MARX'S ABSTRACT THEORY OF VALUE AND MONEY IN CHAPTER 1 OF *CAPITAL*

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> *A given quantity of any commodity contains a definite quantity of human labour***.** Therefore the *form of value* must not only *express* value in general, but also *quantitatively determined value*; i.e. the *magnitude of value*… The equation 20 yards of linen = 1 coat, or 20 years of linen are worth 1 coat, *presupposes the presence* in 1 coat of exactly as much of the *substance of value* as there is in 20 yards of linen, implies therefore that the quantities in which the two commodities are present have cost *the same amount of labour* or *the same quantity of labour-time*. (*Capital*, Volume 1, p. 144)
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> Our analysis has shown that the *form of value*, that is, the expression of the value of a commodity, *arises from the nature of commodity value*, as opposed to *value and its magnitude* arising from their mode of expression as exchange-value. This second view is the delusion both of the Mercantilists … and their antipodes, the modern bagmen of free trade ... (*Capital*, Volume 1, p. 152-53)
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> In this form [the general form of value], when they are all *counted as comparable* with the linen, all commodities appear not only as qualitatively equal, as values in general, but also as values of *quantitatively comparable magnitude*. (*Capital*, Volume 1, p. 159)
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> What was decisively important, however, was to discover the *inner, necessary connection between value-**form***, *value*-**substance**, and *value*-**amount**; i.e. expressed conceptually to *prove that the value-**form** arises out of the value-**concept.*** (Marx 1976, p. 32)

Please note: In the quotations in this paper, added emphasis is in *italics* and original emphasis is in **bold**; words in brackets [ ] are also added.

The quotations in the first section of this paper are from the 1977 Vintage edition of Volume 1 of *Capital*, which is a translation of the 4th German edition, in which Chapter 1 is essentially the same as in the 2nd edition which is discussed in the second section of this paper.

This paper is different from the one I sent to Paul in September ("Money and Totality in Volume 1 of *Capital*"). After listening to the colloquium by comrade Michael Heinrich (whom I have met at conferences and corresponded with for years), I thought I would add a few comments on his presentation. And then I kept adding more and more comments and eventually I had a whole new paper. And I decided that I would discuss this paper in my colloquium presentation, because I think it will be more interesting for the participants to contrast these two different interpretations of the all-important Chapter 1.

MARX'S ABSTRACT THEORY OF VALUE AND MONEY IN CHAPTER 1 OF *CAPITAL*

I will first review my interpretation of Chapter 1, with substantial textual evidence, and then I will discuss Michael's interpretation and his textual evidence.

1. Chapter 1: Marx's abstract theory of value and money

The fundamental concepts in terms of which Marx's abstract theory of value and money in Chapter 1 is constructed are: the "*substance*" of value (abstract labor), the "*magnitude*" of value (socially necessary labor-time), and the "*form of appearance*" of value (exchange-value and money-prices). The subtitle of Section 1 of Chapter 1 is "*Substance* of Value, *Magnitude* of Value" and the title of Section 3 is "The Value-*Form*, or Exchange-Value".

Section 1 begins with the *form of appearance* of value (the exchange-values of commodities) and derives the inner *substance* of value (abstract labor). Section 1 also defines the *magnitude* of value as the quantity of socially necessary labor-time, i.e. the social average quantity of labor-time required to produce commodities. Section 2 further clarifies the distinction between abstract labor and concrete labor, and also clarifies the meaning of socially necessary labor, in particular explaining how *skilled* labor is taken into account. Section 3 then begins with the *presupposition* of abstract labor as the substance of value and quantities of socially necessary labor-time as the magnitude of value, as derived in Sections 1 and 2; and Section 3 derives money and prices as the "necessary form of appearance" of the *presupposed* substance of abstract labor and quantities of socially necessary labor-time.

The main point that I wish to emphasize is the *quantitative dimension* of Marx's abstract theory in Chapter 1, i.e. the *quantitative determination of abstract prices by presupposed quantities of socially necessary labor-time* (SNLT) that are determined in production. According to Marx's logic, quantities of SNLT are derived in Sections 1 and 2, and then these quantities of SNLT are presumed to exist and to determine quantities of abstract money prices in Section 3 (and beyond). Thus, there is a direct causal connection between quantities of SNLT (the magnitude of value) in Section 1 and quantities of abstract money prices (the form of appearance of value) in Section 3. The latter are *derived from*, or *determined by*, the former, as the "necessary form of appearance" of the former.

The next section reviews the important details of Marx's logic in Chapter 1, especially with respect to the determination of abstract money-prices by presupposed quantities of socially necessary labor-time. Marx explicitly emphasized this causal connection between the substance, magnitude, and form of value a number of times in Chapter 1.

1.1. Section 1: the substance of value (abstract labor) and the magnitude of value (socially necessary labor-time)

Section 1 begins with an analysis of a commodity within a *general system of commodity exchange* ("an immense collection of commodities"). This general system of exchange is assumed to be *mutually consistent* ("a quarter of wheat is exchanged with *x* boot-polish, *y* silk, of *z* gold, etc.")

The property of mutual consistency of a general system of exchange implies that commodities are objectively treated quantitatively as *equivalents*. And the *exchange of equivalents* in turn implies that all commodities must possess some *common property* that determines their exchange-values, i.e. that determines the quantities in which they are exchanged as equivalents.

> It follows from this that … exchange-value cannot be anything other than the *mode of expression*, the '*form of appearance*' [*Erscheinungform*] of a *content distinguishable from it*. (p. 217)

Marx discussed an example of the relation of equality between two commodities (corn and iron), expressed in terms of an equation:

> Whatever their relation of exchange may be, it can always be represented by an *equation* in which a given quantity of corn is equated to some quantity, for instance 1 quarter of corn = *x* cwt of iron. *What does this equation signify*? It signifies that a *common element of identical magnitude exists in the two different things*, in 1 quarter of corn and similarly in *x* cwt of iron. (127)[1]

And Marx of course argued that this common property of commodities that determines their exchange value is *abstract labor*, the *substance* of value. Marx summarized his derivation of abstract labor as the substance of value in the following key passage:

> Let us now look at the residue of the products of labour. There is nothing left of them in each case but the same *phantom-like objectivity*; they are merely *congealed quantities of homogeneous human labour*, i.e. of human labour-power expended without regard to the form of its expenditure. All these things now tell us is that human labour-power has been expended to produce them, human labour is accumulated in them. As *crystals* of this *social substance*, which is *common* to them all, they are *values* – commodity values. (C.I. 128)

The substance of value is a "*phantom-like objectivity*" because the abstract labor contained in commodities is not directly observable as such (more on this point below).

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[1] Marx criticized Bailey for failing to recognize that the relation of equality between commodities implies that the commodities must possess a common property that determines their exchange-values and provided a good summary of this argument:

> He even forgets the simple consideration that if *y* yards of linen *equal x* lbs. of straw, this [implies] a *parity* between the two unequal things – linen and straw – making them *equal magnitudes*. The existence of theirs as things that are equal must surely be different from their existence as straw and linen. It is not as straw and linen that they are *equated*, but as *equivalents*. *The one side of the equation must, therefore, express the same value as the other.* The value of the straw and linen must, therefore, be neither straw nor linen, but something common to both commodities considered as straw and linen. What is it? He does not answer this question. (p. 140; brackets in the English translation)

In the next paragraph, Marx previewed his later derivation in Section 3 of money as the necessary form of appearance of the substance of value (objectified abstract labor), but he noted that "we must first *consider the nature of value independently of its form of appearance*", i.e. in terms of abstract labor and socially necessary labor time, independently of money and prices.

> The *common factor* in the exchange relation, or in the exchange-value of the commodity, is therefore its *value*. *The progress of our investigation will bring us back to exchange-value as the necessary mode of expression, or form of appearance, of value*. For the present, however, we must first *consider the nature of value independently of its form of appearance***.** (C.I. 128)

On the next page, Marx discussed the *magnitude* of value, which is defined in units of *labor-time*, e.g. hours, days, etc.

> How then is the magnitude of value to be *measured*? By means of the '*value-forming substance'***,** the *labour*, contained in the article. The quantity is measured by its *duration*, and the labour-time itself is measured on the particular scale of hours, days, etc. (C.I. 129).

In the next paragraph, Marx clarified that the hours of labor-time are not measured by the actual hours of concrete labor, but are instead measured in terms of *social average* quantities of labor, or what he calls "*socially necessary labour-time*":

> *Socially necessary labour-time* is the labour-time required to produce any use-value under the *conditions of production normal* for a given society and with the average degree of skill and intensity of labour prevalent in that society. (C.I. 129)

Please note that nothing is said about circulation and demand in this definition of socially necessary labor-time, which is determined entirely in production.

In the next paragraph, Marx summarized:

> What *exclusively determines the magnitude of the value* of any article is therefore the amount of labour socially necessary, or the *labour-time socially necessary for its production.* (p. 129)

Toward the end of Section 1, there is a summary of the argument thus far and another preview of Section 3 on the form of appearance of the substance and magnitude of value.

> Now we know the *substance* of value. It is *labour*. We know the *measure of its magnitude*. It is *labour-time.* The *form*, which stamps *value* as *exchange-value*, remains to be analyzed. But before this we need to develop the characteristics we have already found somewhat more fully. (C.I. 131)

The "form which stamps value as exchange-value" is of course money and prices.

1.2. Section 2: Further development of the substance and magnitude of value

Section 2 of Chapter 1 continues to "develop the characteristics that we have already found somewhat more fully" "independently of its form of appearance". Those characteristics are of course abstract labor as the "substance of value" and socially necessary labor-time as the "magnitude of value". The title of Section 2 is "The Dual Character of the Labour Embodied in Commodities": concrete labor and abstract labor. *Concrete labor* is defined as labor considered as the producer of *use-values*, and *abstract labor* is defined as labor considered as the producer of *value*.

Marx clarifies further in Section 2 the precise meaning of the *magnitude of value* as socially necessary labor-time, measured in units of *average social labor*. In particular, he explains his assumption about labor of different skills. He states that the basic unit for the measurement of socially necessary labor-time is simple unskilled labor, and that one hour of skilled labor is assumed to count as a "multiple" of an hour of simple unskilled labor.

> More complex labour counts only as **intensified**, or rather **multiplied** simple labour, so that a smaller quantity of complex labour is considered equal to a larger quantity of simple labour. (C.I. 135)

Thus we can see that Section 2 continues to discuss the substance of value (abstract labor) and the magnitude of value (quantities of socially necessary labor-time) in terms of labor in production, independently of exchange and exchange-value and money. Section 3, to which we now turn, derives exchange-value or money as the necessary form of appearance of abstract labor and socially necessary labor-time (hereafter abbreviated as SNLT).

1.3. Section 3: Money, the necessary form of appearance of abstract labor and SNLT

As mentioned above, *the logic in Section 3 is a continuation of the logic in Sections 1 and 2*. We have already seen that Marx explicitly noted in Section 1 this logical continuity between Sections 1 and 2 and Section 3. As previewed in Section 1, Section 3 derives money as the *necessary form of appearance* of the substance of value (abstract labor) and the magnitude of value (SNLT), as derived in Sections 1 and 2 and determined in production.

Throughout Section 3, *commodities are assumed to possess the common property, or the "substance", of value (objectified abstract labor) in definite quantities* (socially necessary labor time)**,** as derived in Sections 1 and 2. This is the basic presupposition of Marx's derivation of the necessity of money in Section 3. This is the causal connection between Sections 1 and 2 and Section 3.

Briefly summarized, Marx's argument in Section 3 of Chapter 1 as follows: *the necessity of money arises from the fact that the substance and magnitude of value is not directly observable as such*, i.e. in units of abstract labor-time, taking into account different skills and unequal intensities ("not an atom of matter enters into the objectivity of commodities of value" (p. 138). As Marx put it in Section 1 (as we have seen), the value of commodities has a "*phantom-like objectivity*" (p. 127). Therefore, the question addressed in Section 3 is the following: how do the presupposed unobservable quantities of socially necessary labor time contained in commodities (as derived in Sections 1 and 2) acquire an objective, observable (and socially accepted) *form of appearance*? This is the subject that Marx promised twice in Section 1 to return to, as we have seen above. The "progress of the investigation" has indeed led Marx back to exchange-value, as the "necessary mode of expression, or form of appearance, of value", i.e. of the substance of value, objectified abstract labor (p. 127).

Marx posed his question in the introduction to Section 3 as follows (with an unfortunate sexist joke borrowed from Shakespeare):

> The objectivity of commodities as values differs from Dame Quickly in the sense that "a man knows not where to have it". *Not an atom of matter enters into the objectivity of commodities as values*; it is in this sense the direct opposite of the coarsely sensuous objectivity of commodities as physical objects. *We may twist and turn a single commodity as we wish; it remains impossible to grasp it* [i.e. observe it] *as a thing possessing value.* (C.I. 138)

Marx's general answer in Section 3 to this question (of how unobservable quantities of abstract labor of single commodities obtain an observable form of appearance) is that the quantity of abstract labor contained in any given commodity is objectively *expressed* in terms of the *quantity of some other commodity* (the "equivalent commodity" and ultimately the money commodity) that is equated with the given commodity *because it contains the same quantity of socially necessary labor time*.

> However, let us remember that commodities possess an objective character as values only in so far as they are all expressions of an identical *social substance*, human labour, that the *objective character* as values is therefore *purely social*. From this it *follows self-evidently* that it [the social substance of human labor] can only *appear* in the *social relation* between commodity and commodity. In fact we started from exchange-value, or the exchange relation of commodities, in order to track down the value that lay hidden within it. We must now return to this *form of appearance of value*. (C.I. 138-39)

Marx's derivation of money in Section 3 from the abstract labor and SNLT derived in Sections 1 and 2 is clear from the details of the derivation. The specific characteristics of abstract labor as developed in Sections 1 and 2 – homogeneous quality and definite quantities – determine the necessary characteristics of the form of appearance of value, or money, derived in Section 3. The simple form of value is "insufficient" (p. 154) and the expanded form of value is "defective" (pp. 156-57) precisely because these forms of value *do not adequately express these characteristics of the substance of value, abstract labor*.

Perhaps the clearest textual evidence that Section 3 presumes that commodities contain definite quantities of abstract labor, and that these presumed quantities of abstract labor are used to provide a quantitative labor theory of exchange-value, is the subsection (a)(2)(ii) of the simple form of value on the "*quantitative determinacy* of the relative form of value". In this subsection, Marx emphasized that the abstract labor contained in commodities must be expressed, *not only qualitatively* (i.e. as the same kind of labor), *but also quantitatively*, i.e. as *definite quantities of this homogeneous human labor*. Socially necessary labor-time is a quantity and therefore its objective form of appearance must also be a quantity.

In this subsection, it is clearly and explicitly assumed that "a given quantity of any commodity contains a *definite quantity of human labor*." The equality of linen and coats "*presupposes the presence*" of "*exactly as much of the substance of value*" or "*the same quantity of labor-time*" in the two commodities. This subsection also discusses how the quantitative expression of the value of the linen in terms of its exchange-value with coats changes when there is a *change in the labor-time* necessary for the production of either the linen or the coat (or both). In all four cases discussed, the *presupposition* is "*a definite quantity of human labor*" contained in both the linen and the coat. The *presupposed* quantities of human labor-time change from case to case, and the effects of these changes in labor-times on the quantitative expression of the labor-time contained in the linen in terms of quantities of coats are investigated. The direction of causation in Marx's logic clearly runs from presupposed labor-times in production (and changes in labor-time) to exchange-values in exchange (and changes in exchange-value).

Please *nota bene*:

> (ii) *The quantitative determinancy* of the relative form of value…
> *A given quantity of any commodity contains a definite quantity of human labour***.**
> Therefore the form of value must not only express value in general, but also quantitatively determined value; i.e. the magnitude of value… The equation 20 yards of linen = 1 coat, or 20 years of linen are worth 1 coat, *presupposes the presence* in 1 coat of exactly as much of the *substance of value* as there is in 20 yards of linen, implies therefore that the quantities in which the two commodities are present have cost *the same amount of labour* or *the same quantity of labour-time*. But the *labour-time necessary for the production* of 20 yards of linen or 1 coat varies with every change in the productivity of the weaver or the tailor. The influence of such changes on the relative expression of the magnitude of value must now be investigated more closely.
> I. … If the *labour-time necessary for the production* of linen be doubled, ... instead of the equation 20 yards of linen = 1 coat, we should have 20 yards of linen = 2 coats, since 1 coat would now contain only half as much labor-time as 20 yards of linen...
> II. … If ... the *labour-time necessary for the production* of a coat is doubled …we should have, instead of 20 yards of linen = 1 coat, 20 yards of linen = ½ coat...
> III. Let the *quantities of labour necessary for the production* of the linen and the coat vary simultaneously in the same direction and in the same proportion. In this case, 20 yards of linen = 1 coat, as before ...
> IV. *The labour-time necessary for the production* respectively of the linen and the coat, and hence their values, may vary simultaneously in the same direction, but to an unequal degree, or in opposite directions, and so on. The influence of all possible combinations of this kind on the relative value of a commodity can be worked out simply by applying cases I, II, and III. (C.I. 144-46)

These conclusions with respect to the *simple* form of value, concerning the quantitative determination of the relative form of the value of commodities in terms their exchange-value with an equivalent commodity, apply as well, by straight-forward extension, to the *expanded* form, the *general* form, and the *money* form of value. *Exchange-values are determined by relative quantities of labor-time in production*, and changes in exchange-values are determined by changes in the relative quantities of labor-time.

Marx continued in the next subsection on the equivalent form, with another statement of the *determination of the quantitative proportions* in which the value of a commodity is expressed in terms of another commodity:

> If one kind of commodity, such as a coat, serves as the equivalent of another, such as linen, … this still by no means provides the *proportion* in which they two are exchangeable. Since the magnitude of the value of the linen is a *given quantity*, this proportion depends on the magnitude of the coat's value… [T]he magnitude of the coat's

> value is determined, *as ever*, by the *labour-time necessary for its production*, *independently of its value-form*. (C.I.147)

Thus we can see that the magnitude of the value of both commodities (the labor-times required to produce them) is a "*given quantity*", "*independently of its value-form*", and the proportions in which the two are exchangeable are determined ("*as ever*") by the ratio of these two given magnitudes of value.

In the next subsection ("The simple form of value considered as a whole"), Marx emphasized again that the form of value "arises from" the nature of value:

> Our analysis has shown that the *form of value*, that is, the expression of the value of a commodity, *arises from the nature of commodity value*, as opposed to value and its magnitude arising from their mode of expression as exchange-value. This second view is the delusion both of the Mercantilists … and their antipodes, the modern bagmen of free trade ... (C.I. 152-53)

In subsection (b) "The Expanded Form of Value", it is stated that the expanded form of value makes it plain that the *magnitude of value determines the ratios in which individual commodities are exchanged*, *not the other way around*:

> The value of the linen remains unaltered in magnitude, whether expressed in coats, coffee, or iron, or in innumerable different commodities, belonging to as many different owners. The accidental relation between two individual commodity-owners disappears. It becomes plain that it is not the exchange of commodities which regulates the magnitude of their values, but rather the reverse, *the magnitude of the value of commodities which regulates the proportion in which they exchange*. (p. 156)

In subsection (c), "The General Form of Value" is defined in terms of a set of equations:

> 1 coat = 20 yards of linen
> 10 lb. of tea = 20 yards of linen
> 40 lb. of coffee = 20 yards of linen
> etc.

These equations presume that the same quantity of SNLT is contained in 20 yards of linen and in all the other quantities of single individual commodities.

Subsection (c) of Section 3 is divided into three sub-sections, the first of which is entitled "The changed character of the form of value". The meaning of the "changed character in the form of value" is that, with the general form of value, the value of commodities *finally acquires a form of appearance that fully expresses the substance and magnitude of value* – qualitative equality (equal human labor) and definite quantities (SNLT). The general form overcomes the "insufficiencies" of the simple form of value (p. 154) the "deficiencies" of the expanded form of value.

> The new form we have just obtained expresses the values of the world of commodities through one single kind of commodity set apart from the rest, through the linen for example, and thus represents the values of all commodities by means of their equality with linen… By this form, commodities are, for the first time, really brought into relation with each other as values, or *permitted to appear* to each other as exchange-values. (C.I. 158)

And Marx then emphasized again that the general form of value is not only qualitative, but also quantitative.

> In this form, when they are all *counted as comparable* with the linen, all commodities appear not only as qualitatively equal, as values in general, but also as values of *quantitatively comparable magnitude*. Because the magnitudes of their values are expressed in one and the same material, the linen, these magnitudes are not reflected in each other. For instance, 10 lb. of tea = 20 yards of linen, and 40 lb. of coffee = 20 yards of linen. Therefore 10 lb. of tea = 40 lb. of coffee. In other words, 1 lb. of coffee contains only a quarter as much of the substance of value, that is, labour, as 1 lb. of tea. (C.I. 159)

Please note: "quantitatively comparable magnitude" presupposes that each individual commodity contains a given quantity of socially necessary labor time.

Subsection (d) is entitled "The Money Form of Value" and in it the *price* of a commodity is defined as the exchange-value of that commodity with the money commodity, and this price (exchange-value with the money commodity) is determined by the relative quantities of labor-time contained in the given commodity and the money commodity. The gold-price of a commodity is the *quantity of gold that contains the same amount of labor-time* as the given commodity. There is another set of equations, similar to the equations for the general form of value, except that gold replaces linen as the equivalent commodity. There is a gold price for each and every other commodity, which of course presumes that gold and each of the other quantities of other single commodities contain the same quantity of SNLT.

Algebraically, Marx's abstract theory of price presented in Chapter 1 can be expressed algebraically as follows:

(1) $\mathbf{P_i} = \mathbf{L_i} / \mathbf{L_g}$

where $\mathbf{L_i}$ is the labor time contained in a commodity and $\mathbf{L_g}$ is the labor time contained in a unit of gold (e.g. an ounce of gold). The $\mathbf{L_i}$'s and the $\mathbf{L_g}$ are "*presupposed*" to exist (although unobservable) in units of simple abstract labor, and these presupposed quantities of labor-time are assumed to jointly determine the magnitudes of the $\mathbf{P_i}$'s. Changes in the presupposed $\mathbf{L_i}$'s and the $\mathbf{L_g}$ cause changes of $\mathbf{P_i}$.

Thus we can see that in Section 3 of Chapter 1 the money price of commodities is derived as the *necessary form of appearance* of the quantities of socially necessary labor time contained in commodities.

In the 1st edition of Volume 1, Marx concluded his derivation of money and prices as the necessary form of appearance of value by emphasizing again that the form of value "arises out of" (i.e. is derived from) the substance and magnitude of value.

> What was decisively important, however, was to discover the *inner, necessary connection between value-***form**, *value-***substance**, and *value-***amount**; i.e. expressed conceptually to *prove that the value-***form** *arises out of the value-***concept.** (Marx 1976, p. 32)

I think these many passages provide very strong unambiguous textual evidence to support the interpretation that Chapter 1 presupposes that individual commodities contain definite quantities of socially necessary labor-time, as derived in Sections 1 and 2, and then Section 3 derives money-prices as the necessary form of appearance of these presupposed quantities of abstract labor. This is the "inner, necessary connection" between Sections 1 and 2 and Section 3 of

Chapter 1, and this is the overall logical structure of Marx's labor theory of value and money and abstract prices in Chapter 1.

2. Michael's interpretation of Chapter 1

I will now consider Michael's interpretation of Chapter 1, as presented in a 2009 paper ("Reconstruction or Deconstruction?") and in his well-known *Introduction to Marx's Capital*, beginning with his 2009 paper.

2.1 Two meanings of substance of value

In his 2009 paper, Michael argued that Marx that there are two different interpretations of Marx's theory of value:

(1) *substantialist* interpretation to value:

  property of single commodities
  magnitude determined only in production
  independent from other commodities
  no money, only labor-time quantities

(2) *monetary* interpretation to value

  property of two or more commodities together, not individually
  determined in production and in exchange
  not independent from other commodities
  money the sole form of value

My interpretations of Marx's theory of value is neither one of these, as should be clear from the preceding review of Chapter 1. I agree with the substantialist interpretation that value is a property of single commodities and that the magnitude of value is determined in production. I think the textual evidence reviewed above is unambiguous on these important points (and will be discussed further below).

However, I argue that the value of each commodity is *not independent* from other commodities, for two reasons: both because the value of each commodity is a *social substance*, equal human labor, that is derived from the *relation of equality of all commodities* and common to all commodities; and also because (as we saw above) the value of each commodity is not observable by itself and *can be observed only by the quantity of another commodity that has the same magnitude of value*.

And, most importantly, I do not agree that agree that Marx's theory of value is only about labor-times with no money. My review above emphasized that money is the necessary form of appearance of the substance of value (abstract labor) and the magnitude of value (SNLT). Therefore, my interpretation emphasizes *both* labor-time quantities and monetary quantities. In my view, Marx's theory of value is a *labor theory of money* or monetary quantities, expressed most succinctly in the equation on (1) above: $\mathbf{P_i = L_i / L_g}$. Michael's substantialist interpretation without money is the interpretation that I criticized in the first paper that I sent the colloquium ("Money and Totality in Volume 1 of *Capital*").

Related to the "two interpretations of value", Michael posed the following question about the meaning of *abstract labor* as the *substance of value*:

> When Marx speaks of 'abstract labour' as the 'substance' of value, we have to ask of 'substance', in which sense? We can distinguish between a substantialist and a

> non-substantialist meaning of substance. A **substantialist theory of value** relates value to a substance found in a **single** commodity. Value would then be an *attribute of a single commodity*, *independent from other commodities* and *already determined in production*. Such a substantialist view dominated in traditional Marxism. (p. 92; a reminder: **bold** emphasis in the original, added emphasis in *italics*)

As I said, I agree that each commodity has a distinct magnitude of value that is determined in by SNLT in production, but I don't agree that each commodity is *independent* from other commodities, for the reasons just stated.

Michael argued, to the contrary, that there is a "hint" of a non-substantialist theory of value in Section 1 of Chapter 1; and that this "hint" is that that abstract labor is described as a *common property* and there are *two different meanings of "common property*":
(1) *substantialist* meaning: a property possessed by *each and every individual commodity* which is *determined in production* prior to exchange.
(2) *non-substantialist* meaning: a property *shared by two or more commodities together*, not separately and individually, and *not finally determined until exchange*. For example:

> two people who have a car as common property (neither alone is a car owner; only together do they own a car). (p. 92)

My response to Michael's argument is the following:

We saw above that the common property of abstract labor is derived by Marx in Section 1 from the *relation of equality* of each commodity with each and every other commodity. A relation of equality with all other commodities is the essential nature of a commodity. And a relation of equality between commodities *presumes/requires that each individual commodity possesses a distinct magnitude of value*. Otherwise a relation of equality between commodities would not be possible. If it is assumed that each individual commodity does not have a separate magnitude of value, then the magnitudes of value of different individual commodities could not be compared and there could not be a relation of equality between them.

As we saw above, Marx gave an example of a relation of equality between two commodities (corn and iron), represented by an *equation* and asked: "*What does this equation signify*?" And Marx answered:

> It signifies that a *common element of identical magnitude exists in the two different things*, in 1 quarter of corn and similarly in *x* cwt of iron. (p. 127)

This sentence is a clear refutation of Michael's interpretation that value is not an attribute of individual commodities.

Marx also gave a geometric example in the next paragraphthat compared the area of different rectangles. In order for such a quantitative comparison of the area of different rectangles to be possible, *each rectangle must individually possess a distinct area*. And Marx stated:

> In the same way, the exchange-value of commodities *must be reduced to a common element of which they [each one individually] represent a greater or lesser quantity*. (p. 127; brackets added)

We also saw above that in Section 3 of Chapter 1, Marx derived money as the necessary form of appearance of the substance and magnitude of value and this derivation *clearly presupposes that each commodity possesses a definite quantity of value*. This point is especially clear in subsection (a) (2) (ii) "The quantitative determinacy of the relative form of value" and also in subsection (c) (1) "The Changed Character of the Form of Value", both of which were discussed above. And at the end of Section 3 Marx derived the *price* of commodities with gold as the money commodity and *there is a gold price for each and every commodity, determined by the quantity of SNLT contained in gold* ($\mathbf{L_g}$) *and in each commodity separately* ($\mathbf{L_i}$): $\mathbf{P_i = L_i / L_g}$.

The whole point of Marx's theory of the form of value is that the *magnitude of value of each and every commodity is not directly observable as such* ("twist and turn a single commodity as we wish") and is expressed in an observable form of appearance only as a *quantity of a different commodity that has the same magnitude of value* (SNLT) as the first commodity. Marx's theory of the quantitative form of value would not make sense if value were not a property of each commodity, but was instead a shared property of all commodities together. The *relative form of value is a single commodity* (e.g. linen) whose magnitude of value is expressed in another commodity, the equivalent commodity (e.g. coat), which functions as the equivalent form of value. The *equivalent commodity must be a single commodity* which has a distinct magnitude of value which is compared to the magnitude of value of each and every other commodity.
The form of value is not an expression of the value of the linen and coat together, but rather is an expression of the *magnitude of the value of the linen in the physical quantity of the coat.*

The main textual evidence that Michael presented in this paper to support his interpretation of the value of commodities as a "common property of commodities" (all together) are two passages which are not from Section 1 of Chapter 1 but are instead related to Section 3 of Chapter 1 and are from the preparatory notes ("*Ergänzungen und Verandederungen*") ("Additions and Corrections") for the 2nd German edition of Volume 1 in the first 55 pages of the MEGA, Second Section, Volume II/6.

Here is an excerpt from the Table of Contents of this volume.

We can see that there are two subsections with the same title ("The changed character of the form of value", which is the same subsection that I discussed above). The first subsection is a combination of comments and draft and the second subsection is a complete draft of this subsection which was almost entirely incorporated into the 2nd German edition later in this volume (pp. 97-99).

The two passages that Michael quoted are on pp. 30 and 31 in the first subsection with this title. This subsection emphasizes especially that the *substance of value (equal human labor) is a social substance* – the common property of commodities that determines their exchange-values. And emphasizes that the *social character of value requires a general form of appearance of value*.

Since value is a common social property of all commodities, the form of value must be a common, general form of value.

Michael's first passage to support his interpretation that value is a "common property" of two or more commodities (together, not individually) is the following:

> But in this reduction it was forgotten that none of it has such value-objectivity [Wertgegenständlichkeit] for itself, but each of it has it only in so far as it is a *common objectivity*. Outside their relationship with each other – the *relationship in which they count as equal* – neither coat nor linen possess value-objectivity or their objectivity as congealed human labor per se. (II/6, p. 30)

Michael interprets this passage to mean that Marx realized that his derivation of abstract labor in Section 1 of Chapter 1 was "obscured" because he "forgot" that commodities have value only in their relation to other commodities and thus value is not an attribute of individual commodities.

However, Marx specified in this passage (and in many other places, as we have seen) that the relation between commodities is a *relation of equality*. Therefore, if an individual product of labor is *"outside*" a relation of equality with other products, then that product is not a commodity and it does not have value. On the other hand, if an individual product of labor is *inside a relation of equality* with other commodities, then *each individual commodity must possess a definite quantity of this common objectivity*. A relation of equality requires two independent quantities. So Michael's interpretation of this passage must be wrong.

Michael considers only two possible interpretations of value: *either* value is an *individual* property of *individual* commodities *or* value is a *social* property of two or more commodities together (not individually). But I argue that Marx's theory of value is a third alternative which combines the social and the individual – value is a *social* property (equal human labor) possessed by each and every individual commodity) in definite quantities. As Marx put it in Section 1:

> … *a common element of identical magnitude exists in the two different things*. (p. 127)

I think that what Marx meant in the first sentence in this passage by "was forgotten" is that he forgot to emphasize enough in the 1st edition that value is a *social* property (equal human labor) (there is only one sentence on this important point; Marx 1976, p. 8). In the 2nd edition, it seems that Marx used the realization expressed in these notes to correct his oversight. There are three important passages added to the 2nd edition (not in the 1st edition) where Marx emphasized that the substance of value is a *social* substance:

1. the first definition of value is Section 1 (quoted above on p. 3)
   > as *crystals of this social substance*, which is common to them all, they are values – commodity values. (p. 128)
2. the introduction to Section 3 (quoted above on p. 5)
   > However, let us remember that commodities possess an objective character as values only in so far as they are all expressions of an identical *social substance*, human labour, that the objective character as values is therefore *purely social*. (p. 138)
3. the whole subsection of Section 3 on "the changed character of the form of value", which is of course the subsection that Marx was working on when he wrote the two sentences quoted by Michael; this was a new subsection. The main point is that, since the substance of value is a *social* substance, common to all commodities, the form of value must also be a *social* form, common to all commodities – the form of money as the general equivalent of all commodities.

Michael's second passage to support his interpretation that value is a "common property" of commodities (together, not individually) is from one page later in this manuscript:

> A product of labor, considered in isolation, is not value, nor is it a commodity. It only becomes value in its unity with another product of labor. (II/6, p. 31)

Again, a similar response can be given here as to Michael's first passage. A product of labor considered in isolation is not a commodity and does not have value. A product of labor becomes a value only in its "unity" with another product of labor, i.e. only if the product is a commodity in a relation of equality with another commodity. This sentence does not mean that, in a commodity economy, a commodity becomes a value only in the act of exchange. Rather, this sentence means that a product of labor becomes a value only if it is a commodity that is equal to all other commodities.

Michael omitted the last half of the second sentence, and this omitted portion clarifies the meaning of "unity" in the first half of the sentence and also contradicts his interpretation and supports my interpretation that emphasizes the *relation of equality* between commodities. In German the omitted half of the sentence is:

> … , oder in dem Verhältniß, worin die verschiednen Arbeitsprodukte, als Krystalle derselben Einheit, der menschlichen Arbeit, einander gleichgesetzt sind.

Which Google translates as:

> or in the proportion in which the different products of labor are regarded as crystals of the same unit, human labor, and *are made equal to each other*.

Thus "unity" in the first part of this sentence means *the equality of commodities with each other in definite proportions*. And proportions of different commodities that are equal to each other require that each commodity separately contains a definite magnitude of value (SNLT).

Thus there is no indication in these two passages that Marx was "revising" his theory of the magnitude of value in such a way that the magnitude of value is not a property of individual commodities determined in production, as Michael suggests. Marx was certainly not revising that the essential relation between commodities is a relation of equality, and a relation of equality presupposes that each individual commodity must possess a specific magnitude of value.

It should also be recalled that these two passages quoted by Michael are notes related to subsection (c) of Section 3 of Chapter 1 on the *General Form of Value*. As we saw above, the general form of value is defined algebraically as a *series of equations* in which other commodities are equated (each one individually) with the equivalent commodity (e.g. 20 yards of linen). These equations presume that the 20 yards of linen contains a definite magnitude of value and that all the other commodities also contain a definite magnitude of value (each one individually); and furthermore that each of these other commodities contains the *same equal magnitude of value* as the 20 yards of linen. Surely Marx would not contradict himself in such an obvious way.

In sum, contrary to Michael, the fact that Marx defined abstract labor as a *common property* is by no means a "hint" that the magnitude of value is not a property of individual commodities. If an individual product is not a commodity, then it doesn't have value; on the other hand, if an individual product is a commodity, then it is equal to all other commodities and all the individual commodities have a definite quantity of value. Throughout Chapter 1, including in the 2nd edition written after Michael's two passages, the magnitude of value is very clearly defined as a *social* *property of each and every single individual commodity*, that is determined in production, and that is compared and equated with the magnitude of value all other single individual commodities.

Heinrich also argued in this paper that his two passages provide evidence that the magnitude of value is not determined solely in production; instead value is "*the expressions of a certain connection of production and circulation*". (p. 93) But these passages are not about the determination of the magnitude of value at all; rather these passages are about whether or not a product of labor is a commodity. If a product of labor is a commodity, then it is equated with other commodities and it has value; and if a product is not a commodity, then it is not equated with other commodities and it does not have value.

2.2 Introduction to Marx's Capital

Now I turn to Michael's discussion of Chapter 1 of *Capital* in Chapter 3 of his *Introduction to Marx's Capital* book.

Section 1 of Chapter 1: the determination of the magnitude of value

In Michael's discussion of Marx's derivation in Section 1 of abstract labor as the common property of commodities that determines their exchange values, he did not say anything about the key role of the *relation of equality* between commodities in this derivation. Instead value is derived from the "regularity of exchange". But Marx argued that the regularity of exchange implies a relation of equality between commodities, which in turn implies that each individual commodity contains a distinct magnitude of value.

In order to support his interpretation that exchange and demand affect the magnitude of value, Michael quoted two passages, neither of which is from Section 1 of Chapter 1. The first passage is from the same *Ergänzungen und Verandederungen* manuscript discussed above:

> The reduction of various concrete private acts of labor to this abstraction of equal human labor is only carried out through exchange, which in fact equates products of different acts of labor with each other. (II/6: 41)

Michael interprets this sentence to mean:

> *In exchange*, the concrete acts of expended labor **count** as a particular as a particular quantum of value-constituting abstract labor … (p. 50)

In other words, the magnitude of value is determined (at least in part) in exchange.

However, Marx's sentence is not about "counting" the quantity of abstract labor, i.e. is not about the determination of the magnitude of the value of commodities. Marx's sentence is from a part of this manuscript that is a draft and notes on *Section 4* of Chapter 1 on the "Fetishism of Commodities" (pp. 39-44). The magnitude of value has already been determined in Sections 1 and 2 by SNLT in production, and the magnitude of value is presupposed in the theory of the form of value in Section 3. Section 4 is not about the determination of the magnitude of the value of commodities.

The fetishism of commodities discussed in Section 4 is that *commodities appear to have value in and of themselves* as a natural property without any relation to the labor that produces them.

Marx argued that the origin of this fetishism of commodities is "the peculiar social character" of labor that produces commodities, which is that *the only connection between commodity producers is through the exchange of their products.*

> Since the [commodity] producers do not come into social contact until they exchange the products of their labour, the *specific social characteristics of their private labours appear only within this exchange*. (p. 165)

And the specific social character of commodity producing labor (equal human labor) *appears* to the commodity producers as if value is a property possessed by the commodities exchanged independent of their labor.[2]

Marx argued on pp. 166-67 that, when commodity exchange becomes the dominant mode of production, the labor that produces commodities acquires the social character of equal human labor and the products of labor acquire the property of value. According to Marx's theory, as presented in the previous three sections of Chapter 1, the magnitude of the value of commodities is determined by the SNLT in production. However, what commodity producers experience is the exchange of commodities as values, and their brains "*reflect*" [i.e. perceive] the social character of their labor as equal human labor only in the form of the equal value of their products in exchange:

> … the social character of the equality of the various kinds of labour is *reflected* [in the "producer's brain"] in the form of the common character, as values, possessed by these materially different things, the products of labour. (p. 166)

On the next page, Marx noted that the scientific discovery of the labor theory of value did not eliminate this naturalistic fetish of the value of commodities, and to commodity producers the value of commodities appears as a natural law similar to the dissection of the air into its specific parts in atmospheric chemistry.

The meaning of Marx's sentence quoted by Michael, within the context of Section 4 on the origin of the fetishism of commodities, is that, because the reduction of concrete labor to abstract social labor is *carried out through the exchange of the products of labor*, this reduction of labor *appears to commodity producers* as the equalization of their products as values. The explanation of the origin of the fetishism of commodities in Section 4 is a separate subject from the determination of the magnitude of the value of commodities. Marx's main point in this section is that *the fetishism of commodities originates in the exchange of commodities*, not that the magnitude of value is determined in the exchange of commodities.

In the "*Ergänzungen und Verandederungen*" manuscript, the sentence just quoted from p. 166 of the Penguin edition of Volume 1 comes immediately after the sentence quoted by Michael and this next sentence clarifies the meaning of the sentence quoted: the reduction of concrete labor to abstract labor is reflected in the brains of the commodity producers as the property of commodities

[2] In non-commodity economies, on the other hand, the products of labor are not exchanged and do not have the property of value, and thus the fetishism does not arise. In the pages that follow, Marx discussed other modes of production that do not produce commodities for exchange and thus whose products do not have value: Robinson Crusoe, feudalism, patriarchal family, and association of free men.

as equal values. (The sentence quoted by Michael was not included in the final version of Section 4 in the 2nd German edition, and thus is not included in our English translation of the 4th edition.)[3]

The second passage quoted by Michael to support his interpretation that the magnitude of value depends on exchange and demand is from Volume 1, *Chapter 3*, Section 2, on the function of money as means of circulation. Michael argued and quoted Marx:

> If a greater quantity of a use value, a linen sheet for example, is produced beyond that of the (monetary) demand existing in society, then this means that
>
> > "too great a portion of the total social labour-time has been expended in the form of weaving. The effect is the same as if each individual weaver has expended more labour-time on his particular product than was socially necessary." (p. 51, quoting Marx on p. 202)

However, Michael's quote leaves out the first part of Marx's sentence, which is:

> If the market cannot stomach the *normal price* of 2 shillings a yard, this proves that too great a portion …

This is a very important point. The "normal price" is the equilibrium price of the linen that is determined by the magnitude of value (SNLT) of the linen. The SNLT of the linen is determined in production on the assumption that S = D and thus the normal price is not affected by S > D (or S < D) What is affected by S > D (and S < D) are *market prices* that fluctuate around the normal price that is determined by SNLT.

In both of the cases mentioned by Marx in the passage quoted by Michael, *too much labor time has been expended* on the linen. In the case of a low productivity producer, too much individual labor time is expended to produce a yard of linen *compared to the average labor-time* required to produce a yard of linen which is the SNLT determined in production. In the case of S > D, too much labor time in the industry as a whole has been expended to produce linen *compared to the total labor time* that would satisfy demand, which is determined by SNLT per yard of linen and the normal quantity of linen demanded. In both cases, *SNLT required to produce a yard of linen is determined in production and does not decrease because S > D.*

Furthermore, I argue that *Marx assumed throughout Capital that S = D* and thus his theory of value in *Capital* is a theory of *normal equilibrium prices*, not a theory of market prices. The sentences quoted by Michael is from a subsection of Section 2 that analyzes the first phase of simple commodity circulation: the sale, C – M. Marx called the sale the "salto mortale" of commodities because sale at normal prices is never certain. And then Marx considered the case of D < S, as just discussed. But on the next page after the incomplete sentence quoted by Michael, Marx stated:

> Here, however, we have to *look at the phenomenon in its pure shape*, and must therefore assume it has proceeded *normally* [i.e. S = D]. (C.I. 203)

And in Chapter 5 of Volume 1, there is another important passage in which Marx stated that his theory of surplus-value is based on the assumption that the price of commodities is equal to their value, which is clarified in a long footnote to mean that price = *average price*, and this average price is determined by labor value in production.

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[3] The location of this sentence, if it had been retained, would have been toward the end of the long paragraph on p. 166 between "human labor in the abstract." and "The producer's brain reflects …"

> The money-owner, who is as yet only a capitalist in larval form, must *buy his commodities at their value, sell them at their value*, and yet at the end of the process withdraw more value from circulation than he threw into it at the beginning. His emergence as a butterfly must, and yet must not, take place in the sphere of circulation. These are the conditions of the problem. *Hic Rhodus, hic salta*! (p. 269)

And in the footnote, Marx clarified the meaning of this condition for his theory of surplus-value: *selling commodities at their values means selling commodities at their average price that is the center of fluctuations of actual market prices*.

> The reader will see from the foregoing discussion that the meaning of this statement is only as follows: the formation of capital must be possible even though the price and the value of a commodity be the same, for it cannot be explained by referring to any divergence between price and value. If prices actually differ from values, we must first reduce the former to the latter, i.e. disregard this situation as an accidental one *in order to observe the phenomenon of the formation of capital on the basis of the exchange of commodities in its purity*, and to prevent our observations from being interfered with by *disturbing incidental circumstances which are irrelevant* to the actual course of the process. We know, moreover, that this reduction is not limited to the field of science. The *continual oscillations in prices*, their rise and fall, compensate each other, cancel each other out, and carry out their reduction to an *average price which is their internal regulator*. The average price is the guiding light of the merchant or the manufacturer in every undertaking of a lengthy nature. The manufacturer knows that if a long period of time is considered, commodities are sold neither over nor under, but at, their *average price*. If, therefore, he were at all interested in disinterested thinking, he would formulate the problem of the formation of capital as follows: *how can we account for the origin of capital on the assumption that prices are regulated by the average price, i.e. ultimately by the value of commodities.* (p. 269)

This assumption that commodities sell at their *average prices* is not just an assumption in Chapter 5 that is later relaxed. This is the basic assumption for Marx's theory of the "formation of capital", i.e. his theory of surplus-value or ΔM, in the rest of Volume 1, and indeed in all three volumes.

In the Introduction to Part 7 of Volume 1 on "The Process of the Accumulation of Capital", Marx stated:

> … we assume here that the capitalist sells the commodities he has produced at their value and we shall not concern ourselves with their later return to the market … (p. 710)

And in Chapter 20 of Volume 2 ("Simple Reproduction"), Marx stated:

> Moreover, we assume … that products are exchanged at their values … (p. 469)

And more extensively in Chapter 10 of Volume 3, Marx explained that market values (i.e. average prices) are determined by SNLT which is as a weighted average of the labor times of individual capitals within as industry, and these market values *assume that supply equals demand* and are the *center of gravity prices* around which market prices fluctuate.

> The assumption that commodities from different spheres of production are *sold at their values naturally means no more than that this is the centre of gravity around which price turns* and at which its constant rise and fall is balanced out. (p. 279)

> The *real inner laws of capitalist production clearly cannot be explained in terms of the interaction of supply and demand … since these laws are realized in their pure form only when demand and supply cease to operate, i.e. when they coincide*. In actual fact, supply and demand never coincide, or, if they do so, it is only by chance and not to be taken into consideration for scientific purposes; it should be considered as not having happened. Why then does political economy assume that they do coincide? *In order to treat the phenomena it deals with in their law-like form, the form that corresponds to the concept, i.e. to consider them independently of the appearance produced by the movement of demand and supply…* Market prices that diverge from market prices balance out on average to become market values … And this average figure is by no means of merely theoretical significance. It is, rather, practically important for capitals whose investment is calculated over the fluctuations and compensations of a more or less fixed period of time. (p. 291)

Note that the last two sentences emphasize again the practical significance of average center of gravity prices for capitalists' decisions about capital investments, as in the footnote in Chapter 5 of Volume 1, just discussed. Note also the recurring metaphor that the aim of Marx's theory is to explain capitalism "in its *purity*", which means to explain the *"inner laws of capitalism"* on the assumption that S = D.

Actually, *there may be more agreement between us on this important point than we think*. Even if Michael insists that Marx's theory is more about disequilibrium market prices than equilibrium (center-of-gravity) prices, I hope he will agree at least that Marx did have a theory of equilibrium prices, and *Marx's theory of equilibrium prices depends on SNLT in production*, in which demand plays no role because D = S. That is what I argue.

Michael argues that SNLT is the result of three reductions:
1. reduction of unequal productivities to average productivity within each industry
2. reduction of skilled labor to unskilled labor in all industries
3. reduction of supply to demand

However, if it is assumed that S = D, then reduction #3 of supply of to demand is not necessary. So, in this case, SNLT is determined by the first two reductions which are entirely conditions of *production*, as I have argued and Marx said many times. So I hope we can agree that, under the assumption that S = D, Marx's theory of equilibrium prices depends entirely on the conditions of production. Demand and exchange have no effect on the determination of equilibrium prices.

Therefore, it seems like a disagreement about the role of demand and exchange in Marx's theory of prices is really a disagreement about whether Marx's theory is mainly a theory of equilibrium prices or disequilibrium prices. At least in the case of equilibrium prices, I hope we agree that equilibrium prices are determined solely by SNLT in production.

Section 3 of Chapter 1: the form of value

In his discussion of Section 3 of Chapter 1, Michael did not mention the important introductory paragraph in Section 3 that presents the fundamental issue in Marx's theory of the value form – that the substance and magnitude of value (SNLT) are *not directly observable as such* (as quantities of labor time), and *that is why money is necessary as the observable form of appearance of the substance and magnitude of value.*

Michael's discussion starts with the simple form of value, which is expressed in an equation (as Marx did): 20 yards of linen = 1 coat. However, Michael discusses this equality as *equal social validity* (p. 59), and social validity cannot be quantified, so the = sign is meaningless. For Marx, this equality between linen and coat means that the two commodities each *contains the same quantity of SNLT*.

In Michael's discussion of the simple form of value, the important subsection on the "quantitative determinacy of the relative form of value" (discussed above on p. 7) is also not mentioned. But this subsection provides unambiguous textual evidence that *the magnitude of value is determined in production and is presupposed in the determination of the quantitative form of value.*

Then in Michael's discussion of the expanded form of value and the total (general) form of value, Marx's *equations are replaced with the phrase "are worth*". By eliminating Marx's equations, the crucial *relation of equality* between commodities is obfuscated.

Also, in Michael's discussion of the total (general) form of value, he also did not mention the important paragraph (quoted above on p. 8) in which Marx emphasized that the general form of value makes each and every commodity, not only qualitatively equal, but also *quantifiably comparable*, which implies that each commodity contains a distinct magnitude of value.

Michael also does not mention the determination of the *price* of a commodity in the conclusion of Section 3 as the *quantity of gold that contains the same quantity of labor* that the given commodity contains, which is clearly a price for each commodity.

2.3 Further textual evidence mentioned in Michael's seminar presentation.

This section will comment on two passages mentioned by Michael in his colloquium presentation from Chapter 3 and Chapter 5 in Volume 1.

Chapter 3, Section 1: immanent measure of value

In the colloquium Paul asked Michael about this important paragraph on the first page of Chapter 3:

> *It is not money that renders the commodities commensurable*. Quite the contrary. Because *all commodities, as values, are objectified human labour, and therefore in themselves commensurable*, their values can be communally measured in one and the same specific commodity, and this commodity can be converted into the common measure of their values, that is into money. *Money as a measure of value is the necessary form of appearance of the measure of value which is immanent in commodities, namely labour-time***.** (C.I: 188)

Paul asked: what about the *immanent measure of value*? Why is money only a form of appearance of value which seems to make it less important?

Michael answered that the immanent measure helps us to *understand* value, but it does not *determine* the magnitude of value because abstract labor *cannot be measured* (thus directly contradicting Marx's "immanent measure" in this paragraph.

I argue, contrary to Michael, that in Marx's theory, the quantity of abstract labor *cannot be observed*, but this quantity *does exist* and it can be *theoretically measured* as the social average labor times required to produce commodities ("in themselves commensurable"). That is what Marx meant in Section 1 of Chapter 1 by his comment that abstract labor is a "phantom like objectivity": unobservable, invisible, although real. That is why money is necessary in a commodity economy: in order to make the invisible magnitudes of value in units of labor time visible in units of money and money prices.

Five pages later in this section, Marx discussed again the *quantitative determination of price* as the necessary form of appearance of the social labor-times immanent in commodities, and he referred back to the subsection of Section 3 of Chapter 1 about the "quantitative determinacy of the relative form of value", discussed above:

> Just as in the case of the estimation of the value of a commodity in the use-value of any other commodity, so also in this case, where commodities are valued in gold, we assume nothing more than that the production of a given quantity of gold costs, at a given period, a *given amount of labor*. As regards the fluctuation of commodity prices in general, they are subject to the same laws of the simple relative expression of value which we developed in an earlier chapter.
>
> A general rise in the prices of commodities can result either from a rise in their values, which happens when the value of money remains constant, or from a fall in the value of money, which happens when the values of commodities remain constant. The process also occurs in reverse … (p. 193)

By "values" here, Marx obviously means quantities of labor-times, the magnitudes of value, which determine prices.

Chapter 5: Value produced in production and exchange?

The main conclusion of Chapter 5 of Volume 1 is that *surplus-value cannot arise from circulation*. That is the "contradiction in the general formula of capital": The general formula is M – C – M+ΔM, but the general formula is restricted to the sphere of circulation ("as it appears directly in the sphere of circulation"; p. 257). And since *exchange is assumed to be the exchange of equivalent values*, it is not possible to explain ΔM on the basis of exchange alone. Marx quoted Galiani in the chapter: "Where equality exists there is no gain." (p. 261)

Michael mentioned the following passage from the end of Chapter 5 to support his interpretation that surplus-value originates in part in circulation:

> Capital cannot therefore arise from circulation, and it is equally impossible for it to arise apart from circulation. It must have its origin both in circulation and not in circulation". (p. 268)

It becomes clear in the Chapters 6 and 7 that what Marx meant by "it [capital] must have its origin both in circulation and not in circulation" is that the *capitalist must be able to purchase labor-power in the sphere of circulation and then utilize labor-power in the sphere of production*, and in the sphere of production labor produces more value than it is paid; i.e. produces surplus-value which is realized as ΔM.

Before turning to Chapter 6, one more point about Chapter 5: two sentences after the sentences Michael quoted, Marx stated again the basic assumption of his theory ΔM:

> The transformation of money into capital has to be developed on the basis of the *immanent laws of the exchange of commodities*, in such a way that the starting-point is the *exchange of equivalents*. (pp. 268-69)

If exchange is the exchange of equivalent values, then there can be no gain of value in circulation.

In the beginning of Chapter 6, Marx stated that the increase in the money capital cannot take place in the first act of circulation (the purchase of labor-power) and (most importantly for our purpose) it also *cannot take place in the second act of circulation* (the sale of the commodity).

> The change in value of the money which has to be transformed into capital cannot take place in the money itself, since its functions as means of purchase and payment it does no more than realize the price of the commodity it buys or pays for … *Just as little can this change originate in the second act of circulation, the resale of the commodity*, for this act *merely converts the commodity from its natural form back into its money-form*. (p. 270)

Instead the increase in the money capital must take place in the *utilization in production the labor-power purchased in circulation*. The purchase of labor-power in the sphere of circulation is *only a precondition* for the utilization of labor-power and the production of surplus-value in the sphere of production.

As is well known, Marx dramatized the transition from the sphere of circulation to the sphere of production in the following famous passage at the end of Chapter 6:

> Let us therefore, in company with the owner of money and the owner of labour-power, leave this noisy sphere, where everything takes place on the surface and in full view of everyone, and follow them into *the hidden abode of production* ... Here we shall see, not

> only how capital produces, but how capital is itself produced. *The secret of profit-making must at last be laid bare.* (279-80)

The "secret of profit-making" is found in the "hidden abode of production". The sale of the output after production only changes the form of this surplus-value from the price of commodity capital to a quantity of money capital (ΔM).

And then in Chapter 7, Marx explained how surplus-value is produced by the utilization of labor-power in production. The 3 shillings of surplus-value produced by the yarn spinner in Marx's example is determined by their 6 hours of surplus labor, prior to and independent of the sale of the yarn in the sphere of circulation.

And later in Chapter 7, Marx stated again that the significance of circulation in the production of surplus-value is that *circulation is where labor-power is purchased*.

> This whole course of events, the transformation of money into capital, both takes place and does not take place in the sphere of circulation. It takes place through the mediation of circulation *because it is conditioned by the purchase of the labour-power in the market*; it [the transformation of money into capital] does not take place in circulation because what happens there is *only an introduction to the valorization process*, which [the valorization process] is *entirely confined to the sphere of production*. (p. 302)

To close: thank you for your attention and I look forward to our discussion on December 2.

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