

Marx As A Social Economist: The Labor Theory of Value

In an essay in the December 1978 issue of the *Review of Social Economy* (Hunt, 1978, pp. 285-309), I suggested that the criteria for defining social economics should focus on whether the economic theorist gives importance to the fact that in any actual, concrete, empirical situation, economic behavior is an intersection of the innate traits of human nature — universal human needs, potential for development, and degree of malleability — and the peculiar or particular social institutions, social relationships and social processes characteristic of the socioeconomic system under consideration. In that essay I asserted that Veblen and Marx were two of the clearest examples of social economists. In the present essay, I shall elaborate on this view of Marx. For reasons that I have elsewhere discussed extensively, I consider a theory of value to be the very heart of a general economic theory. (Hunt, 1977, pp. 11-26; and Hunt, 1979, chps. 3-12) Therefore, I shall discuss Marx's labor theory of value in the belief that it is the most essential core of his social economics.

The Generality And Specificity Of Capitalist Economic Categories For Ricardo And Marx

Perhaps the best starting point is a brief summary of Ricardo's labor theory of value. Marx is generally portrayed as a disciple of Ricardo. In fact Paul A. Samuelson has referred to Marx as "a minor post-Ricardian" and has asserted that it is "too bad Marx could not have done systematic graduate work . . . under John Stuart Mill." (Samuelson, p. 616) A comparison of the value theories of Ricardo and Marx can be a valuable approach to understanding why Marx was a social economist and Ricardo was not.

Ricardo began his *Principles* by stating that "commodities derive their exchangeable value from two sources: from their scarcity, and from the quantity of labour required to obtain them." (Ricardo, p. 5) He further asserted that scarcity was important only in the case of commodities that were not freely reproducible. Such commodities were of negligible economic importance. For the remainder, "the quantity of labour realized in commodities regulates their exchangeable value" Moreover, that this is really the foundation of the exchangeable value of all things, excepting those that cannot be increased by human industry, is a doctrine of the utmost importance in political economy." (Ricardo, p. 7)

For Ricardo the labor theory of value was important because it enabled him to understand the source and magnitude of profits accruing to capitalists. The capital accumulation which was financed by profits was the most important determinant of social welfare. (Ricardo, p. 85) An understanding of the nature and causes of the distribution of the "produce of the earth among the three classes of the community" was therefore the key to understanding social welfare. (Ricardo, p. 1)

For Ricardo, however, the social institutions of capitalism were simply taken as universal manifestations of universal human nature. This ahistorical perspective would seem to contradict many conclusions of his labor theory perspective. The perspective underlying the labor theory inevitably focuses on or highlights social conflict. Among Ricardo's many deductions from his labor theory that illustrate this are the inevitable conflict between labor and capital ("Can any point be more clearly established than that profits must fall with a rise in wages?") (Ricardo, p. 68) and the opposition between the interests of landlords and those of the other classes in society ("The interest of the landlord is always opposed to that of the consumer and the manufacturer"). (Ricardo, p. 225) Most of his *Principles* is devoted to an analysis of the factors underlying these conflicts.

But the social conflicts, which are the deductive conclusions of the labor theory, imply change. Conflicts must be resolved or social change is inevitable. And social change implies that socioeconomic systems, such as feudalism or capitalism, have a life process of their own. They are born, they grow to maturity, and they decay and die. It was precisely this aspect of the labor theory perspective that Ricardo denied. In one of his most illuminating passages he wrote:

It must be remembered . . . that the retrograde condition is always an unnatural state of society. Man from youth grows to manhood, then decays, and dies; but this is not the progress of nations. When arrived to a state of the greatest vigour, then further advance may indeed be arrested, but their natural tendency is to continue for ages to sustain undiminished their wealth and their population. (Ricardo, p. 177)

Within this ahistorical framework Ricardo saw only two states of society, the poor and uncivilized state and the wealthy and civilized state. In both states precisely the same social and economic relationships (reflecting human nature) obtained. In the wealthy and civilized society the economic relationships were merely more easily visible than in the less advanced society. Thus, capital was not seen as reflecting or embodying a social relation peculiar to capitalism but as a universal aspect of all production. And commodities, prices and markets were also viewed as universal aspects of human society. While discussing Adam Smith's famous example of deer and beaver hunters in the "early and rude state of society," Ricardo wrote:

Even in that early state to which Adam Smith refers, some capital, though possibly made and accumulated by the hunter himself, would be necessary to enable him to kill his game. Without some weapon, neither the beaver nor the deer could be destroyed, and therefore the value of these animals would be regulated, not solely by the time and labour necessary to their destruction, but also by the time and labour necessary for providing the hunter's capital, the weapon, by the aid of which their destruction was effected . . .

All the implements necessary to kill the beaver and deer might belong to one class of men, and the labour employed in their destruction might be furnished by another class; still, their comparative prices would be in proportion to the actual labor bestowed, both on the formation of the capital and on the destruction of the animals. (Ricardo, pp. 13-14)

Ricardo defined capital as "that part of the wealth of a country which is employed in production." (Ricardo, p. 53) It is clear that with this definition capital exists in every society. Moreover, it is clear from the above quotation that Ricardo believed production in all societies had exchange value determined by labor even though the society might be so backward that there had not evolved a class of wage laborers and a class of capitalists. In this backward society the return to the producer would include both a wage for his effort and a profit on his capital. Thus, for Ricardo the categories of commodities, prices, wage labor, wages, capital and profits were universal, eternal categories descriptive of all social life.

Ricardo not only saw all of these economic categories as reflective of universal features of all societies, he also believed that in all societies prices were, in equilibrium, roughly proportional to the amounts of labor embodied in commodities. This was, he believed, a clearly observable fact. He did concede that as society advanced and capital came to be more complex and of diverse degrees of durability prices would deviate from strict proportionality. He derived principles by which one could determine both the direction and the relative magnitudes of these deviations. (Ricardo, pp. 18-27) But he repeatedly insisted that "it would be ... incorrect to attach much importance to" these deviations. (Ricardo, p. 23) In other words, he saw the labor theory of value (i.e. the proportionality of quantities of labor and prices) much as we would see the law of gravity. Just as we would see the law of gravity as a universal law that must be modified only slightly by some principle which accounts for air resistance, so Ricardo saw the law of value as a

universal social law that had to be only slightly modified to account for differences in the ratios of capital to labor in the various production processes.

In contrast to Ricardo, Marx stressed the importance of mentally separating those characteristics of economic life that were common to all societies and those characteristics that were peculiar to capitalism. It was the classical economists tendency to confound these differences that evoked the strongest criticism from Marx, particularly when (as with Ricardo) they regarded capital as a universal characteristic of all societies:

Whenever we speak of production, then, what is meant is always production at a definite stage of social development — production by social individuals. It might seem therefore that in order to talk about production at all we must either pursue the process of historic development through its different phases, or declare beforehand that we are dealing with a specific historic epoch such as e.g., modern bourgeois production, which is indeed our particular theme. However, all epochs of production have certain common traits, common characteristics. *Production, in general*, is an abstraction, but a rational abstraction in so far as it really brings out and fixes the common element and thus saves us repetition. . . . [Some characteristics] will be shared by the most modern epoch and the most ancient. No production will be thinkable without them; . . . nevertheless, just those things which determine their development, i.e. the elements which are not general and common, must be separated out from the determinations valid for production as such, so that in their unity — which arises . . . from the identity of the subject, humanity, and of the object, nature — their essential difference is not forgotten. The whole profundity of those modern economists who demonstrate the eternity and harmoniousness of the existing social relations lies in this forgetting. For example, no production [is] possible without an instrument of production. . . . No production [is possible] without stored-up, past labour. Capital is, among other things, also an instrument of production, also objectified, past labour. Therefore capital is a general, eternal relation of nature; that is, if I leave out just the specific quality which alone makes 'instrument of production' and 'stored up labour' into capital. (Marx, 1973, pp. 85-86)

Marx's critique of Ricardo and of classical political economy generally centered on his contention that the economic institutions peculiar to capitalism were, at the same time, only one of the wide variety of differing historical forms that could be taken by the universal, common elements of all human social production. The classical economists, failing to make this distinction, saw both the historically specific features and the universal features in capitalist institutions and tended to conceptually merge the two such that capitalist institutions were seen as universal. The most egregious error of this type was their identification of the previously produced means of production as capital.

Marx realized that tools and other previously produced means of production were universal features of production in all societies. But capital was not. Marx's point is so fundamental to his entire theory and is so frequently misrepresented or misunderstood that I shall quote several passages at length:

The utilization of the products of previous labour ... as materials, tools, means of subsistence, is necessary if the worker wants to use his products for new production . . . But what on earth has this kind of utilization . . . to do with the domination of his product over him, with its existence as capital. (Marx, 1971, p. 274)

As if the division of labour was not just as possible if its conditions belonged to the associated workers . . . and were regarded by the latter as their own products and the ma-

terial elements of their own activity, which they are by their very nature. (Marx, 1971, p. 273)

One thing . . . is clear — Nature does not produce on the one side owners of money or commodities [means of production], and on the other men possessing nothing but their own labour-power. This relation has no natural basis, neither is its social basis one that is common to all historical periods. It is clearly the result of a past historical development, the product of many economic revolutions, of the extinction of a whole series of older forms of social production. (Marx, 1961, p. 169)

Capital is not a thing, but rather a definite social production relation, belonging to a definite historical formation of society, which is manifested in a thing and lends this thing a specific social character It is the means of production monopolized by a certain section of society, confronting living labour-power as products and working conditions rendered independent of this very labour power. (Marx, 1962, pp. 794-795)

Capital comes more and more to the fore as a social power, whose agent is the capitalist. This social power no longer stands in any possible relation to that which the labour of a single individual can create. It becomes an alienated, independent, social power, which stands opposed to society as an object, and as an object that is the capitalist's source of power. (Marx, 1962, p. 259)

As with capital and profit, so the economic categories of commodities, wage labor, wages and prices were not, for Marx, of universal applicability. They were all peculiar to certain definite historical social formations. Wealth itself had different meanings in different societies. There was, however, a common, universal feature of real wealth as it appeared in any society.

When the limited bourgeois form is stripped away, what is wealth other than the universality of individual needs, capacities, pleasures, productive forces etc . . . ? The full development of human mastery over the forces of nature, those of so-called nature as well as of humanity's own nature? The absolute working out of his creative potentialities . . . which makes this totality of development, i.e. the development of all human powers as such the end in itself, not as measured on a predetermined yardstick? Where he does not reproduce himself in one specificity, but produces his totality? (Marx, 1973, p. 488)

In capitalism, however, wealth appeared as “an immense accumulation of commodities, its unit being a single commodity.” (Marx, 1961, p. 35) Moreover, commodities were not common to all modes of production. “The mode of production in which the product [of labor] takes the form of a commodity, or is produced directly for exchange is the most general and most embryonic form of bourgeois production.” (Marx, 1961, p. 82) The product of human labor became a commodity only under those social conditions in which production was for sale in the market and not for the use of the producer or anyone immediately or directly related to him. When a society was dominated “in its length and breadth” by commodity production Marx called such a society a commodity producing society (which was the embryonic form of capitalism):

Definite historical conditions are necessary that a product may become a commodity. It must not be produced as the immediate means of subsistence of the producer himself. . . . Production and circulation of commodities can take place, although the great mass of objects produced are intended for the immediate requirements of the producers, are not turned into commodities, and consequently social production is not yet by a long way dominated in its length and breadth by exchange-value. (Marx, 1961, pp. 169-170)

In order for a society to have been “dominated in its length and breadth by exchange-value,” that is, in order for it to have been primarily a commodity-producing society, three historical prerequisites were necessary: First, there had to evolve such a degree of productive specialization

that each individual producer continuously produced the same product (or portion of a product). Second, such specialization necessarily required the complete “separation of use-value from exchange-value.” (Marx, 1961, p. 170) Because life was impossible without the consumption of innumerable use values, a producer could relate to his own product only as an exchange value and could only acquire his necessary use values from the products of other producers. Third, a commodity-producing society required an extensive, well-developed market, which required the pervasive use of money as a universal value equivalent mediating every exchange.

In a commodity-producing society, any given producer worked in isolation from all other producers. He was, of course, socially and economically connected, or related, to other producers; many of them could not continue their ordinary daily patterns of consumption without the given producer creating his commodity, which the other producers consumed; and the producer could not continue his pattern of consumption unless the innumerable other producers continuously created the commodities that he needed. Thus, there was a definite, indispensable social relationship among producers.

Each producer, however, produced only for sale in the market. With the proceeds of his sale, he bought the commodities that he needed. His well-being appeared to depend solely on the quantities of other commodities for which he could exchange his commodity. “These quantities vary continually,” Marx wrote, “independently of the will, foresight and action of the producers. To them their own social action takes the form of the action of objects, which rule the producers, instead of being ruled by them.” (Marx, 1961, p. 75) Thus, what were social relationships among producers appeared to each producer to be simply a relationship between himself and an impersonal, immutable social institution — the market. The market appeared to involve simply a set of relationships among material things — commodities. “Therefore, the relations connecting the labour of one individual with that of the rest appear,” Marx concluded, not as direct social relations between individuals at work, but as . . . relations between things.” (Marx, 1961, p. 73)

But a commodity producing society was not necessarily a capitalist society; the “historical conditions of its [capitalism’s] existence are by no means given with the mere circulation of money and commodities.” (Marx, 1961, p. 170) In order for capitalism to exist two more conditions were necessary. First, the previously produced means of production, existing as commodities, had to be monopolized by the capitalist class. Second, the capacity to work, or labor power, had to become a commodity whose exchange value was the wage rate. The existence of labor power as a commodity depended on two essential conditions.

First, labour-power can appear upon the market as a commodity, only if, and so far as, its possessor, the individual whose labour-power it is, offers it for sale, or sells it, as a commodity. In order that he may be able to do this he . . . must be the untrammelled owner of his capacity for labour, i.e., of his person. . . . The owner of the labour-power . . . [must] sell it only for a definite period, for if he were to sell it rump and stump, once and for all, he would be selling himself, converting himself from a free man into a slave, from an owner of a commodity into a commodity. . . .

The second essential condition . . . is . . . that the labourer instead of being in the position to sell commodities in which his labour is incorporated, must be obliged to offer for sale as a commodity that very labour-power, which exists only in his living self.

In order that a man may be able to sell commodities other than labour-power, he must of course have the means of production, such as raw materials, implements, etc. No boots

can be made without leather. He requires also the means of subsistence. . . .

For the conversion of his money into capital, therefore, the owner of money must meet in the market with the free labourer, free in the double sense, that as a free man he can dispose of his labour-power as his own commodity, and that on the other hand he has no other commodity for sale, is short of everything necessary for the realization of his labour-power. (Marx, 1961, pp. 168-169)

This, then, was capitalism's defining feature, differentiating it from a simple commodity-producing society. Capitalism existed when, in a commodity-producing society, one small class of people — capitalists — had monopolized the means of production, and where the great majority of the direct producers—workers—could not produce independently because they had no means of production. Workers were “free” to make one of two choices: starve or sell their labor power as a commodity. (Marx, 1961, p. 170) Thus, capitalism was neither inevitable nor natural and eternal. It was a specific mode of production that evolved under specific historical conditions and that had a ruling class which ruled by virtue of its control over the material prerequisites of production. In contrast to that of Ricardo, Marx's labor theory of value was concerned exclusively with the capitalist mode of production. The fundamental importance of this distinction between the two theories is nearly always overlooked. In the following section I will show the significance of this generally ignored distinction.

Marx's Labor Theory of Value

In Marx's theory of value, his separation of those aspects of economic life universally present in all economic life from those forms in which they are manifested in capitalism is of central importance. In every society labor was socially allocated such that the natural environment was transformed into products of labor having the physical characteristics necessary to fulfill individual and social needs and desires (Marx called this the production of use values). In capitalism, however, the social allocation was not consciously or knowingly made by any individual or group of individuals. Labor appeared to be a purely individual matter and the social interconnection of laborers appeared to be merely the act of exchanging commodities. The principal purpose of Marx's labor theory of value was to show that prices, which appeared in capitalism to be relations among commodities, reflected the real social nature of interdependent laborers whose social allocation was effected by the market and whose interdependence was always mediated by the market. It was only by demonstrating that prices were the capitalistic form of the universal, social necessity of coordinated social labor that Marx could demonstrate that the socially specific nature of capital was not the universal necessity of utilizing previously produced means of production but rather a peculiar, coercive social relationship unique to capitalism.

The following quotations summarize some of the most important universal aspects of human productive activity:

Use-value as an aspect of the commodity coincides with the physical palpable existence of the commodity Whatever its social form may be, wealth *always* consists of use-values, which in the first instance are not affected by this form ... [In capitalism] use-value is the immediate physical entity in which a definite economic relationship — *exchange value* — is expressed. (Marx, 1970, pp. 27-28)

It would be wrong to say that labour which produces use-values is the *only* source of the wealth produced by it, that is of material wealth. Since labour is an activity which adapts material for some purpose or other, it needs material as a prerequisite. Different use-values contain very different proportions of labour and natural products, but use-value always comprises a natural element. As useful activity directed to the appropriation of

natural factors in one form or another, labour is a natural interchange between man and nature, quite independent of the form of society. (Marx, 1970, p. 36)

The production of life . . . [always] appears as a two-fold relation: on the one hand as a natural [i.e. a relation with nature], on the other hand as a social relation — social in the sense that it denotes the co-operation of several individuals, no matter under what conditions, in what manner and to what end. (Marx, 1976, p. 42)

Human production was always social. It always involved some kind of division of labor and some social mechanism to coordinate social labor. Social productive labor always transformed the natural physical environment into products which were useful socially or individually. The social organization of production always involved an allocative mechanism such that some products were socially consumed while others were consumed by particular persons. All of these economic elements were common to every mode of production. In addition, as we saw in the previous section, in all societies some of the means of production necessary for present labor had to have been produced by past labor and some of the products of present labor had to be created and allocated as means of production for future labor. The most consistent error of political economists, in Marx's opinion, was the confusion of the content of these universally necessary activities with the peculiar, specific form which they took in a capitalist mode of production. Of particular significance was their failure to understand the particular social bases that transformed (1) a physical product having use value into a commodity having both use value and exchange value and (2) the previously produced means of production into capital.

In most precapitalist societies, the social nature of labor was immediately obvious in the very nature of the social relations of production:

Under the rural patriarchal system of production, when spinner and weaver lived under the same roof — the woman of the family spinning and the men weaving, say for the requirements of the family — yarn and linen were *social* products, and spinning and weaving *social* labour within the framework of the family. But their social character did not appear in the form of yarn becoming a universal equivalent exchanged for linen as a universal equivalent, i.e., of the two products exchanging for each other as equal and equally valid expressions of the same universal labour time [as would be the case under capitalism]. On the contrary, the product of labour bore the specific social imprint of the family relationship with its naturally evolved division of labour. Or let us take the services and dues in kind of the Middle Ages. It was the distinct labour of the individual in its original form, the particular features of his labour and not its universal aspect that formed the social ties at that time. Or finally let us take communal labour in its spontaneously evolved form as we find it among all civilized nations at the dawn of their history. In this case the social character of labour is evidently not effected by the labour of the individual assuming the abstract form of universal labour The communal system on which this mode of production is based prevents the labour of an individual from becoming private labour and his product the private product of a separate individual; it causes individual labour to appear rather as the direct function of a member of the social organization. (Marx, 1970, pp. 33-34)

Under a system of commodity production all of this changed. Although the more extensive division of labor that came into existence with commodity production increased the degree of social interdependence and made the social coordination of social labor more crucial than ever, the increased complexity rendered these social interdependencies less immediate and less easily experienced [sic] as such.

With commodity production being private production for sale in the market, each producer experienced this social interdependence as merely his own dependence on the market. He

produced his own commodity only in order to acquire exchange value, i.e., to sell it in the market. Therefore, he perceived his own commodity as an exchange value. The commodities which he required for his own maintenance and welfare had to be bought on the market. These commodities first had to be seen as exchange values in a market and only after their acquisition by their consumer could they be seen as use values. Thus, the social relationship of mutual economic interdependence among private producers was seen as market relationships of exchange value among commodities. "Therefore, the relations connecting the labor of one individual with that of the rest appear not as direct social relations between individuals at work, but as . . . relations between things." (Marx, 1961, p. 73)

In a commodity producing society, particular producers were no longer directed by custom, social tradition or their general social station in life to produce particular products. They were free to produce and sell any commodity. With free entry into nearly all occupations and free competition among producers, different concrete forms of labor, e.g., carpentering or weaving, etc., were looked on with social indifference. Different forms of labor took on an abstract equality based on this indifference.

The social relationships among these occupations of abstract equality (i.e. social indifference) was expressed as the exchange-value ratios among the products they produced. The exchange value or price of a commodity represented the abstract quantity of labor society used in producing that commodity. It was abstract in that it represented a social average and was unaffected by the peculiarities of the individual which might render him somewhat more or less productive than the social average. In creating a commodity with exchange value the producer was creating the commodity as an *abstract universal value equivalent* by virtue of which, through exchange, his labor could be brought into a social relationship with that of others.

Only as such a *universal* magnitude does it represent a social magnitude. The labour of an individual can produce exchange value only if it produces universal equivalents . . . The effect is the same as if the different individuals had amalgamated their labour-time and allocated different portions of the labour-time at their joint disposal to the various use-values. The labour-time of the individual is thus, in fact, the labour-time required by society to produce a particular use-value, that is to satisfy a particular want. (Marx, 1970, p. 32)

The labor "which manifests itself in exchange-value appears to be that of an isolated individual. It becomes social labour by assuming the form of its direct opposite, of abstract universal labour." (Marx, 1970, p. 34)

We may therefore conclude that many of the objections raised against Marx's labor theory of value are based on misunderstandings. Marx did *not* say that only labor created useful products as we saw in the long quotation at the beginning of this section. But exchange value was not a material quality of a product. A product became a commodity when, in a special kind of social context, it came to abstractly symbolize the relationship of its producer to other producers. Exchange value was a mental abstraction symbolized by a physical product. As such, the abstraction both reflected social relations and was necessary for the social coordination of labor under these social relations. Labor was not the cause of exchange value in the sense of physical or material causation because exchange value was a mental construct (of central significance in a market economy) and not a physical entity. As a mental abstraction it symbolized the social nature of labor in a commodity producing society. Marx quite consistently concluded that price, as a mental entity "exists initially only in the head, as a conception, since it expresses a relation; just as, in general, relations can be established as existing only by being *thought*, as distinct from the subjects which are in these relations with each other." (Marx, 1973, p. 143) Therefore,

since the exchange-value of commodities is indeed nothing but a mutual relation between various kinds of labour of individuals regarded as equal and universal labour, i.e., nothing

but the material expression of a specific social form of labour, it is a tautology to say that labour is the *only* source of exchange-value and accordingly of wealth in so far as this consists of exchange-value. (Marx, 1970, p. 35)

Marx's labor theory of value was very different from that of Ricardo. The latter believed that the causal connection between the labor embodied in commodities and their prices was a direct, easily visible, [sic] empirical relation. The modifying effects of differences in the ratios of capital to labor were, for him, minor. The proposition that prices would be proportional to the quantities of labor embodied in commodities was thought to approximate an empirical truth. Much criticism of Marx would have been obviated had the critics understood his fundamental difference from Ricardo on this point.

In Marx's view prices did not immediately or empirically reflect their true social origins and nature. On the contrary, prices concealed, obscured and tended to mystify their underlying social basis. This point is so central to understanding Marx and is so frequently misunderstood that I shall quote at length from Marx's response to a critic who had argued that Marx had not proven any direct, observable connection between values and prices:

All that palaver about the necessity of proving the concept of value comes from complete ignorance both of the subject dealt with and of the scientific method. Every child knows that a nation which ceased to work . . . 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 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 *mode* of its *appearance*, 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 assert themselves. And the form in which this proportional distribution of labour asserts itself, 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.

Science consists precisely in demonstrating *how* the law of value asserts itself The vulgar economist has not the faintest idea that the actual everyday exchange relations can *not be directly identical* with the magnitudes of value. The essence of bourgeois society consists in this, that *a priori* there is no conscious social regulation of production. The rational and naturally necessary asserts itself only as a blindly working average. And then the vulgar economist thinks he has made a great discovery when, as against the revelation of the inner interconnection, he proudly claims that in appearance things look different. In fact, he boasts that he holds fast to appearance, and takes it for the ultimate. Why, then, have any science at all? (Marx and Engels, n.d., pp. 251-252)

The surface appearance of exchange value was price. But the hidden basis of exchange values were the values of, or the amounts of labor embodied in, commodities (for Marx value and labor embodied were equivalent terms in the analysis of capitalism). Prices concealed and obscured their connection to values and there were two reasons for this. First, as we have already discussed, in capitalism human productive relations appeared (as prices) to be relations among inanimate things: "Thus the participants in capitalist production live in a bewitched world and their own relationships appear to them as properties of things, as properties in the material elements of production." (Marx, 1971, p. 514) Second, the essence of capital in general was very different than the appearance of the actual, numerous, competing capitals. This second point is of crucial significance for Marx's labor theory of value, so we shall discuss it at some length.

Marx differentiated between "capital in general" and "many capitals in competition." Free competition was, for Marx, the force through which the methods by which capitalism functioned

appeared to capitalists as eternal, coercive laws of nature. Free competition was “the relation of capital to itself as another capital, i.e. the real behavior of capital” and, through competition “what corresponds to the concept of capital is posited as an external necessity for the individual capital.” (Marx, 1973, pp. 650-651) Free competition was the social force through which the laws of capital in general become visible to individual capitalists. But it was merely a *manifestation* of the laws and as such it obscured the real inner nature of “capital in general”:

The general and necessary tendencies of capital must be distinguished from their forms of manifestation . . . , the way in which the laws, immanent in capitalist production, manifest themselves in the movements of individual masses of capital where they assert themselves as coercive laws of competition, and are brought home to the mind and consciousness of the *individual* capitalist as the directing motives of his operations. But this much is clear; a scientific analysis of competition is not possible, before we have a conception of the inner nature of capital, just as the apparent motions of the heavenly bodies are not intelligible to any but him, who is acquainted with their real motions, motions which are not directly perceptible by the senses. (Marx, 1961, p. 316)

Thus, a study of capital in general was a necessary prerequisite to an understanding of “many capitals in competition.” Volume I of *Capital* was devoted to the study of capital in general. It was assumed, throughout that volume, that prices were proportional to values (amounts of embodied labor) in order to show the general nature of capital. Marx concluded that in its general nature capital was a social relation between capitalists and wage laborers which was manifested in material things (means of production) and which gave the capitalist the power to expropriate, in the forms of profit, interest, and rent, the surplus value created by the surplus labor of workers. (Marx, 1961, p. 169; Marx, 1962, pp. 794-795; and Marx, 1971, pp. 273-274. Also see Hunt, 1979, pp. 180-211.)

Only when one understood that exchange values or prices were transmuted values (amounts of embodied labor) could one recognize the real nature of capital in general. But it was precisely the competition among many capitals that transmuted values into prices and hence rendered the real nature of prices unobservable in their phenomenological visibility and also rendered surplus value not immediately recognizable in its manifested forms as profit, interest and rent.

We can see in Marx’s demonstration of the transformation of values into prices in Volume III of *Capital* that if his only theoretical concern had been to explain the magnitude of prices, he would not even have needed a substantial part of his labor theory of value. (Marx, 1962, pp. 152-169) It is clear that the immediate cause of any particular price having any particular magnitude (as opposed to the social basis of prices or prices as mental symbols for the social coordination of social labor) was the cost of production plus the socially average rate of profit:

In the competition of individual capitalists among themselves ... it is the given and assumed magnitudes of wages, interest and rent which enter into the calculation as constant and regulating magnitudes; constant not in the sense of being unalterable magnitudes, but in the sense that they are given in each individual case and constitute the constant limit for the continually fluctuating market-prices These factors enter into calculation as determining elements in so far as competition between capitalists is possible. Here, then, experience shows theoretically, and the self-interested calculation of the capitalist shows practically, that the prices of commodities are determined by wages, interest and rent, by the price of labour, capital and land, and that these elements of price are indeed the regulating constituent factor of price. (Marx, 1962, pp. 852-853)

We can now complete our earlier assertion that Marx’s theory of value and price was very different from Ricardo’s. The latter insisted that the deviations of prices from proportionality with quantities of labor embodied (Marx’s values) due to differing ratios of capital to labor (Marx used

the term “organic composition of capital” for these ratios) would be small and insignificant and that empirically prices would very nearly reflect these quantities. Marx argued, however, that differences in price ratios and value ratios would be very significant. Their significance was precisely the obscuration of the relation between prices and values and the mystification of the social nature of commodities and their prices. Such differences in prices would be required to redistribute the surplus value created in the production process in order that all capitalists could receive an equal rate of profit on their capital:

Owing to different organic compositions of capital invested in different lines of production, and, hence, owing to the circumstance that—depending on the different percentage which the variable part makes up in a total capital of a given magnitude — capitals of equal magnitude put into motion very different quantities of labour, they also appropriate very different quantities of surplus-value or produce very different quantities of surplus-value. Accordingly, the rates of profit prevailing in the various branches of production are originally very different. These different rates of profit are equalized by competition to a single general rate of profit, which is the average of all these different rates of profit. The profit accruing in accordance with this general rate of profit to any capital of a given magnitude, whatever its organic composition, is called the average profit. The price of a commodity, which is equal to its cost-price plus the share of the annual average profit on the total capital invested in its production that falls to it in accordance with the conditions of turnover, is called its price of production. (Marx, 1962, pp. 155-156)

This pricing process destroyed any immediate semblance of values and prices. Moreover, since rents and profits were proportionate to the values of land and capital it created the appearance that these are components of value that are created by land and capital. The value was created entirely by labor, both paid and unpaid. The unpaid, surplus labor created surplus value that was divided among interest rent and profit. “But the whole matter is mystified because these different parts of surplus-value acquire an independent form, because they accrue to different people, and because the titles to them are based on different elements.” (Marx, 1971, p. 511)

In other words the source of the difficulty in seeing the connection between prices and labor was the fact that in capitalism the previously produced means of production appeared as commodities owned by nonlaborers and labor power was now a commodity the sale of which represented the sole source of the laborer’s income. Capital owners expropriated the products of labor in proportion to the value of their capital. This caused prices to deviate from values and to appear as though they were determined by capital. Thus, the capital-labor social relation obscured the connection of values and prices while the systematic deviation of prices from values obscured the real social nature of capital.

When economists looked only at prices, Marx concluded, the creations of human labor appeared to be the creations of capital rather than capital itself being seen as simply another creation of social labor. Thus, that which was created by labor not only totally dominated labor, it made every creative accomplishment of labor appear as its (capital’s) own accomplishment:

Thus the productive power of social labour and its special forms now appear as productive powers and forms of capital . . . which, having assumed this independent form, are personified by the capitalist in relation to living labour. Here we have once more the perversion of this relationship, which we have already . . . called fetishism. (Marx, 1963, p. 389)

Thus, Marx’s labor theory of value differed significantly from that of Ricardo. Ricardo’s theory, and orthodox economic theory generally, was, for Marx, a manifestation of the fetishism of commodities (which, in turn, was the outcome of alienation in a capitalist society, but that is a topic which is too complex to treat in the present paper). Fetishism arose, in Marx’s view from

the inability to distinguish between universal economic activities common to every society and the peculiar forms these activities took under capitalism. “The fetishism peculiar to bourgeois Political Economy,” Marx wrote, “metamorphoses the social, economic character impressed on things in the process of social production into a natural character stemming from the material nature of things.” (Marx, 1957, p. 225)

Conclusion

In Marx’s theory the distinction between the universal features common to all human societies and the features peculiar to capitalism was of central significance. Through his labor theory of value he was able to show that the forms of ownership peculiar to capitalism together with the competitive process of price formation create the illusion that inanimate nature or products of human endeavor are co-equally responsible (together with human labor) for the creation of the value of commodities. He was able to do this only because he persistently anchored his analysis in the fact that in all societies, in all times and places, only human social labor transforms the preexisting natural environment with the aid of previously produced aids to production. Within this context he criticized Ricardo’s ahistoric approach, because if the means of production are capital by their very physical nature then all societies in all places and times should be called capitalist and the notion of capitalism as a unique social system becomes nonsense and economic theory becomes a totally general theory in which uniquely capitalistic institutions are of no theoretical significance. While there are indeed economists who assert this, Marx was above all else a social economist interested in the unique social features of contemporary capitalism. Thus, he saw the essence of capital in general as a coercive social relation peculiar to capitalism. His labor theory of value permitted him to show how the general inability to see prices as symbols of the social allocation of labor systematically obscured the general nature of capital and led to the fetishism of commodities, i.e., the seeing of social relations as relations among commodities. Moreover, in his theory the erroneous conception of capital and the fetishism of commodities in turn worsened the obscuration of the link between prices and the social allocation of labor. This fetishism and obscuration were the outcome of human alienation under capitalism and at the same time they contributed significantly to the further perpetuation of this alienation.

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