NOTES on KARL MARX, *WAGES, PRICE AND PROFIT* [1865]

0. Explanatory notes regarding these *NOTES*.
   - Source notes (referring to Marx), by chapter & paragraph, are indicated, in brackets.
   - Important concepts are indicated by *italics* or underline.
   - British money (in 1865): 12 pence = 1 shilling; 20 shillings = 1 pound.
   - Dry measure: 1 quarter (of wheat) = 8 bushels = approximately ¼ ton.
   - Corn: in the U.S. it means maize, but in Britain it means grain. Marx follows British usage, often using the word “corn” (meaning grain) when speaking of wheat.
   - The Marxist analysis herein pertains to the political economy of liberal capitalism with atomized competition, which largely prevailed in western Europe in 1865. The essentials of that analysis remain valid; however, some aspects require adjustment to account for differences under the monopoly capitalism, which prevails currently.

1. Use-value & exchange value.
   - *Use-value* is the utility of a product to its consumer. [VI:7]
   - *Exchange value* is the amount of another commodity (usually money), which one can obtain in exchange for a commodity to be sold (or bartered) in the market. [VI:8]
   - Production of an item for use by its producer is production of a use-value. Production of an item for sale or barter is production of an exchange value. Of these two, only the latter is a *commodity*. [VI:7]

2. Law of value.
   - The *law of value* (aka labor theory of value) is the concept that the relative exchange values of any two commodities is proportional to the quantities of *socially necessary labor* required for their production. [VI:7..12]
   - “Socially necessary” varies over time as technological advances increase productivity of labor, thereby reducing the quantity of labor required to produce a given commodity. Thus exchange value is determined, not by the actual amount of labor used, but by the amount, which is used by the most efficient producers. [VI:13..18]

3. Value & price.
   - *Price* = the monetary expression of exchange value. [VI:20]
   - *Natural price* (of a commodity) = monetary value based upon the amount of socially necessary labor required for its production. [VI:21..23]
   - *Market price* = actual price as determined by supply & demand, i.e. the price which fluctuates around the natural price. [VI:21..23]

4. Class division.
   - *Class division* arises from historical processes, by which a small minority gains ownership and control of the land and its natural resources; Marx calls this "original expropriation". [VII:5]
   - Under capitalism, the owning class also obtains ownership of the *instruments of production* (buildings, machines, tools). This leaves a working class majority, who own nothing but their *laboring power.* The worker is then compelled to sell his/her laboring power to the capitalist in order to obtain the necessities for life. [VII:5]

5. Labor & laboring power.
   - What the worker sells to the capitalist is not labor, but laboring power. [VII:2]
   - The exchange value of laboring power, like that of any other commodity, corresponds to the amount of labor required for its production. [VII:6..8]

6. Surplus.
   - The worker must sell his/her laboring power to the capitalist in order to receive the *wages*, without which he/she will be unable to obtain the necessities for life. [VIII:2]
   - Having purchased laboring power, the capitalist has acquired the right to use it. He/she does this by putting the worker to work. [VIII:3]
   - The capitalist buys laboring power at its (exchange) value, which is the price of the necessities for the worker's subsistence. [VIII:1..5]
   - The *value of laboring power* is not the same as the value that laboring power can produce. This is true because the worker can work more hours than are required to produce the value needed to procure his/her subsistence. The additional hours constitute *surplus labor*; the produce of those additional hours constitutes *surplus product*; & the value of that surplus product constitutes *surplus value*. [VIII:5]
   - Since the product of the worker's labor belongs to the capitalist, the surplus value belongs to the capitalist (& it constitutes the latter's profit). [VIII:5]
   - *Rate of surplus value* = surplus labor hours / subsistence labor hours. [VIII:6]

7. Paid and unpaid labor.
   - The capitalist extracts *labor* from laboring power by putting the worker to work. This labor consists of two parts. One part reproduces the value of the wage, which the capitalist pays to the worker. The other part produces surplus value, for which the capitalist pays nothing. Marx classifies the former as "paid labor" and the latter as "unpaid labor". [VIII:3; IX:3..7; X:1..2]

- Different modes of production give false appearances regarding paid & unpaid labor.
    (1) Wage labor. Since all of the hours of labor are counted together, when the worker is given his/her wage, it appears that the payment is for all of those hours of work. Thus wage labor gives the false appearance that both the paid and the unpaid parts of the worker's labor are paid.
    (2) Chattel slavery. The paid part of this labor is that part, which reproduces the value of the subsistence provisions, which the master provides to the slave. Since the slave receives no paycheck, slavery gives the false appearance that neither the paid, nor the unpaid, part of the slave's labor is paid.
    (3) Serfdom. With the medieval serf, who was required to work half his days gratis on the lord's land, the appearance corresponds to the actuality; only the labor given to the lord appeared as unpaid, as indeed it was.

  [IX:1..8]

8. The value of a commodity.
    - *Crystallized* (or "realized") *labor* = the labor, which has been bestowed upon a commodity in producing it. [X:1..2]
    - The *value of a commodity* is determined by the total amount of labor crystallized in it. This includes raw material, used-up machinery, etc, as well as direct labor. [X:2]
    - Computation of a commodity's value & profit in Marx' illustrative example.
        (1) The value crystallized by 12 hours of labor power = 6 sh (shillings).
        (2) Production inputs:
            - Crystallized labor in materials used up = 24 hours (value = 12 sh).
            - Direct labor added by worker = <u>12 hours (value = 6 sh)</u>.
            - Total labor crystallized in the product = 36 hours (value = 18 sh).

        (3) Selling price (= the commodity's value) = 18 sh.
        (4) Capitalist has paid 12 sh (materials) + 3 sh (labor power) = <u>15 sh</u>.
        (5) Therefore, *profit* = 3 sh.
        (6) Note. Direct labor (for 12 hours) cost the capitalist 3 sh and consists of:
            - Paid labor (= 6 hours, which produces a value of 3 sh) +
            - Unpaid labor (= 6 hours, which also produces a value of 3 sh).

        (7) The unpaid labor creates the surplus value, which becomes the profit.
        (8) Thus the capitalist obtains a *normal profit*, not by selling the commodity at a price above its value, but by selling it at its value.

    [X:1..2]

9. Distribution of surplus value.
   - The profit (surplus value), which results from the crystallization of unpaid labor in a commodity, does not necessary go exclusively to the employing capitalist. If the employer leases the land, on which the business operates, and/or borrows the money, with which to finance operations; then he/she must share the profit with the landlord and/or the moneylender.
     - *Rent* is the payment, which the lessee of land pays to the landowner.
     - *Interest* is what the borrower of financial capital pays to its owner.
     - *Industrial profit* is the part of surplus value (profit), which remains to the capitalist after payment of rent & interest.

     [XI:1..2]
   - Surplus value is created exclusively by labor; and it is the employing capitalist, who extracts this labor from the worker. Neither land nor financial capital creates surplus value. Thus the notion, that a commodity's value is formed by the addition of independent values from land, financial capital, & production, is false. [XI:3..7]
   - Likewise materials used up during production create no surplus value. [XI:6]

10. Division of the value created by labor.
    - The *value of a commodity* consists of:
      (1) materials used up, containing labor crystallized prior to acquisition by the current capitalist, +
      (2) labor added by the worker employed by the current capitalist.

      It is only the labor added, which creates new value. [XII:1]
    - It is the new value created by the application of the worker's labor, which must be divided between the wages to be paid to the worker and the profit to be retained by the capitalist. Consequently, any increase in wages will decrease profit and vice versa. [XII:1..2]
    - Moreover, any increase in the share going to wages results in a decrease in the rate of surplus value (& of profit) and vice versa. [XII:2]
    - Such changes do not affect the value of the commodity. [XII:2]

11. Productivity (i.e. the productive power of labor) & price.
    - *Productivity* is measured by the quantity of output for a unit of labor. Thus, when increased productivity results in a day's labor producing an increased number of commodity units; then the value (& price) of each commodity unit decreases proportionately. [XII:3]
    - The price of the commodity is determined by the quantity of labor crystallized in it, not by the proportional division of value between capitalist and worker. [XII:3]

12. The struggle between capital and labor.

- Circumstances, which give rise to workers' attempts to raise wages, include:
  (1) A rise in the cost of necessities for the worker's subsistence.
  (2) Inflationary decrease in the purchasing power of money.
  (3) Imposition of an increase in the hours of the working day without a corresponding increase in wages.
  (4) Imposition of wage reductions during periods of economic stagnation, & denials of countervailing wage raises during periods of economic boom.

  [XIII]
- The *value of laboring power* is formed by 2 elements:
  (1) the (unchangeable) *physical element* i.e. the bare minimum required to maintain & reproduce the working class; &
  (2) the (changeable) *historical element* i.e. the additional value required to satisfy the socially accepted minimum standard of living of the given community.

  Therefore, the value of laboring power is not a fixed magnitude, but a variable one. [XIV:2..6]
- The *maximum of profit* is set by the *physical minimum of wages* & by the physically sustainable *maximum of the hours of the workday.* [XIV:7..8]
- The division of surplus value is an issue of *struggle between capital & labor*, to be resolved according to the respective strengths of the 2 contending parties. [XIV:8..9]
- The limitation of the working day is typically settled, not by economic action, but through legislation. Why? Because in the economic sphere, capital is typically the stronger party. [XIV:10]
- The value of laboring power ultimately depends upon supply and demand. A scarcity of labor results in relatively high wages, while an excess of labor results in relatively low wages. Therefore, the capitalists take measures to reduce the need for labor (e.g. through mechanization) and/or to increase its supply (e.g. by ousting peasants from the land). [XIV:11..12]
- Mechanization also simplifies skilled labor, thereby depreciating it. [XIV:12]
- While necessary, the working class struggle for improvements in wages, hours, and other conditions of employment deals only with effects, while failing to address causes. Ultimately, the only solution to the exploitation & oppression resulting from the natural operation of the capitalist system is the abolition of capitalism, i.e. *revolution* (and socialist reconstruction). [XIV:16..17]

Charles Pierce 2008 June 06