

# Concerning Value

## Subjection of Industry to Capital—Concepts of the Classical School—The Labor Theory and Supply And Demand.

BY "GEORDIE"

"In the precapitalist stages of society, commerce rules industry. The reverse is true of modern society. (This was written about the year 1865. G.) Of course, commerce will have more or less of a reaction on the societies between which it is carried on. It will subject production more and more to exchange value, by making enjoyments and subsistence more dependent on the sale than on the immediate use of the products. Thereby it dissolves all old conditions. It increases the circulation of money. It seizes no longer merely upon the surplus of production, but corrodes production itself more and more, making entire lines of production dependent upon it."

Capital. Vol. III, page 389.

This sphere within whose boundaries the sale and purchase of labor power goes on, is in fact a very Eden of the innate rights of man. There alone rule Freedom, Equality, Property and Bentham. Freedom, because both buyer and seller of a commodity, say of labor-power, are constrained only by their own free will. They contract as free agents, and the agreement they come to is but the form in which they give legal expression to their common will. Equality, because each enters into relation with the other as with a simple owner of commodities and they exchange equivalent for equivalent. Property, because each disposes only of what is his own. And Bentham, because each looks only to himself. The only force that brings them together and puts them in relation with each other is the selfishness, the gain and the private interests of each. Each looks to himself only and no one troubles himself about the rest, and just because they do so, do they all, in accordance with the pre-established harmony of things, or under the auspices of an all-shrewd providence, work together to their mutual advantage, for the common weal and in the interest of all."

Capital. Vol. I, page 195.

I have now shewn the independent development of the conditions which, I imagine, would account for the rise of the labor theory of value and the law of supply and demand. Not that such theories were formulated at the time in the form in which they afterwards appeared. The craftsmen and traders of the Middle Ages were not in the habit of rationalizing their conduct or explaining natural or social phenomena in terms of concrete science—that was to come later. The rise of the physical sciences is conditioned by the development of industry, and political economy by the social relationships so formed.

The Industrial Revolution, which took place in England during the latter half of the eighteenth century, completed the first phase of a process which had been going on for some two centuries—a process resulting in the subjection of industry to capital. Merchant's capital, at one time the predominant form of capital, in invading the sphere of industry became industrial capital, and mercantile capital, as such, had to take a subordinate place.

The predominance of industry and the capital employed in it over commerce and merchant's capital resulted in the triumph of those concepts and theories associated with industry, and in the subordination of those theories deriving from commerce.

The destructive criticism of the Mercantile System and its theories which was begun by the Physiocrats in France, was completed by the Classical school of Economists in England. Political economy became a more or less exact science and took on the complexion dictated by the interests of the now dominant manufacturing interests.

Here we may summarize the doctrines which formed the conceptual stock-in-trade of the Classical school. These were:

That the Supreme Being had created a perfect universe and established once for all a "natural and essential order" of things. This natural order included a complete system of natural laws, according to which the operations of nature took place. It was therefore the duty of mankind to ascertain precisely what these laws were and by acting in harmony with them ensure happiness and well-being for all. Particularly so as—logically enough, given the premises—the order of nature was conceived as being benevolent and progressive.

Incidentally, we may observe that the Supreme Being here mentioned is not the King of Kings of patriarchal times or the Suzerain of feudalism but goes by the name of the Great Artificer or Grand

Architect of the Universe in accordance with concepts engendered by the handicraft stage of industry. On this point see Veblen in "Instinct of Workmanship."

Secondly, that all men are born free and equal and are endowed by nature with certain rights, such as the right to Life, to Liberty and so forth. That, further, all inequalities are due to special privileges or restrictive legislation and that, these being removed, all men, by the working out of natural law and in accordance with the eternal principles of Truth and Justice, would, in seeking each his own interest, promote the interests of society as a whole. From this it results that the function of the State is conceived to be, after all restrictions have been removed, the purely negative one of seeing that no one interfered with any other's freedom or hindered him in the exercise of his rights. This is known as the doctrine of "laissez faire." This latter phrase is untranslatable but has been freely rendered as "let alone."

It has occurred to me that from this concept that men are free and equal comes also the claim that every man (or woman), simply because he (or she) is a man (or woman) has the right to the franchise. It would appear that "Democracy" must be classed along with the rest of the eighteenth century abstractions.

Thirdly, that labor was something irksome, if not exactly painful, in its nature, something to be avoided. (This is true enough, under capitalism.) It was therefore supposed that men in the pursuit of their own interests would naturally seek the greatest possible enjoyment (possession of wealth?) at the least possible expenditure of labor. This is the utilitarian theory. In its later forms, this theory assumes that men in their economic dealings consciously try to make a balance between "pain-cost" and "pleasure-gain." This process is known as the "hedonistic calculus." By the way, this last expression will bear some explanation. The word "hedonistic" is an adjective formed from the Greek word for pleasure, and the word "calculus" means "a little stone." It appears that the ancient Romans used pebbles for counting, much in the way the Chinese use a "swan-pan" or abacus, hence our word "calculation."

Fourthly, there was the important doctrine that labor produced all wealth. From this were deduced certain further ideas, such as, that as labor was the sole producer of wealth it also created all (exchange) values, and that labor-time was the measure of value.

Further, every man had a right to the product of his labor—to the whole product of his labor. On this ground it was asserted that the only true basis for the right of property was labor. (This concept cannot be squared with the right of property in land, which could not have been produced by the owners and, for this reason many Liberals of a radical turn of mind, deny the right of property in land. For the same reason, the abolition of the right of inheritance has been advocated.)

Conversely, it was conceived that the property which a man had acquired ("honestly," of course) was, in some sense, the result of his labor and his income, normally and under freely competitive conditions, was a measure of his contribution to the social productive process.

It is no part of my present purpose to criticize any of these doctrines. All that I am now concerned with is to point out that, owing to the predominance of industry, the labor theory of value, which I shall now call the Law of Value, had come into its own, and to shew the conceptual surroundings in which it found itself.

Nevertheless, the trouble was only beginning. The concept was at variance with the facts. Ordinary observation in the market shewed that prices of commodities rose and fell, independently of value, in accordance with supply and demand. This meant that the law of supply and demand had to be ad-

mitted if only in a subordinate capacity. Such an admission did not, however, present any real difficulty to the classical school holding, as they did, the beliefs I have just set forth. It is true, they argued that the "natural order" would work out to a perfect conclusion if unimpeded. But the "natural" order is not the "necessary" order. Because of the imperfections of human nature, ignorance, moral obliquity and artificial restrictions, there is a considerable divergence between what ought to happen and what actually does happen. There is no law of nature the operation of which is exempt from modifications, due to the conditions under which it acts. Falling bodies, for instance, do not, under ordinary circumstances act exactly according to the law of gravitation. They may (or may not) arrive as per schedule in a vacuum, but that is another story. Much more, then, in the case of those laws governing the actions of men in society may we look for discrepancies. Very well then, that price which would be determined by the labor-cost, by the human effort involved in the production of any commodity, would be its value or "Natural" price. The natural price would be the normal or central price round which would fluctuate the actual or "Market" price. A quotation from Adam Smith will illustrate this point, and will also serve to indicate certain other difficulties which will next be taken up.

"When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labor, and the profits of the stock employed in raising, preparing and bringing it to market, according to their natural rates, the commodity is then sold for what may be called its natural price. . . . The actual price at which any commodity is commonly sold is called its market price. It may be either above or below or exactly the same with its natural price."

Wealth of Nations. Book I, Chap. vii.

As we see from this quotation a number of other things had to be accounted for. These were, for instance, rent and interest and profit. There was also the discrepancy between the value of labor and the value of the product. And, as time went on, still more difficulties. I hope to get round to these in time.

## BUSINESS TODAY.

The Rochester, N. Y., "Herald" has turned to asking questions, as witness the following:—

### What's the Answer?

"It is frequently stated now that the rehabilitation of purchasing power is the thing most essential for the full recovery of business, and that this can be brought about only by the speeding up of production the world over. This seems to be almost axiomatic. Yet the solution is not so simple as it may at first appear. A question has been raised, for example, as to the feasibility of more intensive production when there are already great stocks of goods that can find no market for the simple reason that people are not able to buy them. With a crop of more than 3,000,000,000 bushels of corn last year and another crop nearly as large now maturing, with enough wool stored in warehouses throughout the world to clothe the population for the next two years without shearing another sheep, with a carry-over of cotton amounting to more than 9,000,000 bales, with hides almost a drug on the market, a large portion of the population of Europe is going hungry, poorly clad, and unshod. It seems that more is needed than a mere speeding up of the process of production. Something that looks suspiciously like another of those "vicious circles" that have plagued the world so sorely in recent times appears to have developed. There is overproduction in some lines because there is underconsumption; there is underconsumption because of lack of purchasing power; there is lack of purchasing power because of unemployment; and there is unemployment because there is overproduction. Thus the vicious circle is complete. In the language of the man of the street, what's the answer?"