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Marx's Argument for the Labor Theory of Value

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Abstract

In a Times Literary Supplement review of some recent literature on Marx and Marxism for a general readership, Jonathan Wolff claimed that Marx's solution to the so-called "transformation problem" is "half-baked." The aim of this paper is to challenge this complacent dismissal of some of Marx's central economic ideas. In the process, I want to show that although the issues here are subtle and complex, Marx's ideas retain a great deal of intuitive appeal, and his "solution" to the so-called "transformation problem" is neither conceptually implausible nor mathematically dubious. Crucial to this aim is to show that Marx viewed the categories of (what he called bourgeois) economics through a *social* lens, which is given in the first chapter of the first volume of *Capital*.

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Marx, value theory, abstract labor, transformation problem

1. Introduction

In a Times Literary Supplement review of some recent literature on Marx and Marxism for a general readership, Jonathan Wolff ponders "the puzzle of Marx's career": "Why didn't he push his analysis of capitalism to the stage where he could identify the mechanism by which it would break down?"

> We can only speculate. One possible explanation is that in the drafts that became *Capital* volume 3 Marx has to face up to an issue that threatens the foundations of his economic analysis: the "transformation problem." Briefly, if all profit comes from the exploitation of labor then highly labor-intensive industries should be more profitable than those that use little labor. But they are not. Marx allows "values" to deviate from "prices" to address this problem, but most commentators think his maths was awry, and in any case once prices no longer directly reflect labor input, much of the intuitive appeal of Marx's economics drains away. Doing better remains a serious technical question in

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> Marxist economics; it may be that Marx knew his own solution was half-baked but couldn't see how to do better. (Wolff 2018)

Readers not acquainted with debates in Marxian economics in general and the issue of the so-called transformation problem in particular will take these words of Wolff as just another confirmation that Marx, despite his "self-confidence, together with the depth of his analysis, that even today make him such an intoxicating read" (Wolff 2018), was not much of an economist. When asked about the subject, they will proclaim that Marx's labor theory of value has been discredited, for even Marx was forced to admit that the average prices of commodities deviate from their labor values, and his own mathematical attempts to translate values into prices failed. Finally, if prices are not directly determined by labor input, the intuitive appeal of a labor theory of value is nil. Thus, Marx's economic ideas were "half-baked."

The aim of this paper is to challenge this complacent dismissal of some of Marx's central economic ideas. In the process, I want to show that although the issues here are subtle and complex, Marx's ideas retain a great deal of intuitive appeal, and his "solution" to the "transformation problem" is neither conceptually implausible nor mathematically dubious. Crucial to this aim is to show that Marx viewed the categories of (what he called bourgeois) economics through a *social* or sociological lens. This lens is given in chapter 1 of *Capital* volume 1 on "The Commodity," and Marx's entire analysis has to be viewed through it in order to be understood properly. In this I follow a tradition of interpretation that goes back to Rudolph Hilferding's reply to Böhm-Bawerk at the turn of the 20th century, which was picked up and elaborated on by the Soviet economist Isaak Rubin in the 1920s in his *Essays on Marx's Theory of Value*. This line of thought was retrieved by Mandel and Freeman (1984) in their volume *Ricardo, Marx, Sraffa*, and has since been fully rehabilitated in the so-called Temporal Single System school of Marxian economics, most coherently and persuasively summed up in Andrew Kliman's *Reclaiming Marx's "Capital": A Refutation of the Myth of Inconsistency* (Kliman 2007).

2. Marx's Argument for the Labor Theory of Value: First Pass

Before we can confront what is meant by the transformation problem, namely the transformation of labor values into average prices (what Marx calls "prices of production"), we have to look at Marx's argument for the labor theory of value itself. Why did Marx think that labor was the substance of value, and the duration of labor time the measure of its magnitude? Robert Paul Wolff (another "Wolffian" critic of Marx) offers the following: "Labor, as measured in units of time—hours, say—is the substance of value. It is what value itself *is*. This Marx takes here either as given by classical political economy or else as having been proved by the hasty arguments at the opening of chapter one [of *Capital* volume 1]" (Wolff 1984: 103). Wolff is certainly right that *part* of the story is that Marx is working with categories inherited from previous thinkers like Adam Smith, David Ricardo, and others. Note, for instance, his approving reference to Benjamin Franklin on the matter: "One of the first economists, after William Petty, to have seen through the nature of value, the famous Franklin, says this: 'Trade in general being nothing else than the exchange of labor for labor, the value of all things is… most justly measured by labor'" (Marx 1976: 142 fn18). But it is also undeniable that Marx was doing something more than just taking on board, without critical modification, the ideas of his predecessors in making labor the substance and measure of value. R. P. Wolff refers to the "hasty arguments" for the labor theory of value at the beginning of *Capital*, and in another place contends that "Marx's argument for it, at the beginning of chapter I of Capital, is extremely weak—so weak as not to constitute any argument at all" (Wolff 1981: 98). Wolff dismisses Marx's argument without explanation. This is a serious mistake, common to many interpreters and critics of Marx.

Marx begins with the dual character of commodities, namely that they have both a use value and an exchange value. Exchange value is the value something has in exchange, in the sense of what commodities one can get by exchanging the commodity in question. But when commodities exchange one for another, they are treated as equivalents, i.e., they are equated with one another, and this implies they are equal in some way. However, the most diverse commodities exchange for one another in relatively fixed ratios—say, a certain quantity of corn for a certain quantity of iron, or a coat for a certain amount of linen (to take some of Marx's examples, abstracting for the time being from prices and their corollary money). A coat may have the exchange value of an indefinitely long disjunctive list of other commodities in definite quantities it might exchange for. All of these different commodities have different use values: that is, they are different material objects with different material compositions, and this makes them suited to satisfying diverse human needs or having different values in *use*. If they are so different, how can they be equated in exchange? What is common to all commodities insofar as they have exchange value? Marx answers, "If then we disregard the use-value of commodities, only one property remains, that of being products of labor" (Marx 1976: 128). Put briefly, then, the first phase of the argument goes something like this: (a) systematic exchange establishes a relation of "equality" across commodities; (b) this equality relation implies that there must exist "a common element of identical magnitude" in any two commodities; (c) this "common element" cannot involve any specific properties of the commodities as use values; and (d) abstracting from such properties, the only property that remains is that all commodities are products of human labor.

3. The Importance of Abstract Labor

At this point Marx's argument has simply summed up and tidied up the approach of a number of political economists before him. If this were all Marx had to say in defense of his labor theory of value, we might agree with R. P. Wolff that this hasty argument constitutes no argument at all. We might similarly agree with Jonathan Wolff, who claims that "at the center [of Marx's theory of value] is a massive void. Although he attempts some lengthy arguments, in the end Marx gives us no good reason to believe that the labor theory of value is true, and these days very few economists will defend it" (Wolff 2002: 114). Wolff does not tell us anything about these "lengthy arguments," and it seems safe to say he hasn't given the first chapter of *Capital*, where they are found, much thought. For *immediately* after Marx makes the claim (at the start of the paragraph) that what all commodities as exchange values have in common is their being the products of human labor, Marx *goes on* to explain that this claim implies in addition something about the labor that creates commodities with exchange values:

> But even the product of labor has already been transformed in our hands. If we make abstraction from its use value, we abstract also from the material constituents and forms which make it a use-value. It is no longer a table, a house, a piece of yarn or any other useful thing. All its sensuous characteristics are extinguished. Nor is it any longer the product of the labor of the joiner, the mason, or the spinner, or of any other particular kind of productive labor. With the disappearance of the useful character of the products of labor, the useful character of the kinds of labor embodied in them also disappears; this in turn entails the disappearance of the different concrete forms of labor. They can no longer be distinguished but are all together reduced to the same kind of labor, human labor in the abstract. (Marx 1976: 128)

Thus, value is created and measured by *abstract* human labor, labor considered simply as human labor in general, with all its specific concrete properties stripped away. The reason why we must attend to this concept of Marx's is that, as Rubin pointed out long ago, "Marx attached decisive importance to the difference between concrete and abstract labor" (Rubin 2008: 131).

As Marx says a few pages after introducing his concept of abstract labor: "I was the first to point out and examine critically this twofold nature of the labor contained in commodities. As this point is crucial to an understanding of political economy, it requires further elucidation" (Marx 1976: 132). Marx took this concept to be an innovation of his own, and one so important that he wrote to Engels shortly after the publication of *Capital*: "The best points in my book are: 1) the *two-fold character of labor*, according to whether it is expressed in use value or exchange value. (*All* understanding of the facts depends on this.) It is emphasized immediately, in the *first* chapter; 2) the treatment of *surplus value independent of its particular* forms as profit, interest, ground rent, etc." (quoted in Rubin 2008: 131). Note Marx's emphasis: "*All* understanding of the facts depends on this" distinction between concrete and abstract labor.

R. P. Wolff, since he completely ignores Marx's concept of abstract labor as part of Marx's argument for his labor theory of value, concludes that "the *real* argument" (Wolff 1981: 98) for Marx's value theory must be that through it—via the concept of surplus value—the source of profit can be explained. Certainly Marx thinks that his theory of surplus value can explain the source of profit (since profit is just a form surplus value takes), but in truth his labor theory of value rests on abstract labor, and the theory of surplus value rests on the labor theory of *value*. We will see that this leads R. P. Wolff to misunderstand Marx's value theory altogether. J. Wolff, too, overlooks the importance of abstract labor, despite noticing that Marx referred to it as one of the best points in *Capital* volume 1 (Wolff 2002: 68). He mistakenly reduces the importance of abstract labor to the distinction between use value and exchange value Marx had more or less inherited from his predecessors, and then, like R. P. Wolff, goes on to focus on surplus value as the source of profit. So both Wolffs misunderstand the importance Marx attached to the concept of abstract labor, assuming that the justification for Marx's labor theory of value is that it explains profit via surplus value. Thus, when they go looking for an argument for Marx's labor theory itself, they come up emptyhanded and accuse Marx of having no argument at all.

4. Marx's Argument for the Labor Theory of Value: Second Pass

What, then, of abstract labor? Marx does not set out his argument for the labor theory of value in a succinct and syllogistic form, so I must try to reconstruct it from the first chapter of *Capital* volume 1. Marx begins with the argument we have already outlined: concretely different commodities exchange in definite proportions, each commodity representing for the other its value in exchange. Exchanging at definite proportions implies equality, or some element in common, and that element is said to be human labor, *abstracted* from its concrete specificity. So far, I think, so good. There is nothing prima facie ridiculous about such a view. But without elaboration, it rings hollow. So Marx elaborates. To be a commodity, the product of labor must be a use value produced *for others*, not for direct consumption by the producer, but *to be exchanged* (Marx 1976: 131). This begs the question, you might say, since Marx now *defines* the commodity as the product of labor produced for the sake of exchange. But go to any supermarket and look around: you are confronted with commodities as far as the eye can see, all clearly the products of human labor and made for the sake of being exchanged on the market—they have been bought by the retailer, and are waiting to be sold to the consumer for definite exchange values (i.e., they have money prices). However, there is a fairly obvious objection to this view in the fact that certain natural items (such as uncultivated land) can have exchange values or prices while failing to be products of labor. We will return to this objection later.

Marx then tells us that:

> The totality of heterogeneous use values or physical commodities reflects a totality of similarly heterogeneous forms of useful labor, which differ in order, genus, species, and variety: in short, a social division of labor. This division of labor is a necessary condition for commodity production, although the converse does not hold; commodity production is not a necessary condition for the social division of labor. Labor is socially divided in the primitive Indian community, although the products do not thereby become commodities. Or, to take an example nearer home, labor is systematically divided in every factory, but the workers do not bring about this division by exchanging their individual products. Only the products of mutually independent acts of labor, performed in isolation, can confront each other as commodities. (Marx 1976: 132)

In other words, in order to produce all of the diverse commodities with their many different use values, there must be a division of labor. All societies presuppose some division of labor in order to produce the various different things the society needs to reproduce itself, hence they all rely on a social division of labor. As Marx eloquently puts it: “Labor, then, as the creator of use values, as useful labor, is a condition of human existence which is independent of all forms of society; it is an eternal natural necessity which mediates the metabolism between man and nature, and therefore human life itself” (Marx 1976: 133). So too with a commodity-producing society where most of the labor carried out is for the sake of producing commodities to be exchanged. But in such a society, this division of labor is brought about by mutually independent producers, laboring in isolation from one another (i.e., in private), exchanging their individual products with one another, protected by the laws of private property. That is, a commodity economy relies on and presupposes a division of labor, but that division of labor itself is in turn regulated or brought about through the constant exchanges of mutually independent producers. Later Marx gives an example: “We can see at a glance that in our capitalist society a given portion of labor is supplied alternately in the form of tailoring and in the form of weaving, in accordance with changes in the direction of the demand for labor. This change in the form of labor may well not take place without friction, but it must take place” (Marx 1976: 134). “Changes in the direction of the demand for labor” are indicated by how well the products of tailoring and weaving are selling on the market, and this is reflected in the movement of prices. If the coats the tailors make are not selling, but the linen the weavers make is, then “society” is demanding that more labor go into the making of linen and less into the making of coats. Thus, labor must move from one line of production to another, recalibrating the division of labor in the commodity-producing society.

If the movement of labor in a commodity-producing society is regulated by the movement of prices or exchange values, this is only because the products of labor in such a society have a value apart from their use value, which allows them to exchange with each other in definite proportions. But then all labor, if it is moved around indiscriminately according to the exchange value of its products, must be simply abstract labor, human labor considered apart from the specific concrete activity required to produce this or that use value. As Marx points out: “Experience shows that this reduction [of complex to simple average labor or abstract labor] is constantly being made. A commodity may be the outcome of the most complicated labor, but through its value it is posited as equal to the product of simple labor, hence it represents only a specific quantity of simple labor” (Marx 1976: 135). In this form as abstract labor, labor can determine the magnitude of value of commodities according to the socially average amount of time it takes to make a given commodity. Thus, the value of commodities is inversely proportional to the productivity of the labor that produces them: the less time, on average, it takes to make a given commodity, the lower its value will be. Marx gives the example of diamonds:

> Diamonds are of very rare occurrence on the earth's surface, and hence their discovery costs, on an average, a great deal of labor-time. Consequently, much labor is represented in a small volume…

> With richer mines, the same quantity of labor would be embodied in more diamonds, and their value would fall. If man succeeded, without much labor, in transforming carbon into diamonds, their value might fall below that of bricks. (Marx 1976: 130–131)

For Marx, then, commodity-producing society rests on a *social division of labor*. But in this particular kind of society, where the division of labor is regulated through the movement of commodity values on the market, the private labor of independent producers is only social insofar as it is abstract labor, i.e., labor that determines and is determined by the exchange values of commodities. It is only through the exchange of the products of their labor that independent producers' labor is confirmed as social labor.

As Ernest Mandel (Marx 1976: 45 n39) puts it: "Once one understands that, for Marx, value is in the last analysis assignment of portions of the socially available labor power, total value newly produced being equal to total expenditure of living labor in a given period, one solves the riddle" of the Marxian labor theory of value.

5. The Rule of Value

According to Marx, this leads to the notorious "fetishism of the commodity." Because the division of labor of society is achieved only indirectly, through the medium of exchange of the products of private labor on the market:

> [T]he commodity reflects the social characteristics of men's own labor as objective characteristics of the products of labor themselves, as the socio-natural properties of these things. Hence it also reflects the social relation of the producers to the sum total of labor as a social relation between objects, a relation which exists apart from and outside the producers. Through this substitution, the products of labor become commodities, sensuous things which are at the same time suprasensible or social. (Marx 1976: 164–5)

That is, it comes to seem perfectly ordinary—at least to the theoretically uninitiated—that commodities have their value or exchange value *inherently*, as a natural property that allows them to enter into "social" intercourse with one another in definite proportions. The average price of a chocolate bar, say, is around $1, and this exchange value that the commodity has appears as one of its properties completely apart from its use value, a property that allows it to "socially" interact with a certain quantity of money. But *of course* there is nothing inherent, in a naturalistic sense, about a commodity's value! Commodities only have values because they are exchangeable with one another, and they are exchangeable with one another so that the labor of different individuals can be equated and the total division of labor between different types of production in society can be regulated. Exchange values are an expression of determinate social production relations between people.

Marx says that "value… transforms every product of labor into a social hieroglyphic" (Marx 1976: 167), meaning that the prices of commodities become mysterious symbols that we must decipher. Why, after all, does the chocolate bar have the price that it does? Marx thinks the recognition that commodities with prices are the form that products of labor *must take*, as the result of *abstract labor* in a commodity economy, is an important scientific discovery. But this discovery, all by itself, does not change the fact that commodities and values seem to be things with a life of their own. In fact, Marx says, they *do* have a life of their own, and will continue to as long as society is organized along the lines of generalized commodity production: "these magnitudes [of value] vary continually, independently of the will, foreknowledge, and actions of the exchangers. Their own movement within society has for them the form of a movement made by things, and these things, far from being under their control, in fact control them" (Marx 1976: 167–8).

To understand what Marx is getting at here, think of all the ways that value (as exchange value) rules our lives in a commodity-producing society. We are all chasing or forced to chase after value, whether in the form of wages, profits, money as such, lower prices as buyers, higher prices as sellers, and so on. Companies move their factories to places where they can employ cheaper labor and so reap a higher profit, while those left unemployed are victims of the movements of value. This is what is meant by the oft-made complaint of "commodification" in capitalist society: more and more aspects of social life become things with value, and "these things, far from being under [our] control, in fact control [us]." This is why it is inadequate to view Marx as simply saying that abstract labor or exchange value is somehow *unreal* or strictly reducible without remainder to concrete human labor or the real social relations between human beings. Value *is an expression or representation* of a particular kind of social relation among humans, namely the social relations of a commodity-based society, where labor appears as abstract labor. As Marx puts it: "To the producers, therefore, the social relations between their private labors *appear as what they are*, i.e., they do not appear as direct social relations between persons in their work, but rather as material relations between persons and social relations between things" (Marx 1976: 165–6 my emphasis).

Marx is very clear here: the way things appear, namely that value and commodities take on a life their own, *is the way things are*! Although this absurd state of affairs is ultimately generated by our own submerged social relations, it regulates and rules them in turn. The form of value, the fact that value is the outgrowth of a certain social form of society, leads to a rule of abstractions *in practice*, not just in theory:

> Men do not therefore bring the products of their labor into relation with each other as values because they see these objects merely as the material integuments of homogeneous human labor. The reverse is true: by equating their different products to each other in exchange as values, they equate their different kinds of labor as human labor. They do this without being aware of it. (Marx 1976: 166–7)

In this respect, Marx can be understood as a kind social constructionist avant la lettre: many social constructionists maintain that certain seemingly "natural" properties attached to, for instance, race and sex (or race and sex themselves) are in fact just the effects of definite racist and sexist social relations, but this discovery alone does not do away with the "social force" attaching to these (unnatural) properties. As long as the social relations that generate them remain in place, these "properties" will continue to take on a life of their own, ruling and reinforcing in turn the social relations that generate them in the first place.

6. The Critique of Value

This is, then, Marx's first and most fundamental innovation in political economy, as he sees it. Political economy:

> … has never once asked the question why this content has assumed that particular form, that is to say, why labor is expressed in value, and why the measurement of labor by its duration is expressed in the magnitude of the value of the product. These formulas, which bear the unmistakable stamp of belonging to a social formation in which the process of production has mastery over man, instead of the opposite, appear to the political economists' bourgeois consciousness to be as much a self-evident and nature-imposed necessity as productive labor itself. (Marx 1976: 174–5)

> It is one of the chief failings of classical political economy that it has never succeeded, by means of its analysis of commodities, and in particular of their value, in discovering the form of value which in fact turns value into exchange value… The value form of the product of labor is the most abstract, but also the most universal form of the bourgeois mode of production; by that fact it stamps the bourgeois mode of production as a particular kind of social production of a historical and transitory character. If then we make the mistake of treating it as the eternal natural form of social production, we necessarily overlook the specificity of the value form, and consequently of the commodity form together with its further developments, the money form, the capital form, etc. (Marx 1976: 174 fn34)

In other words, bourgeois economists make the mistake of seeing the capitalist economy and the categories they use to understand it as eternal verities, rather than as a transitory sociohistorical form of production and division of labor and its theoretical reflections in thought. But again, understanding that products of labor take the form of values (and in turn value-creating labor takes the form of abstract labor) only in this specific sociohistorical form of production *does not in itself do away with the objectivity or social validity* of these forms and the categories necessary for understanding them.

A key to understanding the so-called transformation problem is just this point, and it is where R. P. Wolff gets Marx all wrong. The theory of surplus value does not need to be rehearsed at length here. Suffice it to say that surplus value is the form the product of unpaid labor time takes when it is extracted from workers by capitalists during the labor process. It is the additional value of the commodity that redounds to the capitalist as the profit on their investment, once the cost of constant and variable capital is accounted for. To account for the systematic deviation of average prices of commodities (what Marx calls their prices of production) from their values reckoned in labor time—a problem shared with those of his predecessors (like Smith and Ricardo) who similarly adhered to something like a labor theory of value—Marx provides a simple solution. Surplus value is still created in the process of production through exploitation of the worker, but it is then shared out or distributed among different industrial capitalists (as a result of competition) according to how much total capital they have invested, irrespective of how much surplus value-creating variable capital they have directly employed. Taken as a whole, total profit is still equal to total surplus value, and total price is equal to total value, so Marx claims he has not contradicted the analysis of volume 1 (see Marx 1981: ch. 9).

Amazingly, R. P. Wolff claims that this solution of Marx rests on *Marx himself* being taken in by the very fetishistic thinking he sought to expose in chapter 1 of *Capital*:

> Once we start thinking of surplus value as an objective physical (or "metaphysical") quantum of congealed or crystallized labor, embodied in the commodities emerging from the production process, then we may quite naturally be drawn to the conclusion that it can be redistributed by the processes of realization and circulation, but can neither be increased or decreased in magnitude.
>
> But this way of thinking is crazy!… [T]he labor value of a commodity is not a natural property of that commodity… It is thus a prime instance of fetishistic thinking to imagine that in each line of production—indeed, in each factory—a quantum of surplus value is extracted from the workers, which may be appropriated by the capitalists in that line of production, or may be shifted and spread this way and that, but can never be augmented or diminished by the processes of circulation… [I]t is [Marx] who bitingly stigmatizes as crazy, *verrückt*, just the sort of thinking into which he appears to have fallen here. (Wolff 1984: 144–5)

It should already be clear how Wolff goes wrong here. He thinks that because Marx views the value-form as "crazy," then it is inappropriate to apply that form of analysis to the capitalist commodity economy itself. But Marx also thinks that the capitalist commodity economy is crazy, absurd, irrational—precisely because it is a form of society where "the process of production has mastery over man," where "things, far from being under their control, in fact control them." In other words, because in this society, social relations take on and are ruled by the form of value! The labor theory of value—what, in Marx's hands, some have called the "value theory of labor" (cf. Harvey 2018 and Elson 1979)—is apt for analyzing such a society because only in such a society does labor (or its products) appear as and is ruled by value in this way. The whole point of Marx's economic analysis of capitalist society is to take the categories of bourgeois political economy—once the right distinctions have been introduced to render them consistent—to their logical conclusion: the conclusion is that the form of value *is* irrational, contradictory, unstable, and generates antagonisms and crises that must undermine the social relations that give rise to it and that it expresses. This is why *Capital* is subtitled "A *Critique* of Political Economy": it is a critique similar to the way Kant's is a *critique* of pure reason—it demonstrates the *limits* of its subject, implying and pointing to what lies beyond them. Marx views these corrected categories as legitimate theoretical reflections of a crazy world, a world gone mad with a mania for value.

As a result of this misinterpretation of Marx's theory of commodity fetishism, i.e., his labor theory of value, R. P. Wolff and others have been led to think that Marx views labor values and prices as somehow two different and unconnected systems. In connection with his criticism of Marx's thinking as "fetishistic" he also hazards the following guess as to why Marx went wrong:

total surplus value = labor value of the physical surplus
total profits = price of the physical surplus

> I think it is at least possible that Marx was misled by these two confusingly similar equalities into supposing that total profits must equal total surplus value. (Wolff 1984: 146)

To understand the trap Wolff has fallen into here, we have to address more directly the transformation problem.

7. The Specter of the Transformation Problem

In volume 1 of *Capital*, Marx assumes commodities sell at their labor values, where labor time is converted into money by some fixed ratio, say $1 = 1 hour of abstract labor. Already we should recognize that Marx's value theory is not just about the way labor time determines value but also *the way value determines labor time*. In any case, when Marx gets to volume 3, he must address the way that competition among industrial capitalists generates an average profit rate, which leads to commodities not being sold at their labor values but rather at their prices of production. To calculate prices of production, Marx says that the value the capitalist spends on constant and variable capital as her investment must be supplemented not by the specific amount of surplus value they happen to pump out of their workers, but rather an amount proportional to their total capital investment, i.e., the average profit they can expect per commodity. The source of this average profit is still surplus value, namely the total surplus value extracted by the capitalist class as a whole from the working class as a whole that then gets shared out among the different capitalists.

The wrinkle that supposedly generates the transformation problem is that once Marx has shifted in volume 3 to talking about prices of production, he must concede that the capitalist buys their inputs, i.e., their constant and variable capital, *not* at their labor values as these are conceived in volume 1, but at their prices of production—prices that systematically diverge from labor values. But then what is the relation between labor values and prices at all? If inputs are reckoned in prices of production (which systematically diverge from labor values as conceived in volume 1), and outputs are also valued at prices of production, what does (labor) value have to do with anything anymore? This led Joan Robinson, for instance, to say that "the conflict between volume 1 and volume 3 is a conflict between mysticism and common sense. In volume 3 common sense triumphs but must still pay lip-service to mysticism in its verbal formulations" (Robinson 1942: 18 fn1).

On the one hand, Robinson has a point. The analyses of volumes 1 and 3 certainly deal with more and less "mystical" aspects of the commodity economy. As Rubin puts it: "the labor theory of value and the theory of production price are not theories of two different types of economy, but theories of one and the same capitalist economy taken on two different levels of scientific abstraction" (Rubin 2008: 253). Volume 1 abstracts from competition among industrial capitalists, among many other things, while volume 3 reintroduces this competition as what generates an average profit rate and the necessity of redistributing surplus value to get prices of production. But on the other hand, it might be more apt to say that volume 3 explains the common sense *of the practicing capitalist*, who cannot see and does not care what the source of profit is: "This confusion on the part of the theorists shows better than anything else how the practical capitalist, imprisoned in the competitive struggle and in no way penetrating the phenomena it exhibits, cannot but be completely incapable of recognizing, behind the semblance, the inner essence and the inner form of this process" (Marx 1981: 269). Thus the "common sense" of the practical capitalist in volume 3 is all the more ensconced in a fog of mystification, for they think that their invested capital creates a proportional profit all by itself, apart from exploitation of labor. In this respect, the capitalist in volume 1 who cracks the whip to extort as much surplus value from his workers as possible sees things much more clearly.

What, then, is the connection between values in volume 1 and prices of production in volume 3? How do values play any role at all once we get to the more developed analysis of volume 3? Marx's answer is, again, rather simple and straightforward:

> The cost price of a commodity is a given precondition, independent of his, the capitalist's, production, while the result of his production is a commodity that contains surplus value, and therefore an excess value over and above its cost price. As a general rule, the principle that the cost price of a commodity is less than its value has been transformed in practice into the principle that its cost price is less than its price of production… The cost price of a commodity simply depends on the quantity of paid labor it contains, while the value depends on the total quantity of labor it contains, whether paid or unpaid; the price of production depends on the sum of paid labor plus a certain quantity of unpaid labor that is independent of its own particular sphere of production. (Marx 1981: 265)

Here we can see that Marx takes cost price and commodity value to be entirely commensurable. Cost price, however it might diverge from the labor value of inputs as a result of inputs being bought at their prices of production, is simply taken as a "given precondition" of the production cycle under consideration and thus counts as paid labor. At the end of that cycle, capitalists as a class are able to appropriate more value than they put in, i.e., more money than they paid for their inputs, i.e., unpaid labor (see Harman 2010: 46–50).

Prices and values are thus not two separate systems as R. P. Wolff thinks, but rather a single system where the two forms of value determine one another. As Marx explains with regard to the value or price of labor power: "As for the variable capital, the average daily wage is certainly always equal to the value product of the number of hours that the worker must work in order to produce his necessary means of subsistence; but this number of hours is itself distorted by the fact that the production prices of the necessary means of subsistence diverge from their values" (Marx 1981: 261). Workers are paid a wage that is enough for them to buy their necessary means of subsistence, i.e., the value of their labor power, but the price of the necessary means of subsistence is its production price—so the number of hours (the labor time) a worker must work in order to produce the value of their labor power is determined (or "distorted") by the prices of production.

Prices of production are *directly* determined by abstract labor time in the sense that prices of production are a form of value, and the source of all value is abstract labor time. They are further directly determined in the sense that they incorporate an average profit, whose source is *unpaid* abstract labor time, i.e., surplus value. But *individual* prices of production are only *in*directly determined by the amount of abstract labor time that goes into their commodities, since they incorporate an amount of surplus value that deviates from the amount that was produced in the specific production process under consideration (i.e., total surplus value is shared out among capitalists in proportion to the total invested capital of each, irrespective of what they spend on variable capital). However, that is not the end of the story. Prices of production then react back on the next production cycle of the capitalists who use their commodities as inputs. Thus, prices of production, as a form of value, rule and regulate abstract labor (by, for instance, affecting the prices that workers must pay for necessary means of subsistence). All this is just to say that Marx's "transformation" of values into production prices cannot be understood outside the context of his account of value in general, as a peculiar ("crazy," absurd, irrational) social form that is generated by and in turn rules and regulates generalized commodity production and its attendant division of labor.

8. Prices Without Values

But what about the objection alluded to earlier, that there are obviously goods such as uncultivated land that are in no way the products of labor but nonetheless have exchange values or prices? If pointing this out can substantively contradict Marx's contention that labor is the only creator of value, then clearly the entire edifice built on this faulty foundation will be threatened. Jonathan Wolff puts it this way: "Uncultivated land can be immensely valuable, even though it contains absolutely no labor at all" (Wolff 2002: 114). The same point was made in a more precise manner by Böhm-Bawerk:

> The exclusion [by Marx] of the gifts of nature [from the explanation of the concept of value]… is the less to be justified because many natural gifts, such as the soil, are among the most important objects of property and commerce, and also because it is impossible to affirm that in nature's gifts exchange values are always established arbitrarily and by accident… [T]he prices in the case of nature's gifts are frequently shown to be distinctly related to antecedent conditions or determining motives. For instance, that the sale price of land is a multiple of its rent calculated on an interest usual in the country of sale is as well-known a fact as that the wood in a tree, or the coal in a pit, brings a higher or lower price according to differences of quality or of distance from market, and not by mere accident. (Sweezy 1975: 71)

Before we get to Marx's reply to this objection, it is worth pointing out that he had already anticipated it and worked out his solution to the problem it represents as early as 1859, in his *A Contribution to the Critique of Political Economy*. There he wrote:

> Apparently the decisive objection [to the labor theory of value], unless it is advanced—as commonly happens—in the form of curious examples, is this: if exchange-value is nothing but the labor-time contained in a commodity, how does it come about that commodities which contain no labor possess exchange-value, in other words, how does the exchange value of natural forces arise? This problem is solved in the theory of rent. (Marx 1970: 63)

Marx's answer, put forward in *Capital* volume 3, first of all recognizes the truth of Böhm-Bawerk's claim that *sometimes* the price of "nature's gifts," in this case land, is not merely arbitrary but that "the sale price of land is a multiple of its rent calculated on an interest usual in the country of sale." Indeed, says Marx:

> If the average interest is 5 percent, for example, an annual ground-rent of £200 may be viewed as the interest on a capital of £4,000. It is the ground-rent as capitalized in this way that forms the purchase price or value of the land, a category that is *prima facie* irrational… since the earth is not the product of labor, and thus does not have a value… It is in actual fact not the purchase price of the land, but rather of the ground-rent that it yields, reckoned according to the prevailing rate of interest. (Marx 1981: 760–61)

But, he cautions: "This capitalization of the rent, however, presupposes the rent itself, whereas the rent cannot be conversely derived and explained from its own capitalization. Its existence, independent of the sale, is rather the presupposition proceeded from" (Marx 1981: 761).

That is, uncultivated land has no value in the sense of representing embodied labor time, but when it is appropriated and held as private property by its owner it can be given a specific price. The owner can expect to sell their land at such and such a price because the buyer can expect a definite yearly return in the form of rent on their initial investment, which initial investment or capitalization is equal to the "price of the land." As Marx warns, however, all of this presupposes the existence of rent. And just as on Marx's theory surplus value is the source of profit, so too is it the source of (ground) rent:

> To the same extent that commodity production and hence the production of value develops with capitalist production, so too there develops the production of surplus-value and surplus product. But in the same measure as the latter develops, there develops in landed property the ability to capture a growing portion of this surplus-value by way of its monopoly of the earth and hence to raise the value of its rent and the price of the land itself. It is still the capitalist who has the active function in the development of this surplus-value and surplus product. The landowner has only to seize a portion of surplus product and surplus-value that increases without any effort on his part. This is the peculiarity of his position (Marx 1981: 776).

To return to Böhm-Bawerk's point, that *sometimes* goods which strictly speaking have no labor values nonetheless have nonarbitrarily determined prices, it has to be said that this in no way rules out the arbitrariness of the prices of such goods some or even most of the time. With regard to this, Marx notes:

> In considering the forms of appearance of ground-rent, i.e., the lease-price that is paid to the landowner under this heading for the use of the soil, whether for productive purposes or those of consumption, we must keep in mind, finally, that the prices of things that have no value in and of themselves—either not being the product of labor, or which at least cannot be reproduced by labor, such as antiques, works of art by certain masters, etc.—may be determined by quite fortuitous combinations of circumstances. For a thing to be sold, it simply has to be capable of being monopolized and alienated. (Marx 1981: 772)

That is, these *monopoly* prices may be "established arbitrarily and by accident."

9. Conclusion

There is vastly more to be said on this topic. My purpose was only to point out that some of the easy dismissals so often made of Marx's theory of value fail completely to take account of his arguments for it. They assume his attempted justification is that profit is explained by surplus value, which in turn rests on the labor theory of value. Thus, they get impatient when faced with Marx's transformation of values into prices of production, since they think the path from value to price is a one-way street. But it is not. Only abstract labor *creates* value, to be sure, but the movement and transformation of value through its many forms (money, price of production, capital, wages, commodities themselves, rent, and so on) reacts back upon abstract labor, ruling and regulating it in turn. As price, value takes on a life of its own: it's a mad, mad, mad, mad world.

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