

User talk: Salvor Hardin

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Labor Theory of Value

The pamphlet, 'The Labor Theory of Value' by Donald C Ernsberger, published by the International Society of Individual Liberty, purports to be a disproof of Karl Marx's theory. I contend that it is a hodgepodge of misrepresentation and fallacy. This misrepresentation is aided by Ernsberger's glaring failure to provide citations. In making my case, I will deal with his arguments in the haphazard succession with which they are delivered.

Ernsberger begins with a historical misrepresentation of the labour theory of value (LTV) as peculiar to Marxism, though it was actually common to the classical economists, including Adam Smith and David Ricardo. In fact, Marx himself credits Benjamin Franklin as the originator of the concept (Value, Price, and Profit, VI). Ernsberger later implies that the LTV is only held by opponents of the free market system (paras. 7 and 9) and finally resorts to scare tactics, describing it as leading to the 'end of all economic freedom' (para. 20) and 'political slavery' (para. 24).

Ernsberger's explanation of 'how the LTV works' (para. 4) is, like the analysis that follows, rather simplistic. In his example, he ignores the cost of machinery, tools etc worn out in the course of production. Of course, as he grudgingly acknowledges in the next paragraph, these too are products of labour. This gives the reader the impression that Marx is blind to the role of capital goods. In fact, in his Critique of the Gotha Program (I, 3) Marx polemicises against the simplistic view that workers should receive the 'undiminished proceeds of labour', arguing that funds were needed to cover maintenance, expansion etc.

Ernsberger characterises the LTV as an 'intrinsic-value theory' in which 'value is inherent in objects' (para. 7). However, this again misrepresents Marx. In the Critique of the Gotha Program, he argues the LTV is a social construction, accusing capitalists of 'falsely ascribing supernatural creative power to labour' (I, 1) and states that, under socialism, as 'the producers do not exchange their products; just as little does the labour employed on the products appear here as the value of these products, as a material quality possessed by them' (I, 3).

Ernsberger's purpose is to contrast the LTV with the 'fundamentally different' 'market-exchange theory' (paras 7 and 8). However, he then makes a startling admission: At first glance, both theories seem to make sense. It is generally true that the more labor invested in an object, the more it is worth [para 9]. So it appears that the LTV which he derides as 'absurd' and 'nonsense' is 'generally true'. But he will not be stopped in his stride merely because he shot himself in the foot. Instead, he waves this away, asserting that both theories cannot be right (para. 10). The distinction he draws is that the market theory says value is based on demand, while he accuses the LTV of 'ignoring demand entirely' (para. 24). According to him, the LTV posits that value 'remains constant despite changing demand' (para. 7). This is a common misconception. In fact Marx said:

the oscillations of market prices, rising now over, sinking now under the value or natural price, depend upon the fluctuations of supply and demand... It suffices to say that if supply

and demand equilibrate each other, the market prices of commodities will correspond with their natural prices, that is to say, with their values, as determined by the respective quantities of labour required for their production. [Value, Price, and Profit, VI]

At this point Ernsberger's edifice falls in a heap. The alternatives he presents are not 'diametrically opposed' (para. 10) at all.

After misrepresenting the LTV, Ernsberger tries to pick holes in it: The assertion that only labor gives an object value ignores the fact that many natural objects in which no labor has been invested – such as scenic views, pure water, gems and minerals, and wild fruits and vegetables – have economic value. [para 11]

Yet again, this misrepresents Marx who stated categorically:

Labour is not the source of all wealth. Nature is just as much the source of use values (and it is surely of such that material wealth consists!) as labour [Critique of the Gotha Program, I, 1]

Marx here is distinguishing 'use values' (or utility) and 'exchange values' (or market values).

Ernsberger, like most market economists, conflates the two. Later on, he uses the term 'enjoyable' (para. 13), as if enjoyment and price are identical. The best illustration of the distinction is air, which is obviously vital for all living things as well as chemical processes such as combustion. Air therefore underpins the economy but has no 'economic value' as expressed in price. But by using the ambiguous word 'value' Ernsberger blurs this important distinction. After all, who precisely is supposed to be paid for nature's gifts? Mother Earth? As Marx explains: in so far as man from the beginning behaves towards nature, the primary source of all instruments and subjects of labour, as an owner, treats her as belonging to him, his labour becomes the source of use values, therefore also of wealth....precisely from the fact that labour depends on nature it follows that the man who possesses no other property than his labour power must, in all conditions of society and culture, be the slave of other men who have made themselves the owners of the material conditions of labour [Ibid]

But let's look at the examples that Ernsberger gives of 'natural objects'. For starters, 'gems and minerals' have to be mined, and 'wild fruits and vegetables' have to be picked, so the suggestion that no labour is involved is fallacious in the extreme. As for water, its collection, purification, and distribution do involve labour and hence incur a charge. But rain, like air, is free.

Then there's 'scenic views'. Now, we have all experienced the wonders of natural beauty, city lights etc, without paying a cent. So Ernsberger must mean residential views. But the homeless can also have harbour views. So Ernsberger really means property – specifically 'location'. This is essentially an example of a monopolistic distortion of the market, where the LTV doesn't actually operate (see VP&P, VI).

Ernsberger then frivolously compares leaves with diamonds. Now, no one would seriously believe that picking leaves involves the same labour as mining and cutting diamonds. Yet Ernsberger, confident in his capsule of misrepresentation and fallacy, asserts that the LTV 'cannot by its nature account' for the difference in value.

The next misrepresentation is that: ‘The labor theory of value also fails to take into account changing consumer desires and the contextual nature of value’ (para. 12). Actually Marx argued: ‘to produce a commodity, man must not only produce an article satisfying some social want, but his labour itself must form part and parcel of the total sum of labour expended by society’ (ibid). This also answers the objection about oil in a reservoir (para. 13) – it clearly isn’t a ‘social want’. The next trivial example is the value created by the aging of wine (para.13). Ernsberger here ignores the labour involved in cellaring.

Ernsberger now announces ‘Perhaps the most grievous theoretical fault’ with the LTV (para. 14), saying:

most workers prefer to be paid when their work is completed rather than when their products are sold – which may be months later. For workers to be paid now, rather than later, someone must advance their wages, and clearly this service has a value. But proponents of the labor theory would have it both ways: workers are to receive the full future value of their product now. [para. 15]

This is simply silly. The workers sell their labour to the employer and are paid on completion. That’s it!

Following this ‘grievous’ stupidity, Ernsberger changes tack to misrepresentation, accusing the LTV of a ‘value-effort fallacy’, stating, ‘It is folly to assume that all effort produces value’ (para. 16).

Actually Marx said:

In saying that the value of a commodity is determined by the quantity of labour worked up or crystallised in it, we mean the quantity of labour necessary for its production in a given state of society, under certain social average conditions of production, with a given social average intensity, and average skill of the labour employed. (VP&P, IV)

And he specifically stated that lazy and clumsy workers do not produce more valuable products (ibid). Ernsberger returns this misconception later, raising the case of ‘shoddy work’ ‘hacked out by a beginner’ (para. 19).

Ernsberger goes on to question how the LTV explains innovation and investment, if profits are merely based on exploitation (para. 17). This argument is itself absurd. The LTV doesn’t deny that capitalists compete with each other and try to minimise costs. While an individual innovator achieves higher profits in the short term, in the long term the innovation is copied by competitors and the increase in labour productivity leads to cheaper products. Hence this example supports the LTV rather than undermining it.

We now come to Ernsberger’s second damning admission:

Communist countries have not abolished profits. They have merely transferred all profits to the state [para.18]

(This was written prior to the collapse of the Eastern Bloc.) So, after insisting that profits were generated by free markets, that value was created by consumer choice, that what Marx called exploitation was really entrepreneurship, Ernsberger now, with a rush of blood to the head, asserts that under Communism – where he acknowledges none of these factors were present – ‘all profits’ were ‘merely’ transferred to the state, i.e. that the generation of profit was undiminished and identical. He has hence contradicted his entire argument.

Further compounding his illogicality, Ernsberger then slips into the common misconception of the LTV as a theory of what should be rather than what is (para 19). As he himself as already shown, the LTV does not advocate that sellers be ‘compelled’ to sell at a particular price.

Our would-be analyst then moves on to ‘methodological fallacies’, in particular a proof which he claims occurs somewhere in Capital, Volume 1 (para. 22). Here he makes his third startling admission, labelling as true the premise that ‘Some factor in the production of a good gives it value’. Once again, he has contradicted his central argument that value is created in the market. The second premise he identifies is that ‘Only those goods to which man has applied labor have value’ which he boldly labels false. We have already seen the failure to disprove this point. Moreover, here he is committing his own methodological fallacy by assuming what he has to prove (i.e. that the LTV is wrong). The next point in his analysis is a ‘procedure’ which he labels ‘arbitrary’: ‘Examine all the factors producing a good by discarding those which did not create equal value in equal quantity, and end up with one factor – Labor.’ However, this is by no means arbitrary. As Marx argues in Capital, Volume 1, (I, 1) given their exchangeability, ‘the exchange values of commodities must be capable of being expressed in terms of something common to them all, of which thing they represent a greater or less quantity’. If there were a diverse range of factors, how could the relative value of each be assessed, without resource to a common denominator?

Ernsberger then moves on to Capital, Volume 3 – once again without citation. He states:

Marx proclaims that two types of capital exist in production, only one of which can produce "surplus value". Thus exchange of items of equal value can have uneven mixtures of these two types of capital, implying that labor alone is not the sole determinant of value. [para. 23]

He appears to be referring to the ‘Transformation Problem’ discussed in Chapter 9 but has got it totally confused. What he vaguely describes as ‘two types of capital’ are capital used to employ workers on the one hand, and capital used to purchase machinery, raw materials etc on the other. The fact that items of equal value can be produced by ‘uneven mixtures’ of these doesn’t contradict the LTV at all, since both involve labour – current in one case, past in the other. The actual issue of the ‘Transformation Problem’ is equal rates of profit – not values. But we can’t expect Ernsberger to get anything right.

He then veers off the topic to assert that labour is ‘voluntary’ under capitalism (para. 25), blithely ignoring economic necessity.

This is followed by a fourth major contradiction, in which Ernsberger justifies profits by referring to an entrepreneur’s ‘organizational ability, foresight, and management skills’ (para. 26). This could be summarised in the proposition that profits are a ‘reward’ for entrepreneurial

labour. Yet again he has backhandedly conceded that he accepts the LTV is correct. After this shambolic performance, Ernsberger proudly concludes, 'Marx has been in his grave for over 100 years. It is time that his theories were buried as well.' It is clear that our bumbling gravedigger has merely dug a hole for himself.

References

Karl Marx, *Value, Price, and Profit*, 1865. [\[1\]](#)

Karl Marx, *Capital*, Volume 1, 1867.[\[2\]](#)

Karl Marx, *Critique of the Gotha Programme*, 1875. [\[3\]](#)

Donald C Ernsberger, 'The Labor Theory of Value (An Analysis)', International Society for Individual Liberty, 1988. [\[4\]](#)