The Theoretical Relevance of an Updated Marxian Theory of Commodity in Economics

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How does material production become socially recognised in Capitalist production? Capitalism breaks down the immediate unity of the material and social moments of production, characteristic of previous modes, into two interlocked yet autonomous spheres: material production and market exchange. Commodity, its basic unit, renders production global and atomistic for the first time in history, with material production taking place in social isolation; that is, privately and independently.

This paper analyses why the above fundamental question is unanswerable in Classical Political Economy and Neo-Classical Economics; the former being unilaterally focussed on material production and the latter on the market. It also assesses Marx’s attempted account of the differentiated unity characterising commodity production. That is, private work becomes objective social labour as the substance of the value of commodities, and social labour finds its necessary expression in the money-form of commodities. The paper concludes by highlighting the gaps in Marx’s economic argument.
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1. Introduction

Production is a specific type of social relation, its specificity residing in that it entails a material exchange with the environment. It therefore changes people’s living conditions. As such, production is the union of a material and a social or relational moment. Thus, any material transformation performed in isolation and for the self-satisfaction of a need or want cannot be said to be production.

In pre-Capitalist modes of production like the Feudal system and the pre-Hispanic cultures of Latin America, the concept of production poses no major challenges. The commodity relation is not the main form of production, if it takes place at all, being limited to trade with foreign cultures and exchange of some of the surplus product within the local communities. The main productive relation in this setting is direct, like that between a feudal lord and his serfs. Direct relations of production imply that production in the relevant economic unit is consciously organised. It is then a direct relation between people, enabled by the fact that the relevant economic unit is the local community. The upshot is that the two moments comprising production make up an undifferentiated unity. That is, material production is already full production.

Capitalist production, in contrast, implies generalised commodity exchange. This brings about a break with previous modes of production since, for the first time in the history of human kind, production breaks the narrow boundaries of the local communities. Production now takes place on a global scale and, as Smith (1776) puts it, individuals come to the assistance of one another without even intending to. It is thus no longer consciously organised but de-centralised. The main productive relation ceases to be direct and becomes indirect, through the products of labour, turning into a relation among products. The consequence is that material production is no longer production in its immediacy and that the products of labour take a form according to their new social nature: commodity or product for sale. The two moments
which make up production split into two autonomous yet interlocked spheres: material production and market exchange. However, production is still one and the same generically speaking.

This paper analyses why neither Neo-Classical Economics nor Classical Political Economy can account for the differentiated unity comprising production in Capitalism. This amounts to being unable to explain how material production becomes socially recognised. Second, it outlines Marx’s attempted account and highlights the gaps in his economic argument. The paper finishes with some general conclusions.

2. Mainstream Economic Science and Production

Neither Classical Political Economy nor Neo-Classical Economics has ever understood the differentiated unity that is Capitalist production. This is critical because the concept of production lies at the basis of economic thinking.

Both strands of thought recognise as production only its material facet but not its social one. This is probably due to the fact that Capitalism is the first historical form of production where the two moments of production, material and social, are split up, each acquiring an objective existence of their own. The other sphere is recognised as the market. When Classical Political Economy and Neo-Classical Economics try to explain the origin of the market, if they wonder at all, they pin it down to the development of the natural propensity of human beings to truck and barter (Smith, 1776).

Neo-Classical Economics and Classical Political Economy differ, however, on the sphere they consider relevant for understanding the economic system. Whereas Classical Political Economy focuses on the moment of material production, Neo-Classical Economics attempts to tackle the issue resorting exclusively to the market.

Below is figure 1, where I summarise the differentiation in Capitalism of the two moments comprising production together with their interplay. In addition, I outline the focus of the two main schools of thought in Economics.
Figure 1: The Differentiation of Production in Capitalism, and Mainstream Economics

Production (Pre-Capitalist)

Material Moment
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Relational or Social Moment

Production (Capitalist)

Material Moment
("Production")

Relational or Social Moment
(Market Exchange)

Classical Political Economy
(Ricardo, Smith)

Two-Fold Character of Commodity:
-use value: natural character
-exchange value: social character

Law of labour value

Theory of Objective Value

Pricing

Neo-Classical Economics and Mercantilism

Exchange value given by use value
Use value as a relative concept given by scarcity and preferences

Supply and Demand General Market Equilibrium

Theory of Subjective Value

Given that this is the mainstream theory, I will be brief in this section. By constraining itself one-sidedly to the analysis of the market, where the visible phenomena occurs, Neo-Classical Economics understands commodity only from a natural viewpoint. Commodity is then merely a useful object for exchange, and prices are none other than a nominal expression for the exchange ratio among commodities. Neo-Classical Economics thus starts and ends in the concept of exchange value, or relative prices in their parlance. It is the world of scarcity and utility, which may explain why Jevons (1871) preferred to name it Catalactics instead of Economics.

In its general equilibrium strand, it offers a consistent theory of relative prices. However, this strand, against its belief, offers a general market equilibrium theory, not a general system equilibrium one. The reason is that it does not understand the differentiated unity of production in Capitalism. For Neo-Classical Economics, production is merely a material transformation of inputs into output because commodity can only be regarded as a useful object. However, even in this limited perspective, when material production is tackled, it is not tackled as such. It is Catalactics again, for the focus is unilaterally placed on the market, this time the markets of inputs and the respective outputs. It is basically the idea of the Mercantilist theory, to buy cheap and sell dear, though more sophisticated.¹

Considered in terms of the aggregate revenue in the system, this is a zero-sum game.² If some agents buy cheap and sell expensive, then others necessarily buy expensive and sell cheap. The empirical evidence clearly contradicts Capitalist production being a zero-sum game.³ Moreover, already Steuart (1767) made the distinction between absolute and relative profits. Only the sum total of relative profits is zero. The aggregate absolute profits are a positive quantity. The origin of this surplus has then to be explained. Neo-Classical Economics attributes this to the productive powers of the factors of production.

¹ Take for instance the maximisation and minimisation conditions, the relation between the marginal rates of substitution, the relative prices and the marginal rates of transformation and so on.
² It is not, however, in terms of aggregate utility. Neo-Classical Economics in its catalactic strand (Edgeworth (1881), Pareto (1906), and Patinkin (1956), among others) has long ago shown us that individuals might be made better off merely by a redistribution of a given endowment of commodities.
³ It is plainly evident that Capitalist production entails not merely the efficient allocation of the given commodities but also the creation of new wealth.
The value of a commodity is then given by the contribution to the given commodity’s usefulness made by the different factors. Since individuals are the best judges of an object’s utility given its relative scarcity, Neo-Classical Economics calls itself a theory of subjective value. However, regarding production merely as the combination of inputs to get an output implies bringing together things qualitatively different. How can the contribution and productivity of each factor be assessed? Some kind of valuation is required.

Even in the narrow Neo-Classical view, money is problematic because of the change in its value. A valuation in physical terms is then sought, and this requires making the different inputs and outputs commensurable somehow. Ricardo (1817) showed the impossibility of having an invariable measure of value, as we will see below.

4. Classical Political Economy – Theories of Objective Value

Classical Political Economy focuses on the material moment of production. In this regard, production, though creating use values, mainly expresses the labour of individuals. Therefore, upon exchanging commodities individuals are indirectly exchanging labour.

Commodities have thus a double character: natural and social, or they have both use value and exchange value, the latter expressing the aforementioned labour. However, Classical Political Economy is as unilateral as Neo-Classical Economics. If for the latter a commodity is just a useful object for exchange, for the former it is just a reproducible product. With this the specificity of commodity production is lost since it is not the first form of production producing reproducible products. Classical Political Economy is said to have a theory of objective value. The reason is that the value of commodities in the long-run is given by the quantity of social labour necessary to reproduce them irrespective of people’s needs and fancies.

Though aware of the two-fold nature of commodities, Classical Political Economy deals with prices without even resorting to the market. The market is dealt with in isolation to treat issues of short-term fluctuations and the nature of the adjustment of the productive structure. This is the main source of its

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4 The owners of the factors of production, in turn, derive their income according to their respective factor’s contribution in the production of the commodity.
5 A valuation in physical terms underlies the idea of measuring GDP at constant prices, with money of “constant” value making commodities commensurable.
6 The impossibility of having an invariable measure of value stands out plainly in Neo-Classical Economics in that there are two different methodologies (Laspeyres and Paasche) to build representative price indices.
inconsistency, since, aware that commodities have a social facet, it does not study the specificity of its form. However, attempting to explain the workings of the productive system resorting only incidentally to the market is like talking about ghosts. This is because commodity production is carried out privately and independently. The private sphere has no objective existence but for its necessary manifestation in the market.

The two main representatives of Classical Political Economy are Adam Smith and David Ricardo. Smith (1776) and Ricardo (1817), however, differ fundamentally on their focus. Whereas the former stresses one-sidedly the role of the individual in determining the system’s outcome, the latter stresses one-sidedly the autonomous objective character picked up by the system and how it sways the individual behaviour.

4.1. Smith’s Theory of Labour Value – The Subjective Measure of Value

Smith’s (1776) theory of labour value, which inspired Ricardo’s (1817), is based on likening society to a metabolism: the manufactory. He makes use of this analogy (Wealth of Nations, chapters I, II and III) for a detailed discussion of the division of labour, and its causes and effects. Like in a manufactory, individuals throughout the economic system specialise thus becoming more productive. In this regard, people come to the assistance of one another, in this manner pooling their labour power.

Though similar in their generic features, Smith, by likening the economic system to the manufactory, is actually dealing with two different types of division of labour: the technical (the manufactory) and the social (the economic system). As Smith says, the [social] division of labour arises not from purposeful planning but out of the individuals’ self-interest, which in his view can be advanced due to a natural propensity of human beings to exchange.7,8

The social division of labour that Smith refers to takes place through the exchange of commodities in the market, which is definitely not the case within the manufactory. Within the latter, the partly finished products go from hand to hand but this does not imply a reciprocal exchange. Differences

7 “This division of labour [the social one], from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter and exchange one thing for another.” (Smith, 1776; p.12)
8 “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.” (Smith, 1776; p.13)
notwithstanding, I will focus on the common features between the social and the technical division of labour.

According to Smith, the extent of the market determines the extent of the social division of labour, in the same way that as the manufactory increases in size, its productive process becomes more broken down. A big manufactory would imply supplying many people, so that the increasing amount of output due to increasing productivity would find an outlet. In like manner, a big market implies a big number of prospective consumers, so that the increasing amount of commodities due to productivity gains is more likely to find actual consumers (or effective demand). A global market is then in Smith’s terms requisite for the proper development of the [social] division of labour and, at the same time, for the general pool of labour to acquire real relevance.9

In the context of commodity production one can supply oneself with only a small part of the necessaries, conveniences and amusements of human life through one’s own labour, the far greater part of it deriving from the labour of other people (Smith, 1776). Smith then lays down a theory of the value of commodities as a representation of the labour commanded by a commodity through its market exchange.10 Labour in this context is understood as that objectified in the form of commodity and not as living labour as many people, including Ricardo (1817) and Marx (1867) themselves, interpret Smith to have said. In the very next paragraph, Smith lays down the concept of value in terms of the labour embodied in commodities. From this viewpoint, labour not only determines value,11 as in the previous paragraph, but is also the measure of value,12 of the individual’s though.13

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9 “Observe the accommodation of the most common artificer or day-labourer in a civilised and thriving country, and you will perceive that the number of people of whose industry a part, though but a small part, has been employed in procuring him this accommodation, exceeds all computation.” (Smith, 1776; p.10)

10 “The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command.” (Smith, 1776; p.26)

11 “…They [commodities] contain the value of a certain quantity of labour which we exchange for what is supposed at the time to contain the value of an equal quantity. Labour was the first price, the original purchase money that was paid for all things” (Smith, 1776; p.26)

12 “The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What everything is really worth to the man who has acquired it, and who wants to dispose of it or exchange it for something else, is the toil and trouble which it can save to himself, and which can impose upon other people. What is bought with money or with goods is purchased by labour as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil…” (Smith, 1776; p.26)

13 “Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer. In his ordinary state of health, strength and spirits; in the ordinary degree of his skill and dexterity, he must always lay down the same proportion of his ease, his liberty and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it.” (Smith, 1776; p.28)
In Smith’s theory, we find then two dichotomies. One concerns the concept of value, which is first considered as the objectified labour that a commodity can command in the market through its exchange, and second as the labour embodied in a given commodity. The second dichotomy concerns labour as the measure of value and as determining value.

With regard to the former, we come to the conclusion that both definitions of value are not equivalent, despite both being given in quantities of labour, for in Smith, commodities sometimes command more and sometimes less labour than they contain. This is caused by market imbalances. Thus, the labour commanded by a commodity and the labour contained in it coincide only in the long-run equilibrium. That there may be this quantitative divergence between the labour commanded by a commodity and the labour contained, even if permanently, does not invalidate the labour theory of value, according to Smith, because it is labour which is ultimately exchanged in the market.

With regard to the latter, from Smith’s argument it stands out that labour has to be the measure of value in order for it to determine value. If the measure of value is the measure of subjective value, that is, of the effort of the individual, how are then these labours made commensurable? The labours Smith refers to are as heterogeneous as the people who exercise them, or as commodities, in which case the problem of commensurability becomes even bigger. At least commodities are concrete and have a plain material existence. The labour incarnated in them is but an abstraction. Smith (1776) acknowledges the intrinsic difficulties in determining the proportion between two different quantities of labour (p.27) because they are different qualities. This is specially troublesome in a de-centralised system of production, since nobody organises the process of production directly, thus carrying out the abstraction of the different types of concrete labour.

As Smith states, different types of labour require different skills, training, ingenuity and strength.

“But it is not easy to find any accurate measure either of hardship or ingenuity. In exchanging, indeed, the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the haggling and bargaining of the

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14 “Every commodity, besides, is more frequently exchanged for, and thereby compared with, other commodities than with labour. It is more natural, therefore, to estimate its exchangeable value by the quantity of some other commodity than by that of the labour which it can purchase. The greater part of people, too, understand better what is meant by a quantity of a particular commodity than by a quantity of labour. The one is a plain palpable object; the other an abstract notion, which, though it can be made sufficiently intelligible, is not altogether so natural and obvious.” (Smith, 1776; p.27)
market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the
business of common life.” (Smith, 1776; p.27)

In sum, we have two different values. One is given by the labour embodied in a commodity, the Ricardian
concept of value, and another one given by the labour commanded by a commodity through its
exchange, the commodity’s market value. The equality between the labour commanded by a commodity
through the market exchange and the labour contained in it puts the adjustment of the productive system
to rest. This equality is brought about by the bargaining of buyers and sellers in the market. Each agent
measures the labour incorporated in her/his commodity and tries to assess how much labour is in the
commodity s/he wants to exchange her/his commodity for. By the bargaining, these quantities are brought
into “rough equality”.

Thus, Smith’s theory contradicts the appearance of money and the price form. If agents exchange
quantities of labour and try to equalise the quantities of labour being exchanged, why then express that in
terms of money and under the form exchange value if this conceals, instead of disclosing, the fact that it is
quantities of labour which are being exchanged? Moreover, this haggling and bargaining in the market
implies knowing the general technical conditions of production in the system. Otherwise, the bargaining
cannot take place. Furthermore, it implies a direct relation between buyers and sellers. This can only
happen in a system which is as small as a town. There is then this paradox in Smith’s theory: in order for
the division of labour to develop to its full extent, the market has to be big but in order for the law of
labour value to be operative, the market has to be small.

A direct relation between individuals as the basic productive relation contradicts a system where the
individual is connected to the rest of the world. The basic assumption of perfect competition is that
economic agents make their decisions bearing the market in mind, not another person.

4.2. Ricardo’s Theory of Labour Value and The Two-fold Character of Commodities – The
Objective Measure of Value

Commodities, according to Ricardo (1817), have two different values: use value and exchange value. The
former refers to the utility of the object in which a given commodity is embodied, and the latter to its

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15 See the next section.
16 In this regard, market data appear to the agent as parameters.
exchange relation with the other commodities. That is, the former refers to commodity regarded from a
natural viewpoint (as a physical object), and the latter to its social character (as the objective
manifestation of society’s relations of production).

Ricardo (1817) states (p. 55) that utility does not determine exchange value, although it is absolutely
essential to it. A commodity destitute of use value, or completely useless, would not succeed getting
exchanged in the market; hence its exchange value would be zero. However, possessing utility, the value
of the greatest part of the mass of commodities, those reproducible, is determined by the quantity of
labour required to replace them in the market (p. 56). There is, however, a small group of commodities
whose exchange value is determined exclusively by demand and supply, or by relative scarcity: the
irreproducible and imperfectly reproducible commodities like rare statues and pictures, and wines of a
peculiar quality (p.56).

There are some points to note about the two preceding paragraphs. First, Ricardo starts by presenting a
dichotomy between use value and exchange value and goes on to present one between use value and value
without further qualification. This may appear to be a subtlety but there is a big theoretical difference. In
Ricardo’s words, whereas exchange value represents the proportion in which commodities are exchanged
in the market, value represents the quantity of labour necessary to reproduce commodities. If Ricardo
treats both concepts interchangeably many times, it is because he states without hesitation that exchange
value is given by the relative quantities of labour required to reproduce the different commodities. That is,
he states that the relative prices of commodities are given by their relative labour values.

Contrary to all appearances, Ricardo’s theory of value is not a single-factor theory of value. In the preface
to his “Principles of Political Economy” he clearly states that the produce of the earth is derived by the
united application of labour, machinery and capital. Furthermore, he analyses the effect of the
introduction of new tools, machinery, techniques and scientific discoveries in different parts of his book.
However, these things per se add nothing to value, and if they affect it, it is only through the abridgement
of the labour required to produce commodities.17

17 “That this [exchange according to the quantity of labour necessary to reproduce commodities] is really the foundation of the
exchangeable value of all things, excepting those which cannot be increased by human industry, is a doctrine of the utmost
importance in political economy; for from no source do so many errors, and so much difference of opinion in that science
proceed, as from the vague ideas which are attached to the word value”. (Ricardo, 1817; p.57)
The two-fold character of commodity is most ably and clearly explained in Chapter XX of Ricardo’s “Principles”. Quoting Smith (1776), Ricardo (1817) states that “A man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life.” (p.278)

“Value, then, essentially differs from riches, for value depends not on abundance [or for that matter scarcity], but on the difficulty or facility of production. The labour of a million men in manufactures, will always produce the same value, but will not always produce the same riches. By the invention of machinery, by improvements in skill, by a better division of labour…a million of men may produce double, or treble the amount of riches, of “necessaries, conveniences, and amusements”, in one state of state of society, that they could produce in another, but they will not on that account add any thing to value; for every thing rises or falls in value, in proportion to the facility or difficulty of producing it, or in other words, in proportion to the labour employed in its production.” (Ricardo, 1817; p.278)

Ricardo’s treatment of value brings up the nonsense it is to measure the real value of commodities in terms of their command over a third commodity or even a composite one. Every commodity being subject to changes in value due to changes in its conditions of production, which in turn changes the amount of labour necessary for its reproduction, there is no commodity which can be said to be of invariable value. With regard to the relationship between value and riches, Ricardo says that wealth can be increased in two ways: by employing more labour productively, in which case both riches and value are augmented, or by making the same quantity of labour more productive, in which case riches are augmented but not value.

To be clear that the theory of labour value is not a single-factor theory, it suffices to note the defence he makes of Smith (1776) against a criticism raised by Say (1803). Say (1803) criticised Smith for attributing to the labour of the human being alone the power of producing value, when value stems in his view from the joint action of the industry of the human being, capital and the actions of the agents that nature supplies. Ricardo (1817, p.289) asserts that Smith never overlooks or undervalues the services that natural agents and machinery perform for people. But the former, though they add greatly to use value, they never add value, which determines exchangeable value. Ricardo maintains that so soon as one harnesses the powers of nature, saving on labour per unit of commodity, the value of individual commodities (and hence their exchange value in Ricardo’s scheme) falls in proportion to the labour saved.

The above implies that in principle value is unrelated to industry integration or the division of labour. As long as the necessary labour to reproduce a given commodity stays the same, its value of will be the same
regardless of whether it was produced by the same individual from the beginning to the end or the different stages are the specific domain of different individuals transferring the partly finished commodity through market exchange. In other words, the division of labour can affect the value of a commodity only by altering the total quantity of labour requisite to reproduce the given commodity. In Ricardo’s scheme, the above conclusions regarding the value of a commodity also apply directly to its exchange value, rendering his pricing theory inconsistent.

To sum up, Ricardo is the culmination of the theory of objective value. Developing Smith’s (1776) distinction between use value and exchange value, he posits that commodities’ exchange value is given by their value, determined in turn by the quantity of labour necessary for their reproduction. This result is independent of people’s tastes and the subjective utility that they get from the given commodities. At the same time, it is independent of the fact that people do not reckon commodities in terms of labour time. It does not even require any type of agreement on how the different types of concrete labours are turned into this homogeneous social substance called social labour. Such a thing would be a contradiction of the theory, since the system under study is atomistic and operates on a global scale. In Ricardo’s (1817) own words, “the estimation in which different qualities of labour are held, comes soon to be adjusted in the market with sufficient precision…” (p.63) That is, the homogenisation of labour is made by this entity called the market, and it happens even though people are unaware of it.

Another way of seeing the unilateral objective flavour of Ricardo’s theory of value is given in that individuals only deal with this social entity called the market, upon which they have no influence. Given the market data, they adjust their behaviour, but these market data are in most of Ricardo’s analysis already the final equilibrium set. As a result, even though the theory of labour value is clearly stated, it is no more than an arbitrary statement.

By disregarding the analysis of the necessary subjective interface, Ricardo robs his own theory of foundations. Furthermore, exchange of commodities at labour values is contradicted by the empirical evidence. The necessary subjective moment makes a clumsy appearance in the section of chapter I devoted to the invariable measure of value, non-existent, as discussed above. If it existed, individuals would know the changes in value by comparing the rest of the commodities with this one,¹⁸ and make their productive decisions based on changes in commodities’ labour requirements. This would in turn

¹⁸ Recall that a change in relative values gives us no clue as to the change in the absolute value of the two commodities compared.
trigger the adjustment of the productive structure. Unfortunately for Ricardo, the invariable measure of value does not exist.

5. Brief Outline of Marx’s Answer: The Mercantile Form of Value

In figure 2 below I graphically summarise Marx’s (1867) view on generic Capitalist production. Commodity is the centrepiece, allowing and determining the differentiated unity of production. The arrows from exchange value to value, and from this to price, reflect the necessary transitions in commodity theory according to Marx.

Figure 2: Marx’s Conceptualisation of Basic Capitalist Production
Marx tries to capture the differentiated unity of production in the concept of commodity, the basic cell of Capitalist production. Commodity in this regard condenses the identity and the difference between the two moments of Capitalist production, and with this, the two-fold nature of commodity itself: that is, a natural object and the representation of the social relations of production. The focus on commodity as the most general articulating concept is not arbitrary. From a material viewpoint, it is the more concrete form of manifestation of the capitalist system, being the final resultant of the whole Capitalist process, what is traded in the market. Yet, it is not a static crystallisation. The logical contradictions of the commodity form of production reconcile, clash with each other and evolve within commodity.

Marx points out that, production being a social relation, the problem of the realisation of material production as part of the social product is identical to the problem of the realisation of work carried out privately and independently as part of the social labour. In a nutshell, this resolves through private work becoming abstract social labour as the substance of the value of commodities, and through value finding its necessary expression in the money form of commodities (their developed mercantile form of value (Levín, 1997)).

Within the framework of simple commodity production, the adjustment of the productive structure takes place as long as the quantity of social labour represented in the price form of commodities differs from that necessary to reproduce them, or that embodied in commodities. Within the framework of undifferentiated Capitalism, that occurs when the social labour represented in the price form of commodities differs from that represented in Marx’s (1894) equilibrium prices of production. The tendency towards the equalisation of the different capitals’ rates of profit mediates the process.

However, at this stage it is not legitimate to explain the process through undifferentiated Capitalism. The reason is two-fold. First, undifferentiated Capitalism is the setting of money and capital, whose direct introduction to the framework of commodity is extrinsic. Second, the setting of commodity production with the concrete determinations of capital conceals, instead of disclosing, what is at stake in commodity production. This occurs because attention is naturally diverted to the final equilibrium results and the mechanics of the adjustment process, instead of to the nature of both disequilibrium and the adjustment process.

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19 Yet it is the most abstract and general concept. (Levín, 1997)

20 The most basic one appearing in the following question: how does material production carried out privately and independently become part of the social product?
For Marx (1867), the study of Capitalism starts then with commodity and its two-fold character: use value and exchange value, in the same spirit as Smith (1776) and Ricardo (1817). The reason is that this is the way commodity presents itself in the market: as a useful object for exchange. His criticism of Classical Political Economy is not that it does not start in the market but that it jumps hastily to the material production sphere, the world of ghosts and shadows, and does not attempt to make its way back to the market. To Classical Political Economy the specific forms of production are irrelevant. They are intelligible, natural and immutable.

In principle, commodity has a generic and a specific aspect. Its generic aspect is that of being a use value, or a useful object, which is characteristic of the products of all forms of production. Its specific aspect is that of having exchange value. The analysis of exchange value, the social facet of commodity, should lead us necessarily to its underlying labour value, which regulates commodity’s exchange value. This transition is very important since labour value is nothing but the objective substantiation of private and independent work as abstract social labour. Furthermore, since for an individual commodity its labour value is given by the necessary social labour required to reproduce it, this step represents the necessary transition to the material production sphere, the other moment of production, the world of ghosts and shadows.

However, this cannot be the end of the analysis of commodity, like in Classical Political Economy. Otherwise, Economics is just metaphysics. Understanding that social labour is the underlying substance of exchange value does not change our understanding of commodity in the market. At the most, it can offer an alternative explanation of the process of adjustment of the productive structure, an explanation based on quantities of social labour. Social labour is not a category which can be directly seen and measured, though. Hence, without further development, it is a phantasmagorical concept without bearing on the understanding of the Capitalist mode of production.

Marx was the first to point out the above shortcoming of Classical Political Economy. Unlike the mainstream approach, the flaw to him was that the theory was incomplete. Classical Political Economy can move from the concrete market to the ghostly material production sphere but cannot make its way back to the market. The ghosts have to talk to us to have any theoretical bearing. Marx argues that they do so through the market: the money form of commodity is the necessary developed form of expression

\[21\text{ The most concrete conclusion Classical Political Economy could arrive at regarding the manifestations of its system of labour values was that money was a commodity.}\]
value, the latter being the substantiation of social labour. This step represents the necessary transition back to the sensible world. However, it is not a return to the starting point, only a return to the market phenomena, whose nature and rationale can be now understood.

The nature of commodity production, with material production taking place privately and independently and with the market co-ordinating indirectly, forces the commodity producer to quote a “price” for her/his commodity in the form of a proposed exchange value that the market will either accept or reject. There is no other form the commodity producer can relate socially. Marx argues that this form of relating contains the germ of money in it, that is, it contains a contradiction, or a partial negation of commodity.

Commodity implies a fleeting mutual relationship between equals, where exchange is conditional, conditional upon the commodity effectively being a social use value. However, given the nature of commodity production, this is contradicted from the very outset. Through the commodity producer having to quote a prospective exchange value, the initial relation between equals turns into a relation between unequals. Exchange is conditional only for the commodity quoting its exchange value. The commodity in which the exchange value of the former gets quoted becomes thereby unconditionally exchangeable. That is, the owner of the second commodity says yes/no and in so doing, determines the course of exchange. The latter commodity, being directly exchangeable in this relation of exchange, picks up the traits of money.

The development of commodity exchange proceeds vis à vis with the development of the money form. This implies that the feature of direct exchangeability becomes fixed in a single commodity, which becomes the universal equivalent, or money proper. From this Marx points out that commodities do not circulate due to the presence of money but that money arises out of commodity circulation. Furthermore, it is not money which makes commodities commensurable but the need of commodities to be commensurable, arising from a global and atomistic system of production, which brings money into existence. Money is then the necessary form of expression of value, claims Marx. However, this rests on value being the substance of exchange value, the famous problem of Classical Political Economy.

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22 Whether the commodity producer cries the “price” out or attaches a “price” tag to the commodity does not concern us.
23 The money form is the developed form of this primitive form, as we will see below.
24 Limited to this particular relation, of course.
25 Since we are confronted with the developed mercantile form of value, money, the causal relation seems to be the converse. That is, that commodities are commensurable because there is money and that the latter brings commodities in motion (Marx, 1867).
Marx’s argument presents some serious gaps. His original contribution rests on the step taken by Classical Political Economy. His transition from exchange value to labour value is identical in the main tenets to that of Classical Political Economy. This transition is rather a discontinuous jump, as seen above. This by itself hinders the rest of the argument. Properly founded, Marx’s argument would support the unity of the functions of money, their being derived from its main one: that of being the necessary form of expression of value. By the same token, the process through which private and independent work becomes social labour would be spelt out: it occurs through the social recognition of commodity as equivalent to a certain amount of money.

However, Marx’s problems are not just inherited from Classical Political Economy. He himself points out that there is nothing mysterious in regarding the products of labour as values; that is, as representing the amount of labour necessary to reproduce them. Robinson Crusoe himself does that without producing commodities. But then, what is the specificity of commodity? If commodity is both a use value and a value and both features are generic, then commodity is not a specific form of production. Furthermore, if value is not specific of commodity production, how can it be necessarily expressed in the money form?

**6. Conclusions**

Understanding how material production becomes part of the social product is fundamental to understanding the Capitalist mode of production. Material production takes place privately and independently, and the system is de-centralised and atomistic.

Unilaterally constrained to the market, Neo-Classical Economics cannot explain the process of creation of economic value. This is because it does not understand material production as a moment of the whole process of production. Hence, it does not understand that the market is the specific form of the general relations of production in Capitalism. When material production is tackled, it is done as supply and demand again, that is, as the market. The only way for Neo-Classical Economics to account for a rise in aggregate value is through the productive powers of the factors of production. However, this entails the problem of making commensurable things qualitatively different.

Within the unilateral objective approach, Ricardo (1817) focuses on the determinacy of value despite economic agents not even thinking in terms of labour time, and ends up in the problem of the universal measure of value. His approach can capture the impersonality and objectivity of Capitalism in that
economic agents take the market data as given and make their decisions in the most absolute isolation. While this captures the objectified autonomy of productive relations, it cannot reconcile the way the individual behaviour feedbacks on the system.

Smith (1776), in contrast, focuses unilaterally on the behaviour of the economic agent and how s/he determines the outcome of the system. The determination is direct, otherwise his theory of labour value does not hold. This approach cannot account for either the reason or the way an impersonal entity, the market, rules the behaviour of the economic agent with an invisible iron hand, as though a dictator, without the agent being aware that s/he determines it. This result stems from the atomistic character of Capitalist production. Smith cannot reconcile his invisible hand\textsuperscript{26} with his theory of labour value.

Marx (1867) was the first to understand the differentiated unity that production becomes in Capitalism. For him material production becomes part of the social product through private and independent work becoming objective social labour as the substance of the value of commodities and through the latter finding its necessary developed expression in the money form of commodities. However, he does not manage to show how labour necessarily becomes the substance of labour. Nor can he show value to be a specific feature of capitalist production.

\textsuperscript{26} The Capitalist division of labour.
References


