

A paper for International Conference on Karl Marx, Capital and the Present

## **Marx's Value Theory for Socialism**

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Karl Marx did not draw blueprints for socialism unlike the precedent utopian socialists. His lifework *Das Kapital* (1867,85, 94) totally concentrates into explication of principles of capitalist market economy. Nevertheless, almost in every chapter or part of this great work, we are suggested interesting theoretical possibilities for socialist communal societies beyond capitalism. Let me reexamine Marx's value theory as a typical case. Some theoretical problems, which were left by Marx, must also be discussed.

### **1 The Forms and the Substance of Value**

One important point on which Marx's political economy is superior to the classical political economy being represented by A. Smith or D. Ricardo is in theoretical recognition of the historically specific character of the capitalist economy. This point is significant even in the basic theory of value. More concretely, in addition to the distinction between use-value and value as the two factors of the commodity in accord with the classical school, the concept of value itself is structurally doubled into the forms and the substance of value by Marx, as I have underlined elsewhere (Itoh, 1980, 1988).

The forms of value spring from historically specific social relations among commodities to be exchanged, and develop into the money form, or the price form, of commodities, as well as into forms of capital. Classical political economy never succeeded in theoretical analyses of these forms of value, so long as it neglected the historically specific character of a commodity economy and of capitalism, as Marx (1867, p. 174) criticized.

In combination with this recognition, Marx also made clear that the labour process is the universal condition for the metabolic interaction between human being and nature, common to all forms of society (ibid., p.290).

In the long pre-capitalist history of human societies, the labour process and labour products were mostly unrelated to the forms of value. Labour-time embodied in useful products did not constitute the substance of value so long as the products were not

commodities, as in the case of the self-consumption of the peasants, or corn-rent paid to the feudal lord, or more in general communal reciprocity and redistribution of products (ibid. p.131).

Only when the products were given a commodity form and were subsumed under the form of value did the labour-time embodied in them become the substance of value. Only through the capitalist process of production upon the social ground of commodification of labour-power had all products to take a commodity form with a social necessity, which inevitably makes the labour-time embodied in them the social substance of value. Thus, the twin conception (the forms and the substance) of value reflects the heterogeneous origins. As Marx points out, 'the exchange of commodities begins where communities have their boundaries, at their contact with other communities, or with members of the latter' (ibid., p.182). The forms of value in a commodity economy, such as the price form, thus essentially originate in economic relations exogenously arising between communal societies, and therefore can fundamentally be more or less independent from the endogenous quantitative relations of the social labour-process arising within societies. Marx's theoretical recognition of origin of commodity exchange is clearly superior to A. Smith's belief that the commodity exchange originates in human intrinsic natural propensity to exchange one thing for another, in view of long pre-modern history of internal social communal orders.

The dual concept of the forms and the substance of value qualitatively implies that socialist communal societies beyond capitalism can either aim at abandoning the forms of value to construct planned economy without market, or utilize them under social control to build up market socialism upon the ground of communal ownership of means of production. Marx seems to believe that socialist community as 'an association of free men, working with the means of production held in common' (ibid., p.171.) can organize the social labour-process and distribution of products without market mechanism. However, his theoretical recognition, that the forms of market economy appeared as inter-social economic relations from very ancient period, may well be reinterpreted to suggest that some forms of market economy can be utilized as an adjusting mechanism to organize various socialized labour-processes as models of market socialism upon the basis of communal ownership of means of production.

In retrospect, Lenin's NEP (1921-28) as an initial attempt to set up a model of market socialism, can be taken for being in consonance with Marx's basic theory of value in this regard. Among contemporary Marxian political economists, wide varieties of future socialism are presented after the failure of the Soviet type of societies. In my reading,

Marx's value theory can be utilized either to arguing for truly democratic planned economy (like D. Kotz, 2015), or to present ideal models of market socialism (such as in Bardhan and Roemer, ed. 1993). The fact that Marx did not draw blueprints for socialism allows us to conceive various possibilities for future societies beyond capitalism upon his economic theory as options for working people in nations or societies to choose flexibly according to their own historical and cultural conditions.

## **2 Possibilities for Socialist Price (s-price) Forms**

In the Soviet type of planned economy after the NEP period, market economy was officially excluded. Nevertheless, Marx's idea to utilize labour-time as transparent economic unit of account to make associational plan for production as well as for consumption among workers was not actually realized. Instead, a kind of socialist (quasi-) price form measured by a kind of socialist (quasi-) money (s-money), such as the rouble, was continuously used. What does this mean?

For one thing, it must be not easy to identify and calculate labour-time embodied in each product ( $t_i$  for  $i$ th product), including not only the direct labour input of the final process of production, but also the indirect labour-time transferred from the consumed means of production. We need to formulate millions of simultaneous equations representing production functions of all the products, and to solve them to determine the unknown quantities labour-time embodied in each of all the products ( $t_i$ ). It was clearly impracticable by computer technology at that time.

Therefore, the Soviet five years plan started actually with officially planned prices imitating prices in the pre-First World War period, and then altered them from time to time on the cost-plus principles. The plan used physical input-output data as inter-industry relations table both in terms of use-values and in such official prices. Such a price system was closer to Sraffa (1960) theory of equilibrium prices rather than Marx's labour theory of value.

The planned official prices did not subject to the anarchical movement of demand and supply. They were thus quite different from prices in free market economy. However, they could serve to maintain several decades of Soviet economic performance and growth beyond most of capitalist countries, as an experiment for a possibility of much more democratic models of planned economy for the future.

For one thing, the officially planned prices were also useful as a unit of macroeconomic accounting. Even if labour-time embodied in social products are measurable, it cannot serve as an accounting unit for macroeconomic growth. As a

given number of workers with given annual hours of labour would not result in any economic growth in terms of labour-time. There is no commensurable physical unit among different use-values of products. Aggregation of steel, TVs, T-shirts in terms of tons does not make sense. We usually assume that the internal proportions of products remain approximately constant, in assessing macroeconomic national account of GDP or NDP in terms of constant prices, when measuring the growth in total product of a nation.

Similarly, so long as the composition of the social products are conventionally assumed to be unchanged with constant prices, then a change in monetary income distribution among workers, firms, the State, or regions can be easily assumed approximately to represent a change in distribution of the national products among them. Such a function of money to measure macroeconomic national real economic growth and real net income became clarified in the 20<sup>th</sup> century, along with the development of macroeconomic theories and statistics in capitalist countries. It was not yet clear enough in Marx's basic theory of functions of money. It is apparent that in a planned economy such as in the Soviet officially fixed prices could serve to measure real economic growth in national account no less than the capitalist market prices.

In various models of market socialism, socialist price form would become closer to free competitive market prices under capitalism. Since those models proposed in the East European socialist reform movements, they have been designed to utilize functions of freer market in promoting incentive to allocation of resources and labour more effectively in accord with social needs, as well as to rationally economize method of production by fostering innovation. At the same time, most models of market socialism intend to reduce the hypertrophied State power in centrally planned economy like in the Soviet.

Either in a planned socialist economy or in a market socialism, s-prices of products can theoretically be set directly proportional to labour-time embodied in them, if there is no surplus labour in all the processes of production. Marx formulated as a simple process of creating value (Wertbildungsprozess) in prior to a valorization process in *Capital*. In his numerical example there, a worker receives 3 shilling as a form of value of his labour-power a day so as purchase daily average means of consumption containing 6 hours of labour-time, which is necessary to reproduce labour-power, and work 6 hours as use-value of his labour-power for capitalist cotton factory. The worker manufactures 10 lb. of cotton yarn from the same weight of raw cotton, which contains 20 hours of labour, and was bought by 10 shillings. 1/4 of spindle is worn out in this process, which is worth 2 shillings and 4 hours of labour-time. So long as no surplus

labour is added to necessary labour hours in all processes of production, 10 lb. of cotton yarn must have 15 shillings in price form with directly proportional labour substance of 15 hours in total, so as to maintain its production. The same proportionality must be realized in price and the labour-substance in case of labour-power, as well as raw cotton, spindle, and further all other products.

Even in case when a working day is extended to 12 hours, on the same technological conditions, the same directly proportional social relations between prices and labour-time must hold, so long as workers are paid 6 shillings to obtain means of products containing 12 hours of labour-time without doing no surplus labour.

In its essence this model is identical with Sraffa's model of production for subsistence. If it is applied to socialist economy, it is conceived as a maximum s-wage model. In a planned economy, s-prices must be adjusted in proportion to labour-time embodied in products, so as to maintain reproduction. In market socialism, market prices of products may fluctuate, but they must oscillate around the similarly standard prices in proportion to labour-time, so long as technological basis of production remains unchanged.

As Marx notices, 'a certain quantum of surplus labour is required as insurance against accidents and for the progressive extension of the reproduction process that is needed to keep pace with the development of needs and the progress of population.' (*Capital*, III, p.958). In socialist economy the function of such surplus labour (s-surplus labour) is, however, wholly for workers own sake, not for a ruling class, unlike in class societies including capitalist economy. The portion of labour-time necessary to support common consumption in the field of education, care and medical services, public transportation, and pensions among others may be rather expanded in socialist societies.

In a socialist economy with a maximum s-wage, the fund necessary to sort common consumption together with to serve as s-surplus labour for insurance and extension of production must be contributed from s-wages in the form of taxes. Nevertheless, socialist economies can organize such full or maximum s-wage models either as planned economy or market socialism upon the ground of public ownership of means of production.

In comparison, in the Soviet type of socialism, s-wages were lowered to much smaller portion of the whole net national income produced by labour time annually expended by workers, for two reasons. Firstly the social needs for s-surplus labour to support faster extension of heavy industries especially for military purposes were larger in proportion to national income than in most of major capitalist economies, Secondly the funds to support public common consumption had to be set heavier in proportion in national income.

Resultantly in the Soviet model, s-wages was set much smaller in the labour substance in total labour to produce national income, even in comparison with normal wages in capitalist economies. Social s-surplus could then easily be larger beyond wage costs in s-prices of products in most of public enterprises. State bureaucrats were easily enabled to collect and manipulate it as a powerful source of their privileged status to control the whole economy. The social relations between s-prices based upon s-wages and the substantial labour-time expended and embodied in products were far from transparent, but unclear. How can we realize Marx's idea to achieve associational workers democracy, without transparent overview of social relations of labour time in mutual reproduction of economic activities?

This problem is not exempt for models of market socialism in post-Soviet period, though not easy to solve instantly. At least it must be an essential issue how to set democratic control on s-wages, including a possibility to set maximum s-wage model, so long as de-commodification of labour-power should be a fundamental target for socialism to achieve upon the public ownership of means of production.

### **3 An Egalitarian Theory of labour**

Socialism, including Marxism, basically stands for an egalitarian view of human being. However, there remains an issue which may contradict this view in application of Marx's labour theory of value to socialism: the problem of complex labour.

Marx defines that the value-forming labour must be of the average normal degree of skill and intensity of labour prevalent in the society. (*Capital*, I, p. 129).

In the case of the same kind of useful labour producing the same product, it is easy to compare the degree of skill and intensity of labour by the achieved amount of work during a given length of time. The modern conditions of production, using machinery and further automation systems, tends to equalize the result of labour after relatively short period of training, and to make workers largely interchangeable. This tendency has been promoted also by a raised level of general education.

When different kinds of useful labour are compared, skilled labour is called complex labour. It is difficult to measure the degree of skill and intensity of labour in this case, since the result of work, i.e., the different sorts of products, are physically incommensurable. Marx's resolution to reduce complex labour to simple labour, as we read below, does not present us with a theoretically solid social basis for calculation, and is rather problematic.

‘More complex labour counts only as intensified, or rather multiplied simple labour, so that a smaller quantity of complex labour is considered equal to a larger quantity of simple labour. Experience shows that this reduction is constantly being made. A commodity may be the outcome of most complicated labour, but through its value it represents only a specific quantity of simple labour, hence it represents only a specific quantity of simple labour. The various proportions in which different kinds of labour are reduced to simple labour as their unit of measurement are established by a social process that goes on behind the backs of the producers; these proportions therefore appear to the producers to have handed down by tradition ‘(ibid., p. 135.).

What does ‘a social process that goes on behind the backs of producers’ to determine the proportions in which different kinds of labour are reduced to simple labour really mean? D. Ricardo (1817, chap.1, section 2) follows A. Smith (1776) and concludes that the proportions continue nearly the same from one generation to another, and therefore can have little effect on the relative values of commodities for short period. Marx seems in a sense estimated such recognition when he states that these proportions appear to the producers to have handed down by tradition. However, this statement does not explain theoretically how these proportions are determined.

If we follow Rubin (1928) and conceive abstract human labour as deduced from price forms in a market, the proportions in question is theoretically determined by relative prices of commodity products by complex labour against simple labour products. However, this type of interpretation must contradict to the basic logic of Marx’s theory of value which intends to explain the exchange-values or relative prices from objective labour time embodied in commodities. Böhm-Bawerk (1896) already criticized a possibility of circular explanation on this issue.

Therefore, a series of Marxian theorists starting from R.Hilferding (1904), followed by N.Okishio(1963) and B. Rowthorn (1980), presented a more technological oriented view. According to this type of interpretation, the value of complex labour-power must contain educational and training labour-time in the past. This part of the substance of value of complex labour-power is transferred to the commodity products just as the value substance of constant capital (or capital invested in raw material and machinery), in addition to newly expended simple labour, which contains both labour time necessary to reproduce simple labour-power and surplus labour time.

This type of interpretation, however, contradicts Marx’s theoretical position that the value substance of labour-power is not transferred to the products, unlike the substance of value of constant capital, and is reproduced by living labour together with surplus

labour. Especially in case of socialist (in a broad sense including social democratic) economy, where education and training costs to bring up complex labour-power necessary for society are offered as a part of socialized common consumption, being exempt from individual expenditures, such extra costs of education and training need not be counted as an additional value of complex labour-power. It is highly dubious if complex labour is more intensive and condensed labour to perform in comparison with simple labour. So long as complex labour is performed by specialists supported by education and training, it may be mostly even more enjoyable and amusing to do. Whereas any simple labour is also expenditure of essentially common human ability to perform a wide range of work upon the ground of mental and physical potentials often combining different kinds of useful labour.

Why abstract human labour is not conceived as common basic character to perform different kinds of useful labour including different sorts of complexity and simplicity?

In a capitalist economy, the costs of education and training necessary to bring up complex labour-power tend to be born by individual personal (or family) expenditures. These costs must be compensated by an elevated value of complex labour-power so as to enable reproduction of complex labourers necessary for a society. In case such an elevated value of complex labour-power can include a certain amount of surplus beyond the real costs to reproduction in a favorable market condition, even a notion of human capital theory such as by G. Becker (1964) appears as plausible. In a capitalist economy, where higher educational costs to grow complex labour-power is basically born individually (along with privatization of higher education in our age of neo-liberalism), labour incomes in the form of wages must structurally differentiate working persons by reducing egalitarian social mobility. As the expensive higher educational and training costs discriminately exclude possibility for children from poorer family to become complex labourers with higher income.

So long as the social substance of value is abstract human labour time, common to various kinds of useful labour as well as across simple and complex labour, the elevated value of complex labour-power must result in the reduced (or negative) rate of surplus-value in case of complex labour. In my view, Marx's fundamental egalitarian theoretical understanding of human potentiality to labour should be completed in resolving the complex labour issue in this direction (See more in detail, Itoh 1988, chap. 6).

However, Marx did not resolve this issue and held that complex labour is intensified and multiplied simple labour, by following Smith and Ricardo. Consequently, when he contemplated the distribution of the means of consumption through labour certificates

in the lower phase of communist society, he recognized ‘an unequal right for unequal labour’ according to ‘unequal individual endowment and productive capacity of the workers as natural privileges’, since society is still being ‘encumbered by a bourgeois limitation’ (*Critique of Gotha Programme*, in; MECW, 24, p.86).

In Soviet type of societies there were attempts to legitimate the various degrees of privilege for the economic life of State and Party bureaucrats by seeking recourse to such Marx’s view that unequal bourgeois right arising from unequal capacity to labour must remain in the lower phase of communism. However, if educational and training costs for complex labour is socialized these costs need no more compensated by the higher wages of complex labourers. Further, a fundamentally equal right arising from the expenditure of an universal human capacity to labour either in different kinds of useful labour or different sorts of complexity should be generally recognized from the initial phase of communist or socialist societies. In fact, any attempt to assess the amount of labour expended in various complex activities as intensified or multiplied simple labour, either within capitalist business firms or in bureaucratic socialist planning, must easily have been arbitrary, often inflated without an objective measure either theoretically or practically.

Certainly, unequal distribution of the means of consumption can be introduced in any type of socialist societies upon the ground of democratic social consensus. For instance, the distribution may vary according to need differentiated by the number of family members to be supported, or according to give motivation and work incentive for certain kinds of labour. Such consensus should be based on the recognition that a given length of labour-time of any concrete form, type and level of skill, contribute equally to society. An ultimate social foundation for egalitarian economic democracy must be realized in such consensus.

From such a point of view, the aims which Marx set for the higher phase communism, such as ‘to each according to his needs’, or distribution according to needs, as well as the resolution of antithesis between mental and physical labour, should not be postponed until the remote stage of highly developed socialist societies, but be incorporated as far as possible in the tasks of lower phase of socialism, or even under socialism in a more broad sense including social democracy in the present world.

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