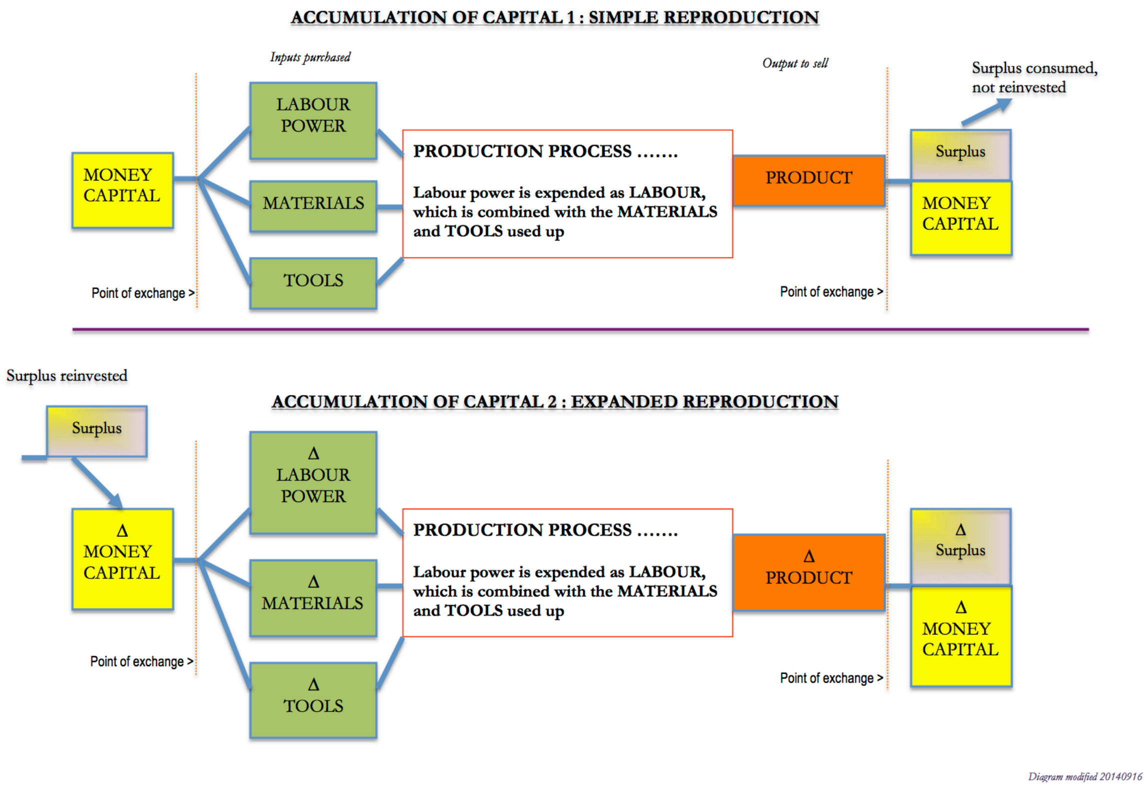
The material prepared for discussion last week (see the notes for Class 28) could not all be covered in the available time. Therefore, in Class 29, the discussion continued where it left off.

In the second part of Class 29, the property conception of value was introduced, and discussion on it begun. That discussion continued in Class 30. These notes therefore combine Classes 29 and 30.

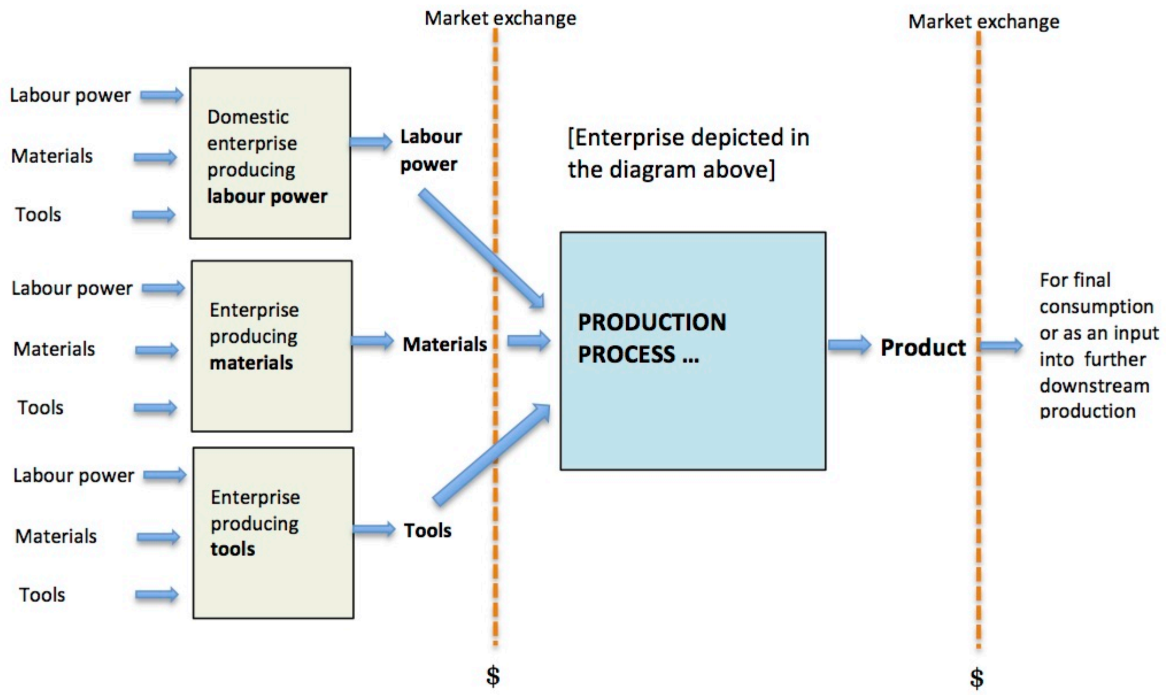
The property conception of value (continued)

If we abandon the notion that value is a category of *production*, and see it rather as a category of *appropriation*, we escape the contradictions of Marx's value theory and yet retain his crucial insight: that the social surplus is generated only *in production* (*not* in the act of exchange) and that the capitalist enterprise receives its share of surplus value when its product (which has contributed necessarily to the produced social surplus) is exchanged for money in the market.

We introduced the following diagram previously and have revisited it several times. Inspired by Marx, it can take us beyond Marx. It serves to illustrate the 'property' conception of value in explaining the generation of surplus and the appropriation of surplus value.



During the class, an extended diagram was drawn on the board to depict in a simplified form the production of inputs by enterprises (firms) upstream. In principle, this can be extended indefinitely further upstream.[1]



Each firm's contribution to the ongoing production of the *aggregate* social surplus in material form is socially *valued* at the relevant *point of exchange* in which the firm participates as a seller of its product. 'Surplus-value' should thus be understood as the monetary expression or equivalent of the total social surplus, continuously produced, that is apportioned between the firms contributing to its production, at each point of exchange. Each firm's 'surplus value' is thus the monetary entitlement to share in the aggregate social surplus that is allocated to it via the operation of the market system. The allocation and appropriation of surplus value take place simultaneously, and form an invisible component of the firm's total revenue through sales.

Marx set himself an extremely difficult challenge: to account for surplus value and identify where it comes from, while assuming that every exchange is an exchange of equivalent values. We shall make the same assumption. This means that effective competition is assumed, and any explanation of profit in general on the basis of particular firms' market power is ruled out of the basic analysis.[2]

When, after wrestling with the problem, Marx saw that the input **'labour power'** must be distinguished from its consumption in production, i.e. **must be distinguished from 'labour'**, he contributed what is perhaps the most important single insight in the whole history of political economy. The problem is that he confined his insight too narrowly,

[1] In one respect at least this general statement needs qualification. The input of labour power into *domestic enterprises producing labour power* is self-produced, except to the extent that domestic labour is obtained from the employment of servants in exchange for wages.

[2] We have seen previously that profit in an integrated market system *as a whole* cannot be explained by mercantilist reasoning — i.e., buying cheap then selling dear.

because he was too narrowly intent on theorising workers' exploitation and the basis for workers' revolution — which he saw as the immediate solution to the whole problem facing society, the route to the 'abolition' of private property.

If we broaden Marx's insight, it is obvious that likewise the input of (say) coal must be distinguished from its consumption that generates heat — and so on. Marx saw crucially that the value of the inputs is less than the value of their output when productively consumed. The product, **including the enterprise's contribution to the physical social surplus**, is created in the production process — a process that lies between two acts of exchange. This insight needs to be applied not only to labour power but to *all* the inputs. The social surplus comes from the productive consumption of *all* the inputs, whether provided by nature, by labour, or by the past contribution of labour and nature combined.

The market (assuming competitive conditions) carries out the allocation of the produced surplus *pro rata* to the capital necessarily consumed. Marx had to recognise this — hence his tortuous 'transformation' of supposed 'labour'-values into an allocation of surplus according, in the last analysis, to *property*-value necessarily consumed.

There is an important consequence for the theory of exploitation, which was not recognised by Marx. It is not only *workers* who are exploited in capitalist production when their *labour* contributes to generating a surplus which they do not receive. *All* the inputs are 'exploited' or — to put it another way — *the rest of us are also being exploited together with the workers*, in the sense that what should be a common heritage and benefit of humanity is being privately appropriated by the owners.[3] This appropriation is highly unequal — and increasingly so. Understanding the property relation and its evolution is fundamental in this regard.

'To him who hath shall it be given.' THOSE WHO HAVE MORE AUTOMATICALLY GET MORE. That is the capitalist system.

Go further into the property conception of value using the draft chapter by RP.

Discuss

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VIDEO: The Tax-free Tour[4]

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This completes the 2nd part of the course, on the 'engine of inequality'.

For lack of time, the following topics which we had intended to cover during part 2 of the course had to be left out altogether, or mentioned only briefly:

Critique of neoclassical value theory.

[3] Marx recognised this in his vision of socialism and his critique of inequality in general, but it is missing from his theory of exploitation which is based on the idea that labour alone produces value and hence surplus-value in capitalist society.

[4] 2013 film by *vpro*.

Explanation of why competition does not eliminate profit: effective competition tends to adjust profit to normal profit — i.e. it is above-normal and below-normal profit that competition tends to eliminate.

Marginal utility theory: why ‘utility’, while central to price formation, does not provide the basis for a theory of value or a theory of surplus-appropriation.

Entrepreneurial reward.