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VALUE, PRICE AND PROFIT

This pamphlet was Marx's contribution to a discussion on trade union activity that took place at a meeting of the General Council of the International Working Men's Association in April, 1865.

Weston, a follower of Robert Owen and an advocate of co-operatives as the way out for the working class, argued that wage increases not only did not benefit the workers immediately concerned but also harmed workers in other sections of industry by causing a rise in prices.

That "wage increases only cause prices to rise" is still a familiar viewpoint. In the first five chapters of this pamphlet (published in 1898 from some notes found among Engels' papers) Marx easily demolishes the arguments of "Citizen Weston". This part of the pamphlet is now mainly of academic interest since most of Weston's points were so crude that they are rarely heard today. From chapter VI on, however, Marx sets out in simple form his Labour Theory of Value; explains the source of rent, interest and profit and outlines both the usefulness and the limitations of trade union action.

The pamphlet can conveniently be divided into three parts:

I. The value of a Commodity (Chapter VI).

II. The source of Profit (Chapters VII- XI).

III. Wages and Profits (Chapters XII-XIV).

The Value of a Commodity

1. Value determines the proportions in which commodities exchange for each other (but see 14).

2. Value is a characteristic of all commodities but, as it only has meaning within the context of exchange, it is a social rather than a physical characteristic .

3. The one social characteristic which all commodities have in common, is being the products of social labour, that is, work performed within the Division of Labour. It is this that gives them value.

4. The value of a commodity is determined by the amount of labour incorporated in it (but see 8).

5. How much labour is incorporated in a commodity is measured by the time taken to produce it, skilled labour being reduced to units of average or simple labour.

6. The value of a commodity is not determined, nor even affected, by the wages paid to those who produced it.

7. In measuring the amount of labour in a commodity, to the labour employed in the final stage of its production should be added the labour previously employed: (a) that incorporated in the raw materials, fuel, etc., and (b) part of that incorporated in the buildings and machines which is transferred to the commodity while it is being produced.

8. The value of a commodity is not determined by the actual amount of labour incorporated in it, otherwise the longer a person took to produce a commodity the greater would be its value. It is determined by only the amount of socially necessary labour in it, which Marx defines as "the quantity of labour necessary for its production in a given state of society, under certain average social conditions of production, with a given social average intensity, and average skill of the labour employed"..

9. The value of a commodity will change as the amount of socially necessary labour needed to produce it changes. This will depend on productivity (what Marx calls "the productive powers of labour") . If productivity goes up (so that it takes less time to produce a commodity), then the value of that commodity will fall. If productivity falls, then the commodity's value will rise. Value and productivity are inversely related.

10. Marx's general law means:

(a) The more time needed to produce a commodity the greater its value and vice versa.

(b) The greater the productivity of the labour employed in producing a commodity the smaller its value, and vice versa.

11. The money commodity (gold, for instance) is a special commodity in which the values of all other commodities can be expressed. Marx follows Adam Smith here and calls the monetary expression of a commodity's value its "natural price".

12. Depending on supply and demand, the price at which a commodity actually sells (its market price) can vary from its natural price. Market price, however, oscillates about the natural price so that in the long run commodities exchange at their values (but see 14).

13. That commodities do sell at their values must be a basic assumption when explaining the source of profit. To say that profit arises from selling commodities above their values is absurd since, on average, what you gained as a seller you would lose as a buyer .

l4. Note Marx's proviso that some commodities may not sell at their values even in the long run – "the effect of monopolies and some other modifications I must now pass by" – a point which he develops in Volume III of *Capital*.

The Source of Profit

15. Since the value of a commodity is determined by the amount of labour incorporated in it, the phrase “value of labour” is meaningless. Labour has no value; it is value (but see Marx’s note at the end of Chapter IX).

16. What the worker sells and receives wages for is not his Labour but his ability to work or Labour Power.

17. This confusion between Labour and Labour Power arises because the worker is paid after he has worked so that his wages appear to be a payment for the work he has done.

18. The value of labour power is determined in the same way as that of other commodities, by the amount of socially necessary labour incorporated in it; by the labour in the things the worker and his family consume to live and by the labour spent on his education and training.

19. Since different people’s labour power can differ in quality due to training, the demand for equal wages is absurd. Unequal wages reflect unequal values of different kinds of labour power.

20. The value of labour power (which the employer pays for as wages) and its use (which is what he buys) are different.

21. Marx assumes, for purposes of illustration, that 6 hours of average labour are incorporated in a quantity of gold worth 3s.

22. If a worker were paid 3s. a day, after working for 6 hours he would have replaced the value of his labour power. The capitalist, however, has bought the use of the worker’s labour power for the whole day, not just 6 hours. The labour performed in the rest of the 12 hour working day he gets free.

23. Marx then assumes that the value of the raw materials, fuel, machinery etc., used to produce the commodity adds up to 24 hours average labour or 12s. So:

Raw materials, etc ………..12s.
<u>New value added in a day….6s</u>.
Commodity’s value …..……18s.

By selling this commodity at its value of l8s. the capitalist would make a profit of 3s. This is how profit is made by selling commodities at their value .

24. Unpaid labour is the source of all surplus value.

25. All the surplus value does not go to the employer. He has to share it with the landlord (rent) and the banker (interest). What is left for him is industrial or commercial profit.

26. Surplus value is not made up from Profit + Rent + Interest. This is only what it is

broken down into.

27. It does not matter much to the worker how his surplus labour is divided amongst employers, bankers, landlords and the State (as taxes).

28. The rate of profit can be expressed in two ways:

(a) Profit: total capital advanced.
(b) Profit: capital advanced as wages.

Marx uses the term "rate of profit" here to mean the latter. He also calls this the "rate of exploitation". Note that in *Capital* he calls this the "rate of surplus-value" and gives of "rate of profit" a different meaning to here .

Wages and Profits

29. The value of a commodity is determined by the total quantity, of socially necessary labour incorporated in it and is not affected by how this is divided into paid (wages) and unpaid labour (surplus value).

30. The wages paid to those who produce a commodity can rise or fall, be high or low, without affecting its value.

31. The price of an individual commodity is affected by changes in productivity. If productivity rises then more commodities are produced in the same time so that the value (and price) of each individual commodity falls.

32. This explains how high-priced labour (power) can produce cheap commodities and low-priced labour dear commodities.

33. The main occasions when workers try to get a rise or to prevent a fall in wages are:

(a) A change in the value of labour power.
(b) A change in money prices caused by a change in the value of money.
(c) A change in the intensity and/or duration of labour.
(d) A change in labour market conditions in the course of the business cycle.

34. The value of labour power may change because the values of the necessities the worker and his family consume has changed. If their value increased, then a wage increase would merely restore the position and allow the workers to consume the same amount. If their value decreased, then in resisting a wage cut the workers would be claiming a share of the increased productivity.

35. Values may remain unchanged but prices alter because of a change in the value of money. Here Marx assumes a fall in the value of money caused by a rise in productivity in the gold mines. This would cause a rise in prices, or inflation. In demanding more wages workers would only be trying to maintain their standard of living. Marx warns, "all past history proves that whenever such a depreciation of money occurs, the capitalists are on the alert to seize this opportunity for defrauding

the workers".

36. In trying to assess whether the workers are "worse off" five conditions must be distinguished:

(a) The value of labour power.
(b) The price of labour power, or money wages.
(c) The amount of commodities consumed by a worker, or his standard of living.
(d) The ratio of paid to unpaid labour, or relative wages.
(e) The intensity of labour.

These can all vary independently of each other. Marx's so-called Theory of Increasing Misery means that under capitalism (d), but not necessarily (c) tends to decline.

37. Total family income may increase due to wives and children working, but the workers' relative social position still declines if the rise in total wages was less than the extra surplus labour extracted from the whole family.

38. Intensity of labour should not be confused with productivity though, in the short run at least, an increase in intensity is also an increase in productivity. An increase in intensity can be defined as an increase in productivity due entirely to the workers working harder.

39. When a worker sells the use of his labour power he expects it to be used properly and that his employer will not make him work too hard or too long. If his employer does overwork him he is in effect reducing that worker's standard of living by paying him less than the value of his labour power.

40. The workers in resisting, either by demanding Factory Laws or by demanding higher wages to pay for the extra effort, capitalist attempts to overwork them are merely trying to maintain the "value" of their labour power. But even with Factory Laws workers still need to guard against attempts to intensify their labour.

41. At various stages of the business cycle all prices, including wages, rise and fall. When they are falling, the workers must debate with their employers how much the fall in wages should be. And when other prices are rising, why should this not also apply to wages?

42. Thus in nearly every case the wage struggle follows on from rather than precedes some other economic change. Trade union activities are thus primarily defensive or, as Marx puts it, "the reactions of labour against the previous action of capital".

43. Wages struggles are built into the wages system, but how likely are they to be successful? The general answer is that, as with other commodities, the market price of labour power (wages) will in the long run conform to its value.

44. The value of labour power has fairly elastic limits:

(a) The physical minimum of what the worker must consume and the maximum time he can work.

(b) The social element, or the workers' traditional standard of living, which "may be expanded or contracted".

45. The level of wages and profits "is only settled by the continuous struggle between capital and labour . . . The matter resolves itself into a question of the respective powers of the combatants" .

46. In this struggle the capitalists will tend to be in a stronger and stronger position because (a) the introduction of machinery will cause redundancies and lower workers' skills, and (b) the demand for labour will not keep pace with the accumulation of capital.

47. The tendency is thus – with continuous unemployment and less skilled labour – for average wages to decline and for, in Marx's view here, the value of labour to be depressed "more and more to its minimum limit".

48. Workers ought still to resist these downward economic pressures but realise that they are only fighting effects. They ought also to fight for the abolition of the wages system.

49. Trade Unions fail:

(a) because what power they have is often not used properly;
(b) because they are only dealing with effects anyway.

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