Economics for Workers

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PRICE.

THE subject of Price should be more readily understood after the discourse we had on money, but before we study the subject from the Marxian standpoint it might be as well I should give a summary of one of our Toronto College professor's lectures to get his viewpoint.

His subject was "Competition and Prices" and the illustration was an isolated community. In this community were four people with varied technical skill called A. B. C. D. He assumed the four hat makers produced all the hats necessary for that community making a living and some a profit, selling the hats at $1.80 each.

A. (a superior workman) Cost is $1.40—40c profit.

B. Cost is $1.50—30c profit.

C. Cost is $1.60—20c profit.

But D. can only make a living at $1.80.

The others, making a profit, secured an advantage, and their capital grows like a snowball, it being easier for A to save than the others owing to his efficiency. In this isolated community note—the professor says—an influx of emigrants with no hat makers amongst them; the demand for hats sends prices up.

E. who is called a potential producer could not produce hats at $1.80 but can do so now because prices have risen to $2.00, E. can now make a living; the profits of the others increase.

He said that is what happened in Canada in munitions during the war, but he forgot to explain why munition prices fell. A. has accumulated capital and wants to make more profit; goes to B. (a good worker but of poor business ability), and asks him to come in with him and not have the worry of selling his hats. B. probably produces more hats through the aid of A's machinery and A. B. have more hats to sell than they had as individual producers. They offer to take in C. and buy him out with 8% bonds. A. B. C. now control the hat trade, assuming no imports or emigrants.

This puts the price of hats very high. People may stop buying hats and wear caps. They find they have overshot the market and, although there is a big individual profit, the total profit may be less than if they sold the hats cheaper through having a bigger turnover or before the monopoly. Monopolists realize they must sell to realize money. They cannot sell above the competitive price previous to the monopoly. To wind up the price question he said, "When F. G. H. started producing hats, prices would fall, maybe below the original $1.80, and then the howl went up about the immigrants or foreigners."

The above is practically a learned professor's lecture on prices. It is simply the fallacy of price being value determined by the law of supply and demand. This law is only a regulator like the pendulum of a clock, but we know that the winding of the clock is the cause of its motion. So with value; labor is the winder, or the cause of value; supply and demand is the pendulum, to regulate the law of value.

Let us see the difference between our theory of price and that of the professor. Price is the monetary expression of value. Gold and silver are measures of value because labor is embodied in their production, and this labor is compared with the labor embodied in other commodities.

Although gold has become the universal commodity and equivalent, expressing values into price, it cannot determine its own value, as an ounce of gold is still an ounce and its value can only be expressed when brought into exchange with another commodity for its equivalent. Some people argue there are still 100 cents in the dollar. It does not mean any more than that 16 oz. still make 1 lb.

Every trader knows that he is far from turning his goods into money when he expresses their value into price or imaginary money. It does not need a great quantity of gold to estimate in that metal millions of dollars' worth of goods. Marx tells us in Vol. III of "Capital": "A thing can have a price without value."

Marx says: "Objects that in themselves are not commodities, such as conscience, and honour are capable of being offered for sale by their holders and thus acquiring through their price the form of commodities.

"Hence an object may have a price without having value. The price in that case is only imaginary like a certain quantity in mathematics. On the other hand, the imaginary price-form may sometimes conceal either a direct or indirect real value relation, for instance the price of uncultivated land, which is without value, because no human labor has been incorporated in it."

To make gold a standard of price a certain weight had to be made as a unit.

One ounce of gold therefor equals $18.60 or £3 17/10½.

Marx says: "A general rise in prices of commodities results from either a rise in their value while the value of money remains the same, or from the fall in the value of money while the value of commodities remains constant."

Because gold has a fixed price people are apt to believe it has a fixed value. But things are not what they seem to be on the surface, and the belief in the stability of money is analogous to the belief of our ancestors with regard to our solar system being stationery. Today we still talk of the sun rising although we know it does not, but our poverty of language has not been able to change this phraseology since we discovered that the rotation of the earth was the cause of day and night and not the sun rising.

Marx says: "A change in the price of commodities is always traceable to actual changes in the value of commodities that is to say, to the changes in the socially amount of necessary labor time required in their production."

"Although a general rise in prices of commodities is caused either because they rise in value while money remains constant or from a fall in the value of money while commodities remain constant, it does not mean a rise in money value will necessarily mean a proportionate fall in the price of commodities. Such proportion only holds good where the value of commodities remain constant."

If commodities fell in value proportionate to the fall in the value of gold, prices would remain constant, e.g:—

1 unit gold—1 dollar—4 lbs. butter—25c lb.
2 hours 2 hours 2 hours

If values fell proportionately to 1 hour:—

1 unit gold—1 dollar—4 lbs.—25c lb.
1 hour 1 hour 1 hour

A rise and fall in the prices of commodities is in the last analysis determined by the rise and fall of their value. Once we realize and understand that the value of the precious metal, gold, from which money is coined is determined by the socially necessary labor embodied in its production, we will not be confused by the palliatives put forth by our reform tinkers.

If the price of wheat has changed alone while all other commodities remain constant, the conclusion must be drawn that the change was due to causes affecting the wheat alone.

If the price of wheat was much above production cost there would be an abnormal profit. Capital and labor would be attracted to that line of industry and prices brought down through competition. If prices were below cost of production capital and labor would withdraw, supply would be cut down and prices would rise. This is how the law of supply and demand regulates prices and compels commodities on the average to sell at their value.

If the quantity of gold in circulation increases, prices rise. This rise in prices affects all implements and material used in gold mining, as well as the wages of the miners, and diminishes any extra profit obtained with increased gold production. If increased gold production did not increase prices labor and capital would find better employment in gold mining with abnormal return. If the price of commodities is out of relation with their value those producers who obtain a price less than the value will transfer their energy to the production of commodities where the price is superior to their value. Hence the supply of the latter commodities increases while the former decreases and the process continues until the commodities are exchanged at their value on the average.

This was well illustrated at the outbreak of the "Great War" when munitions were selling at an abnormal price and profit. We saw a number of firms transferring their activities from producing agricultural implements to that of munitions, until those who were last in the field found the profit was no larger than it was in their peace industry. Capital and Labor left other industries to enter munitions. It is through this transference of capital and labor that the production of any given commodity, gold included, is automatically regulated.

The European mines had to close up in the 16th Century when the great stream of precious gold and silver entered Europe from the newly discovered lands of America.

Adam Smith tell us in his "Wealth of Nations," "After the discovery of the mines of Peru, the silver mines of Europe were for the greater part abandoned. The value of the product was reduced so much that it could not pay the expense of working there."

If the miner produces more gold in a given time it is extra profit to the mine owners, but this condition cannot last long because it surely will increase prices if production in other commodities has remained constant.

The peculiar difference of an increase of gold to that of commodities is this: If gold production increased 100% while commodities remained constant, prices would double; gold's utility in exchange would not alter, but if wheat production be doubled from one to two bushels it would have twice the utility of satisfying hunger even although its exchange value fell.

The stream of new capital and labor to the gold fields or any other industry that is paying above the average rate of profit will continue until the rise in the price of other commodities reaches such a point that the extra profit in gold mining will cease. This is where the law of supply and demand function in regulating prices so that commodities on the average are sold at their value.

To illustrate let us say gold mining is profitable and capital and labor leave the production of boots which is not profitable. You will have a lessening in production of boots and a greater demand with the growth of a gold community, with its retailers to serve the gold miners with boots. The price of boots rises until, perhaps not only the average rate of profit is obtained but an abnormal profit, then labor and capital will leave gold mining and return to the boot industry.