

# Capitalism Today and the Labor Theory of Value \*

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*Author's introductory note:* Much of my research centers on foundational issues, the epistemology of social sciences in general and Marx's method in particular. The following essay is an attempt to apply this theoretical framework to current economic issues. What can we say about recent evolutions if we look at them through the lenses of the labor theory of value? This is a difficult question. The present essay formulates some hypotheses which will need to be investigated much more carefully, and which will certainly have to be revised in many respects.

The results of this present draft can be summarized as follows: Not only is capitalism by its nature incompatible with human emancipation, but the present version of the world capitalist system is, in addition, saddled with powerful distortions preventing it from functioning "normally." Superimposed on the exploitation at the point of production is an ever-increasing system of privilege, fraud, and robbery. These distortions have given rise to great tensions in the international economy, so that another World War cannot be ruled out.

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## **1 Three Aspects of the Labor Theory of Value**

Marx distinguishes between the surface and the deep structure of the economy. The surface is the sphere of market interactions and economic policy. Individual buyers and sellers of commodities make transactions that are intended to further their individual interests, and government bodies, which are partially or fully exempt from market constraints, set the parameters for these market interactions.

As a largely unintended side-effect, these surface transactions regulate production. The social organization which production receives due to its market regulation constitutes the deep structure of the economy. How is a production system structured that is regulated in such an indirect manner?

### **1.1 Equalization of Labor**

To answer this question, Marx makes the following two steps in *Capital*:

(1) Production is guided by a one-dimensional criterion. We know that on the *surface*, everything is reduced to one dimension, i.e., measured in money. Marx concludes from this that production itself must be governed by a one-dimensional criterion as well. Monetary relations can only then be an appropriate surface manifestation of the deep structure of the economy if this deep structure is organized around a criterion that is as pervasive and as one-dimensional as money. (And we must assume that the surface relations fit together with the deep structure of

production—the system as a whole functions much too well for this not to be the case.)

(2) What is this one-dimensional criterion governing production? The labor theory of value argues that it has to do with labor, i.e., with the allocation of society's finite pool of labor power among the different branches of production. As viewed through the lenses of innumerable private decisions, labor emerges as society's only cost of production; all the other inputs into production are available for free. Marx places great emphasis on the *quality* of the labor governing production: it is human labor in the abstract, rather than specific skills. This attention to the quality of labor distinguishes Marx's version of the labor theory of value from Ricardo's version.

The central economic role of *abstract* labor has important practical implications. For instance, it is responsible for the monotony of modern unskilled labor. And it does not allow different production methods to coexist: all producers of the same commodity are forced to equalize their labors, i.e., use very similar production methods, in order to stay competitive.

This quality of labor is, in Marx's words, the pivot on which an understanding of the political economy hinges. To understand today's international situation, we have to pay close attention to this quality of labor, namely, to the geographic specification of the kind of labor that creates international value.

At Marx's time, each nation had a national economy which used the national market to allocate its national labor. There were also external relations between different national economies, i.e., exports and imports played a role in these allocations. In the few places where Marx talked about the economics of foreign trade, he seemed to agree with Ricardo's theory of absolute or comparative advantage. I.e., certain kinds of foreign labor are adjoined to the national labor if the employment of this labor gives comparative advantages. For instance, foreign labor was given a place in the national economy if it produced raw materials that were needed domestically. But this foreign labor did not have an economic standing just because it was human labor. There was no equalization of labor across national boundaries; labor was equalized nationally but not internationally.

In other words, production was not yet globalized. The criteria guiding the national economies were the national labors and not one global international labor. Only today, with the information revolution, do we witness the process of internationalization of production itself. During this transition phase it is necessary to look at the equalization of labor as a process, and not as an accomplished fact as Marx does it in *Capital*. If the central guiding criterion for international production is not yet human labor stripped of any nationality, as it will be the case after the process of globalization has been completed, what is it then?

In order to get a glimpse of the state of integration of international labor we

only have to look at its exterior manifestation, international money. Today's international money is not truly transnational but consists of the national currencies of a handful of the richest countries, with the US dollar holding the key position. A truly international money does exist, the SDR, but it plays a very subordinate role. The SDR was put in place for the eventuality that it might be needed but it was never needed. This suggests that the labor which creates international value is not *world* labor but the labor of these industrialized nations, with the labor of the "less developed nations" allowed into the loop only if it performs a function subservient to the production in the industrialized nations. We are far away from having world wide equalization of labor.

Why is labor, even today, not equalized internationally? Because the industrialized nations systematically prevent this equalization by restricting the technologies that the emergent nations are allowed to use. Labor which is excluded from the most modern technologies cannot be equal. Restrictions on the diffusion of technology prevent the labor of the emergent nations from being equal. This creates tensions and contradictions. On the one hand, by the nature of capitalism, modern production processes must span the globe; on the other, the capitalists in the advanced countries try to prevent a truly integrated world production system, because this would entail increased competition and loss of control for them. The WTO documents this contradiction very well: on the one hand it claims to promote trade liberalization, on the other it preserves various forms of trade protection by the industrialized nations against the newly emerging nations.

By keeping much of the world population at the fringes, and barring them from fully entering the world economy, capitalists also deprive themselves of investment opportunities and create monopolistic distortions.

The suppression of international competition also led to the bloating of unproductive labor, which has become one of the most important drains on profits. Productive workers are producing with extremely high rates of surplus value, but much of this surplus value is squandered again unproductively (Moseley, 1991). The market cannot prevent this squandering as long as competition is mainly national competition, since these unproductive expenses become part of the national costs of doing business.

## 1.2 Non-Market Validation of Production

If one reads volume 1 of *Capital*, one gets the impression that the only relation of production necessary to guide the deep structure of production is the equalization of labor and the concept of socially necessary labor time.

But in volume 2, Marx also discusses the realization problem, something which had been assumed away in volume 1; and in volume 3, Marx discusses the mod-

ifications arising from the fact that commodities are the product of capital. All three elements must be taken into consideration if one analyzes a concrete situation. After having discussed the equalization of labor, let us look therefore at the realization of value.

The realization of value is a *sequential* process. Those who have realized the value of their own product, i.e., have sold their product and thus furnished proof that their labor was socially necessary, now hold money in their hands, which allows them to imprint the social stamp of approval on someone else's labor.

In a growing economy, such sequential validation is only possible if a certain portion of new purchasing power comes forward which is not based on a prior sale. This is one of the results of volume 2 of *Capital*, but the best formal proofs of this are Duncan Foley's capital flow models (Foley, 1986, chapter 5) or (Foley, 1982). This necessity of exogenous demand has nothing to do with the discrepancy between the value wage laborers produce and the wage they receive. It simply comes from the fact that yesterday's economy is smaller than today's, and therefore the purchasing power accruing to the agents from selling the output of yesterday's economy is too small to validate today's output. In Marx's models in *Capital 2*, this exogenous demand comes from gold production: the producers of gold do not have to sell their product but can take it directly to the mint, which certifies its status as new purchasing power.

In a modern economy on a national scale, the generation of new purchasing power is accomplished by the banking system. In a multitude of case-by-case decisions, the banks grant credit to finance new capitalist ventures, within the quantitative limits posed by monetary policy. The bank lending officers are familiar with the local economy, and on the average their judgment is good enough to ensure that this new credit is invested productively. This pre-validation by the banking system therefore fits together seamlessly with the market validation, without introducing distortions. Gurley and Shaw are modern economists who pointed out his crucial role of the banking system.

It is one of the flaws of today's capitalist world system that internationally, the generation of new purchasing power is not well regulated. In analogy to national banking systems, the IMF should be issuing SDR's to finance infrastructural projects that would allow the poorer nations to catch up with the developed world. There are a number of reform proposals which make this link between development and the creation of new purchasing power, but reality is different. The US is printing dollars, and these dollars are accepted around the world as if they were made of gold. Instead of the development needs of the poor nations creating the demand which makes the economy grow, this new purchasing power has benefited the richest country on earth which is known for squandering everybody's natural resources. It financed first the world wide military buildup by the US against the

Soviet Union, then the US budget and trade deficits, and recently the US stock market bubble.

### **1.3 The Rate of Profits and Distributional Issues**

Now let us turn to the issues Marx discusses in volume 3 of *Capital*. Tracing and explaining the evolution of the profit rate since 1945 is tough, but at least there is some literature about it. I will sketch here only some of the great lines.

Until the early 1970s, capitalism had to be on its best behavior so that it would not look bad in comparison with the socialist alternative. In the first two decades after WW II it was not certain whether Egypt, Indonesia, India, or the Congo would go over to the Communist camp. There was the Marshall Plan and meaningful development aid, and the Vietnam War demonstrated what would happen to those countries which nevertheless tried a socialist alternative. The working classes in the industrialized nations made gains without having to fight much for them. Economists did not debate these issues in terms of: “how many crumbs do we have to give to the working class in order to neutralize the threat of the communist counterexample,” rather this debate was couched in terms of the monetarist versus Keynesian doctrines.

The weakness of the working classes had the consequence that their gains of the 1960s could easily be taken away from them again in the 1970s and 1980s. After it had become clear that the working classes would not serve as a check to the capitalists, and after the threat of the socialist counterexample was fading away, the capitalist class threw away its mask of good behavior and engaged in a series of robberies instead of the tedious process of productive investment and the exploitation of productive workers:

- The dismantling of the welfare state institutions in the US built up to combat the restlessness of the 1960s,
- the series of competitive austerity programs that started with Thatcher and Reagan,
- the savings and loan ripoff in the 1980s in the USA,
- the plundering of the former Soviet Union in the 1990s,
- the raiding of state-owned currency holdings by speculators in the monetary crises of the 1990s,
- theft from share holders by fraudulent accounting in the USA in the 2000s.

- Finally, the great future windfall every capitalist is salivating for is the privatisation of old age insurance systems in the USA and elsewhere.

These outrageous robberies disqualify the capitalist class from providing far-sighted world leadership. Driven on by relentless competition, the capitalist class is rarely disciplined enough to make sound decisions. They usually need an outside check, a strong labor movement or the threat of a socialist counterexample, to be able to act even in their own long-term interest. In the present situation, the following other factors contributed to the moral demise of the capitalist class:

- The re-emergence of large scale finance capital, which has no connection with production, yet which has an important economic influence, due to the recycling of the petrodollars after the 1973 OPEC oil price hikes.
- After it has become clear that capitalism is unable to resolve the two most pressing tasks which the world faces today: the closing of the economic gap between rich and poor nations, and the preservation of the environment for future generations, today's capitalists are more and more adapting an "après moi le deluge" mentality. Hidden away in gated communities, and separated from the masses by an ever increasing income inequality, the capitalists no longer command the dreams and aspirations of ordinary people. They are having more and more difficulties to recruit the best and the brightest to their ranks.

On the one hand, these robberies led to an unprecedented income redistribution from the poor to the rich, on the other hand, they are a drain on productivity, and widespread privatization meant that the capitalist governments were deprived of the economic resources necessary for a far-sighted world leadership. One of the reasons why neoliberalism has become the generally accepted policy is that it is cheap. The West could have won over the majority of the population of the Soviet Union and made them into staunch allies supporting world capitalism if they had put a Marshall Plan for the Soviet Union in place; they did not do it because they could not afford it. Instead they plundered the Soviet Union and therefore have to contend now with a nuclear loose cannon on the Eurasian continent.

## **2 Four Current Issues**

Now I will apply this to four current issues: (1) The US hegemony and its challenges, (2) the information revolution, (3) world governance, and (4) the ecology. (5) Finally, I will assess what this allows us to say about the future. The third, concluding section of this paper will briefly describe what kinds of consequences I as a US citizen am drawing personally from this.

## 2.1 US Hegemony

In the immediate post WW II years, the hegemonial position of the US had a sound economic base: it was based on superior technology, the unparalleled size of the US domestic market, and the fact that the US economy was the only developed economy that was not destroyed during the war. The US was the world's foremost exporter of capital. Nowadays, it is no longer the only one with a vast domestic market, from largest lender it has turned into largest borrower, its educational system is excellent only for a small minority, and its technological lead persists in some areas (biotechnology, pharmaceuticals, weapons) but it is being eroded in other areas (hi-tech consumer goods, "green" technologies, computers?).

The main basis of US economic hegemony today is its military power: the US is a borrower who cannot go bankrupt because he has the guns. But this is an economic contradiction. The economic quality of dollar investments is not as high as their standing on the market would indicate. Military power can affect market outcomes but it cannot change the economic fundamentals. Furthermore, the US needs wars in order to demonstrate its necessity; it is averse to defusing conflicts and finding peaceful resolutions, on the contrary it escalates conflicts. Its refusal to defuse long-standing sources of conflicts and crises (occupation of Palestine) is coming home to haunt it. Such an attitude will over time deprive the US of its legitimacy as a world leader.

The US economy also can no longer afford going without the perks of its privileged position as the world reserve currency and its outrageous disproportionate consumption of the earth's natural endowments. World seigniorage has to be spent so that the US, the richest country on earth, can continue its stock market bubble and other unproductive practices, instead of serving for much-needed development purposes.

On the surface of the economy, one of the prime conditions for the US to maintain its privileged position as the holder of the world's key currency is that it must keep the value of the dollar stable. When the US, under Reagan, turned from greatest creditor into the greatest debtor of the world, this stability was undermined in a fundamental way. Now there are powerful economic incentives to devalue the dollar—because this will diminish the debt burden of the US.

If pressed by a strong working class movement, US policy makers may see themselves compelled to pursue inflationary policies, in order to satisfy both workers and capitalists domestically, and this might cause the many foreign holders of dollars to switch from dollars to other currencies, and therefore a plunge in the value of the dollar.

This is not a great danger as long as the working class is weak and quiescent. But recent developments have created another danger for the US currency: if infla-

tionary policies are necessary in order to defuse the implosion of the stock market bubble, similar effects for the dollar are possible.

Until the advent of the euro, the dollar was safe simply because there was no alternative to it. Now this alternative exists. The euro fully arrived on the scene after the currency conversions in January and February 2002, and its exchange rate recovered from its earlier losses soon after this. The European Central Bank's emphasis on fighting inflation, even though this causes the growth of the European economy to almost grind to a halt, shows that Europe is willing to pay the price necessary to compete with the dollar for the place of the world reserve currency.

## **2.2 The Information Revolution**

Nowadays one often hears the slogan "Information wants to be free." In this context it is interesting to note that the impossibility to prevent the spread of information is an important ingredient in the labor theory of value. Labor is the only source of value, and technology itself does not create value, because Marx assumes that new technologies will spread and therefore the benefits will be competed away. But we have seen that the spread of technology can be contained for a long time.

The information revolution of the 1990s has re-opened the struggle around the dissemination of information by the introduction of new technologies. The internet has begun to sweep away some of the unproductive and anticompetitive structures (especially in retail markets) which rigidified capitalism in the last 30 years. My conjecture is that, despite the attempts at controlling this flow of information, the net effect will be a vastly greater dissemination of information and education throughout the world. Intellectual property rights will not be able to contain this flow of information will; on the contrary, they will demonstrate much better than other forms of private property of productive resources that "property is theft." The time is coming to a close where technological barriers can prevent a further globalization of production and equalization of world labor.

The democratization of information will therefore tend to remove some of the distortions of present-day capitalism. But this same information can also be used for effectively planning the economy. I.e., the market is no longer the only available mechanism to guide production, but superior alternatives are feasible and will undoubtedly be applied ([Cockshott and Cottrell, 1993](#)).

These information technologies can also make the media and the political institutions more democratic, so that the conflict between capitalism and its democratic political shell will be re-opened as well.

### **2.3 World Governance**

If the world economy is fusing together into one integrated system, why are there so many sovereign nations with their own currencies, and why is nationalism so rampant?

In view of the persistent economic inequality, the economic function of nations today is to prevent a flood of population migration from the more blighted areas of this globe to the more prosperous areas. Nations can therefore not disappear yet; but their economic role is diminishing.

Nationalism is a misguided attempt to defend against imperialism and to generate a niche in the world market. Independent economic policies are becoming impossible in a world where private speculators have more financial power than most nations. Deprived of their economic justification, national states become self-interested monopolistic distortions in the capitalist world markets. Global governance is needed and will be built in the form of organizations which first blatantly promote the interests of the main imperialist countries. Despite the hypocrisy with which the present superpowers handle issues of international governance, this is the beginning of a regime in which national governments are no longer sovereign but are held accountable to certain international standards of legality.

### **2.4 The Ecology**

The ecological limits of our planet constitute a limit for capitalism which cannot be integrated into the capitalist system. The one-dimensional criterion of money is not able to navigate the economy through the multi-dimensional limitations of the earth's resources: exhaustion of fossil fuels, global warming, overfishing of the oceans, destruction of biological variety, etc. Capitalism needs growth, while a sustainable economy has to settle down to a no-growth steady state. Capitalism simply does not have the institutional framework needed to govern world wide production so that it stays within our planet's ecological limits. Those who are willing to go closer to the brink can outcompete those who are more far-sighted. Bush's energy policy is a good example here: the US is trying to make up in ecological recklessness what it lacks in expertise regarding "green" technologies.

We are sitting on a time bomb, and it is necessary to replace capitalism with a system of planned production to prevent this bomb from exploding. But the rate at which socialist movements have been gaining ground is too slow. It is unlikely that a socialist movement from below can abolish capitalism in time; the more likely outcome will be a fascist and repressive regulation of production from above which maintains the privileges of those who are in power today.

## **2.5 Conclusion: What can we Expect?**

Capitalism has proven very resilient and it is impossible to know how long it will be with us. It is much easier to see that the present constellation with the US at the pinnacle of a highly distorted world system has a limited life expectancy. A more enlightened world capitalist system, which employs and exploits the vast labor reserves of the world rather than excluding them from the world economy, is possible in the next 20 years. However this change may not come about peacefully; the USA is a dangerous wounded tiger.

In the next 50 years, capitalism must be replaced by some type of planned economy, in order to prevent ecological catastrophe. Ideally this would be done by democratic and socialist planning, but it may also be attempted as a command economy from the top down directed by the present power elites, perhaps as continuation of the war economy of the next world war.

## **3 Implications for Action**

Let us assume, for the sake of the argument, that the above reasoning is roughly correct. What does this mean for individuals living today? Again, the foundational work I have been doing is helpful for such a general question:

(1) Since social forces are irreducible to individuals, I, Hans G. Ehrbar, economics professor and citizen of the USA, am not responsible for the economic effects of capitalism. I am not personally responsible for

- the misery which the capitalist system visits on the majority of the earth's population,
- the inequity of the USA gobbling up the majority of the world's resources for itself,
- the death and destruction meted out by its military actions, or the squandering of the earth's ecological resources
- the hardship which later generations, including my own children, will have to endure because of the irresponsibility of today's capitalist system.

More generally, the victims of terrorist acts against the World Trade Center were indeed innocent.

(2) Nevertheless, social forces are real, i.e., they are causal agents, and societies are based on the actions of individuals. I.e., whether I like it or not, whether I intend it or not, whether I personally benefit from it or not, I am part of a system that

kills and maims people, destroys our environment, and promotes and upholds luxury and abundance for a tiny minority at the expense of world wide brutalization, ignorance, and poverty.

(3) On the other hand, the world is open: the capitalist system is not the only possible system. And it is certainly not a good system. It has come to the point where I, a human being, trying to act responsibly and deliberately, when I concentrate, for instance, on my family instead of using all my energy to oppose the system, contribute through my well-meaning actions to outcomes which I disapprove of, which I can only watch with horror, and which carry the danger of extinguishing all human life on this planet within a human life time.

(4) If business as usual has this outcome, then business as usual is unacceptable. The situation is comparable to an illness. Those of us who fall ill must interrupt our normal life activities in order to get well again, to re-claim our bodies from being factories for the reproduction of certain primitive microorganisms. In the same way, it becomes more and more obviously necessary to interrupt our normal life activities in order to stop the hijacking of our social life for the blind systemic necessities of the capitalist economy, which are intended by nobody yet embedded in the structure of our social relations.

(5) What kinds of activities are necessary here?

- On the one hand, I must be looking inward and change myself. I must strive to be well-informed and re-assess my priorities. I must organize my life in such a way that it allows me to step out of business as usual and to devote my energies to change.
- I must act, as effectively as my resources allow me, to resist those who push the system along on its present path, and to work for a better system. The next urgent activity would be to take part in actions which try to prevent or protest Bush's scheduled war against Iraq.
- However changing the social system is a task which cannot be done by individuals, no matter how brilliant and how committed. While engaged in concrete actions, we must build organizations which are capable of coordinating our activities, or join those organizations which show promise to do so, and help them realize this promise.

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