

## CHAPTER I

### MARX'S THEORY OF VALUE

THE basis of every politico-economic theory is to be found in its conception of value. For the world-wide industrial co-operation, which unites the nations of the earth into one economic society, depends for its existence upon exchange; not only upon exchange of the final product, but also upon exchange of the numerous intermediate products which make their appearance during the production of every commodity. It also depends upon the still more numerous exchanges of labour and services for products. Exchange, however, is itself dependent upon the formation of a concept of value in the minds of the parties to the exchange. The view taken of the concept "value" must, therefore, fundamentally affect the aspect of our industrial organisation.

Socialism, as has been shown, makes no exception to this rule. Its original German exponent, Rodbertus-Jagetzow, indicated a theory of value consistent with his general conceptions, which, subsequently, was developed by Karl Marx,<sup>1</sup> who formulates it as follows:—

"That which determines the magnitude of the value of any article is the amount of labour (labour-time) socially necessary for its production."<sup>2</sup>

Marx also explains that the labour to which he refers must be understood in the following sense:—

1. "The labour-time socially necessary is that required

<sup>1</sup> The theories of Rodbertus are traced to French, and those of Marx to English sources, by Anton Menger, *The Right to the Full Produce of Labour*.

<sup>2</sup> *Capital*, p. 6; see for full quotation, Part I. chap. i.

to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time.”<sup>1</sup>

2. “Skilled labour counts only as simple labour intensified, or rather, as multiplied simple labour, a given quantity of skilled being considered equal to a greater quantity of simple labour. Experience shows that this reduction is constantly being made. A commodity may be the product of the most skilled labour, but its value, by equating it to the product of simple unskilled labour, represents a definite quantity of the latter labour alone.”<sup>2</sup>

3. “Suppose that every piece of linen in the market contains no more labour-time than is socially necessary. In spite of this, all these pieces, taken as a whole, may have had superfluous labour-time spent upon them. If the market cannot stomach the whole quantity at the normal price of 2s. a yard, this proves that too great a portion of the total labour of the community has been expended in the form of weaving. The effect is the same as if each individual weaver had expended more labour-time upon this particular product than is socially necessary. Here we may say with the German proverb: caught together, hung together. All the linen in the market counts but as one article of commerce, of which each piece is only an aliquot part.”<sup>3</sup>

These explanations are so contradictory of each other, and of other statements by the same author, presently to be referred to, that they go a considerable way towards discounting his theory.

In Explanation 1 the “socially necessary labour-time” which determines value is stated to be dependent upon “the average degree of skill and intensity prevalent at the time.” In No. 3 it is stated that if the market cannot take up all the linen produced, at the “normal” price, *i.e.* the price which covers the socially necessary labour-time, “too great a proportion of the total labour of the community has been expended in the form of weaving. The effect is the same as if each individual weaver had

<sup>1</sup> *Capital*, p. 6.

<sup>2</sup> *Ibid.* pp. 11, 12.

<sup>3</sup> *Ibid.* p. 80.

expended more labour-time upon this particular product than is socially necessary."

It is, however, manifest that if it is true that the "average degree of intensity prevalent at the time" is the "socially necessary labour-time," then the average degree of intensity with which linen-weavers work determines the "socially necessary labour-time" for the production of a given quantity of linen, and the value of the linen is determined by this labour-time. Therefore, it is impossible, being a contradiction in terms, that "each individual weaver can expend more labour-time upon this particular product than is socially necessary." Some weavers may expend more labour-time on a given quantity of linen than "the average prevalent at the time," but all cannot possibly do so.

If all the weavers increase the labour-time expended upon linen, the average of labour-time "prevalent at the time" in the linen industry will rise, and, *ex hypothesi*, the value of linen must rise. Therefore, it cannot be true, that this course would produce the same effect as "if the market cannot stomach the whole quantity at the normal price of 2s. a yard," for such a contingency would reduce the value of linen, a fact which the wording of the quoted sentence proves to have been apprehended by Marx.

If to this reasoning it is objected, that the average skill and intensity of which Marx speaks is that prevalent, not in a single industry, but throughout all industry, the disproof of the objection lies in the following considerations:—

If the average labour-time requisite throughout all industry determines value, the determinator of value, the average labour-time, is of the same magnitude in all industries, and, as a necessary consequence, the value of the product of all industries must be of the same magnitude, *i.e.* the value of an equal quantity of all products must be the same. One yard of cotton-cloth of a given weight must then exchange for one yard of any silk-cloth of the same weight; one pound of flour must exchange for one pound of meat, for one pound of iron, and for one pound weight of silver and of gold. This we know not to be the case, and

if the objection here considered gave true expression to the meaning of Marx's theory, the latter might be dismissed at once as too absurd for further consideration.

Marx himself, however, makes it quite clear that the theory embodied in this objection is not held by him ; though it must be admitted that his own is only a degree less wild. Marx fully recognises that the average labour-time requisite in any industry is determined by other factors besides the skill and intensity of work put forth by the labourers who engage in it, viz. by the appliances and natural opportunities at the disposal of the industry, and, therefore, he regards the average labour-time requisite for the production of any homogeneous product as the measure of the value of that product.

The following quotations bear out this statement :—

“The introduction of power-looms into England probably reduced by one-half the labour required to weave a given quantity of yarn into cloth. The hand-loom weavers, as a matter of fact, continued to require the same time as before ; but for all that the product of one hour of their labour represented after the change only half an hour's social labour, and consequently fell to one-half its former value.”<sup>1</sup>

And further :—

“Diamonds are of very rare occurrence on the earth's surface, and hence their discovery costs on an average a great deal of labour-time. . . . With richer mines, the same quantity of labour would embody itself in more diamonds, and their value would fall.”<sup>2</sup>

These statements clearly prove that in Marx's opinion the value of any product is determined by the average labour-time socially necessary in the production of that product, and not by the average labour-time requisite in all production. Therefore, the value of linen is determined by the average labour-time requisite in its production. If that labour-time increases in quantity, by the habitual slowness or want of skill of all linen weavers, the result, therefore, must be a rise in the price of linen, and not a fall as he asserts in Statement 3.

<sup>1</sup> *Capital*, p. 6.

<sup>2</sup> *Ibid.* p. 7.

It is difficult to escape the conclusion that the whole of Statement 3 was framed with a view of avoiding the obvious objection to the labour-time theory of value, that the price of nearly all articles in large demand varies independently of any variation in the labour-time required for their production.

The contradiction, so far proved, is not the most serious one. The statement contained in Explanation 2, that skilled labour counts only as "simple" "unskilled" labour multiplied, is a still more glaring *petitio principii*.

The basis of Marx's theory is that the value of labour-power is determined by the cost of its production, *i.e.* by the labour-time requisite to produce the means of subsistence of the labourer and his family. "The value of labour-power is the value of the means of subsistence necessary for the maintenance of the labourer."<sup>1</sup>

If this be true, the value of the labour-power of a skilled labourer is determined in the same manner. It may be that, in general, skilled labour requires more education and a better standard of living than ordinary labour. But it is certainly not true that on an average the "necessary" cost of maintenance of labour increases *pari passu* with its skill. Therefore the labour-time theory of value is upon the horns of this dilemma. Either the value of skilled labour is determined like that of all labour "by the value of the means of subsistence necessary for the maintenance of the labourer," in which case "a given quantity of skilled labour" is not "considered equal to a greater quantity of simple labour," for this idea involves that of proportion; or this latter statement is true, in which case it is untrue that the value of all labour-power is "the value of the means of subsistence necessary for the maintenance of the labourer."

If, of the two horns, the latter is chosen, the whole of the Marxian theory of surplus value resolves itself into an idle dream, for it is based upon the foundation that all labour-power is purchased at sustenance cost by the capitalist and sold by him at product value. If the first horn is chosen, Marx's value theory falls to the ground,

<sup>1</sup> *Capital*, p. 149. For fuller quotation see Part I. chap. i.

for it is then admitted that other elements than average labour-time, socially necessary, enter into the value of products.

Moreover, this conversion of skilled into unskilled labour-time is a still more obvious juggle than the one previously pointed out, and is similarly devised in order to escape from another inevitable objection to the labour-time theory. Goods produced by skilled labour generally possess a greater value, and frequently possess an infinitely greater value than those produced by ordinary labour in the same time. A sketch produced by an artist in one hour may, to take an extreme case, possess a hundred times the value of the work done by a house-painter during an equal time. The recognition of this fact is sufficient to completely disprove the theory that "the value of any article is determined by the labour-time socially necessary for its production." Therefore, this transmutation of skilled into unskilled labour had to be devised in spite of its incongruity with the general character of the labour-time theory in order to mask the facts which disprove this theory.

The trick is the same as that involved in the following dialogue :—

*A.* All coats have the same price.

*B.* That cannot be so ; I saw some coats to-day, and found great differences of price. One actually had a price four times as high as that of the cheapest among them.

*A.* That is, because the more highly priced coats count as less expensive coats multiplied. In the case you mention the most expensive coat counts as four cheaper coats. Therefore your objection has no weight ; it remains true that all coats have the same price.

These incongruities throw considerable doubt upon the theory of value according to labour-time. If now, instead of dissecting the statements of its author, the theory is subjected to the test of deduction, if it is compared with the facts which it is intended to explain, the doubt is converted into certainty. For it is then found to be contradicted by the vast majority of the

phenomena of value. Grouping these into classes, they are—

Land, patents, copyrights, and other monopolies which possess value, though no labour has been expended in their production. It will be obvious that the element which is altogether absent in one class of values cannot be the universal determining factor of all values.

Scarce goods of all kinds, which either cannot be reproduced or the reproduction of which is limited, such as old editions, coins, statues, pictures, rare wines, etc., possess a value which cannot be brought into harmony with labour-time.

The products of all skilled labour possess a value which, as already pointed out, cannot be reduced to the labour-time involved in their production.

The products of the mining and agricultural industries, such as coal, copper, pig-iron, lead, tin, gold, silver, wheat, cotton, wool, and many others, differ widely in the labour-time necessary for the production of the several quantities of each of them. While some land used for wheat-growing will only yield 8 or 9 bushels per acre in average seasons, other land yields to the same or a little more labour-time 25 and 30 bushels. In the mining industry the differences are even greater. Yet all the wheat, or iron, or any other of these products has for the same quantity and quality, and in the same market, the same value. If this value, say of wheat, were determined by the *average* labour-time socially necessary to produce wheat, all those who produce wheat on less productive land, and therefore spend more than the average labour-time in the production of a given quantity, would be at a permanent disadvantage, and those who produce wheat on or near the marginal land, *i.e.* the least productive in use, would be heavy losers year after year.

It is manifestly unthinkable that the farmers who produce this wheat would or could persevere in this disastrous course year after year. In the Australian colonies, at any rate, they are not large capitalists, and would in two or three years find themselves in the bankruptcy court.

The fact is, that unless the value of wheat over an

average of seasons is high enough to compensate for the labour-time necessary to produce wheat at the margin of cultivation, *i.e.* on the least productive land used, wheat cultivation on such land is abandoned. The same fact can be observed in all extractive industries, and is equally true, though less easily proved, of all other industries. The value of goods must therefore, on the whole, be equal to or come near to the greatest amount, and not to the average amount, of labour-time socially necessary to produce the total quantity of such goods which the market requires.

Not only all the products of the extractive industries, but also most of the manufactures, into the composition of which these largely enter, are subject to frequent changes in value, without any alteration in the average labour-time socially necessary for their production. Changes in the value of agricultural products, dependent upon climatic influences, may occasionally be consistent with increase or reduction in labour-time, owing to more or less favourable harvests. Apart from these, however, the market registers daily, weekly, and monthly changes in the value of such products, which cannot be connected with any such cause. Variations in the value of mineral products and their derivatives, which are of frequent occurrence, also cannot be due to any such cause. It is doubtful whether, in the course of these frequent variations, the value of such goods ever approaches that which would be congruous with the average labour-time socially necessary for their production, and it is obvious that, generally, there can be no such congruity.

The same phenomenon may be observed with regard to all goods liable to sudden increases or reductions of demand, *i.e.* fashionable goods.

Protective duties as well as revenue duties generally increase the price of the goods to which they apply without the least increase in the labour-time necessary for their production. This not only holds good with regard to the goods on which the duty has been paid, but also with regard to similar goods, locally produced, on which no such duty has been paid.



The value of all goods which for their production require lengthy processes generally exceeds the value of those which require shorter processes, though the average labour-time involved is the same or less. The differences in the value of new and old wines, and the value of old and useful trees, suggest themselves as convenient examples of this fact.

These facts, embracing almost all the phenomena of value, prove that, while some goods may occasionally possess a value equal to the average labour-time socially necessary for their production, such correspondence is an accident instead of being the rule with regard to all values. A theory which predicates, as a fact universally true of all related phenomena, a relation which is generally absent from all of them, and which only occasionally may exist with regard to some, possesses no element of validity. Whether the Marxian theory of value is examined with regard to the congruity of its various parts; or whether it is examined with regard to its congruity with the phenomena of value which it is intended to relate and explain, the result is the same. Both methods show it to be a hypothesis ill-considered and untenable.

This truth is now admitted by a considerable body of socialists.<sup>1</sup> But not only is Marx's theory still generally accepted as true by the vast majority of socialists; not only do those who reject the theory nevertheless countenance its being taught to the great body of their followers,<sup>2</sup> but all socialists retain their belief in deductions which Marx made from this theory, and for which it seems to be the necessary basis. Nay, it is even maintained that

<sup>1</sup> "English socialists are by no means blind worshippers of Karl Marx. Whilst recognising his valuable services to economic history, and as a stirrer of men's minds, a large number of English socialist economists reject his special contributions to pure economics. His theory of value meets with little support in English economic circles, where that of Jevons is becoming increasingly dominant."—*Socialism in England*, by Sidney Webb, pp. 84, 85.

<sup>2</sup> "The theory of value has a different history. Like the rainbow theory, it began by being simple enough for the most unsophisticated audience, and ended by becoming so subtle that its popularisation is out of the question, especially as the old theory is helped by the sentiments of approbation it excites; whereas the scientific theory is ruthlessly indifferent to the moral sense. The result is that the old theory is the only one available for general use among socialists. It has accordingly been adopted by them in the form (as far as that form is popularly intelligible) laid down in the first volume of Karl Marx's *Capital*."—"The Illusions of Socialism," by Bernard Shaw, in *Forecast of the Coming Century*, p. 164.

Jevons's utterly divergent theory still more fully sustains these deductions.<sup>1</sup> For all these reasons, and in spite of its repudiation by the Fabian socialists, a detailed refutation of Marx's theory of value was necessary ; and for the same reasons, as well as in order to clear the way for subsequent refutations of other economic theories of Socialism, it is advisable now to enter upon an exposition of the law of value accepted as true by those socialists who repudiate the Marxian theory and by economists generally. I refer to Jevons's quantitative theory of value as developed and extended by the Austrian school of economists.

<sup>1</sup> "Possibly if Jevons had foreseen that his theory would make Socialism economically irrefutable . . . his scientific integrity might also have gone by the board."—*Socialism in England*, by Sidney Webb, p. 106.