The continuing imperative of value theory*

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Value theory lies at the heart of Marxist political economy for three key reasons. First, it is the abstract basis on which to understand the social relations of capitalist commodity producing society. Second, it attaches complex forms, such as price and profit, to simple underlying determinants. Third, it addresses the dialectics of change and reproduction. In addition, value theory is apposite in the current renewal of interest in the economy across the social sciences.

The Dialectics of Debate

C*APITAL & Class* (and the earlier Bulletin) arose in very different circumstances than those of today. In the wake of student radicalism, the collapse of the post-war boom and the ideology of Keynesianism, mainstream economics was in disarray prior to the rise of neo-liberalism. It was under assault from the Cambridge critique and growing interest in Marxist political economy. Intellectual, academic, political and personal practices were more integrated. Now, mainstream economics as a discipline is ever more esoteric, intolerant of heterodoxy and riddled with the crudest analytical inadequacies. Yet it possesses such a stranglehold that the discipline is lost to political economy as a terrain on which to argue for alternatives. Radical political economists within economics are ageing, compromising and increasingly eccentric. For value theory, new 'solutions' to the transformation problem are more marked by these influences and the search for 'originality' than by attachment to intellectual traditions and the realities of capitalism.

This is an instance of a general feature of debate over the labour theory of value (ltv). It has always been open to rejection by some even as it has been accepted by others, with both sides appealing to the same factors. This theoretical paradox is not accidental. As capitalism becomes more developed and complex, does it undermine value theory, or render it essential as the abstraction for reconstructing and comprehending concrete outcomes? Two separate methodological issues arise. First are the features of the capitalist economy that are common across all its history amenable to explanation by reference to value theory—is the ltv necessary to explain wages and profits, or the course of economic growth and crises? Second do particular periods of capitalism, especially the more advanced, reinforce or undermine the ltv—as in monopolisation or the growth of unproductive labour. The ltv has always been on the defensive across these analytical divides, charged with underlying analytical weaknesses and inflexibility in responding to new features of capitalism.

I will emphasise the positive case for the ltv. Almost inevitably, it has been overshadowed by defensiveness. The underlying rationale for the ltv has become inadvertently set aside, blissfully ignored as a parody of Marx's political economy is paraded for ritual attack and defence. I demonstrate there are coherent fundamentals to the ltv. These provide the basis for unravelling the complexities and specificities of capitalism as they have emerged over time.

Smith, Ricardo, Marx

Begin with Smith and Ricardo. When Smith argued the ltv would hold in the rude society, since labour claimed all net product, he perpetrated a simple error. In such a state, there would be no exchange! You would simply hunt for whatever you wanted. So, in rejecting the ltv as inappropriate for any society with more complex claims on net product, Smith failed to root value theory in the realities of the society under scrutiny. Ricardo sought to explain all exchange phenomena of capitalism on the basis of the ltv as he understood it, identifying value with price. But, in doing so, he contradicted himself once compositions of capital differed across sectors or rent was considered (for which he offered an alternative ltv for agriculture based on the margin).

Marx's approach is different. The opening of Volume I of *Capital* establishes that value *exists* but only in societies dominated by commodity production. The process of exchange necessarily establishes equivalence between different types of labour used in production, although that equivalence is rarely, if ever, direct. The relation between (the labour of) producers is expressed as a relationship between commodities, as use values, in terms of relative prices. Although the abstraction that values equal prices draws the qualitative distinction between the two and establishes value as a social relation between producers specific to a commodity producing society, the importance of this abstraction is arguably more important for another reason—the light that it sheds on class. For, throughout Volume I, once value is established as a legitimate category, Marx is primarily concerned with exchange only to a limited but crucial extent, with the single exchange alone between capital and labour, treating the economy as if it were a single enterprise. Thus, Marx initially addresses the key question—how can surplus value be produced when every commodity exchanges exactly at its value? His answer is simple; the commodity labour power, the capacity to labour, is purchased by capitalists but at a value that bears no necessary quantitative relation to the amount of labour performed. Surplus value arises out of the ability of the capitalist to extract more working time, and hence value, than is required to purchase labour power. Interestingly, having answered this question qualitatively, the vast majority of Volume I is concerned both theoretically and empirically with how do capitalists extract surplus value quantitatively. By proposing the concepts of absolute and relative surplus value, Marx draws attention to the extensive (longer, harder work) and intensive (productivity increase through mechanisation) methods of production by which capital exploits labour. Each requires the accumulation of capital.

Value theory, then, ties political economy to basic notions: the classes of capital and labour are divided by conflict over production—this is prior to distributional considerations as suggested by Ricardian-type analyses; accumulation of capital is imperative for the capitalist system; and there are definite methods by which the expansion of surplus value is pursued, with Marx suggesting that productivity is systemically pursued through the relative displacement of workers from the production process as given amounts of raw materials are worked up into final products through the use of machinery, etc.

Value and Capital

Five distinguishing, positive features mark Marx's ltv. First, methodologically, Marx's value theory is based on dialectics. The concepts employed are shown to have a correspondence to the reality under study both socially and historically. Further, abstract concepts are based on simple concepts such as value—itself derived from the commodity as exchange and use value—which are reproduced and not displaced by the emergence of more complex concepts such as price. This method can be illustrated by the three Volumes of *Capital*. In Volume I, Marx establishes the nature of value and, then, how—as a concept rooted in capitalist production—(surplus) value is produced. Qualitatively, it depends upon the exchange between capital and labour, stripping away, or abstracting from, all other forms of exchange; quantitatively, it leads to a thorough analysis of how the production process is directed towards both the intensive and extensive exploitation of labour and what are some of the results of this—in the accumulation of capital, the factory system, limits to the length of the working day, the emergence of a credit system, the formation of a reserve army of labour, etc.

Volume I, then, primarily focuses on the use value of that unique commodity, labour power. For Volume II, attention is placed upon the exchange value of commodities and how, with the intervention of money, the extension and reproduction of the capital-labour relation can be sustained. This is not, however, simply a shift from one sphere of activity, production, to another, exchange, but refinement of the concept of value. Far from analysing equilibrium—at which all genuine Marxist scholars should shudder—Volume II shows how economic reproduction is simultaneously a balance between value magnitudes (as in the famous equations) and a balance between use values across the sectors of means of production and means of consumption (with a further analysis, often overlooked, of the different ways in which these values circulate as revenues).

In short, Volume II reconstructs the concept of value, as understood in Volume I in the more complex form of balance and movement, at whatever (non-equilibrium) quantitative level, between sectors of the economy. In addition, the refinement of value allows a variety of more complex forms to be defined more rigorously and fully—unproductive labour is wage labour not engaged in the production of surplus value, fixed capital is constant capital that only releases its value into circulation over a number of periods of production, etc.

Volume III of *Capital* addresses the distribution of surplus value but not in the simple sense of who gets how much. Note, however, that even this superficial interpretation presupposes, correctly in line with Marx's method, that the surplus value has to be produced before it is distributed. If, though, the distribution is simply interpreted as a cake-division exercise, as in the (neo-)Ricardian (or Sraffian) interpretations, then the concepts of surplus value and profit collapse and the former simply serves as a superfluous accounting exercise. In contrast, Marx deals with distribution of surplus value as a refinement of value. The results of the previous Volumes are brought together and used to develop more complex and concrete categories in terms of the economic processes by which production and exchange are integrated.

Thus, the so-called transformation problem concerns the formation of prices of production. Whilst this has incorrectly been seen as an equilibrium theory of prices (and the rate of profit), a careful reading, drawing the distinction properly between the *value* and *organic* compositions of capital, reveals that Marx's pre-occupation is entirely otherwise and remains much more sharply and abstractly focused. It examines how the development of productivity at different paces across sectors is compatible with the tendency for capital to be equally rewarded according to the quantity advanced. When the rate of change of productivity differs across sectors, prices have to adjust, and capital move, for profitability to move towards equalisation. But the situation is more complex than this in that productivity and corresponding price changes and movements of capital will have knock-on effects for the input costs of means of production and in the price of items of consumption.

This leads to Marx's law of the tendency of the rate of profit to fall, LTRPF, (and counteracting tendencies), although the LTRPF and the transformation problem have traditionally been treated separately—sharing the capacity to attract target practice for those rejecting the ltv. This separation between the two 'problems'—what happens to prices and profits for given values and what happens to them when values are changing—has been almost universal even amongst those sympathetic to Marx. His approach differs. The LTRPF is seen as more complex and different than an empirical prediction or mathematical proof of movements in profitability. It deals abstractly with the co-existence of the consequences of accumulation, elaborated in Volume I, and the need for these to be coordinated through the mechanisms of exchange detailed in Volume II. Quite apart from a host of socioeconomic changes attached to accumulation—such as monopolisation, urbanisation, the reproduction of a reserve army of labour—exchange has to accommodate shifting rates of productivity and profitability, analytically laid out in the treatment of the transformation of values into prices of production. Marx concludes this cannot occur without accumulation being punctuated by crises.

Volume III goes further, confronting the previously developed categories with specific types of capital. Volume II highlights the need for commodities to be sold; this becomes specialised activity within exchange undertaken by merchant capital, tending to earn equal profitability with industrial capital but without itself creating (surplus) value. Volume II has also shown how money is continuously entering and leaving the circuits of capital, creating a pool of idle money. Volume I suggests that capitals prosper to the extent that they can command money-capital through the credit system. Through these insights, Marx forms the notion of interest-bearing capital, the borrowing and lending of money for the purposes of producing surplus value (upon and around which any number of other forms of credit and money-dealing can be incorporated or evolve).

Volume III also considers circumstances in which there are potential obstacles to the accumulation of capital through landed property. In contrast to Ricardian and other rent theory, Marx analyses how the presence of class relations on the land affects access of capital to a vital means of production and thereby modifies the pace and nature of accumulation, through which rent emerges as a consequence. Thus, Marx's theory is organised around the potential for a lower organic composition of capital (properly understood) and the necessity for, but the limits that this imposes on, (absolute) rent. Paradoxically, this yields the result that there is no such thing as no rent land (a totally common and common-sense experience), although Ricardian theory insists that the worst land must pay no rent but for monopoly rent (which would not distinguish the intervention of land from monopoly conditions in other sectors).

The distinctive method of Marx's value theory is, then, embedded in the flow of argument through the three Volumes of *Capital*. It is worth reiterating that on every occasion in which Marx introduces a more complex concept, this is often deployed by critics (even supporters of Marx) as a means to reject his analysis. Volume II, for example, has induced theories of underconsumption, as with Baran and Sweezy, for which the notion of (unrealised) potential surplus suffices and value theory is no longer necessary. The transformation of value into price of production and surplus value into profit is reconstrued as a transformation, and generally, an equilibrium 'problem'. Merchant capital, and even unproductive labour in the state sector devoted to non-commercial activity such as education, are conceived as akin to any other sector of activity and equally a source of profitability, possibly indirectly. Interest-bearing capital is indistinguishable from credit in general, to whatever purpose it might be put, and is geared to the exchange process as a whole and is not specific to the accumulation of capital and creation of surplus value. And rent is simply the consequence of a more or less powerful monopoly over a particular factor of production. Paradoxically, in each of these cases, Marx is accused of being insufficiently sophisticated. Yet his critics are generally responsible for collapsing socioeconomic structures, process and agencies into a unduly simplistic mould—as if, for example, non-commercial education could produce and appropriate profits in exactly the same way as an industrial sector, the capitalist economy could be in equilibrium, an inability to sell prove an insurmountable and chronic problem, etc.

Class, Structure, Tendency and History

This long account of the first feature of Marx's ltv allows others to be handled briefly. Second, value theory incorporates a particular understanding of class, based on fundamental conflict between capital and labour over production. The increasingly complex way in which (surplus) value is reproduced has its counterpart in an increasingly sophisticated understanding of class and of class relations. There is differentiation of the capitalist class—by sector, productivity, by fractions across industrial, merchant and interest bearing capital—and also of labour by the same factors as well as by skill, employed or not, etc. Once again, greater complexity induces choice between a rejection or refinement of Marx's theory of class for a range of criteria leading to stratification. This is so even before the social reproduction of the capital-labour relation is considered where political, ideological and other socioeconomic relations become involved (as in gender, race, nationality, etc). Whilst it is essential to avoid economic reductionism (the capital-labour relation as such cannot inform us any more about these issues than it can about the exact outcomes for prices and profits), value as a class relationship is an essential foundation on which to examine other 'non-economic' issues and especially politics, ideology and the state.

Third, Marx's value theory is attached to a particular understanding of socioeconomic structures. This is not simply a matter of the basic class relations from which the logical possibility of other classes can also be derived by their divergence from the simple but fundamental dichotomy between capital and labour. The self-employed, for example, constitute a category that is neither proletariat nor bourgeois but is defined relative to them. Such derivation of categories also applies to other socioeconomic structures. Capital defines a fundamental distinction between production and exchange, and also between economic and social reproduction, the latter comprising those relations that are conditioned by but which are not incorporated within the direct orbit of capital. Thus, the nature and determinants of the state and the role of the family system (and domestic labour, for example) can be identified but not filled out by an abstract analysis of capital alone. Such structural divisions can only be identified qualitatively.

Fourth, an important part of these analyses is to specify socioeconomic processes by which structures are reproduced and transformed. Like class relations these are abstract and are the basis on which the more complex structures are reproduced (or not). Often, the underlying processes are mutually contradictory—as in the imperatives towards vertical integration and disintegration, for deskilling and reskilling, and, of crucial significance in value theory, how productivity increase via the accumulation of capital is experienced both as a boost to profitability in the form of lower production costs and as a threat to profitability in the form of more intensive competition for markets. For equilibrium analyses, these processes interact harmoniously and, subject to no upward adjustment in wages and rational choice by capitalists of least cost production techniques, must enhance profitability. In contrast to Marx's LTRPF, there is no attempt to understand how the forces generated by the accumulation of capital and productivity increase place enormous strains on the economic structures and processes of the value system, and the social formation within which it is embedded. In this respect, Marx's value analysis is uniquely successful in linking value and productivity *change*. Orthodox economics does not address the issue and has always used equilibrium analysis with given technology, although value as price can change from one equilibrium to the next in a comparative statics for one set of given technologies as opposed to another.

Fifth is the historical aspect to Marx's ltv. Its applicability is limited to societies dominated by commodity exchange, necessarily capitalism. This is not only to justify the use of value as labour-time on materialist grounds but also an acknowledgement that value is a social relation between producers whose interaction with one another is through the system of exchange in complex and potentially historically variable ways. These elementary historical and social insights suffice to recognise that the ltv is not adequately based on the idea of value as a quantum of embodied labour. For then, we do not need to know anything about social relations in understanding value, as in its application to Smith's rude society. Of course, the notion of the ltv as labour embodied has been seen by critics from mainstream economics as arbitrary and has led to parodies in terms of iron or energy theories of value.

The Task We Face

The constructive rationale for the ltv that has been outlined is well established through Marx's own work but, equally, through the value theory debates conducted in and around

Capital & Class. My own views are laid out in Fine (ed) (1986). In other publications, I have sought to develop and apply value theory in greater complexity, addressing issues such as privatisation, the British coal industry, the British economy, women's employment, labour market structures and dynamics, the political economy and culture of consumption in general and of food in particular, the South African economy, and social capital (the last of these containing references to other work, Fine (2001)). Throughout analysis has been rooted in fundamental principles derived from the ltv, originality deriving from retaining elements of political economy that enable the reconstruction of value in more complex forms. Yet, at the outset, I suggested that the increasing complexity of capitalism simultaneously both strengthens the case for the labour theory of value, to uncover underlying determinants, and strengthens the resolution of opponents in view of the apparent inconsistency of value with those complex outcomes. This means that the intellectual balance for and against is dependent upon the vigour, resolution and skill with which value theory is elaborated by its supporters, quite apart from the economic, political and ideological climate within which the debate is engaged. In the academic world, mainstream economics has rarely been stronger and has never been prepared to confront the labour theory of value on any terms other than as labour embodied in an equilibrium framework, for which rejection of value is the only possible outcome. Many supporters of value theory have been seduced by the associated arguments involved. This is despite ingenious analytical devices that draw piecemeal upon aspects of capitalist reality.

The most prominent in this vein is the new solution to the transformation problem. It suggests that the latter's problems can be resolved by treating the value of labour power as the wage revenue (with value equivalent) received ex post rather than as a quantity of ex ante labour time (attached to a 'subsistence' wage bundle). Without the space to provide details, Fine et al (2001), the new solution suffers from collapsing the complex determinants of the value form (price) into a single step, thereby precluding appropriate consideration of intermediate factors and processes. Accordingly, its theories of money, the value of labour power, and the structures and dynamics of the capitalist economy (especially value formation in the presence of technical change) are both underdeveloped and insecurely founded within the value theory that is purportedly being defended. In effect, the new solution is merely a sociology of exploitation, using the ltv to establish that exploitation obtains whenever wages do not exhaust total revenue. This exercise is both limited in importance and scarcely needs value theory in any case—profits as evidence of exploitation is clear to all who care to see.

In light of the new solution and the more general commentary above, the prospects for value theory from a radical tradition within economics have rarely looked bleaker. But, as first argued in *Capital & Class*, Fine (1997), economics is currently colonising the other social sciences as never before. This is a result of its own internal developments, deriving from information-theoretic economics, in which the market and non-market, the individual and the social, are all seen as reducible to optimising in response to market (informational) imperfections. At the same time, there has been an uneven retreat both from neo-liberalism and the excesses of postmodernism across the social sciences. There is a wish for greater material content to analysis—a return to the real not least in the warmth with which the nebulous 'globalisation' and social capital have been embraced. The prospect is for social sciences other than economics to prove an intellectual battleground in examining the economic. Given the traditional, and warranted, antipathy of social sciences towards mainstream economics, the potential for reviving commitment to the ltv is strong. But it has to be won and cannot be taken for granted.

In short, there is ebb and flow in the factors that promote and undermine the place of the ltv in the current intellectual climate. By virtue of the arguments that I have made here, I hope to have convinced some at least not only of the analytical value of value but of the necessity with which its classical Marxist content must be defended, promoted and developed. Debates within *Capital & Class* remain an essential starting point.

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