

## PAMPHLET ON VALUE, PRICE AND PROFIT

### VI. VALUE AND LABOUR

#### A. THE LABOUR THEORY OF VALUE

1. We need to begin our investigation by asking “what is economic value?” Bourgeois economists don’t have a good answer to this question, but Marxists do.

2. Everyday we become involved in acts of economic exchange. Transactions that you make at the cash register are acts of exchange. We exchange the commodity of money for other commodities, like clothes, TVs, milk, fruit and vegetables, etc.

3. Marx points out that a single commodity is exchangeable for countless other quantities of other commodities. The ratios of commodities required for a successful exchange change depending on the commodity, but the value of the commodities always remains the same.

4. The value of the commodities is the mysterious third thing that makes the exchange of commodities possible. This third thing common to all commodities in exchange, value, is able to be separated out of the equation and analysed separately on its own. We are able to express this identical measure of commodities independently of their physical existence.

5. The value of commodities when they are exchanged is a social function of commodities. It has nothing to do with a commodity’s physical existence. Value is the “social substance” of a commodity, and this “social substance” is Labour. Marx says: “To produce a commodity a certain amount of labour must be bestowed upon it, or worked up in it” (Marx: 1960, 71).

6. This labour is not the individual labour of a single person, but Social Labour. Marx says:

A [person] who produces an article for their own immediate use, to consume it themselves, creates a product, but not a commodity. As a self-sustaining producer they have nothing to do with society. But to produce a commodity, a person must not only produce an article satisfying some social want, but their labour itself must form part and parcel of the total sum of labour expended in society (Marx: 1960, *ibid*).

7. Crucially, this labour must be integrated into the Division of Labour in society. In order for a commodity to be a commodity, and for it to have value so it can be exchanged, the labour expended on it must be performed as part of the social process of capitalism.

8. The value in commodities is therefore crystalised labour. It is fixed inside the commodity. The only way the value of a commodity can change is if more labour is worked upon it. The more labour a commodity has bestowed upon it, the more value it will have.

9. How do you measure the quantity of labour in a commodity, in order to work out its value? Marx answers this question. The time that the labour lasts. The amount of labour in hours, minutes, seconds. Perhaps even months, or years.

10. It might be pointed out that this theory might not get us any closer to understanding value. Don’t people work at different paces, and at different levels of skill? The lazier worker would bestow much more labour on a commodity, and would therefore

make it worth more than someone who worked harder. In the same way wouldn't someone clumsy make a commodity worth the same, or even more than someone with great skill? Marx has an answer for this:

This, however, would be a sad mistake. You will recollect that I used the word 'Social labour', and many points are involved in this qualification of 'Social'. In saying that the value of a commodity is determined by the quantity of labour worked up or crystallised in it, we mean the quantity of labour necessary for its production in a given state in society, under certain social average conditions of production, with a given social average intensity, and average skill of the labour employed (Marx, 1960: 74).

Marx gives an example on this point. The introduction of the power loom into England in the industrial revolution appeared to make workers work even more. They went from working nine or ten hours daily to working seventeen to eighteen hours a day. But the value of the cloth that weaver dropped by half. This was because it now took only half the time using the new machines to weave the same amount of cloth out of yarn. The product of twenty hours labour now had the same value of what used to take ten hours.

The name for this concept is called Socially Necessary Labour Time. It is easy to work out the average value of labour time in this way. The average of the overall skill, intensity, and productivity of labour, the "aggregate" ratios of all these factors, can be taken from statistics about global or national economic output.

11. If the amount of time it took to make the same amount of commodities stayed the same, the value of those commodities

would stay the same. But the productive powers of society are constantly changing. Labour productivity goes up and down all the time. In the short term, labour might be less productive, and create less product per hour, minute, second. But in the long term, since the industrial revolution, labour has become continuously more productive. It is simple to find graphs on the increasing productivity of labour. It is a law of capitalism that the greater the productive powers of labour, the less value will be bestowed upon the commodities created. The less productive labour is, the more values individual commodities will have. This is because there will be less labour bestowed upon more productively made commodities, and vice versa.

12. The productivity of labour also depends on other factors. Apart from the skill and intensity of labour, the productive powers of labour depend on:

First. The natural conditions of labour, such as fertility of soil, mines, and so forth.

Second. Upon the progressive improvement of the Social Powers of Labour, such as are derived from production on a grand scale, concentration of capital and combination of labour, subdivision of labour, machinery, improved methods, appliance of chemical and other natural agencies, shorting of time and space by means of communication and transport, and every other contrivance by which science presses natural agencies into the service of labour, any by which the social or cooperative character of labour is developed (Marx, 1960: 75).

## B. VALUE AND PRICE

13. None of the above theory applies to the price of a commodity. It only applies to a commodity's value.

14. Price is a particular form that value assumes in the capitalist system. Price is the monetary expression of value. Price is the form of value in money form. This can be put another way. Price is the value of money.

15. The price of money used to be the value of gold. This was called the "gold standard". Working out the value of money in this way was easy. The pound or the dollar would be set to a specific weight of gold. The amount of socially necessary labour time that it took to produce that specific quantity of gold was the value of the British pound or the American dollar.

16. The international gold standard for the US dollar was abolished by Richard Nixon in 1971. All major currencies are now "free floating". This means that the price of money is now self-referential. The value of money now changes every millisecond. The value of money is now determined by speculation, by the rapid exchange of money for other commodities on the global market.

17. This doesn't contradict the Marxist labour theory of value in any way at all. Money is a commodity like any other. Because money is a commodity, it is exchangeable in definite ratios with other commodities. The only difference is that now, money is now a "claim" on value, instead of actually having intrinsic value.

18. Money is the universal equivalent commodity. It is the commodity that every other commodity uses to express its value in order to be exchangeable on the market. Money is the appearance of value, where socially necessary labour time is the essence of value.

19. Under normal, stable conditions, the price of a commodity will coincide with its value. This means that the price of a commodity will exactly express the amount of socially necessary labour time crystallised in it. This means that identical commodities produced under different concrete regional conditions will have the same price.

20. The market is a dynamic system, and the price of money and of commodities is constantly changing. Market prices may coincide with the values of commodities, but that is not always the case. Contrary to the slander levelled against the Marxist labour theory of value, Marx holds a place for the market forces of supply and demand in his economics. Marx follows Adam Smith in holding that two different concepts explain the reason why prices have the quantities they do. The first concept is market price. The market price of a commodity is determined by the laws of supply and demand. The second concept is the natural price. The natural price of the commodity is the price a commodity should have, and to which all market forces are tending the price to become under equilibrium. Under normal, stable conditions, conditions of equilibrium, a commodity will have its natural price. A commodity's natural price expresses its value exactly.

21. All of what has been said above assumes that the capitalist system being discussed is a perfectly free market. Contrary to what the enemies of Marxist economics say, Marx assumes in his model of capitalism that it is a perfectly free market. The existence of monopolies under capitalism will distort market forces, and will cause commodities to avoid having their natural price. But that is not our concern here.

22. The power of Marxist economics, with its labour theory of value, is that it is able to explain the existence of profit in capitalism. Bourgeois economics assumes that in a free market, under equilibrium conditions, all firms will sell commodities at cost, and make no profit. This model of the global capitalist system has no bearing on reality. Firms are reaping in billions of dollars of profit globally every year. The Marxist labour theory of value is able to show how commodities, sold at their value, are able to realise profit. This is an immense improvement on bourgeois economics.

## VII. LABOURING POWER

23. Marxist economics distinguishes between the Value of Labour, and the Value of Labouring Power. The secret of how bosses makes profit lies in this distinction.

24. Without the distinction between Labour and Labour Power, we would be left with a paradox about how to determine the value of labour. The only way we would be able to determine the value of labour would be by referring to the duration of its expenditure. What is the value of ten hours' labour? Ten hours. For this reason it is a great discovery by Marx that what a worker sells to the boss when they go to work is not directly their labour, but their labour power.

25. What we want to know when unravelling the secret of profit under capitalism, therefore, is the value of labour power. Labour power is a commodity like any other. It can be bought and sold on the market. Workers are distinguished from the bourgeoisie because the only commodity that workers have to sell on the market is their own body, their labouring power. The value of labour power, like any commodity, is the amount of labour

required to produce it and maintain it. We can quote Marx on this point:

A certain mass of necessities must be consumed by a person to grow up and maintain their life. But the person, like the machine, will wear out, and must be replaced by another person. Besides the mass of necessities required for their own maintenance, they want another amount of necessities to bring up a certain quota of children that are to replace them on the labour market and to perpetuate the race of labourers. Moreover, to develop their labouring power, and acquire a given skill, another amount of values must be spent (Marx, 1960: 79-80).

So the value of labour power is the total value (remember: socially necessary labour time) of the necessities required to develop and produce labour to a state ready for a worker to sell on the market. All the training, the housing, the food, the clothing, the necessities for children and guardianship—the total value of all the labour required to make a worker able to work.

26. Marx points out this explains why workers are paid different amounts in a free market. Different workers have had more or less intensive and lengthy training, and live in areas with more or less expensive necessities.

## VIII. PRODUCTION OF SURPLUS VALUE

27. The secret of profit under capitalism lies in the distinction between labour and labour power. What the capitalist buys on the market in order to produce commodities is labour power. The capitalist buys labour power and pays the worker for it at the market rate. The exchange is formally fair. The worker gets the full value of the only commodity they have to sell.

28. What the capitalist buys is labour power, but what they get in the workplace is labour. Labour power put to work is actual labour. What the worker does in the workplace is produce commodities, values. It is not long before the worker produces enough value to repay the capitalist for the value of the means of production, the instruments of production, and the cost of their labour power. Let us assume that the average working day is twelve hours. The minimum wage specifies a working week of 38 to 40 hours (8 hours a day), but it is not uncommon for people to work twelve hours a day now. Despite the working day of twelve hours, the worker might produce enough value to replace the daily costs of production in six hours. There lies the secret to profit under capitalism. Marx writes that while a worker might cover the costs of production after six hours of daily work,

... this does not disable the worker from working ten or twelve hours or more hours a day. But by paying the daily or weekly value of the worker's labouring power the capitalist has acquired the right of using that labouring power during the whole day or week. The capitalist will, therefore, make the worker work say, daily, twelve hours. Over and above the six hours required to replace the value of their labouring power, the worker will have to work six other hours, which I shall call the hours of surplus labour, which surplus labour will realise itself in a surplus value and a surplus produce (Marx, 1960: 81-82).

29. The capitalist advances the value of six hours labour, but receives back the value of twelve. The capitalist pays for labour power, but gets labour. Capitalism is therefore the systematic theft of bosses from their employees. A portion of your working day is necessarily unpaid. When you go to work to stack shelves, answer phones, heal people in hospital, you are being

systematically stolen from. The value that you help produce in the workplace is being stolen from you and appropriated by people who do not do the work.

30. The rate of surplus value, the ratio between paid and unpaid work, is directly related to the length of the working day. The boss wants to increase the ratio of unpaid to paid labour. This means directly extending the time of the working day that workers work unpaid. Capitalism is all about a struggle over time. Bosses want to say in control of your time, and stay in control of you. This means reducing your hours when you're not profitable, and extending your hours when you are. The boss only wants you when it is convenient to them. This is the truth of the corporate jargon word of "flexibility"--the boss wants to be completely flexible, and you to be pliant to their whims.

## IX. VALUE OF LABOUR

31. The system of receiving wages for work under capitalism obscures the relationship of theft in the workplace. Wages are the value of a worker's labour power expressed in money. The value produced by the worker in the workplace are concealed by the price value of their labour power. Because the worker receives their wages after they have performed their work, and because they receive the value of their labour power in money, it seems as if they have received the full value of their labour. Marx points out that two consequences flows from the concealing effect of wages:

First. The value or price of the labouring power takes the semblance of the price or value of labour itself, although, strictly, value and price of labour are senseless terms.

Secondly. Although one part only of the worker's daily labour is paid, while the other part is unpaid, and while that unpaid or surplus labour constitutes exactly the fund out of which surplus value or profit is formed, it seems as if the aggregate labour was paid labour (Marx, 1960: 83).

32. The fact that wages make systematic theft under capitalism a secret is something new to human civilisation under this mode of production. Under feudalism it was easy to see what was being produced for oneself, and what was not. Under feudalism, the peasantry was not separated from the means of production, and the value of one's labour was not obscured. Peasants had to give a proportion of their produce as tithe to their lord. Peasants also sold their surplus product personally. The rest of their produce was kept for themselves and did not become a commodity. This mode of production made the source of value in production easy to recognise.

33. Wage labour is therefore called wage-slavery by communists. Wages are a method of tricking the worker into thinking they have been paid the full amount of their work. The reality is that all workers under capitalism are being stolen from.

#### X. PROFIT IS MADE BY SELLING A COMMODITY AT ITS VALUE

34. The capitalist only cheats at the point of production. Because the worker creates surplus product at the point of production, the capitalist is furnished with an amount of commodities for which they did not pay any equivalent. It is for this reason that the capitalist mode of production is a system of theft.

35. The capitalist does not sell any of the commodities produced by the worker above their value. The capitalist sells them at their market value. In the realm of exchange, the realm of the market,

equivalent is always exchanged for equivalent. The capitalist will get the full value of their commodities, and nothing more.

#### XI. THE DIFFERENT PARTS INTO WHICH SURPLUS VALUE IS DECOMPOSED

36. Surplus value realised in money form is called Profit.

37. The commodity-producing capitalist doesn't realise all the profit in the global capitalist system. Monopoly on land allows the landlord to realise part of the surplus value produced by the worker as Rent. The banks and the investment firms who lend money to the commodity-producing capitalist also realise a portion of the total surplus value as Interest. The portion of the realised surplus value left over after all the deductions for Rent, Interest etc., have been made is the profit of the commodity-producing capitalist: Industrial or Commercial Profit.

38. Money lending and owning land do not produce surplus value. Money lending and land-owning are parasitic on production, and they draw a portion of the surplus value produced at the point of production away from the commodity-producing capitalist.

39. The value transferred to a commodity through labour from the wear and tear of machinery, and the consumption of raw materials, in other words the value of the means of production used up in making a commodity, does not produce surplus value, and does not contribute to realising profit. The value transferred into a commodity by using up the means of production only replaces capital, it doesn't generate an expansion of capital.

40. Doing this subtraction, we perform another subtraction. After subtracting the value of labour power, we have left surplus value, which, when realised, becomes profit.

41. Profit is decomposed out of surplus value that issues out of the point of production. Surplus value is not determined by adding up the various component profits that moneylenders, landlords, and industrial capitalists receive. It is only by determining the total surplus value produced that one can then determine what profit each section of the capitalist class receives.

42. From this calculation we can work out the rate of profit, and the rate of exploitation. The rate of exploitation is the ratio of the value of labour power to surplus value. The rate of profit is the rate of wages to overall profit.

43. The rate of exploitation and rate of profit does not involve any value of the capital that is replaced by using up the means of production, and paying the value of labour power. Marx points out why this is so:

Suppose \$100 to be the capital advanced in wages. If the surplus value created is also \$100—and this would show us that half the working day of the labourer consists of unpaid labour—and if we measured this profit by the value of the capital advanced in wages, we should say that the rate of profit amounted to 100 per cent., because the value advanced would be 100 and the value realised would be 200.

If, on the other hand, we should not only consider the capital advanced in wages, but the total capital advanced, say, for example, \$500, of which \$400 represented the value of raw materials, machinery, and so forth, we should say that the rate of profit amounted only to twenty per cent., because the profit of one hundred would be but the fifth part of the total capital advanced.

The first mode of expressing the rate of profit is the only one which shows you the real ratio between paid and unpaid labour, the real degree of exploitation of labour. The other mode of expression is that in common use, and is, indeed, appropriate for certain purposes. At all events, it is very useful for concealing the degree in which the capital extracts gratuitous labour from the worker (Marx, 1960: 87).

## XII. GENERAL RELATION OF PROFITS, WAGES, AND PRICES

44. The labour worked up into the raw materials used to make a commodity is dead labour. So too is all the labour worked up into the instruments of production used up to make that commodity. It is “dead labour” because it doesn’t create any new value when these two factors of production are used up to make commodities.

45. Only the fresh labour worked up into a commodity can create new value.

46. This fresh labour is where the worker’s wages and capitalist’s profits come from.

47. Because the value from fresh labour is shared between two classes opposing of people, there is a struggle over how much the worker gets, and how much the capitalist gets out of this share of fresh value.

48. Therefore, there is an inverse relationship between wages and profits. If wages increase, profits will necessarily decrease. If the share to the capitalist increases, wages will necessarily fall.

49. The values of commodities are therefore completely independent of the share of the value of the sale of commodities that goes to either workers or capitalists. There is no relationship between the value of a commodity, and how much profit is made, or how high wages are.

50. The law that governs the values of commodities is solely the total amount of labour worked up into those commodities. The total amount of labour worked up into a commodity is directly related to the productive powers of labour. Say the socially necessary labour time of one hour of labour was one dollar. Further assume that highly productive labour produced one pound of yarn in one hour. Assume that labour of low productivity could only produce a pound of yarn every six hours. In the former case, one pound of yarn would cost \$1. In the latter case, it would cost \$6. It is entirely possible that the former case could have high wages and low profit, whereas the latter case could have low wages and high profit. The share of the value of the sale of commodities is independent of the actual value of commodities. It is the productivity of labour that determines the price of commodities.

### XIII. MAIN CASES OF ATTEMPTS AT RAISING WAGES OR RESISTING THEIR FALL

#### A. DECREASED OR INCREASED PRODUCTIVITY OF LABOUR

51. We have seen that the value of labour power is determined by the value of the necessities required to reproduce the vital force of the worker.

52. Assume that six hour's labour amounts to the average value of the total amount of necessities that a worker needs to replace

their vital force. Further assume that the value of these necessities is \$300.

53. If the whole working day was 12 hours, the capitalist would pay the worker \$300. Half the working day would be unpaid labour, and the rate of profit would be 100%.

54. Now assume that there is a total decrease in productivity in the world economy, and there now needs to be more labour expended in order to produce the total amount of necessities required to keep a worker alive and in good health. The average amount of daily necessities now costs \$400.

55. In this case, the value of the average worker's labour power would now increase by 33.3%. Labour power would now be more expensive. Eight hours of the working day would now be needed to sustain a worker's vital forces.

56. There is only one outcome from this event in order to make sure the worker's living conditions do not deteriorate. Wages would have to rise, and the rate of profit would have to decrease. If the rate of profit were to decrease, the amount of unpaid labour a worker did would have to decrease, and in this case it would decrease from six hours to four hours. Eight hours would now be spent working up the value the worker needed to buy their necessities.

57. If wages do not rise, and the unpaid working hours decrease, the worker will now be paid less than the value of their labour, and their living conditions would deteriorate. They would starve, or become homeless.

58. A change in the productivity of labour power might happen in the opposite direction. The necessities required to keep a worker



alive and healthy might now cost only \$200, whereas before it was \$300.

59. The length of the working day the worker now works unpaid increases, and the rate of profit would increase from 100% to 200%, because the worker now only needs to work four out of twelve hours to work up the value of their labour power.

60. The boss, the capitalist, now cuts the worker's wages, because they don't need to pay the worker as much. The value of their labour has dropped.

61. Although the worker's living conditions remain the same, there is now much greater inequality in the global capitalist system, because the capitalist has now increased their share of the value of the sale of commodities.

#### B. DECREASE OR INCREASE IN THE ABSOLUTE LIMITS OF THE WORKING DAY

62. We have up until now assumed that the average length of the working day is constant—twelve hours. But there is in fact no constant limit to the working day. It is in the interest of capitalists to make the worker work as long as they physically can, to increase the amount of unpaid labour that the worker does. An increase in the amount of unpaid labour means a direct increase in the rate of profit.

63. The capitalist assumes that the worker, the human, is like a machine. A machine will transfer value faster into greater amounts of commodities for sale the longer and harder it will work. But in the case of workers, the health and the happiness of workers decreases with the increase of the absolute length of the working day.

64. Please see Chapter Ten of Das Kapital for a study of the horrific conditions that workers have had to endure for the sake of increasing the rate of profit by lengthening the working day.

65. If something is not done to keep the working day within certain limits, people will literally work themselves to a premature death to make sure capitalists can get very, very rich.

#### XIV. THE STRUGGLE BETWEEN CAPITAL AND LABOUR, AND ITS RESULTS

66. Capitalists are constantly attempting to increase the limits of profit accumulation during the working day. But there is an absolute physical limit to how much profit can be made under capitalism. This is because the organic supply of labour will literally be killed off if capital accumulation is pushed beyond the physical limits of the working capacity of humans.

67. There is, however, no real maximum limit to the value of an average worker's wage. It is only bounded by the total value of the sale of commodities.

68. There is, however, a minimum limit to the value of wages that a worker can receive in order to keep living. This is the minimum average value of the necessities required to renew the vital forces of a worker.

68. Generally speaking, there is therefore a law governing the limits of capital accumulation under capitalism. Maximum profits will coincide with the minimum physical amount of wages.

69. Between the minimum amount of wages, and the maximum amount of profit possible under a capitalist society, there is therefore a lot of room to move between these limits.

70. This explains the inherent antagonism between working class and capitalist class people. Working class people insist on being paid more, in order to not live like animals. Capitalists insist on workers being paid less, in order to increase the rate of profit.

71. There is also another foundation to the antagonism between workers and bosses. There is a progressive change in the composition of capital as capitalism develops and history moves forward.

72. The part of capital that is composed of fixed capital, machinery, raw materials, means of production in all possible forms, progressively increases as compared with the other part of capital, which is laid out in wages or in the purchase of labour.

73. It is possible that the proportion of fixed to variable capital was once 1:1. It is a law of capitalism, however, that if the capitalist mode of production continues to develop successfully, that ratio will become 5:1, 10:1, and so on. The share of variable capital can only decrease under capitalism. Marx writes:

If of a total capital of 600, 300 is laid out in instruments, raw materials, and so forth, and 300 in wages, the total capital wants only to be doubled to create a demand for 600 workers instead of for 300. But if of a capital of 600, 500 is laid out for machinery, materials, and so forth, and 100 only in wages, the same capital must increase from 600 to 3,600 in order to create a demand for 600 workmen instead of 300. In the progress of industry the demand for labour keeps, therefore, no pace with the accumulation of

capital. It will increase, but increase in a constantly diminishing ratio as compared with the increase of capital (Marx, 1960:100).

74. It is therefore a law of capitalism that inequality must increase.

## XV. REFERENCES

Karl Marx, "Value Price and Profit" in *The Essential Left: Four Classic Texts on the Principles of Socialism* (Allen & Unwin, 1960) 49-102.