William Greene on the Labor Theory of Value

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There's an excellent post at In the Libertarian Labyrinth on William Greene's position on the labor theory of value. Shawn quotes, from the 1850 edition of Mutual Banking:

> It is affirmed by some, that labor is the only true measure of value, that every thing is worth precisely what it costs in labor to produce it, and that the price of every thing ought always to be determined by the relative amount of labor expended in its production. We would remark, in answer to these affirmations, that there is such a thing as misdirected labor; and that a man may produce an article for which there is no demand, and which has, consequently, no exchangeable value. Again, Peter, working upon a poor soil, may, with an incredible expenditure of labor, produce a bushel of corn, while John, working on rich land, may raise a like quantity, in the same time, and with comparatively little labor: now we venture to affirm that the market value of these two bushels of corn, will (and ought to) depend, not on the relative quantities of labor expended in their production, but on the relative excellence of the grain: and if the bushel raised by Peter be of precisely the same quality as that raised by John, it is very probable that both bushels will sell in the market at precisely the same price. Price, or value, is therefore, determined by the law of supply and demand.

Shawn comments:

> If ultimately, cost and price converge in Greene's model, it is because of market forces. There is no sign here that Greene adhere's to anything like a "cost principle" akin to Warren's.

That observation is very much to the point. A labor theory of value was implicit in Greene's mutual banking work, but it was quite different from that of Warren and the utopian socialists. The latter saw the labor theory of value, not as an empirical description of the functioning of the market, but as an ethical ideal to be realized by human volition–namely, through labor notes and contrived systems of that sort. Greene apparently had very little idea of what the Ricardian/Marxist version of the labor theory of value entailed. Marx, in his attack on Proudhon and

the labor-note schemes of the Owenites and other utopians (especially in The Poverty of Philosophy), explicitly dealt with issues of socially unnecessary labor and sunk costs, in almost the same language Greene used above. Marx viewed the operation of the market price system through supply and demand as the *mechanism* by which price gravitated toward labor-value. The producer learned from market prices, *ex post*, whether and to what extent his labor was socially necessary. The market price signal, by providing this information, regulated whether and how much he would produce in the future, and thus (acting through supply) caused price to gravitate toward value. The utility-driven, subjectively motivated behavior of market actors did not contradict the labor theory of value, in other words, but was its means of operation.

Here is what Engels wrote in his Preface to the first German edition of Marx's *Poverty of Philosophy*:

> In present-day capitalist society each individual capitalist produces off his own bat what, how and as much as he likes. The social demand, however, remains an unknown magnitude to him, both in regard to quality, the kind of objects required, and in regard to quantity... Nevertheless, demand is finally satisfied in way or another, good or bad, and, taken as a whole, production is ultimately geared towards the objects required. How is this evening-out of the contradiction effected? By competition. And how does the competition bring about this solution? Simply by depreciating below their labour value those commodities which by their kind or amount are useless for immediate social requirements, and by making the producers feel... that they have produced either absolutely useless articles or ostensibly useful articles in unusable, superfluous quantity...
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> ...[C]ontinual deviations of the prices of commodities from their values are the necessary condition in and through which the value of the commodities as such can come into existence. Only through the fluctuations of competition, and consequently of commodity prices, does the law of value of commodity production assert itself and the determination of the value of the commodity by the socially necessary labour time become a reality... To desire, in a society of producers who exchange their commodities, to establish the determination of value by labour time, by forbidding competition to establish this determination of value through pressure on prices in the only way it can be established, is therefore merely to prove that... one has adopted the usual utopian disdain of economic laws.
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> ...Only through the undervaluation or overvaluation of products is it forcibly brought home to the individual commodity producers what society requires or does not require and in what amounts.

And here is Marx, in the main body of the work:

> It is not the sale of a given product at the price of its cost of production which constitutes the "proportional relation" of supply and demand, or the proportional quota of this product relatively to the sum total of production; it is the variations in demand and supply that show the producer what amount of a given commodity he must produce in order to receive at least the cost of production in exchange. And

> as these variations are continually occurring, there is also a continual movement of withdrawal and application of capital in the different branches of industry…
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> …Competition implements the law according to which the relative value of a product is determined by the labour time needed to produce it.

Or as Greene himself wrote,

> There is a market price of commodities, depending on supply and demand, and a natural price, depending on the cost of production; and the market price is in a state of continual oscillation, being sometimes above, and sometimes below, the natural price; but, in the long run, the average of a series of years being taken, it coincides with it.

Tucker inherited all of Greene's differences with Warren; the Tucker labor theory of value, as an empirical law rather than a norm to be imposed, was much closer to Marx than to Proudhon. Tucker, a disciple of Greene, saw the approximation of price to labor-value as something that would occur by the natural laws of the market, once the state-enforced monopoly prices of land and capital were eliminated. For labor to receive its full product did not require a utopian labor-note currency; it only required that the banking industry be opened up to the laws of market competition.

Greene, as closely as his ideas approached the Ricardian understanding of the labor theory, seems to have had little familiarity with that version of it; his references to labor-value, rather, allude mainly to Smith and Malthus. In another passage, he referred to the Smithian idea of value being determined by the amount of labor a commodity could command, coupled with an iron law of wages:

> Considered from this point of view, the price of commodities is regulated not by the labor expended in their production, but by the distress and want of the laboring class. The greater the distress of the laborer, the more willing will he be to work for low wages, that is, the higher will be the price he is willing to give for the necessaries of life. When the wife and children of the laborer ask for bread, and he has none to give them, then, according to the political economists, is the community prosperous and happy; for then the rate of wages is low, and commodities command a high price in labor. There is no device of the political economists so infernal as the one which ranks labor as a commodity, varying in value according to supply and demand…

This touches on the point at which Tucker and the individualists differed from Marx. For Marx, the difference between the value of labor-power as a commodity and the value of labor's product was a natural outcome of the market, once wage-labor had been instituted. For Tucker, on the contrary, it was an unnatural outcome caused by state-enforced monopoly returns to land and capital and state-enforced unequal exchange in the labor market. As Greene himself wrote, continuing in the passage above:

> neither is there any device so unphilosophical; since the ratio of the supply of labor to the demand for it, is unvarying; for every producer is also a consumer, and rightfully,

> to the precise extent of the amount of his products—the laborer who saves up his wages, being, so far as society is concerned, and in the long run, a consumer of those wages. The supply and demand for labor is unvarying, and its price ought therefore to be constant. Labor is said to be value, not because it is itself merchandise, but because of the values it contains as it were in solution, or, to use the correct metaphysical term, in potentia.

I attempted, in Studies in Mutualist Political Economy, to present a schematic of the differences between the utopian, Marxist, and Tuckerite versions of the labor theory. Here is a brief statement of it, from "Introduction to Part II: Exploitation and the Political Means":

> A central point of contention between Marx and the utopians was the extent to which the labor theory of value was a description of existing commodity exchange, or a prescription for rules of exchange in a reformed system. Marx criticized the utopians for erecting the law of value into a normative standard for a utopian society, rather than a law descriptive of existing capitalism. For him, the law of value described the process of exchange under capitalism as it was; the law of value was fully compatible with the existence of exploitation. His generalizations about exploitation assumed that commodities were exchanged according to their labor value; far from making profits impossible, exchange according to the law of value was presupposed as the foundation for surplus-value. Profit resulted from the difference in value between labor-power, as a commodity, and the labor-product; this was true even (or rather, especially) when all commodities exchanged at their value.
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> Some "utopians" (including Proudhon, the Owenites, and some Ricardian socialists), it is true, saw the labor theory as a call for a mandated set of rules (like Labor Notes, or modern proposals for government backing of a LETS system). For these, the law of value ruled out exploitation; but rather than seeing it as an automatically operating law of the market, they saw it as requiring the imposition of egalitarian "rules of the game."
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> But besides these two opposing theories, there was a possible third alternative that differed significantly from the first two. This third alternative considered all exploitation to be based on force; and the exploitative features of existing society to result from the intrusion of the element of coercion. Unlike utopianism, the third theory treated the law of value as something that operated automatically when not subject to interference. Unlike Marxism, it believed the unfettered operation of the law of value to be incompatible with exploitation. This school included, especially, the market-oriented Ricardian socialist Thomas Hodgskin, and the later individualist anarchists in America; they saw capitalism as exploitative to the extent that unequal exchange prevailed, under the influence of the State. Without such intervention, the normal operation of the law of value would automatically result in labor receiving its full product. For them, exploitation was not the natural outcome of a free market; the difference between the value of labor power as a commodity and the value of labor's product resulted, not from the existence of wage labor itself, but from state-imposed unequal exchange in the labor market. For them, the law of value was both

the automatic mechanism by which a truly free market operated, and at the same time incompatible with exploitation.

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