A Review of the Plebs' Economics

An Outline of Economics. Plebs Text Book Number Three. Published by The Plebs League (for the use of classes run in connection with the National Council of Labor Colleges) at 162a Buckingham Palace Road, London, S.W.I.

THE development of Science and the scientific method spreading from one sphere of human knowledge to another until the whole field of natural and social phenomena had been brought within its scope very early presented to the theologian the problem of how to preserve a Deity who was being rapidly shorn of his attributes and functions. Two cources were open. Some sought refuge in Pantheism but this, as Schopenhauer long ago pointed out, amounted to total extinction. Consequently the majority followed the progression from Deism to Theism and so to the concept of an Absolute located somewhere over the confines of the known universe. An Absolute, vague, indefinite, impersonal and functionless but yet serving as a peg on which empty theologies might be hung. In the meantime the functions of Deity were usurped by a crowd of animistically conceived natural laws in terms of which Science described and explained the universe.

Similarly, when Marx took over the Labor Theory of Value from the Classical School he was confronted with the problem of saving a theory which he needed as a basis for his exploitation theory but which had ceased to function, that is to say, it would no longer explain the facts. It, no doubt, had at one time done this, its existence cannot otherwise be accounted for, but the development of industry and commerce had been such that the theory was now at variance with the facts of the market. True, Ricardo had done his best for it. He got over the difficulty of Rent by his Theory of Rent and he elaborated the Cost of Production theory in which the raw materials and machinery figured as "past" labor and interest and profit appeared as the result of the efforts and sacrifices contributed by the financial and employing capitalists. Nevertheless the difficulties crowded thick and fast. They may be found set forth in detail in the "Critique."

At this point Marx takes up the problem. He makes a distinction between concrete or useful labor and abstract or social labor. Useful labor being expended on appropriate material effects a qualitative change and produces a useful object. In a society such as ours the production of goods is a social act looking to the satisfaction of a social want. Our producer, then, at the same time and by the same act incorporates a certain quantity of social abstract labor and creates Value. The useful object is a commodity. The value thus created, although only conceptually existent, is to be thought of as an entity, as a substance having actual existence in the commodity. It is created in the act of production and exists prior to and independently of the act of exchange. Being materialized undifferentiated labor it can have no quality other than magnitude and having been created in response to a social want no more can be materialized than the amount socially necessary, for the production of the commodity.

Marx therefore states the Law of Value in these terms:

"We see then that that which determines the magnitude of the value of any article is the amount of labor socially necessary, or the labor-time socially necessary for its production." (Capital, Vol. I p. 46)

"The value of a commodity, therefore, varies directly as the quantity, and inversely as the productiveness, of the labor incorporated in it." (Capital, Vol. I. p. 47).

Marx further pointed out the distinction between labor-power and labor. The fact that, with appropriate instruments the worker can produce more in any given period than is necessary for his maintenance for that period when stated in terms of the Law of Value appears as the formula that the value of the product of labor—allowing for the value of the constant capital consumed in the process—is greater than the value of the labor-power expended. The difference is surplus-value.

Exchange-value may be regarded as the phenomenal form of the substance Value. It does not appear, however, that there is any causal connection between the two nor is there any mechanism by which Value can make itself effective in the field of circulation. Now, it is precisely in this field, that is in the market, that exchange-value necessarily emerges seeing that it is the quantitative ratio in which commodities exchange, or in other words "the proportional quantities in which it (a commodity) exchanges with all other commodities." When one of the quantities to be exchanged happens to be the money-commodity, which is now invariably the case, exchange-value appears as Price. It is, therefore, the Law of Prices which is now in question. We may note in passing that the "Cost of Production and Marginal Utility theories are not now theories of Value in the Marxian sense of that term. They are theories of Price and as such do not necessarily conflict with the Law of Value.

If we take the market for any given commodity at any given moment we shall find that the supply of that commodity is for the time being a fixed quantity. Now, it is the business of the seller to sell; he will sell if he can and in many cases must sell. The goods, therefore, will be sold and at such a price as will make the demand equal the supply. That is to say at a price which will find purchasers for all the goods. We may observe in passing the influence of price in the determination of demand. If the price should rule so low as to cause a withdrawal of goods from the market this would show the influence of price on supply. In any case supply would equal demand.

Now this price is clearly arrived at without reference to the Value or cost of production of the goods. These, when once exposed for sale, are at the mercy of the market.

The production and sale of commodities is, however, a continuous process. If the goods are removed from the market by purchase others must take their places, and the price which is realized must be such as to allow of a continuous flow into the market. That is to say that the price must, on the average, cover the cost of production of the goods.

Prices are not, however, determined by cost of production. It would be mere tautology to say so, seeing that cost of production is itself merely an addition of prices plus, of course, the average rate of profit. By the way, the Cost of Production is the same as Marx's Price of Production. This question may be considered as finally disposed of by the statement, which is generally conceded, that prices, thus determined by the conditions of the market will, in the long run, tend to coincide with their respective prices of production. That is, for competitively produced goods. Commodities produced under monopoly conditions are, of course, subject to the law of monopoly prices which is, however, only a variant of the law of prices.

Further, the Price of Production, by reason of the fact that it includes the average rate of profit, cannot coincide with Value because (1) of the varying organic compositions of the capital employed; because (2) even in the case of capitals of average composition the constant capital employed may (probably does) include the products of capital of another composition; because (3) of varying rates of turnover and because (4) Merchant's capital must share in the average rate of profit.

Value can, nevertheless, be connected with exchange value and in this way: In any given period of time there is produced a given quantity of commodities; these have absorbed a given quantity of labor and, consequently, have a certain total value. The values of these commodities are expressed in gold prices. The total (gold) price must, of necessity, equal the total value. Now, according to the productivity of labor and the intensity of exploitation a certain proportion of the total value will consist of surplus-value. The proportion which the total surplus-value bears to the total capital employed gives the rate of profit. The surplus-value is distributed pro rata among the various capitals employed, forming a given percentage called the average rate of profit. The total profit (including rent and interest) equals the total surplus-value, and this again is a part of the total value produced by labor. But the price of production includes as one of its elements the average rate of profit. Here, then, is the point at which the concept Value touches the percept exchange-value. As a matter of fact the Law of Value is only a roundabout way of saying that labor produces all values. But in respect of the influence of Value on prices the most that can be said is this, stated in the animistic language of last century, that "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."

All of which boils down to the statement that exchange-value and price are not to be explained by reference to the Law of Value. Incidently it may be observed that if any student finds that the marginal utility theory is useful to him there is no reason why he should not use it as a serious contribution (albeit somewhat obsolescent) to the study of the formation of prices.

Value and exchange-value are therefore very distinct and separate things, and unless this distinction is recognized and emphasized the Marxian Theory of Value appears to do violence to the facts of the case, and is indefensible. It cannot even be made intelligible.

Instead of which I find in the latest publication by the Plebs League—An Outline of Economics. Textbook No. 3—this statement:—

> **Exchange Value.** The amount of something else for which a commodity can be exchanged. When expressed in money it is called price. The exchange value of a commodity is the amount of human abstract socially necessary labor needed to reproduce it. Price oscillates above or below value under the influence of a varying supply and demand.

And that is one reason why this text book will not do.

The book, however, is not, as is the case with so many similar publications simply so much cauld kail rechauffe. It contains much new and valuable material and could be safely recommended were it not so lamentably and inconclusive on fundamentals.

It is also to the credit of the producers that they recognized the problem involved in the question of Value and Prices but, like so many Marxists, they have not sufficiently studied their Marx. I have also a suspicion that they are suffering from an uncritical acceptance of the absurd position concerning the identity of Value and Exchange-Value taken up by Mr. Louis B. Boudin in his book "The Theoretical System of Karal Marx." Certain it is, however, that the dire necessity which has been so long apparent for a text book of Economics from the Socialist point of view still remains unfilled.

It is sufficiently apparent that the intentions of the editors were of the best, even if their execution was poor, and I have no hesitation in endorsing to the full their concluding statement:—

> "It must be remembered that Marx started where the Classical economists of his day left off: there is no reason why we should not make similar use of the orthodox theories of our time. All new ways of looking at facts are fruitful of understanding. The value of Marxism lies in its analysis of the dynamic processes in society; that of the marginalist school in its analysis of the superficial phenomena of price changes and the balancing of the comparative advantages of different forms of activity. For understanding the nature of the Class Struggle the first is necessary; for carrying on efficiently the detailed processes of production and distribution of goods the second is also necessary. Let the student seek knowledge candidly wherever it be found, and let his motto be Marx's own: Follow your own course and let people say what they will."

"GEORDIE."