**SOC 3150: Classical Sociological Theory**

 **Lecture 9: Marx: Theory of Surplus Value**

This week we will look at key theoretical aspects of Marx’s most famous work, *Capital*, which seeks to explicate the ‘economic law of motion’ in bourgeois society by outlining the dynamics of its productive foundation.

We start with Marx’s theory of *surplus value*

Marx begins by asserting that capitalism = a system of commodity production operating in a national/international exchange market

Every object has: (1) a use-value (realized in consumption);

 (2) an exchange value (value when traded)

Something can have use-value but no exchange value

Exchange value presupposes a definite economic relation/ market relation. It only makes sense in relation to commodities

Either of the above can only have value insofar as human labour has been expended on it. Both types of value are related to the amount of labour involved in the production of a commodity

Yet, exchange value cannot necessarily be derived from use-value (e.g. corn vs. iron) but from some commonality: a quantifiable, abstract characteristic of the labour expended in producing them

Such abstract labour is highly applicable to commodity production, a key aspect of capitalism and its flexible, adaptable labour market

However, if we measure value in relation to units of time, could an idle worker, who takes a long time to produce an item, produce a more valuable item than someone who does it more quickly?

No, this concept applies not to any particular worker, but to the average, ‘socially necessary’ time required for the production of a commodity under normal conditions in an industry, which can be empirically determined.

This – and the value - can change with technology and innovation

Thus far, Marx is speaking at a highly abstract level, one where supply and demand are in equilibrium. Generally, he argues that demand does not alter value, but can affect prices.

Demand is most significant in relation to the allocation of the labour force, but ultimately price readjusts in the direction of its labour value. Products exchange according to the amount of socially necessary labour time embodied in them.

Paradox: the capitalist “must buy his commodities at their value, must sell them at their value, and yet at the end of the process must withdraw more value from circulation than he threw into it at starting.” How can this be?

Marx responds by pointing to labour itself as a commodity, and the labour time necessary to produce the necessities of life for the worker enabling him to subsist and reproduce. “The worker exchanges with capital his labour itself…he *alienates* it. The price he receives is the value of this alienation.”

The conditions of modern production enable a worker to produce much more, on an average day, than necessary to cover the cost of his subsistence. Only part of a day must be expended to produce the equivalence of his commodity value. Whatever he produces over and above this is *surplus value* appropriated by the capitalist.

Marx calls the ratio between this necessary and surplus labour the “rate of exploitation.” This varies according to culturally expected standards of living in a society.

Surplus value is a major source of profit.

Beyond “constant capital” (machinery, raw materials, etc.), wages make up what Marx calls “variable capital.” Only variable capital creates value as the former “does not, in the process of production, undergo any quantitative alteration of value.

Unlike the rate of surplus value (the ratio of surplus value to variable capital), the rate of *profit* can only be calculated with reference to both variable and constant capital: the lower the ratio of expenditure on constant capital to that on variable capital, the higher the rate of profit.

How does this relate to actual market prices? Some industries require heavier investment in constant capital and less on variable capital, leading to widely divergent rates of surplus value. Yet, this may be only a short-term situation as capital eventually flows into channels offering the highest levels of profit.

Marx asserts that commodities sell for their “prices of production,” so the total amount of profit in the economy is determined by the total amount of surplus value created within it, but the share each individual capitalist takes is not necessarily proportionate to that realized in his own enterprise (i.e. price of production =constant capital +wages +the average rate of profit on the capital employed).

Commodities ultimately sell at their prices of production due to (1) fluidity of capital and (2) labour mobility. In either way, capital withdraws from spheres with low rates of profit and invades others which yield a higher profit.

However complicated the relationship between prices and value may be, the former nevertheless ultimately rest upon the latter.

Any increase or decrease in the total surplus value will affect prices of production.

Marx’s theory has been criticized by economists as being cumbersome and convoluted in predicting prices.

However, that was not Marx’s aim, but rather to undercut the influence which physical categories such as prices, rents, or interest rates have in the theory of political economy and lay out the social principles which underlie the operation of the capitalist economy.

Marx’s theory of capitalist development rests upon these ideas of capitalist expropriation set out in his theory of surplus value. We will begin dealing with that next class.