

Chapter Two

THE MARXIAN THEORY OF VALUE: A CRITIQUE OF CLASSICAL POLITICAL ECONOMY

The fully developed and logically consistent formulation of the labor theory of value is that made by Marx. Historically, the successor to the labor theory developed from Petty to Ricardo; logically, Marx's theory represents a revolutionary change in the value theory of classical tradition. The distinguishing feature of Marx's value theory is its historical character, a feature which arises from Marx's distinction between the historically determined, social form of capitalist production and its material basis, the labor process common to all forms of production. Marx's greatest contribution to the labor theory of value is to make clear the distinction and relations between use value and exchange value in the world of commodity exchange. These two aspects of value are determined by the twofold nature of labor, which Marx calls "the pivot on which a clear comprehension of political economy turns,"¹

1. The Twofold Nature of Labor and of Commodities

The wealth of the capitalist world is an aggregation of commodities, each unit of which has two aspects, namely, use value and exchange value.² As use values, commodities are concrete, material goods which satisfy human wants. As exchange values, they are embodiments of the substance of value, abstract labor. In order to possess exchange value, a commodity must be a use value. But

1. Capital, I, 48.

2. Ibid., I, 41; Critique of Political Economy, 19.

since use values, as material goods "do not bear any marks of the relations of social production. . . use value as such lies outside the sphere of investigation of political economy."³ Use value and exchange value are the two antagonistic, yet mutually dependent aspects of every commodity. The relation between these two aspects of value is as follows:

All commodities are non-use-values for their owners, and use values for their non-owners. Consequently, they must all change hands. But this change of hands is what constitutes their exchange, and the latter puts them in relation with each other as values, and realizes them as values. Hence commodities must be realized as values before they can be realized as use values.

On the other hand, they must show that they are use values before they can be realized as values.⁴

The source of the twofold nature of commodities is the twofold nature of the special commodity, labor power, whose particular use value is to create both use value and exchange value. "As a matter of fact, what in reality appears as a difference in use values is in the process of production, a difference in the work creating those use values."⁵ And what appears as the homogeneity of exchange values is the fact that, "as exchange values they represent the same homogeneous labor, i. e., labor from which the individuality of the workers is eliminated."⁶

3. Ibid., 20-21.

4. Capital, I, 97. Here Marx uses the word value alone to mean exchange value. He explains that while commodities present themselves as use values and exchange values, actually they are use values and values. But value as such can manifest itself only when expressed socially through its phenomenal form, exchange value. (Ibid., I, 56.)

5. Critique of Political Economy, 22.

6. Ibid., 28.

As specific, concrete, productive activity, human labor is one of the sources of the material quality, use-value.⁷ But it is not the only source, since useful labor is the adaptation of natural materials to specific purposes. Land and labor together, therefore, are the sources of use value. But abstract, undifferentiated labor is the sole source of the social relation, exchange value.⁷

The twofold nature of labor and of commodities appear most clearly when we contrast the capitalist economy with other forms of production.

In each historical form of production, labor and material means of production are combined in the creation of use values. All production, therefore, is based on concrete, useful labor. In Marx's words,

So far therefore as labor is a creator of use value, is useful labor, it is a necessary condition, independent of all forms of society, for the existence of the human race; it is an eternal nature-imposed necessity, without which there can be no material exchanges between man and Nature, and therefore no life.

In the capitalist economy, uniquely, the social process of production takes the form of the production of exchange value. Whereas in other societies the social goal is the production of use values for consumption, in capitalist society the goal is the production of exchange value and surplus value for accumulation. The production of use values is the means to this end. The social importance of useful labor, therefore, is that it is the form taken by abstract labor.

7. Ibid., 29-30; Capital, I, 94.

8. Ibid., I, 50.

The dual nature of labor is latent in all societies, although it is expressed socially only in an exchange economy. In a non-exchange economy, useful labor is the sole social form of labor. Yet abstract labor lies behind this social form, insofar as labor, being scarce in relation to the use values desired, must be most productively employed. Even Robinson Crusoe, "having rescued a watch, ledger, and pen and ink from the wreck, commences like a true-born Briton, to keep a set of books."⁹ This is because Robinson must most efficiently allocate the abstract labor, which is expressed as his useful labor. In evaluating his product, he considers the time of labor it cost. Similarly, in a feudal economy, abstract labor, which is socially expressed as useful labor, is measured in time.¹⁰

The socially predominant aspect of labor varies according to the mode of production. In a precapitalist and in a socialist economy, where the social goal of production is the maximization of use values, abstract labor plays a role subordinate to that of useful labor, the role of an accounting device used to insure the optimum allocation of labor. That this role may be called into function by individual producers, slave owners, or the state does not alter the case. In a capitalist economy, the relative importance of the two aspects of labor differs. Here, where the social goal of production is the maximization of exchange value, abstract labor predominates over the concrete useful labor in which it is represented.

9. Ibid., I, 88.

10. Ibid., 3, 89.

The exchange relation of capitalism is the social relation which fully expresses the dual nature of labor and of its product.

Marx explains this phenomenon as follows:

the labor of the individual asserts itself as a part of the labor of society, only by means of the relations which the act of exchange establishes directly between the products, and indirectly, through them, between the producers. . . . This division of a product into a useful thing and a value becomes practically important only when exchange has acquired such an extension that useful articles are produced for the purpose of being exchanged and their character as values has therefore to be taken into account, before hand, during production. From this moment the labor of the individual acquires socially a twofold character. On the one hand, it must, as a definite useful kind of labor, satisfy a definite social want, and thus hold its place as part and parcel of the collective labor, of all, as a branch of a social division of labor that has sprung up spontaneously. On the other hand, it can satisfy the manifold wants of the individual producer himself, only in so far as the mutual exchangeability of all kinds of useful private labor is an established social fact, and therefore the private useful labor of each producer ranks on an equality with that of all others. ¹¹

The nature of labor, therefore, appears socially only when labor power itself becomes an exchange value, a commodity.

The inability of economists before Marx to distinguish between the technical labor process common to all societies, and its particular social form in capitalist society, is linked with the confusion between useful, differentiated labor and abstract, homogeneous social labor, and the resulting confusion between use value and exchange value. In his analysis of classical political economy which he dates from Sir William Petty, Marx shows that this confusion underlies the contradictions that are fully developed, but left unsolved, by Ricardo.

11. Ibid., I, 84.

Petty reduces use value to land and useful labor; exchange value (defined as money and measured by the quantity of labor time embodied in gold and silver) to labor alone. But in his discussion on rent (which, for him, is the basic form of surplus value), and in his formulation of the par of value, he confuses use value and exchange value in basing the latter on both land and labor.¹²

The same confusion appears in Boisguillebert, who reduces the exchange value of commodities to labor time, yet considers commodities as use values alone, and capitalist production of use values as the natural form of production.¹³

According to Marx, "the first sensible analysis of exchange value as labor time made so clear as to seem almost commonplace, . . ." ¹⁴ appears in the work of Benjamin Franklin. Franklin establishes labor as the measure of value, but does not develop the concept of abstract, universal labor and its embodiment in money, which for him is a mere technical instrument of exchange.¹⁵

In the Physiocratic system, value is regarded solely as use value, the surplus product as a gift of nature. Yet insofar as this product represents the difference between the subsistence of agricultural workers, and their total product, implicitly it appears that labor is the source of use value. Moreover, since the surplus

12. Critique of Political Economy, 66-9; Theorien über den Mehrwert, II, 1-11.

13. Critique of Political Economy, 59-62.

14. Ibid., 62.

15. Ibid., 62-4; Capital, I, note, 69.

product is quantitatively measured in exchange, value is implicitly
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 reduced to labor time.

The distinction between social labor represented in exchange value and specific to capitalist society, and concrete labor represented in use values, appears in the work of Sir James Stewart. Marx refers to his Inquiry into the Principles of Political Economy (1767) as the first English general system of bourgeois economics.¹⁷

Adam Smith explicitly mentions the two aspects of value
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 -- "value in use" and "value in exchange" -- but he does not show the essential difference between use value and exchange value. He finds labor alone to be the source of exchange value in primitive times. Smith implies that there is a difference between useful labor and abstract labor when he states division of labor to be the condition of exchange -- a confusion of cause and effect -- and determines the exchange value of commodities by the unspecified labor they will command. But his confusion on this point is reflected in his confusion between exchange value and use value, which appears most obviously when he abandons both his labor theories for his theory of the "component parts of price."

In Ricardo, the distinction between value and riches, between exchange value and use value, is explicit. Labor and natural agents create use value. "But these natural agents, although they add greatly to value in use, never add exchangeable value. . . ."¹⁹

16. Theorien über den Mehrwert, I, 33-49.

17. Critique of Political Economy, 65-7.

18. Wealth of Nations, Book I, Ch. 4, 28.

19. Principles, Ch. 20, 190.

While Ricardo postulates the distinction between use value and exchange value, he never examines the basis of this distinction, nor accounts for it in his analysis, which is entirely devoted to the production and distribution of exchange value alone.

Not only is Ricardo's system essentially quantitative in that it ignores the qualitative effects of use value, but the analysis of exchange value itself is purely quantitative, in that it ignores the qualitative determination of value itself. Although in the chapter, "Value and Riches," Ricardo mentions the "real" as well as the relative value of commodities, ²⁰ thereby implying that abstract labor is the common qualitative substance as well as the measure of value, he never really considers the qualitative aspect of exchange value. Marx says of this, that,

Ricardo's error lies in the fact that he treats only the quantity of value and thus considers only the relative quantity of labor that the different commodities represent as embodied values. But the labor contained in them must be represented as social labor, as alienated individual labor. . . . This transformation of the labor of private individuals embodied in commodities into homogeneous social labor, and thus into labor which can be represented by and exchanged with any or all use values, this qualitative aspect of the matter, which is expressed in the representation of exchange value as money, is not developed by Ricardo.²¹

Marx's critique of classical political economy, as it culminates in Ricardo, can be summarized in his observation that

it nowhere, expressly and with full consciousness, distinguishes between labor as it appears in the value of a product, and the same labor, as it appears in the use value of that product.²²

and, moreover,

20. Ibid., Ch. 20, 189.

21. Theorien über den Mehrwert, III, 154.

22. Capital, I, 92 note.

that it never succeeded, by means of its analysis of commodities, and in particular, of their value, in discovering that form under which value becomes exchange value.²³

These shortcomings are both cause and consequence of the unhistorical approach of classical economics, the assumption that the capitalist form of social production is one fixed by nature. By its inability to distinguish the historical form of production from its natural material foundations, the classical school is unable to distinguish abstract, social labor from concrete, individual labor. And because it confuses these aspects of labor it cannot identify the historical conditions under which value is expressed as exchange value. Ricardo seems to be aware that the realization of the law of value requires certain historical conditions, and that the law applies to commodities, "only as can be increased in quantity by the exertion of human industry, and on the production of which competition acts without restraint."²⁴ This implies the necessity of capitalist production, yet Ricardo attempts nonetheless to apply the law of value to the exchange between his primitive fisherman and hunter.²⁵

23. Ibid., I, 93 note.

24. Principles, Ch. 1, 6.

25. Ibid., 16-17. As Marx notes, "On this occasion he commits the anachronism of making the primitive fisherman and primitive hunter consult the annuity tables in current use on the London Exchange in the year 1817 in the calculation relating to their instruments. The 'parallelograms of Mr. Owen' seem to be the only form of society outside the bourgeois form with which he was acquainted." (Critique of Political Economy, 69-70.)

Sismondi, on the contrary, with whom Marx dates the end of classical economics in France (Ibid., 86) does stress the specifically

However, despite the confusion between the natural process producing use values, and a particular historical form (capitalism) which alone produces exchange value, the distinction between useful labor and abstract labor appears implicitly.

Of course the distinction is practically made since this school treats labor, at one time under its quantitative aspect, at another under its qualitative aspect. But it has not the least idea that when the difference between various kinds of labor is treated as purely quantitative, their qualitative unity, or equality, and therefore their reduction to abstract human labor is implied.²⁶

Marr explains the classical confusion between use value and exchange value, the confusion between the production and exchange of things on the one hand, and the social relations which underly them on the other, as "commodity fetishism". The mystical character of a commodity arises not from its use value, which appears in its concrete material shape, but in the commodity form itself which expresses the peculiar social character of labor.²⁷ In capitalist society, "a definite relation between men. . . assumes, in their eyes, the fantastic form of a relation between things."²⁸ The misconception arises because, as individual producers, men produce use values independently of each other. The social character of individual labor asserts itself only in exchange; the social relations between commodity producers is thus hidden behind the market relations of their products.

social character of labor which creates exchange value. Thus, while "in Ricardo political economy reached its climax, after recklessly drawing its ultimate conclusions. . . Sismondi supplemented, by impersonating its doubts." (Ibid., 70.)

26. Capital, I, 92 note.

27. Ibid., I, 82.

28. Ibid., I, 85.

II. The Marxian Solutions to the Classical Contradictions

The revolutionary changes Marx makes in the labor theory of value appear most clearly when we see the way in which he settles the fundamental problems that had been explored but left unsolved by Ricardo. In Marx's hands economic analysis of a fixed form of production becomes an historical critique of an evolving society.

In a letter to Engels following the publication of the first volume of Capital, Marx cites the "three fundamentally new elements of the book:

1) That in contrast to all former systems of political economy, which begin by taking the particular fragments of surplus value with their fixed forms of rent, profit, and interest as already given, I first deal with the general form of surplus value, in which all these elements are still undifferentiated-- in solution as it were.

2) That, without exception, the economists have missed the simple point that if the commodity has a double character -- use value and exchange value -- then the labour represented in the commodity must also have a double character, while the mere bald analysis of labour, as in Smith, Ricardo, etc., is bound to come up everywhere against the inexplicable. This is, in fact, the whole secret of the critical conception.

3) That for the first time wages are shown as the irrational form in which a hidden relation appears, and this is exactly represented in the two forms of wage payment -- time wages and piece wages.²⁹

These fundamentally new elements, together with the subsequent analysis in the last two volumes of Capital, which extends, supplements, and modifies the analysis of the first, provide the solution to the four main problems in the post-Ricardian controversy.

29. Letter 103, Marx to Engels, January, 1868, Selected Correspondence of Marx and Engels (ed. V. Adoratsky, New York, 1942), 232.

These are the following:

First: Labor itself has exchange value, and different kinds of labor have different exchange values. We get into a vicious circle by making exchange value the measure of exchange value, because the measuring exchange value needs a measure itself. This objection may be reduced to the following problem: Given labor-time as the intrinsic measure of exchange value, develop from that the determination of wages. The theory of wages gives the answer to that.

Second: If the exchange value of a product is equal to the labor-time contained in it, then the exchange value of one day of labor is equal to the product of that labor. In other words, wages must be equal to the product of labor. But the very opposite is actually the cause. Ergo, this objection comes down to the following problem: How does production based on the determination of exchange value by labor-time only, lead to the result that the exchange value of labor is less than the exchange value of its product? This problem is solved by us in the discussion of capital.

Third: The market price of commodities either falls below or rises above its exchange value with the changing relations of supply and demand. Therefore, the exchange value of commodities is determined by the relation of supply and demand and not by the labor-time contained in them. As a matter of fact, this queer conclusion merely amounts to the question, how a market price based on exchange value can deviate from that exchange value; or, better still, how does the law of exchange value assert itself only in its antithesis? This problem is solved in the theory of competition.

Fourth: The last and apparently the most striking objection, if not raised in the usual form of queer examples; if exchange value is nothing but mere labor-time contained in commodities, how can commodities which contain no labor possess exchange-value, or in other words, whence the exchange value of mere forces of nature? This problem is solved in the theory of rent.³⁰

A. The Theory of Wages

Marx's solution to the problem of how labor, as an exchange value can be the measure of exchange value without circular argument, rests on the famous distinction between labor and labor

30. Critique of Political Economy, 71-4.

power. Labor as the source of value can no more have a specific value than heat can have a specific temperature. ³¹ But labor power, the capacity to furnish labor and to create value, is a commodity whose value, like that of all other commodities, is determined by ³² the labor time socially necessary for its reproduction, in this

31. Frederick Engels, Preface to the 1st Edition (1885), Capital, II, 27.

32. The concept of socially necessary labor, as the foundation of the labor theory of value, requires more attention than it customarily receives. Since value manifests itself and is realized as exchange value, commodity production presupposes exchange. But since value is objectively determined in production, before it is expressed in exchange, as a first approximation Marx presents the concept of socially necessary labor with reference to production alone. "The labor-time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time." (Capital, I, 46.) This definition implies that the labor-time socially necessary is objectively given as a technological datum. Marx completes the definition of socially necessary labor-time by relating it to conditions of demand as well as of supply, to the subjective as well as the objective conditions of production. "Every commodity must contain the necessary quantity of labor, and at the same time only the proportional quantity of the total social labor-time must have been spent of the various groups." (Ibid., III, 745.) If there is partial overproduction measured by "social need" (i. e., effective demand), "too much social labor has been expended in this particular line, in other words, a portion of this product is useless. The whole of it is therefore sold only as though it had been produced in the necessary proportion. This quantitative limit of the quota of social labor available for the various spheres is but a wider expression of the law of value, although the necessary labor-time assumes a different meaning here." (Ibid., III, 745-6.) This passage, and others, imply that demand may act to alter value itself, and not merely to determine prices which deviate from values. This means demand as well as supply determines the amount of labor that is socially necessary, insofar as competition reduces the value of overproduced commodities to that which would obtain had they been produced in the correct proportion. (Theorien über den Mehrwert, I, note 252-4.) The argument that the total value of the overproduced commodities will be no more than if there had been an equilibrium level of production appears to involve circular reasoning, to assume what it sets out to prove, i. e., that there is some structure of demand which enforces the operation

case, the labor-time required for the production of the laborer's
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 subsistence.

of the law of value. It implies that the market determines value itself and not merely price deviations. If a given value is not "realized" by the market when prices fall, can we say that there has been less value produced? The indisputable fact that the magnitude of socially necessary labor time, and hence of value, is determined by demand and supply seems to vitiate the labor theory of value itself. Here are two problems involved: (1) the level of total demand; (2) the structure of total demand (or the level of individual demands). Since the level of total demand itself is a function of the level of total supply, they are not equally determining. But the structure of demand helps to determine the magnitude of socially necessary labor, insofar as the technological data of production from which the average quantity of socially necessary labor is deduced, are shaped by the particular allocation of resources which a given structure of demand enforces. Only in the case of constant returns do changes in the structure of demand exercise no influence on the technical coefficients of production, and thus on the quantity of socially necessary labor. However, changes in the structure of demand are of secondary importance if they involve no more than shifts in consumer tastes, which are as much a product as a determinant of market phenomena. Moreover, since the structure of demand "is essentially conditioned by the mutual relations of the different economic classes and their relative economic positions," (Capital, III, 214), this structure does not play an independent, determining role.

33. Ibid., I, 189. Labor-time is measured in units of average, homogeneous, unskilled labor. Marx, like Smith, Ricardo, and Keynes, averages natural differences, and considers skilled labor (which includes the value added by training and instruction) as a multiple of unskilled. It has been argued that this solution vitiates the labor theory of value since differences can be deduced only from the market, since the labor theory can be established only by appeal to another principle of valuation. Marx says, in fact, that "A commodity may be the product of the most skilled labor, a given quantity of skilled being considered equal to a greater quantity of simple labor. Experience shows that this reduction is constantly being made. A commodity may be the product of the most skilled labor, but its value, by equating it to the product of simple unskilled labor, represents a definite quantity of the latter labor alone. The different proportions in which different sorts of labor are reduced to unskilled labor as their standard, are established by a social process that goes on behind the backs of the producers, and, consequently, appears to be fixed by custom." (Ibid., I, 61-2.)

As the basis for the twofold nature of other commodities, the nature of this commodity is twofold; it is a use value and possesses exchange value. As a use value it differs from other use values in two ways: (a) it is a use value in a dual sense in that it serves to create both use values and exchange values; (b) the consumption of its use value not only reproduces its own value, but also creates a surplus value. The specific use value of labor power is, in fact, its capacity of creating surplus value. 34

The distinction between labor and labor power solves the problem which besets classical political economy at the outset -- how, without circular argument, to apply the law of value to the value-producing commodity, labor power. In the Ricardian formulation, the law of value appears to be applied to the commodity labor power (which Ricardo, like all classical writers, doubly confused with the person of the laborer and the activity of labor), 35

The argument that deducing from the market the differences in the values created by labor of different skills represents circular reasoning misconstrues the function of the market in Marxian theory. The very concepts, labor-power, commodity, and value, imply the existence of the market. But the market does not determine the magnitudes of value; it merely registers the magnitudes of values already created. Commodity production precedes, yet is dependent on, the existence of exchange insofar as "value can only manifest itself in the social relation of commodity to commodity." (Ibid., I, 55.) Insofar as value previously produced is merely expressed and realized by the market, there is no circular reasoning.

34. Theorien über den Mehrwert, I, 415.

35. Misunderstanding of the difference between labor and labor power prevails to this day. For example, Schumpeter charges that the labor theory of value fails because it "can never be applied to the commodity labor, for this would imply that workmen, like machines are being produced according to rational cost calculations.

insofar as the wages of the worker equal the value of his labor power. But this determination of wages actually rests on a demand and supply analysis, based on the Malthusian principle of population. In the Marxian formulation, it follows from the law of value alone.

B. The Theory of Capital

Marx's solution to the problem of how, according to the law of value, the value created by a given expenditure of labor power is greater than the value of that labor power is provided by his theory of capital. The solution to this problem emerges from the solution to the first problem, the determination of wages.

Capital is the value expression for the means of production in capitalist society. It is divided into (1) variable capital, called variable, because the expenditure of the use of value it represents, labor power, creates a variable value, a total value in excess of its own value which is consumed and reproduced in production and (2) constant capital, called constant, because the use value it represents, material means of production (which are themselves

Since they are not, there is no warrant for assuming that the value of labor power will be proportional to the man hours that enter into its 'production'." (Capitalism, Socialism, and Democracy, New York, 1942, 27-28.) The difficulty disappears on recalling the fundamental distinction between labor and labor power, which is lost in this quotation, where both "labor" and "labor power" are used to refer to the commodity labor power, here confused with the workman himself. Labor, as source of value, is not a commodity and is not "produced". It is labor power that becomes a commodity in the process of exchange between worker and capitalist. It is not "workmen" that are produced, but labor power that is consumed and reproduced in the process of production -- according to the strictest principle of rationality, i. e., at minimum cost.

"congealed labor") merely transfers its own value to the product.

In the classical theory, capital is divided into fixed and circulating capital. But this division is based not on the productive role of each type of capital, but on its physical durability. Thus heavy capital equipment is classed as fixed capital; wage goods, as circulating capital.

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There are basic errors in the classical theory of capital which vitiates the labor theory of value on which it is allegedly based. First, it confuses capital, which is a self-expanding value, with capital as a physical stock of use values. Second, it applies to the sphere of production a distinction appropriate to the sphere of circulation (and the wrong one at that, since fixed and circulating capital should refer to the turnover of value, and not to the

36. Capital, I, 232-3.

37. Fixed and circulating capital in the classical sense are parallel to constant and variable in the Marxian sense only in that the use values which reproduce the two kinds of capital are roughly similar. Marx's own distinction between fixed and circulating capital (which applies only to productive capital and not to commodity capital and money capital) rests on the differences of turnover, or the form of circulation of these types of capital. Circulating capital is that part whose entire value is consumed in the process of production (whether or not it enters physically as a use value into the product), and whose value therefore circulates in the commodity. Fixed capital is that part whose value is transferred to the product, and thus circulates piecemeal, i. e., machinery. Thus, circulating capital consists of all the variable capital (representing labor power), whose value is fully transferred to and circulates in the commodity, and part of the constant capital (that part representing raw materials), whose value is similarly transferred to the commodity in entirety. The fixed capital is the remaining part of the constant capital, that part representing plant and equipment. (Cf., Capital, II, Ch. 8, "Fixed Capital and Circulating Capital, especially pp. 188-192.)

durability of use values).

Ricardo accounts for exceptions to the law of value by "this difference in the degrees of durability of fixed capital, and this variety in the proportions in which the two sorts of capital may be combined."³⁸ The expression "proportions in which the two sorts of capital are combined" implies that the distinction is based on the productive role of the two kinds of capital. But the "differences in the degree of durability" refers only to a mistaken conception of the form of circulation.

In the confusion of circulation with the role of production, the "whole secret of the production of surplus value and of capitalist production... [is] obliterated."³⁹ The problem to be explained is how the individual capitalist "must buy his commodities at their value, must sell them at their value, and yet at the end of the process, must withdraw more value from circulation than he threw in. . . . His Rhodus, his salts!"⁴⁰ The solution to this problem, the "secret of capitalist production" lies in the conversion of labor power into variable capital, where "the capitalist exchanges a definite given, and to that extent, constant, magnitude of values for a power which creates values, a magnitude of values for a production, a self-expansion of values."⁴¹

38. Principles, 18. 19.

39. Capital, II, 249.

40. Ibid., I, 185.

41. Ibid., II, 250.

The exchange of labor against capital (which is conditioned on the fact that the laborer is free in a double sense -- free to dispose of his labor power as his own commodity and free of the possession of all other saleable commodities),⁴² is a double one. The first phase of the exchange is purely formal and theoretical. It is an exchange of commodities of equal value, labor power for money capital. The second phase of the exchange is not an exchange, but the actual, as opposed to the preceding theoretical, conversion of labor power into capital.⁴³ While it is being consumed as a use value, in the process of production, in its functioning as capital, labor power reproduces its own, and creates an additional exchange value. The quantity of labor embodied in the commodities produced is greater than that which is paid for.

Thus, the equal exchange of labor power and wages leads directly to an inequality between the value of labor power and the value of its product. The distinction between labor and labor power provides at once the theory of wages, and the origin of surplus value.

C. The Theory of Competition

The problem of how market prices based on exchange value can deviate from values is answered in Marx's theory of competition. The transformation of abstract labor values into concrete market prices is demonstrated by successive stages of analysis.

The distinction between natural price (or value) and market price is an old one in economic theory. Adam Smith's natural price,

42. Ibid., I, 187-8.

43. Theorien über den Mehrwert, I, 412-14.

around which market prices fluctuate, is arrived at by adding the "natural", competitively determined wages, profit, and rent.⁴⁴ In this determination of natural price the labor theory of value is abandoned for a cost of production theory.

Ricardo rejects the determination of the natural price (which he equates with value) by supply and demand.⁴⁵ Yet he accepts the result that value is determined by competition, insofar as one of the elements of the value of any commodity, the average rate of profit, is competitively determined. Ricardo's natural price assumes an average rate of profit, established via the mobility of capital.⁴⁶ Market price is only a competitive deviation from natural price.

Marx's theory of competition represents a sharp critique of Ricardo. His system includes not two price forms but four: value, price of production, market value, and market price.⁴⁷ The essential distinction, which solves the contradictions in the Ricardian system, is that between value and price of production.

In Marx's formulation, the value of every commodity is resolved into constant capital, variable capital, and surplus value. The ratio s/v , the ratio of surplus value to variable capital, represents the ratio of surplus to necessary labor (the rate of exploitation),

44. Wealth of Nations, Ch. 7, "Natural and Market Prices of Commodities," 55-83.

45. Principles, 260.

46. Ibid., 50.

47. In the following chapter we will discuss in more detail the successive transformation of values to market prices. Here we merely sketch out the analysis to indicate Marx's solution of the classical contradiction.

or the rate of surplus value. The ratio, $s/c+v$, the ratio of surplus value to the total capital, is the rate of profit, whose magnitude, given the fact that only v (variable capital) produces surplus value, depends on s/v , the rate of surplus value, and $c/c+v$, the ratio of constant to total capital, or the organic composition of capital.⁴⁸

Obviously, given the same rate of surplus value, individual capitals of equal value, but of unequal organic composition of capital, yield unequal rates of profit. In developing the labor theory of value, whereby all commodities sell at their values, Marx assumes, as a first approximation, that the organic composition of capital is everywhere equal. However, with unequal composition of capital, and with competition among capitals, an average rate of profit is established which, when added to the cost price of commodities, $(c+v)$, yields prices of production which deviate from values. But while individual prices deviate from values, total price is equal to total value.⁴⁹

Ricardo's error lies in presupposing an average rate of profit before establishing its basis, and without investigating its effects in the determination of labor values. Thus the exceptions

48. Capital, III, 63. Marx sometimes expresses the organic composition as $c/c+v$, or $v/c+v$, oftener by c/v . The first formula is more convenient for expressing changes within a given total capital value, and for showing the exact relations between the rate of profit, the rate of surplus value and the organic composition of capital. The organic composition of capital is the value expression which reflects the technical composition of capital,² the relative proportions of material means of production and of labor power. (Ibid., I, 571; ibid., III, 172.)

49: Ibid., III, 185-8.

noted in Chapter I, Section 4, of Ricardo's Principles, which arise under conditions of unequal composition of capital, "the proportions in which the two sorts of capital may be combined, do not lead to price deviations from value, but to changes in value itself. Ricardo identifies price of production with value because his ambiguity with regard to the source of value and his incorrect division of capital into fixed and circulating capital, make it impossible for him to distinguish between surplus value and profit. Having made the identification of surplus value with profit, he then, logically enough, deduces all changes in the rate of profit from those in the rate of surplus value, forgetting that the rate of profit also depends on the organic composition of capital.

The Marxian price of production, which deviates from value, is the Ricardian natural price. But all commodities do not actually sell at their prices of production. Whereas inequality in the composition of capital and the establishment of the average rate of profit determine prices of production differing from values, the inequality in the cost prices of competitive sellers establishes differences in the prices of production of the same commodity. The ruling price of production is the marginal price of production, or the market value.

Inequality of supply and demand for any given commodity leads, in turn, to a market price which deviates from the market value.

50. Principles, 19.

51. Theorien über den Mehrwert, II (1), 37-38.

52. Ibid., II (1), 101.

53. Capital, III, 215-17.

54. Ibid., III, 212-13. More detailed analysis of Marx's theory of competition follows in Chapter Three, below.

In the real world, the market price appears to be determined by supply and demand alone. But what supply and demand really do is to determine only the deviations from market value, which itself must be explained. The market value which prevails when supply and demand balance, is deduced from the price of production, which in turn is derived from the value. At each stage, competition establishes deviations from the norm, and at the same time tends to reduce these deviations.

By successive transformation from one value or price to another, Marx's theoretical analysis shows the determining role of the law of value. Although, "under conditions of capitalist production, the general law of value enforces itself merely as a prevailing tendency,
"⁵⁵ "whatever may be the way in which the prices of the various commodities are first fixed or mutually regulated, the law of value⁵⁶ always dominates their movements."

D. The Theory of Rent

The Marxian theory of rent, which explains the exchange value of "mere forces of nature," is, like so much of Marx's theory, a supplement and a critique of the theory of Ricardo. The essential differences are in Marx's treatment of rent as but one part of the total surplus value, and in his theory of absolute rent.

In accepting the labor theory of value and the necessary equality of value and price, Ricardo is forced to deny that land yields an absolute rent. Differential rent arises only as increasingly poorer lands are called into cultivation, or successive

55. Capital, III, 190.

56. Ibid., III, 208.

investments of capital yield diminishing returns. At the margin, however, there is no rent. This theory of differential rent is only a development of the rent theory previously developed by Anderson, West, and Malthus.⁵⁷

In developing his theory of rent, Marx assumes "that agriculture is dominated by the capitalist mode of production, . . ." and that "The tillers of the soil are wage laborers employed by a capitalist, the capitalist farmer. . . who pays to the landowner, the owner of the soil exploited by him, a sum of money at definite periods fixed by contract. . . ."⁵⁸

Marx accepts, with considerable modification, the theory of differential rent, both extensive and intensive. He denies, however, that progress is necessarily from better to worse soils.⁵⁹ Differential rent is the "excess of the general regulating price of production of the product of one acre over its individual average price, . . ."⁶⁰ The historical tendency is for rent to rise as the rate of profit and rate of interest fall.⁶¹

Marx's own contribution to the theory of rent is his theory of absolute rent. Rent is a deduction from the total surplus value, a deduction made necessary by private ownership of land. Thus the landlord extracts rent from the capitalist as the latter extracts

57. Theorien über den Mehrwert, II (1), 305-8. This volume contains the most comprehensive development of Marxian rent theory, as well as a detailed critique of Rodbertus, Ricardo, and others.

58. Capital, III, 721.

59. Ibid., III, 725.

60. Ibid., III, 772.

61. Ibid., III, 844.

62. Ibid., III, 731.

surplus value from the worker.⁶³ The basis for this payment is the fact that the lower organic composition of capital in agriculture creates a rate of profit above the average, or a value above the price of production. The private ownership of the land makes it possible for the landlords to retain the surplus value created in agriculture in excess of the average rate of profit.⁶⁴ But with the equalization of the organic composition of capital over time, as the productivity of agriculture develops faster than that of industry in the period of late capitalism,⁶⁵ this absolute rent tends to disappear, leaving differential and monopoly rents as the sole forms. The latter form arises only in cases where the product is sold above its value, and thus realizes surplus value created in industry.⁶⁶

Marx's contribution to the theory of rent is to explain the phenomenon of rent by the theory of value, as it explains the distinction between value and price of production, rather than, as in the case of Ricardo, merely by the facts of nature. The Marxian theory completes the solution of the classical problem as to how price can exist without value.

63. Ibid., III, 965.

64. Ibid., III, 881-5.

65. Theorien über den Mehrwert, II (1), 280.

66. Capital, III, 1002-3.