

**Session 1: Value and capital as
the basis of the contemporary
world financial and economic
crisis**

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*Part 1: First steps in explaining
the crisis: method, value and
money*

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Introduction to Part 1

Part 1 will

1. Consider methodological difficulties in explaining the crisis
2. Introduce 'materialist dialectics' as a helpful method for addressing these difficulties
3. Explain the initial application and development of materialist dialectics in the identification of value and the development of money

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*1.1 Methodological difficulties
in explaining the crisis*

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Explaining the crisis: what is the problem?

- At the relatively concrete level of the immediate manifestation of the crisis and its immediate causes, there are well-documented factors:
- Crisis of bank liquidity due to structural failings of, inter alia, the development of the sub prime mortgage market with the proliferation of securitised loans

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Explaining the crisis: what is the problem?

- Of course, we can go further, and explore deeper causes or conditions of the proximate causes initially unearthed. There are no shortage of well-known relevant factors:
- For example, financial deregulation of past 30 years, collapse of Bretton Woods agreement, influence of shifting technological-economic regimes, role of state and central bank, relation of finance to production, role and impact of political economic developments in regions and nations, influence of individual psychology, etc., etc.

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Explaining the crisis: what is the problem?

- Thus myriad relevant factors can be identified
- However, a problem of theory and method looms:
- How does it all fit together?
- How do these myriad individual structures and processes interrelate to form the economic and financial *system* as a whole, and the crisis therein?

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The problem is the system and 'economists' are supposed to solve it

- In media and popular discourse on the crisis it is precisely this *system* failure that is stressed
- It is 'economists' who are asked to explain this economic system and its failings
- And indeed, who could be an economist who knows nothing of the economic system!?
- How, then, should economists answer these questions?
- Little in mainstream methodology to help
- What methodological help is available elsewhere?

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1.2 Introducing 'materialist dialectics' as a helpful method for comprehending the system as a whole hence the crisis

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Materialist dialectics addresses the problem

- Materialist dialectics offers some help
- According to this approach to the crisis, we initially scrutinise aspects that *predominate* within the system, where this predominance is *specific to* the system (e.g. predominance of commodities, money, capital and its forms)

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Materialist dialectics addresses the problem

- That is, we undertake abstractions at the 'historical' level of generality and scope
- *Not* the 'trans-historical' level
 - *Not* the level of what is commonly termed 'historical materialism'
 - *Not* the level of 'philosophy'
- Trans-historical level is very important (the levels are mutually related) but historical level takes priority when bringing the levels together to help explain the crisis
 - Division of labour between Marx (historical level) and Engels (trans-historical level)

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Materialist dialectics addresses the problem

Within this historical level, materialist dialectics has 3 aspects or phases:

1. 'Method of enquiry': from concrete (e.g. profit) to abstract (commodity-value)
2. Identification of most abstract and simple category (commodity-value as 'cell-form')
3. 'Method of presentation': from abstract (commodity-value) to concrete (e.g. profit)

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Materialist dialectics addresses the problem

- The development from abstract to concrete (phase 3) is what we see in Marx's *Capital*
- The development gradually reveals the systemic significance (function and dysfunction) of the main constituents of the capitalist system
- So it helps to provide the necessary abstract basis for comprehending the crisis
- Phase 3 requires the prior two phases
- Let us explain the 3 phases in turn

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The method of enquiry

- We scrutinise categories at the historical level of extension and scope, to try to identify increasingly more abstract and simple categories

This means reasoning along the following lines:

- The ability of capital to make a surplus amount of money over an initial outlay (surplus value) is a simpler and more abstract aspect of the system than specific forms of surplus value such as profit, interest or rent

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The method of enquiry

- But money is a more abstract and simple category than surplus value
 - i.e. the concept of surplus value must include money (M-C-M') but the concept of money (M) can initially be abstracted from the concept of surplus value
- But the commodity is a yet more abstract and simple aspect of the system than money

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Identification of the commodity as the 'cell-form'

- The identification of the most abstract and simple category marks the end of the 'method of enquiry'
- This category is the commodity as the elementary form of wealth which has use-value and exchange-value
- We hope this category is the 'cell-form' of the system

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Importance of value theory in explaining the crisis

- If we are right that the commodity is the 'cell-form' of the system then scrutiny of the commodity is central to economics and so to any explanation of the crisis
- Such scrutiny will reveal that the commodity as a *value* is the most abstract and simple expression of the contradictory 'principle of order' of the system as a whole
- Without grasping commodity-value we will never grasp the rest of the system

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Importance of value theory in explaining the crisis

- History of economic thought confirms the importance of value
- Different respective theories of value give rise to different respective orientations towards the economic system
 - Based upon different respective characterisations of the contradictory 'principle of order' of the system
- Marginal utility theory of value provides a system-wide orientation to the economist, a labour theory of value provides a different system-wide orientation
- Let us first consider mainstream economics and marginal utility theory

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Mainstream economics and a marginal utility theory of value

- Orientation provided by marginal utility theory of value makes prices appear as the outcome of the decisions of atomistic utility maximising individuals in exchange
- This is 'shown' by (fully disaggregated) general equilibrium theory
 - abstracting from crisis (money, profit, banks, etc.)
- Pareto optimal so generally supportive of *laissez-faire* policy
- The distinctive system-wide orientation offered by a marginal utility theory of value, the distinctive principle of order of the system that it proposes, explains why mainstream economists are able to provide some impression that they grasp the whole system

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Labour theory of value

- Now consider labour theory of value of Marx and classical political economy
- A labour theory of value gives an orientation to the system as a whole in terms of social classes defined in relation to the production and distribution of a social aggregate
- Entirely different to the exchange-centred, individualistic principle of order or 'vision' of the system offered by marginal utility theory of value

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The method of presentation

- So far we have covered phase 1, the method of enquiry and phase 2, the identification of the 'cell-form'
- How does one decide between competing characterisations of the 'cell-form' of the system?
- Crucially there is a third phase of materialist dialectics, termed the 'method of presentation'
- The commodity as 'cell-form' is the starting point of the method of presentation
- The method of presentation aims to slowly and painstakingly 'develop' from the cell-form an ever more complex and concrete, so more realistic comprehension of the system as a whole

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The method of presentation

- The key is whether such a development is possible
- If it is *not* possible to develop a more concrete and complex comprehension of the system by dropping initial unrealistic assumptions, without vitiating the initial abstract 'vision' of the system, then the theory is invalid
 - As the joke has it, if stranded on a desert island with only a can of beans and no tin opener to hand, it will be invalid for the economist to unrealistically assume he has a tin opener...
- If it *is* possible drop unrealistic assumptions, modifying but not vitiating the initial vision of the system fostered by the cell-form, then we develop increasingly concrete and complex comprehension of the basis of the system and hence of the crisis

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Marginal utility theory of value cannot be developed

- A marginal utility theory cannot be developed to comprehend key aspects of the system such as money, profit or crisis
- This is manifest in well-known problems of (i) fully disaggregated general equilibrium theory and (ii) macroeconomics
- I stress one neglected fundamental reason for these problems as follows

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Marginal utility theory of value cannot be developed

- Marginal utility theory of value affirms that prices are purely relative in character
- It therefore denies meaning to macroeconomic aggregates such as GDP
- But aggregates such as GDP are causally central to the system as a whole
- As a result unrealistic one or two good models, with one good representing the mysterious aggregate, 'GDP', are typical in mainstream economics
 - Contradictory split between 'macroeconomics' and 'microeconomics'

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Marginal utility theory of value cannot be developed

- Irrevocable departure of system-wide theory from reality
- The 'tin opener assumption' cannot be dropped
- Marginal utility theory of value an invalid starting point for comprehending the system
- Therefore attempts to explain the crisis of the system within mainstream economics are hopelessly unrealistic

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Can a labour theory of value be developed?

- Doesn't the same problem afflict a labour theory of value?
- Even if social labour is a valid basis for aggregation, surely the 'Ricardian vice' of illicit oversimplification remains?
- Not in Marx's development of value in *Capital*
- Let us turn, then, to the initial developments in *Capital* as the basis for comprehending the system as a whole, and the crisis therein

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1.3 First steps from abstract to concrete: the development from value to money

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Initial steps in *Capital*

The initial steps in *Capital*:

- Commodity
- Use-value / Exchange-value
- Value as abstract labour 'congealed' in the commodity
- Two-fold character of labour in commodity
- Commodity as form of value
- Derivation of 'dazzling' money-form
- Commodity fetishism

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Initial steps in *Capital*

- These initial steps, especially the very first few pages of *Capital*, are little focused upon and might appear terse
- Yet they are pivotal because they introduce, scrutinise and develop commodity-value as the 'cell-form' of the system
- Let us consider them in turn

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Initial identification of value

- The key initial argument runs from an analysis of the 'exchange-value' of the commodity to the identification of the 'value' of the commodity
 - Tricky distinction between value and exchange-value
- Let us recount and embellish the argument

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Initial identification of value

- The commodity form is the typical form taken by a social product in the system under scrutiny (the capitalist system)
- A commodity has the power to exchange in definite proportions with any other commodity
 - Call it the power of 'exchangeability'
- This power of the commodity is possessed alongside its many natural powers

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Initial identification of value

- According to common sense and to realist and materialist philosophy, powers do not arise out of thin air
- For example the powers of water to quench my thirst, to boil at 100 degrees, etc. arise by virtue of the intrinsic structure of water
- Science has discovered that this intrinsic structural kind, definitive of water, is H₂O

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Initial identification of value

- The term 'value' is the term used in popular discourse to denote the intrinsic structural kind by virtue of which the commodity has the power of exchangeability
- In popular discourse it is not established just what the identity of 'value' is
 - Similar to the historical period in the study of water prior to discovery of H₂O

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Initial identification of value

- However, a 'powers' ontology has been anathema to Western intellectual thought (e.g. logical positivism)
- A prejudice against 'powers' ontology would suggest that value is simply the amount of another commodity for which a commodity will exchange
- 'Value' simply a shorthand for 'exchange-value' and a purely relative concept?
 - The view of marginal utility theory

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Initial identification of value

- Ricardo and classical political economy correctly denied a purely relative concept of value
- But they never questioned the naturalistic appearance of value as a power possessed by the commodity alongside its other natural powers
- So Ricardo and classical political economy offered a naturalistic, asocial, ahistorical labour theory of value
- In *this respect* they did not deviate from everyday discourse about value
- Naturalistic value discourse increasingly permeates society
 - the mysterious aggregate, 'GDP', otherwise termed 'value added'

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Value as abstract labour 'congealed' in commodity

- It is these deficiencies of Ricardo and classical political economy that *Capital* initially addresses
- Marx notes that there is a very peculiar twist upon scrutiny of value as the structure responsible for the power of exchangeability
- The exchange ratios generated by value are entirely independent of the specific natural material determinations of the commodity
 - i.e. of the commodity's specific height, weight, shape, etc.
- The 'labour' that constitutes value is therefore purely abstract
 - Abstracted from the specific motion and form of the labour that produced the specific natural material determinations of the commodity

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Value as abstract labour 'congealed' in commodity

- But this means that value is not an intrinsic natural material structure of the commodity
- The labour realised in the commodity which generates the power of exchangeability is structure/less
 - A pure quantity of social labour-time
- This transforms the entire 'powers' problematic because it points to a peculiar social inversion that requires further investigation
- How can a pure abstraction be that by virtue of which commodities have the power of exchangeability?

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Value as abstract labour 'congealed' in commodity

- Cannot stress too much this momentous discovery
- We are in completely new and peculiar causal territory
- Far in advance of the latest 'structure and agency' developments in social theory to this day
- We have to explain the peculiar naturalistic appearance of a complex social process of abstraction via nothing more than this process itself
- We furthermore have to explain the quantitative aspect of the process whereby social labour-time tethers price

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Value as abstract labour 'congealed' in commodity

- Expressed by Marx in terms of value as a 'congealment' of a 'purely' 'social substance', abstract labour
 - contrast Ricardian naturalistic labour 'embodied'
- The rest of *Capital* is a painstaking step-by-step development that tries to comprehend this process
- Development entirely lacking in Ricardo and classical political economy ('science before the science')

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Two-fold character of labour in commodity

- At this stage it is clear there is a peculiar split between concrete and abstract labour
- Sociality and individuality split apart when they should be together
- This split of value (as congealed abstract labour) from use-value marks the specific way in which a trans-historical social necessity, the social division of labour, is realised in this society
- Therefore the intrinsic measure of value is socially necessary labour-time

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Two-fold character of labour in commodity

- We know all this despite not yet knowing *how* the quantitative tethering of exchange-value by labour-time takes place, *how* exchange ratios are determined in accordance with social labour-time ratios
- Complex social process (of competition) to be unearthed
- 'Science before the science' issue again

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Commodity as form of value

Now:

- Value is not a natural structure and so cannot take effect without influencing social activity

But:

- Value is not 'embodied' – it is an inherently invisible, insensible, non-sensuous quantity

- As such, it cannot influence social activity

Therefore:

- Value *must* somehow gain a form of appearance despite inherently having none

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Commodity as form of value

- Can only gain an *objective* form of appearance in its social relations with other commodities
- This is the motivation to introduce a new, more complex and concrete category:
- Commodity as a form of value
- The exchange relation between commodities is 'deciphered' as being an expression of the value of one commodity (the relative form of value) in another (the equivalent form)

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Commodity as form of value

- The simplest form of expression involves just two commodities but is an inadequate expression of the universality and homogeneity of value
- Progressively more concrete and complex expressions are developed, each a better expression of value than the previous, until the most adequate, the 'dazzling' money-form of value is reached

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Derivation of 'dazzling' money-form

- Money best expresses the homogeneity and universality of value
- Hence it finally gives rise to the notion of value in people's minds
- Hence to the actual emergence of value as constituted by a purely social substance

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Derivation of 'dazzling' money-form

- To say the value of a commodity equals £2 is to say that £2 and the commodity in question have the same value
- The 'intrinsic' measure of this value remains socially necessary labour-time (5 hours say)
- The 'external' or 'extrinsic' measure of value is price (£2 in the example)
- Analogously an iron weight on a pair of scales extrinsically measures the weight of an object placed on the scales
 - Disanalogy: value would not exist without such a measure
- Note: commodity money is assumed at this early stage of the presentation

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Commodity fetishism

- Main point of commodity fetishism has already made at the outset of this subsection about naturalistic vs. social theory of value
 - (This main point missed in much of the literature, because the point rests on understanding a 'powers' ontology)
- Money form further obscures origin of value in labour even as it gives necessary form to value

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Part 2: The process of exchange and the development from money to capital

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The process of exchange: how value and money actually emerge

- In *Capital* there then follows a turn to exchange with the note that we have to consider the agents involved
- We then go through the forms of value again but now with reference to the agents
- Agents considered only in relation to the forms of value just derived
- Continues sophisticated treatment of structure and agency for capitalism, way in advance of present-day social theory

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The process of exchange: how value and money actually emerge

- One misunderstanding is about existence of value prior to actual exchange
- Once money has emerged then there *is* value prior to monetary exchange at the *individual* level
- Social / individual dialectic
- No time to elaborate on this... so let us move on to main aspect of Part 2, viz. capital and exploitation

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Capital and exploitation

- The money form is insufficient to grasp the whole system
- We must introduce the more complex and concrete category of capital (i.e. M-C-M') and consider it in light of the previous developments
- Scrutiny will uncover surplus labour and exploitation
- Yet this level of abstraction will eventually also prove insufficient, entailing developments to yet more concrete and complex categories (absolute and relative surplus value, accumulation, and so it goes on)

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Capital and exploitation

In *Capital* the initial steps of argument introducing capital and exploitation are as follows:

- Appearance of capital form: from C-M-C to M-C-M'
- Contradictions in capital form
- Labour power as explaining the contradictions
- Value of labour power
- Capitalistic exploitation as explanation of surplus value

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Plan

- Cannot cover in detail and there is much controversy
- I wish to bring out some distinctive key suggestions that seem to me to help make sense of the key argument
- First, take step back and consider more about these 'forms', C-M-C and M-C-M'
- Then this tells us nature of the contradictions of capital form

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Plan

- Then see the resolution of these contradictions as *substantiating* not *asserting* the truth of the labour theory of value
 - Without such complex and concrete substantiation the theory would be invalid
- Resolution of the contradictions a key aspect of the progressive *substantiation* of the quantitative and qualitative sides of the labour theory of value
- Entails bringing together unique trans-historical aspects of labour with specificities of the presentation up to this stage

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'Appearance form'

- Marx moves from appearance of C-M-C to that of M-C-M'
- The fact is that there is no room for this notion of 'appearance form' in mainstream present-day social theory
 - so let us dwell on it
- Basically these appearance forms are typical day-to-day experiences of people in economic system
- Earlier we scrutinised commodity and money as such day-to-day experiences

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'Appearance form'

- C-M-C is prevalent form since it describes experience of, *inter alia*, wage labour
 - [though this is outside of current very abstract level of presentation]
- M-C-M' is also prevalent and describes experience of making money through an initial outlay, typical of merchants, of firms, of rentiers and so on
- To deny either form is rather like denying existence of tables and chairs
- A very firm yet overlooked basis for social theorising

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Contradictions in the capital form

- Moving to contradictions then,
- We have free exchange with objectively given prices
- Where can the $dM = M' - M$, i.e. the surplus value, arise from?
- Seems to contradict free exchange
- It is a predominant form across the system, so cheating etc., as a 'zero sum game', cannot explain it
 - 'Macroeconomic' side to the analysis
- Occurs *through* exchange but exchange is exchange of equivalents
- Must be due to something both within and outside of exchange

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Labour-power as explaining the contradictions

- Argument will be that surplus value arises as due to, and form of, surplus labour gained after purchase of labour-power

Why cannot surplus value arise from purchase of machines?

- Machines have fixed inner structure so
- Fixed, pre-determined relation between the potential contribution to production that is purchased and realisation of that contribution in the production process

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Labour-power as explaining the contradictions

- To pay for machine is to pay for its contribution to the output
- If all inputs were like that then 'cost price' (aggregate price of all purchased inputs to production) would be actual price and there would be no surplus value
 - Sum of all input contributions equals output

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Labour-power as explaining the contradictions

Crucial difference with labour and labour-power

- Labour is not structurally fixed within the labourer
- Labouring activity is inherently fluid and creative
- Unique ontological separation between the potential contribution that is purchased and the realisation of that potential in production
- The transformation from potential to actual realisation is a creative transformation not a predetermined one

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Labour-power as explaining the contradictions

- Actual labour input cannot be purchased prior to its realisation
- This, indeed, is whole point of the purchase of labour-power
- For, as Marx continually stresses, the purchase allows access to 'new' and 'fresh' labour

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Labour-power as explaining the contradictions

- So only one input, labour, is not purchased prior to production
- What is purchased is labour-power, a potential which is ontologically separate from its actualisation, as labour
- Surplus value, dM , then can have surplus labour as its only possible source
- Surplus value is the social appearance of surplus labour
- Here 'surplus labour' equals the labour that is performed over and above the fixed value of labour-power that was purchased

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Labour-power as explaining the contradictions

- So source of surplus value is indeed both within exchange (purchase of labour-power) and without exchange (actual labour)
- Conceptual necessity
- Much obscured by appearances
- Ricardo and classical political economy never distinguished labour and labour-power
- Mainstream economics has a 'production function' which likewise obliterates the distinction, and collapses a creative process into a deterministic one

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Value of labour-power

- Key point is separation of value of labour-power from actual labour performed
- Determination of value of labour-power is, at this stage, the labour-time necessary to reproduce the labourer
- But must recognise a moral and historical element
- In fact complex determination of value of labour-power must be gradually built up through increasingly complex and variegated processes
 - Fine's norms of consumption and systems of provision
 - Presentation thus far is the abstract basis of Fine's aforementioned work (on my interpretation!)

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Conclusion

- The unearthing of the source of surplus value is a step in the *substantiation* of a labour theory of value
- Not reliant upon value theory as a mere hypothesis or assertion
- No labour-power, no surplus value, no capitalism
- Specific form of exploitation of one class by another in capitalist system

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Conclusion

- But still very abstract:
- Not yet shown how prices are given in first place
- Not yet so much as scratched the surface of the production process
- Next logical step is implication for production since we have unearthed new form of production based upon a split valorisation and labour process
- Still about logical development of necessities given only palpable initial forms
- Still very abstract
- But no other way will we ever grasp the system as a whole or the crisis therein

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Conclusion

- Many further developments from abstract to concrete as seen in Volumes I-III
- Give progressively more concrete and complex, so more realistic, grasp of the system as a whole
- Systemic breakdown represented by the crisis begins to make some sense
- However, it should be stressed that the actual explication is a matter for detailed concrete investigation at the concrete level of the crisis itself
- Abstract theory, at historical level of the nature of capitalist system, is not a fixed model but provides an abstract orientation that informs more local and specific research on concrete reality

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