Concerning Value

BY "GEORDIE"

Expenses of Production and "High" and "Low" Compositions of Capital. Varieties of Profits.

"In volumes I. and II. we were dealing only with values of the commodities. Now we have dissected this value on the one hand into a cost-price, and on the other we have developed out of it another form, that of the price of production of commodities."—"Capital," vol. III., p. 192.

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"Competition first brings about, in a certain individual sphere, the establishment of an equal market—value and market-price by averaging the various individual values of the commodities. The competition of the capitals in the different spheres (of industry) then results in the price of production which equalizes the rates of profit between the different spheres. This last process requires a higher development of capitalist production than the previous process."—"Capital," vol. III., p. 212.

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"What competition does not show is the way in which value is determined and the movement of production dominated by this determination. It does not show the values that stand behind the prices of production and determine them in the last instance. Competition does show on the other hand, the following things:—

(1). The average profits independent of the organic composition of capital in the different spheres of production, and therefore also independent of the mass of living labor appropriated by any given capital in any particular sphere of exploitation.

(2). A rise and fall of prices of production as a result of changes in the level of wages, a phenomenon which flatly contradicts at first sight the law of value of commodities

(3). The fluctuations of market prices, which reduce the average market-price of commodities in a given period of time, not to the market-value, but to a market-price of production differing considerably from this market-value.

All these phenomena seem to contradict the determination of value by labor-time as much as the fact that surplus value consists of unpaid surplus-labor. Everything appears upside down in competition.

The existing conformation of economic conditions, as seen in reality on the surface of things, and consequently in the conceptions which the leading human agents of these conditions form in trying to understand them, are not only different from the internal and disguised essence of these conditions, and from the conceptions corresponding to this essence, but actually opposed to them, or their reverse." (Marx here opposes the "real" to the "actual."—G.)—"Capital," vol. III., P. 244.

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"In short, under capitalist production, the general law of value enforces itself merely as the prevailing tendency, in a very complicated and approximate manner, as a never ascertainable average of ceaseless fluctuations."—"Capital," vol. III., p. 197

MARX expressly declares that what he calls "price of production" is the same thing that Ricardo and his school knew as "cost of production." It will be readily understood, however, that the explanation it received at their hands was not the same as that given by Marx. As I have shown, Marx defined the price of production of a commodity as consisting of the expenses of production (cost price) plus the average profit, and showed that this profit consisted of surplus value, the result of unpaid labor.

On the other hand, the capitalist economists held that the effect of competitive production is such that the various parties who contributed to the productive process received, on the whole and on the average, just such a share in the product as was justified by their several efforts. The share that each received was conceived to be a measure of his contribution to the social product. The word "labor" is dropped from the definition of "cost of production," which is now described as "the sum of the efforts and sacrifices involved in production." The laborer receives wages which are the "reward" for his "labor." The financial capitalist receives interest which is the reward for his "abstinence" and "waiting."

By the way, this word abstinence is the ear-mark of the apologist. It was, no doubt, specially selected as suggesting something painful.

Then the employing capitalist, the "entrepreneur," receives profits. Of these there are several varieties. There are "wages of superintendence" which are the reward for the labor expended by the employer in directing the labor-process. This is the main item in the category known as "necessary profits," the only profit to actually appear in the cost of production. Then there are "accidental" profits, which the capitalist realizes through some conjuncture of events, some fortunate circumstance which enables him to make a surplus profit. Lastly, there are "differential" profits due to the superior ability or business acumen of the more efficient employers. These also are surplus profits and, being akin to rent, are sometimes called "rent of ability." Surplus profits do not enter into the cost of production. There are also monopoly profits which do not here concern us.

The landlord, of course, gets his rent. So far as I know, no economist has had the nerve to suggest that this is his reward for owning the land. The best they can do for him is to show that rent is a differential gain which does not enter into the cost of production and therefore does not affect prices. This brings it into the category of surplus profits. Of course, much of what is commonly known as rent is really interest on capital invested in improvement to the land.

There is an economic law to the effect that "there cannot, at any given time, be two prices for the same commodity in the same market." It is, of course, a matter of common experience that prices will often vary considerably even in adjacent stores. This is particularly noticeable in the small retail trade and may be due to differences in the way of doing business, or simply to the ignorance of the public and the dishonesty of the dealer. Nevertheless, for sufficiently obvious reasons the statement is quite defensible and may be taken as generally true.

On the other hand, it is well known that the expenses of production will vary for the different producers of any given commodity. This will arise from a number of causes, among which may be mentioned the greater or less command of capital; the employment or otherwise of machinery; the proximity to markets or to sources of raw material; the greater or less efficiency of labor employed and to the relative organizing ability of the employers. It is safe to say that no two of the producers of any given commodity will put it on the market with exactly the same expenses of production. Nevertheless, they can only obtain the same price. This means that the individual rates of profit will vary. Some will get more than others. Those who produce under the least favorable conditions are called the "marginal" producers. These are the first to feel the pinch in times of depression and the first to be forced out by falling prices. It was customary among the economists to assert that the cost of production of a commodity was determined at the margin of production. The reason given for this was that no producer could or would stay in business unless it was worth his while, that is to say, unless he received the customary rate of profit over and above his expenses. Marx, however, found reason to differ from this finding and shews that, while in certain industries the cost of production is determined at the point of least favorable production, in most cases it is determined by the expenses of those who produce under average conditions and in some instances by the most favorable conditions. (See "Capital," vol. iii., chap. 10).

It is clear, however, whether the cost of production be determined at the margin or by the average cost, that those producing under more favorable conditions will realize a surplus profit. This surplus profit, as we have seen, arises from differences in the conditions of production and, according to its source, is known as differential profit or as economic rent. In case it is due to greater fertility of soil or of mines, or to the relatively favorable location of the land, it will find its way, sooner or later, into the pockets of the landlord as rent. In case it is due to the superior organizing ability of the entrepreneur it will be pocketed by him as differential profit. It will now be seen why it was held that rent does not enter into cost of production.

Now then, this process of equalization which goes on in each "individual sphere of production" extends to industry as a whole. A few preliminary remarks may be necessary here. As we know, every capitalist who engages in industry must be provided with a certain money-capital. This he expends in raw material, in machinery, and as wages. In the process of production the whole value of the raw material passes over into the product as also does the wear and tear of the machinery. No more and no less, however. For this reason the capital so expended is called "constant" capital. On the other hand, the labor expended in the process produces a surplus over and above the amount paid as wages. For this reason the capital expended as wages is called "variable" capital. It is only the variable capital which, so to speak, produces a surplus. The surplus values produced will be in proportion to the variable capital employed. Now the various spheres of industry vary in respect of the proportion which obtains between the constant and variable parts of the capitals employed in them. This proportion is called by Marx the "organic composition of capital." Those industries employing a high percentage of constant to variable capital are said to have a "high" composition of capital. Those in which the percentage of constant capital is lower relatively to the variable are said to have a "low" composition. They are, of course, high or low relatively to what is called the average composition of capital.

Let us now take some examples. In discussing the law of the average rate of profit in last issue I assumed that the average composition of capital was in the proportion of 80 per cent constant to 20 per cent. variable and that the rate of exploitation and, therefore, the rate of surplus value was 100 per cent. This would work out at a rate of profit of 20 per cent.

The employer of this capital is, say, a manufacturer of brass goods. For every hundred dollars he expends 80 go in raw materials and wear and tear of machinery, while he pays out 20 dollars in wages. The rate of exploitation being 100 per cent. means that for every dollar in wages the worker receives he produces two dollars in values. Let us suppose that the above expenditure of capital results in a complete process by which 100 articles, say basin cocks, are produced. We get, therefore, the following result. We have 100 articles having a value equal to 80 dollars constant capital. plus 20 dollars variable capital, plus 20 dollars surplus value, a total of 120 dollars. The price of production and therefore the selling price (at the factory) of these 100 basin cocks is therefore 120 dollars, of which 100 dollars represents the actual expenses of production and 20 dollars are profit. This capital being of average composition we may assume, with certain reservations, that the price of production and also the market price equals the value.

Now let us put all this in terms of labor-time. To do this we shall have to make a further assumption. Let us say that one dollar represents the value of one hour in social labor time. Now then, the rate of exploitation being 100 per cent. means that the value of labor-power is one half that of its product. Wages will therefore be 50 cents an hour. For 20 dollars the laborer will work 40 hours.

We have therefore this result. In the 100 articles produced there are 80 hours social labor in the raw material, etc., plus 20 hours necessary labor plus 20 hours surplus labor. A total of 120 hours which, at one dollar per hour, makes 120 dollars. Each article represents therefore 1 1/5 hours (one hour and 12 minutes) social labor time.

Let us now suppose another capital of higher composition, say, 90 per cent. constant to 10 per cent. variable capital. The owner of this capital makes

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