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The development of economic thought over the past few centuries had led to the formation of many discontinuous traditions. Given economics relation to political theory, and a similar amount of discontinuous traditions of thought, addressing these fundamental, theoretic concerns becomes very difficult. This paper will trace the historical development of the major theories of value – both the labor theory of value and marginal theory of value – while giving a Marxist critique of the neo-classical economic project which utilizes and develops a marginal theory of value. The analysis will begin with a discussion of the history and argument behind the labor theory of value, followed by a discussion of the neo-classical response and concluding with a critique of the developed neo-classical theory of value.

Primitive conceptions of the labor theory of value had existed long before Marx introduced his take on it. It had been invoked in the sermons of John Bell during the Peasants' Revolt of 1381, as a theoretical foundation for progressive groups of the English Civil War and even by founding father Benjamin Franklin (Sewell). In the 18th and 19th centuries classical economists – Adam Smith and David Ricardo the most famous of them – further build upon the fundamental idea that labor is the source of value. Given the widespread adoption of labor theories of value among early economic theoreticians some important questions are now raised: why is it that contemporary economists have rejected the labor theory of value? And with what have they replaced it? These questions can be addressed in a variety of ways. In this paper, I shall integrate both a historical and theoretical analysis of economic theory development.

Various types of labor theories of value were important during the transition from feudalism to capitalism. During the feudal ages an individual's societal position was a birthright. Appealing to various conceptions of nobility, feudal lords justified their property ownership and the forced servitude of peasants. These lords, of course, never worked their lands and survived solely on exploiting those without any property or means to support themselves.

It was out of this historical stage that the bourgeoisie began to emerge as the progressive class. These individuals, unlike the feudal lords, had a much larger involvement with the production of goods. And it is for this reason that "Initially, the labour theory of value was a very useful weapon to the rising bourgeoisie, when, as a progressive class, they used it to strike blows against the politically powerful landowning class" (Sewell). Within this framework, they were able to clearly show that the feudal lord, who barley interacted with 'his' peasants but to collect crops occasionally, never did any labor. They were exposed as parasites whose rule had slowly become outdated.

The bourgeoisie's fondness for the labor theory of value wasn't without an expiration date. After having secured the demise of feudalism, the bourgeoisie were able to implement their mode of production: capitalism. And as Marx stated in the Communist Manifesto, their mode of production wasn't without a class structure of its own. In fact, Marx claimed that it is now the case that "society as a whole is splitting up more and more into two great hostile camps, into two great classes directly facing each other: Bourgeoisie and Proletariat" (8). The first camp – the bourgeoisie – are those individuals that own the instruments needed to produce goods of many sorts. The proletarian are those who were born without this advantage and, in order to sustain their existence, must sell their labor to the bourgeoisie for a wage. Having control of the means of production, the bourgeoisie were able to extract surplus value from the proletariat and make profit. The bourgeoisie, having extracted this value without work themselves, now find themselves in a similar situation to the one facing the feudal lords: they are stealing the labor of others.

To further understand why this is the case, it is helpful to now look at Marx's conception of the labor theory of value. In *Value, Price and Profit*, Marx introduces his labor theory of value to show how the capitalist exploits the worker in order to make profit. The first step in formalizing his theory is to illuminate the essence of value. Marx denies the "exchangeable values of commodities" as the source of value, claiming them to only be the "social functions of those things" (19). Rather, he views the act of labor itself to be the "common social substance of all commodities" (19). He adds a qualifier to the definition of labor, its social value, to distinguish products, which men create and consume for themselves, from commodities, which are produced to "satisfy some social want" (19). The purpose of this is to take in account technological advancements that make the production of certain goods exponentially easier. So, instead of value coming from mere labor hours, value is linked to what the average productive abilities of a certain time period allow for.

It is at this point that we enter into a discussion of private property: a fundamental component of capitalism. Since the means of production are consolidated in the hands of a small group of capitalists, workers aren't able to access them. In order to make a living, workers are forced to sell their labor power to the capitalist. A key distinction is that the laborer is not selling his labor to the capitalist, but his labor power. Marx determines the value of labor power like any other commodity: "the quantity of labor necessary to produce it" (26). This quantity would represent the bare necessities required of the laborer to survive; the capitalist is incentivized to push wages to this amount as it is all that is necessary to make the laborer show up to work the following day. For sake of clarity, let's imagine this amount to be 3 units. By paying the worker these 3 units he has the rights to this laborer's work for the entire work day. Let's assume that during the work day the laborer produces 8 units. Since the worker signed on to work the whole day for a mere 3 units, that will be all he receives of the 8 units (or more if he was extremely productive). The capitalist is then able to sell the good at that value of 8 units, making himself a profit of 5 units all whilst not doing any work himself. This represents Marx's concept of surplus value, how the capitalist is able to exploit the worker.

The implications of this idea is obvious: workers are being exploited. As Ernest Mandel writes in his *Marxist Economic* Theory, "in order to neutralize the "socialist danger," which was felt with especial keenness after the revolution of 1848, and above all after the Paris Commune (1871), the entire structure based on the labour theory of value had to be demolished. This was the great turning-point of bourgeois political economy, towards the *marginal theory of value*."

We have now arrived at the beginning of the modern bourgeoisie's response to various iterations of the labor theory of value. And it is also at this point that we shift our focus of the discussion of value from objectivity to subjectivity. The classical economists – Smith, Richardo, Petty, Marx, etc – identified production as the starting point of value. Put in another way, "value was identified with cost of production, or revolved around it" (Mandel). Though they all approached this in different ways, these thinkers all remained this central idea in common (Marx's approach – socially necessary labor time – was addressed in prior paragraphs). And in accepting this idea, the "influence of demand upon value, as an independent variable, was denied" (Mandel). The contemporary economic thought on this subject was rejected.

To further elucidate why they may have chosen this starting point, we'll return to another piece of Marx's writing: "Natural laws cannot be abolished at all. The only thing that can change, under historically differing conditions, is the form in which those laws assert themselves. Labour, then, as the creator of use-values, as useful labour, is a condition of human existence which is independent of all forms of society; it is an eternal natural necessity which mediates the metabolism between man and nature, and therefore human life itself" (qtd. Sewell). Given that labor, irrespective of the time period is done in, gives use-value, in a law like fashion, one is forced to recognize the objective nature of value.

Neo-classical economists responded to this by rejecting the objective approach, opting for one of "pure micro-economics" (Mandel). They did this by claiming "that value can and should be determined for each commodity taken separately," thereby regarding "value no longer as a function of cost of production but as a function of the independent influence of demand upon cost of production." The individual, and his/her diverse preferences, was then given priority in the determination of value. Each person's perception of value (i.e. utility), thus, gave rise to the item's individual use value.

In postulating this, the neo-classical economist faced his first problem: what is utility? As Mandel points out, this isn't easily done. For instance, if you were to ask an individual:" 'What is the utility of this knife to you?' he will reply: 'A very great utility', or 'I use it a lot', or else 'I have no need of it at all.'" And in stating this, the person fails to give a quantitative answer – "*any* sort of measure of "use-value." Clearly, the neo-classical economist has to look elsewhere to find a new way to quantitatively express use-value.

Their next solution was to regard for a quantitative expression of the individual's needs that use-value has to satisfy. Given that individual's having varying levels of "needs," the subjectivity of this approach becomes evident. Two individuals could value the same good in radically different ways. Reiterating this new breaking point in theory,

> "where Marx and the classical economists start from the *social* character of the act of exchange, and regard exchange value as an *objective* link between owners (producers) of different commodities, the marginalists start from the *individual* character of needs, and regard exchange-value as a *subjective* link between the individual and the thing."

The neo-classicalists problems don't end there. Their next challenge comes from David Ricardo who gives the following example:

> Water and air are abundantly useful; they are indeed indispensable to existence, yet, under ordinary circumstances, nothing can be obtained in exchange for them. Gold, on the contrary, though of little use compared with air or water, will exchange for great a quantity of other goods… Utility then is not the measure of exchange value, although it is absolutely essential to it. (qtd. Sewell)

While we may claim something value judgements may have a subjective character, it seems absurd to suggest that gold has more utility than the bare necessities of life (e.g. water, air, food etc.). A contradiction now arises. If the neo-classical economists are correct in claiming that exchange value arises from an objects utility, then water and bread should have a much higher exchange value than gold. This, however, is clearly not the case as gold's exchange value far exceeds that of a great deal, possibly the vast majority, of commodities.

The neo-classical response is to now introduce the "marginal" component of their value theory. They will claim that "it is not the intensity of the need in itself, but the intensity of *the last fragment of need not satisfied* (of the *marginal* utility) that determines value" (Mandel).

It is from this point the neo-classical economist launches his attack upon Marx's theory of exploitation – surplus value derived from the exploitation of labor power. An introductory account of this reasoning is as follows:

> Starting from this general idea, the neoclassical school worked out a series of curves the intersection points of which are supposed to show conditions of equilibrium: curves of supply and demand, determining equilibrium prices; curves of indifference and of prices determining the quantities of commodities demanded at particular levels of income; curves of marginal costs, determining for entrepreneurs the levels of production which will guarantee them the highest profits; a curve of wages offered and of "disutility of labour", determining the demand for employment, a curve of interest rates offered and profit expected. determining the volume of investment; a curve of the accumulated amount of capital and of the mass of money-capital available, determining the rate of interest; and so on. In the end, the whole system is in perfect static equilibrium, "profit" itself having disappeared, at least in Walras's work, since under conditions of total competition the value of the marginal product--which determines the value of all production-is dissolved into depreciated capital, wages, interest and round-rent.

Breaking down the entire of this argument is beyond the scope of this paper; regardless, giving a rough explanation of its logic is necessary to progress further. Within this system, one of competition, the entrepreneur purchases factors of production (e.g. land, labor, capital, etc.) up until the point where the last purchase of any factor equals the market price of the factor. He then increases production of goods to the point where the cost of producing the last good is equal to the market price of the product. When doing so, the various curves are all in an equilibrium position – the most effective allocation of resources.

Given that all these equilibriums have been reached, the neo-classical economist would claim that all purchases of factors of production and sales of goods had been done at its true value. In regard to employees, they would claim that since the laborers are being paid at their market value, it wouldn't be the case that the laborer is actually being exploited. The laborer would be paid at his market equilibrium price just as any other factors of production had been (land, machinery, etc). The entrepreneur, using his financial capital, had fairly purchased the laborer's time as measured by his/her market value. This theory of equilibriums represents, a least to a moderate extent, the final and most forceful argument put forth by the neo-classical economist. And in occupying this logical end point, many criticisms have been levied at it (a few of which I'll investigate).

One critique presented by Marxist theoretician Nikolai Bukharin who claimed that "the marginalist school *adopts* the point of view of the *rentier,* or, more precisely, of the capitalist who has withdrawn from the sphere of enterprise" (Mandel). The mere fact that this position is adopted isn't grounds for criticism alone. If the marginalist is able to conclusively argue that the marginal theory of value is correct, then it shouldn't matter who benefits the most. The absurdity of adopting this subjective approach over the objective one provided by Marx is evident in the last part of Bukharin's quote: "of the capitalist who has withdrawn from the sphere of enterprise." Suppose that an individual is born into extreme wealth. And suppose he uses that wealth to start a company of some sort. As is necessary to start a company in the capitalist system, he needs to hire workers (many of whom may have been born into extreme poverty). After having set up this business, suppose this individual retreats to his family's mansion and to only involve himself with the company when he collects the earnings of the products the workers created. It seems nonsensical to suggest that this individual is a positive force within the company, yet the marginal theory claims that he does and that he is deserving of his profit.

Many further criticisms focus on the marginal theories detachment from reality. One group of critics will assert "[marginal theory] is, moreover, unable to explain how, from the clash of millions of different individual 'needs' there emerge not only uniform prices, but prices which remain *stable over long periods,* even under perfect conditions of free competition." Given that prices (i.e.

exchange value) is determined by subjective utility, and that people are fickle in their day-to-day (or even generation-to-generation) preferences, it should be the case that prices fluctuate rapidly and often. This, however, is largely not the case as the cost of many goods remains static (see: sticky prices). Marx's answer would be to simply point out that the reluctance of any change in price reflects the good being priced near the amount of socially necessary labor time needed to produce the good.

Other critics will claim that these economists are blatantly ahistorical in their approach. By not taking into account the framework of capitalism and its societal effects the economist is led to assert a "quite absurd notion that wages are determined by "the product of the last unit of his time that the worker wishes [!] to give up rather than devote it to leisure." Taking this ahistorical approach, one doesn't consider that the worker exhibits little choice in his work life. He is subject to the mode of production of his time and is forced to find a way to sustain his existence within it.

Even further, this ahistorical approach, if taken to its logical conclusion, will deny the relationship between capitalism and imperialism. As Marx pointed out in the *Communist Manifesto*, the nature of the capitalist system where profits are the end-all-be-all forces civilization into an unheard of crisis: the epidemic of overproduction. Given this extreme profit incentive – better yet, demand – the capitalist system is forced to constantly revolutionize its means of production. And in doing so, the first cases of largescale surpluses have emerged in human society. Given the need to sell these surplus products, in order to make a profit of course, the capitalists are forced to expand their market beyond their borders – eventually covering the globe and converting them to the capitalist mode of production. And it is in this demand that the ugly face of imperialism emerges as the logically necessary development.

This critique of mainstream economics is nowhere near exhaustive. In fact, we have yet only addressed an older model proposed by the neo-classicalists. But given their influence on contemporary economics, the critique is still very much relevant. Many of these criticisms, which I hold to be very strong, can be adapted to address more contemporary economic arguments of many sorts (comparative advantage, updated theories of value, their historical approach, etc.).

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