

## 7 | Price and Value

### The Value Subsystem

Debates about value theory occupy a much more prominent place at present in the Marxist tradition than in the neoclassical one. That undoubtedly comes of the fact that the analysis of final demand in Marx is widely considered to be inadequate, even among Marxists themselves; witness, for example, the “repairs” introduced by the influential book by Baran and Sweezy (1966) discussed in chapter 2. In addition, there is the famous “transformation problem” in Marx, that is, the difficulty of establishing a consistent relationship between values and prices, which we will shortly discuss. This is not to say that the neoclassical conception of value, as represented in the Jevons/Walras microeconomics, is problem free, but neoclassical dominance is so complete at present that critical voices are not often heeded.<sup>1</sup>

Notwithstanding the heralded differences between the two traditions, from the standpoint of value theory they are analytically quite similar and, of greater importance, both exhibit the same methodological flaws. To appreciate this we again have to draw a sharp distinction between the narratives they offer about their value theories and the logic of the value theory itself.

At the narrative level, Marxists and neoclassicals could not be more different, with the former casting theory in terms of units of labor exerted and the latter in quasi-psychological units, the one essentially supply oriented and the other demand oriented, and the one purporting to speak of objective, material sorts of things and the other speaking at the subjective level. It is when we move from narrative to analysis that their similarities emerge.

Analytically speaking, value theory minimally comprises two claims. The first we have met, namely, that broad classes of priced exchange behaviors by different people are in principle quantitatively comparable.

The second is that all economic propositions, no matter how complex, can be equivalently reformulated in the language of that elementary comparison. We can call these language elements “value primitives,” consisting, respectively, of labor-power units in Marx or of units expressing desirability, satisfaction, or preferencing among the neoclassicals. Normally one does not rewrite propositions about empirical economic behavior into elementary value language but instead shows that such propositions can be inferentially transformed into their value terms.

The transformation itself rests on four claims that are shared by both traditions. These claims logically overlap and support each other, forming a distinct subsystem of analysis. The first is that each exchange price embodies a microcosm of the economic universe. Each price in an economy is simultaneously and uniquely determined by—their ratios precisely established by—every other price. There is a sense, of course, in which that statement is trivial. Any and every price, regardless of circumstance, is expressible in a definite mathematical ratio to every other price—thus, it is tautologically “codetermined.” This comes merely from the fact that prices are expressed in the real number system of which the rationals are a subset. However, it is the nontrivial sense of this assertion that will concern us, namely, the idea that prices in aggregate “cause” each other, that the absolute magnitude and relative level of each price is precisely codetermined by each of the others in a simultaneous, interactive causation.

Second is the quantitative comparability principle just cited, the claim that a calculus of interpersonal “value” binds these prices into that interacting system. More simply, in their price behavior different people, acting at different times and in different markets, make maximizing choices that are fully and unambiguously comparable on an identical quantitative value scale and according to the same value calculus.

Third, in principle each commodity has at a given time one and only one price which corresponds to one and only one value.

Fourth, prices and price movements are in principle infallible clues, signs, and indicators of fundamental underlying processes (of effort and/or scarcity and preferences) bearing on that interactive causation, that is, “the economy.” For “fundamental underlying processes” read “governed by the value dynamic.” In other words, the subsystem is analytically closed. For ease of reference I will henceforth refer to this shared “value subsystem.”

If one accepts the value subsystem then one adopts the doctrine of “price realism.” The term is drawn in analogy to those older, familiar claims about “universals” in classic philosophic epistemology. There

philosophical “realists” argue that names (i.e., concepts) grasp some “real” features of the things they name, hence that there is an inner logical connection between “names” (concepts) that can be explored and truly grasped by purely philosophic analysis and more or less absent any appeal to further, empirical information. In historical philosophy one would speak here of using apriorist methods; apriorist methods are prominent in both the Marxist and Jevons/Walras microeconomics.<sup>2</sup>

By virtue of this shared value subsystem the Marxist and neoclassical microeconomics, including now their narratives, are mirror images. In Marx, final or consumer consumption occurs under the laws of necessity, while in the neoclassical view there is only free choice. Here their point in common is that, at least in principle, no final consumption is ambiguous as to constraint. There is either utter constraint or utter lack of constraint; in either case the (claimed) phenomenon is so unambiguous that it is relatively easy to model it via the subsystem.<sup>3</sup>

Of course, both microeconomics introduce “escape” clauses. Marx allows that “an historical and moral element” modifies the working of the General Law ([1867] 1967:168). The neoclassicals allow that the poor are just as free to bid on baguettes flown in from Paris that morning as the rich should they choose to use their income in that way. Despite differences in income, all consumption choices are treated as if they are made in the free mode; this claim falls under the rubric that real world markets are “imperfect.” However, if, as has been argued in these pages, virtually all sale/purchase has a one-sided character that introduces dependence or other kinds of constraint into the process of consumption itself, then it is theoretically unsatisfactory to leave this to be dealt with by “escape” clauses. One wants instead to bring the fact of differential degrees and kinds of constraint into fundamental microanalysis, that is, into value theory itself.

## Rejecting the Subsystem

What I want to show is that the concept of “value” as it is employed in the subsystem is not sustainable. Introduced to make up for the theoretical deficiencies of actual prices, it turns out to be “price” under another name but as arbitrarily shorn of its deficiencies; in short, the value subsystem, put forward to explain price, is merely price in another guise, a disguised synonym.

It is fundamental at the outset to recognize that the term or concept of *price* represents an elided statement about human social behavior or, if

one prefers, a “logic” of such behavior. In the first instance, the word *price* refers to a particular price, as in “the price of C”; the latter is the elided form of the four-termed proposition, “S(eller) exchanged C(ommodity) with B(uyer) for *p*.” In economics, though not in commercial usage, the term *price* refers to a specific price in a specific exchange between a specific buyer and seller. Prices appended to classes of goods, as in “the price of a movie ticket,” are derivative usages. *Price*, whatever other associations it may have, is ultimately a term designating particular behaviors, and many of the problems associated with its usage can be resolved by going back to the behaviors that are being indicated.

We tend to think of prices as the given, unanalyzed or primitive data for economics, the raw phenomena out of which one draws theory and to it that one returns to confirm or adjust that theory. That may be the pattern of other disciplines but not of economics. *Price* is not in fact a primitive term in economics; on the contrary, it comprises an elaborate analytical construct, that is, a construct that precedes and guides economics theorizing. For example, economic analysts have historically focused on sale/purchase prices at the point in time when the “deal” is made. But in an actual market different deals for the same items may be separated by a minute, an hour, or even a day or more in which prices may change. Conventionally, this time difference is ignored when economists consider prices as an economic category; whole classes of deals are treated as necessarily occurring at the same instantaneous time, while in general equilibrium theory all exchanges everywhere in the economy are conceived to occur at the same point in instantaneous time. But this is to extensively theorize microeconomics even before . . . one theorizes microeconomics. Much of the seeming unreality that laypeople ascribe to economics theory comes of this—I think illicit—procedure.

In the present study we postulate that modern sale/purchase normally takes place throughout a positive duration of time and that this obviates the need to substitute the analytic price for the empirical price, as if the substitution doesn’t matter. Accepting a time framework as intrinsic and fundamental to microeconomic analysis, we open up the logical space to allow that even for the same commodity there will be rival prices claiming varying degrees of importance. Moreover, there is no need to assert a priori, as in the value subsystem, that one and only one price for the commodity has priority over the others, is *the* price. We accept that there are many different prices for a commodity, each of which has a different warrant and significance. There is, for example, still the sale/purchase price exchanged at the point of sale. That has some economic uses but more so does the sum of the prices spent for the commodity over the duration of

the sale/purchase. Commodity purchases are not conventionally analyzed in terms of the latter price—unless of course one is doing some kind of cost/benefit/time study. Another price is constructed to overlook actual changes in the value of money. In comparing the price of food to the price of housing in the Jevons/Walras micro we assume that we are denominating both prices in the same price system—“constant dollars”—even though we know that the time frameworks for the two expenditures are different and hence that inflation or deflation will differentially affect them.

Another equally significant price is a percentage of one’s income or, over time, one’s income stream. That price doesn’t normally come up in micro, but if one is in the position of underwriting credit to the would-be purchaser this is a much more important price than the others. In a modern economy, so reliant on consumer credit, this last price clearly has an enhanced significance.

There is no point in going on. It is clear that for any commodity the concept of the unique price is problematic. There are a number of different prices that are obviously of economic significance, their importance varying with the vantage point we select. That being so, there is no overwhelming, one-sided reason to describe the nominal purchase price of something as “the price.” Or, as corollary to this, Marxist prices of production and Jevons/Walras equilibrium prices of, say, a new auto are just as much complex constructs of only conditional warrant as the cost-benefit price of the vehicle over its lifetime or the constant dollar price or the amount (the price) that a credit agency will be willing to lend you to purchase it. In short, to the different kinds of prices there correspond quite different microcosms.

A second objection is that few actual prices of any sort behave in readily comprehensible ways. Sometimes they are orderly, as when they obey what the TV pundits call “the Law of Supply and Demand.” But equally as often the rise and fall of various prices are as mysterious as maritime weather—hence the attractions of the stock market to the adventurous. Even goods that bump up against each other in the same market, such as fruit and vegetables in a street market, don’t always behave as those “laws” tell us they ought.

The value subsystem argues that prices should vary continuously in response to even subtle changes in the conditions of supply and/or demand; business practice tells us that it is very easy to lose customers by raising prices but harder to gain them by lowering prices.<sup>4</sup> The “laws” of supply and demand call for a lower price to be associated with greater sales, but there are whole classes of goods whose overpricing is intended

to raise, not lower, sales (Stiglitz 1987). Taking one thing with another, actual prices, their relative levels, their ebb and flow, and their relationships with other economic phenomena don't cleanly lend themselves to theoretical niceties. The apriorist inversion of data and theory functions in economics not to explain things like this but to explain them away.<sup>5</sup>

Neither Marxist nor neoclassical analysis employs actual empirical prices as the primary data, the ultimate "given," and the value subsystem doesn't really refer to them save derivatively. Both traditions prescribe a category or set of prices that stand in for empirical prices and function as the data of economic/analytic investigation. Essentially, these prices are conceived to be prices that always and in every way obey the various laws of economics. Or, in behavioral terms, one conceives that if people's transactions were freed from all inessential, extraeconomic factors, then they would exchange at these prices. Such prices tell us how people would behave if they were acting purely rationally and not from ignorance, impulse, social pressures, and so forth.<sup>6</sup>

I'll henceforth adopt the convention of using *price* to refer exclusively to actual, empirical prices and *Price* to refer to those prescribed by economic theories employing the value subsystem. I'll also refer to empirical markets, reserving *Market* for the theoretical construct that normally stands in for actual empirical markets in economics discussions.<sup>7</sup>

Insofar as *Prices* are stand-ins for prices, a *Price* still only refers to that which was exchanged for a specific commodity in a specific *Market*. One needs a logical bridge, so to speak, or a common medium to use another image, which will serve to represent all *Prices* occurring as if in a single system. "Value" provides the bridge and the medium. Then different *Prices* will be part of the same system or, to use the economists' construct for that system, all markets will be part of the same *Market*. Or, in behavioral terms, all human exchange behaviors are thereby depicted as directly acting and reacting on one another, with all choices proceeding from the same quantitative value-maximizing logic and thus comparable.

Whatever further images one attaches to the concept of value, its logic is that it asserts a codetermining linkage between discrete *Prices* that may not be otherwise plausibly linked. One then constructs a "utility" or "labor-power" narrative to give a degree of empirical clothing to the value concept, but—again—those narratives are secondary and derivative of the methodological functions of the concept within high theory.<sup>8</sup>

Introducing value via this procedure is not without its own cost, however. If we put the best face possible on the matter, the logical situation is as follows: the concepts of value and *Price* are introduced as intervening variables in order to make plausible the claim that actual, empirical prices

are genuine microcosms in the desired sense and obey the desired economic laws.

### The Troubling Status of Value

But one has thereby created a substantial methodological problem to translate between the language of prices and the stipulations of the value subsystem, to translate from prices into values and vice versa. This classic “transformation” problem affects the neoclassical approach no less than the Marxist.<sup>9</sup>

The concreteness of the narratives surrounding the value subsystem imposes a great barrier to clarity in these matters. The imagery of labor or desirability is very powerful, so much so that one has to guard against its covering up fault lines in the analysis. Leaving aside the narratives, then, when one introduces any such term, including *labor-power* and *desirability*, as an intervening variable one has only added a new pronoun to the discussion, not a noun. Because it is an intervening, not an observable, variable its meaning is specified only by the logic/grammar surrounding it. The term has the grammar of a noun but only that, not, as with a noun, its own autonomously given meaning. There is a close analogy here to adding an unbound variable into a set of propositions or an extra (numerical) variable into an equation set. The meaning of the pronoun, unbound variable, or “unknown” is at least partially defined by the context in which it appears; if an expression in  $w$  is added to an existing equation set written only in  $x$ ,  $y$ , and  $z$  we know we’re dealing with a number, and the operators accompanying the expression in  $w$  may tell us a little about what sort of number it is. But more is needed; we need a transformation procedure that reliably identifies the noun, binds the variable, or solves for the number.

It is at least arguable that Marx may have responded to this value/Price/price transformation problem somewhat better than the neo-classicals. I say “may” because two quite different resolutions of the problem can be appended to his work. I am not entirely persuaded, however. Recall that for him value and labor-power are near equivalents. In a passage we’ve cited before, he writes,

The total labor-power of society, which is embodied in the sum total of the values of all commodities produced by that society, counts here as one homogeneous mass of human labor-power, composed though it be of innumerable individual units. Each of these units is the same as any

other, so far as it has the character of the average labor-power of society, and takes effect as such; that is, so far as it requires for producing a commodity no more than is needed on average, no more than is socially necessary. The labor-time socially necessary is that required to produce an article under the normal conditions of production, and with the average degree of skill and intensity prevalent at the time. ([1867] 1967: 46–47)

This passage is open to two interpretations, neither of which is fully adequate but one of which at least indicates a stronger approach. With the “average” labor-power and the “normal” conditions of production, with their “average” degree of skill and intensity, it may be possible to establish an unambiguous value unit. But if he understands that these “averages” and norms are established through the price system he is obviously reasoning in a circle; these are merely elaborate tautologies equating the terms *value* (of labor-power) and *price* (of labor-power).

There is another possibility, namely, that the working of the General Law serves to level and minimize the quantity of commodities consumed by laborers in order to produce labor-power; ergo, value is being depressed to a uniform social—not mathematical—average. This can also be assumed to be leveling socially both the degree of skill and the intensity of work, so that the prices of things and their values are empirically being forced to converge or even coincide.

On the other hand, this leveling is arguably being effected by the workings of the market, hence one is bringing prices into the leveling process itself. Again we’re in a circle. *Value* and price must be defined independently or we’re merely confusing ourselves with disguised synonyms.

The independence of the conceptions of price and value is the key here. Value is introduced as an intervening variable between what and what? Here’s the rub—there aren’t two observed variables bridged by value. There is only price. It is as if one introduced the concept of heat or temperature solely to “explain” the expansion and contraction of metals so that, in effect, *hotter* and *larger* were functioning as synonyms.

One needs one or more other observed variables to move out of the realm of synonyms and tautologies. The fact that under differential heat treatments metals become liquid, change crystal structure, and/or bond or unbind with other metallurgical elements—all of these and more serve to validate the concept of a common, hypothesized heat as central to each phenomenon. But by tying price and value only to one another (I’m ignoring the halfway *Price*) one only replicates the quiddities of the ancients, that people sleep because they have the dormitive faculty or

laugh because they have the risible faculty, and so on, one explanatory variable—a value—for every behavioral category—a price. Methodologically, if one is to introduce the concept of value as an intervening, hypothesized variable in microeconomic analysis then one must have more evidence for it than prices transmuted into *Prices* transmuted into values, all on a one-to-one basis.

The analogy between heat and value suggests what is missing in the value subsystem. As long as the premodern world considered heat—like value—to exhibit an unspecified quantity (“more or less”) not much could be done with it. But with the development of the concept of mass one could postulate a measurable unit of heat. A calorie or British thermal unit (BTU) is defined in terms of raising a unit mass of this or that substance by a fixed amount on a common scale, say, a mercury thermometer. This procedure, by uncovering the different coefficients of expansion of different substances and their differing volatility, fruitfully lent itself to codifying and then expanding our knowledge of how, when, and why, say, heated iron took this or that crystal structure, bonded this way or not with other elements, and exhibited different tensile strengths, hardness, brittleness, density, and other properties. Thus heat, introduced as a simple intervening variable, came with further analytical development to fruitfully connect hosts of observable variables and to that degree validate itself.

Unfortunately, the value subsystem precludes an analogous development of the concept of value. Marx allows that labor may vary by, say, duration and intensity, but the only way in which he relates these two terms is through the price system; that is, two labors of apparently varying duration and intensity are equal when their prices—of their wages or their output—are equal. We’re still in a circle.

One could, in devising a neoclassical, subjective value theory, attempt to conceptually relate some empirical measure of the effort to earn a sum of money with some calculus showing the empirical circumstances under which the same amount would be spent. If a concept of value were employed in this way, whatever its other usefulness it would not be merely a disguised synonym for price. But historically the neoclassical school has been unwilling to confront the ideological and political implications of allowing that differences in the marginal utility of income to different persons within the population might be important (Dobb 1973: 167). As long as it does so, *value*, it may fairly be argued, is being used only as a disguised synonym for *Price*, itself a too well behaved substitute for unruly price. We need to do better than that.

## Reformulating Value Theory

For the remainder of the chapter, I propose to sketch a modified value theory and in the following chapter to analyze some of its features.

I want to argue on behalf of a theory in which greater value is identified solely with the expansion of freely chosen human futures by men and women acting not abstractly but in their own societies. This is not an easy concept to unravel. But the key to that unraveling lies in our conception of a social labor-power in which learning is itself a dominant factor in the self-propelled expansion of its own productive powers.

For a start, this value theory represents a double break from traditional value theorizing. Because the future is always less than fully predictable, in this theory judgments and estimates about value can in principle be only tentative, conditional, and relative, never fixed and/or crystallized, even temporarily. Closely related, value can never be satisfactorily embodied in “things,” although, I would argue, this has been the position of both Marxist and neoclassical analysis.

Marx’s labor-power unit is ultimately measured, and thus represented, by a bundle of commodities, namely, the bundle necessary “under normal conditions” to reproduce the laborer. The imagery is of human effort, but the logic rests in the quantitative aspect of the bundle of things. More subtly, even the “subjective” value theory of the Jevons/Walras micro ultimately measures, and thus embodies, value in things, namely, in the things that are equivalently exchanged. Here the narrative is of human subjectivity, but the logic is a logic of the quantitative aspect of things. Our task here is to develop instead a value theory in which value is located in the condition of people themselves, that is, whether and to what extent they can and do realistically choose a freer future. Such economic choices can never be entirely free of things, but I want to focus instead on people’s learning to evaluate the relationship between the exertions of their own human labor and the effects of such products on their own future. In this value logic, to the precise degree that the relationship between human labor and human usefulness is characterized by expanding social choice there is an increase in value, and not otherwise.

Thus, in the exposition that follows I propose that statements about value should ultimately be understood to be statements about the present or prospective expansion of the freely chosen capabilities of the social labor-power. The leading idea I want to theorize is that value discussions are always about the dynamic processes internal to the social labor-power itself, the products of the social labor-power having value only to the extent, and for the span of time, that they add to the social labor-power’s

present and prospective capacity for more freely chosen futures. In short, to ascribe value to something is always to make an estimate about the future, its truth or falsity is always contingent on that future, and its validity can only be vindicated in that future.

Our modern languages are not particularly adept at characterizing such a slippery, changing phenomenon as this value. As I argued in criticizing Sweezy's commodity theory, they tend instead to excel at classifying phenomena. But their very ability to classify things—fix their relationships—tends to make them less able to characterize qualitative change, especially continuous and conditional qualitative change. The value theory I propose to sketch is a theory about just such continuous, conditional, qualitative change within the social labor-power itself. Thus, the narrative and analytic development of value theory will of necessity take place close to the horizon of linguistic expressibility. We can, however, start with the simplest matters and thereby begin to shed light on value.

First of all, I see no way to avoid introducing value as an intervening variable (or pronoun), as one is using it in part to hypothesize that all, or nearly all, economic activity occurs in the same interactive behavioral medium, here the social labor-power per se. Whether such a hypothesis was plausible in the Victorian capitalism of Marx's or Jevons's time is open to debate; there already existed a world market for some commodities, but, as I argued earlier, that market hardly touched the final consumption behavior even of the English and Western Europeans, much less the rest of the world. At any rate, a universal market for virtually all goods and services is, if not the present reality, surely the present prospect. That there is an emerging system or systems of interactive empirical prices demands some such value hypothesis, but at the same time we have to avoid transmuting prices into *Prices*, that is, imposing greater order on the facts revealed by prices than the facts themselves will bear. Thus, in trying to recast value theory it is important not to overreach or, the same thing in other terms, not to fall back into apriorist methods and findings.

Second, economics and its predecessor, political economy, have their roots in the Enlightenment hope that humankind should increasingly escape the "tyranny of things and of people"; Adam Smith was after all a professor of moral philosophy. Accordingly, the association of value with social and individual well-being has always been close.<sup>10</sup>

Prices may just add up to facts on the ground, but *values* suggests something that is good for people to have more of and implies fairness in their dealings. Even in Marx, there is nothing intrinsically wrong with the pro-

duction of surplus value; he objects to those who hog it. Accordingly, I would like to maintain that association here, namely, that the value pronoun represents that something or other in economic behavior, and ultimately in the social labor-power, that we want more of, not less.

Third, that something or other that is called value has historically been closely linked to the phenomenon of a price system or systems, that is, to those codified social behaviors involved in making and distributing price-denominated goods and services. Here we will keep that linkage but avoid creating value in the image and likeness of *Price*. Looking slightly ahead; if we are to argue that all actual prices in “final” sale/purchase involve a degree of constraint—a kind of extra “cost”—imposed by the producer/seller on the purchaser/consumer, then their value ought to vary inversely with that constraint, that is, to the extent to which there is a lessening of constraint in economic affairs there should be a corresponding increase in value. I’ll follow this lead in a moment.

The program to be worked out here is to equate an increase in value with an increase in the capacities of (some part) of the social labor-power. On that basis value can be derivatively attributed to commodities, services, and quasi services produced in the past and present. One then conceives of the value aspect of the economy as comprising a relation within the social labor-power between its present capacities, the product of its past efforts, and the value of those in or to its own more freely chosen futures.<sup>11</sup>

Within this framework, it seems possible to me to reconstruct a value theory that will provide a useful tool of analysis and will also serve as a humane orientation to the way one should approach theoretical and policy questions regarding economic preference. Both of these aims are, of course, classic aims within the history of value theorizing.

Turning to the actual substance of the theory, we can elucidate it (a) with the aid of the doctrine of price relativity, (b) under the closely related assumption that all value assertions hold only for concrete durations of time, (c) combined with Schumpeter’s famous observations on “creative destruction,” along with (d) Pareto’s concept of the sort of optimum economic situation now named after him. Our common medium of economic activity is of course the social labor-power acting through price-denominated sale/purchase-in-time.

In this theory of price relativity, empirical prices remain key pieces of evidence about the economy. But they are starting points for investigation, not part of the value subsystem. A price can be made to tell us something about its own origin and its relations with other prices, but that deciphering must have an empirical, not merely an apriorist, warrant.

Such price analyses can be *prima facie* verifiable only for specific situations, that is, for definite commodities in definite sale/purchase arrangements for definite durations of time. It is time for economics to stop pretending to be a kind of theology (Hobsbawm 1994: 547–48).

Accordingly, each such price is conceived only as an index of (money) value in relation to other prices, not a measure, as in conventional price theories. As an index it can be hypothesized to represent not a fully determinate past (or “microcosm”) but a number of different scenarios; in other words, if milk today is \$2.79 per gallon at the supermarket, we know or can discover the outlines of its productive and marketing history and can reconstruct different cost scenarios for feed, machinery, rent or interest, other farm costs, transportation and other costs to and from the processor/bottler, the costs imposed by the advertiser and taxes, and the place of milk within the supermarket’s costing, pricing, and profit strategies. In addition, that milk was marketed within a definite environment of consumer demand in that duration and in that place.

Each of these historical prices is itself only an index of other costs, which, because each also lies within a range of indefiniteness, soon go beyond the horizon of our investigative ability. In the same spirit, we don’t imagine that we can see the whole economy at once; all our perspectives are partial ones. I was going to say that empirical prices are like landmarks in a countryside otherwise unfamiliar to us and for which we are trying to provide some useful mapping. But the image of prices as depth markers in an estuary with an irregular bottom and ever-shifting channels does seem more apt.

What this implies is that unless we can show conclusively otherwise, we should theorize that each of the productive and transportation costs of that milk could have been different than they actually were for they, too, are only indices set within their own history. On the other hand, had we a practical or policy question in mind, further investigation of these prices of the component costs of the milk could in principle enable us to draw conclusions as to whether \$2.79 represented a “reasonable” price under “normal” circumstances, had been distorted by special circumstances, and so forth. In other words, it might be possible under close investigation to show how that \$2.79 came about, to determine why it lay in the range it occupied, and to evaluate whether at that price it had more or less value than some other possible price or prices.

Theoretically speaking, here a price is an indicator appearing within definite productive and distributive systems operating in a bounded span of time within a specific environment of constrained consumer demand within the social labor-power. To say that we know or can know more

about that price prior to carrying out an investigation of those systems and that demand environment for that duration of time is to retreat back into price realism.

### Naturally and Socially Imposed Constraints

It is often argued in introductory economics classes that the subject comprises the study of the allocation of scarce resources, with the implication, or at least the hint, that the resources are made scarce by nature itself. But a modern capitalist economy is at least arguably dominated not by natural but by humanly fashioned constraints. After all, Bristol-Meyers has the technical capacity to flood Europe and North America with virtually unlimited quantities of its toothpaste. The supply of toothpaste, like that of mass market beer, aspirin, autos, and most other commodities, is limited by institutional, not Mother Nature's, constraints. The point, then, is to analytically characterize those constraints.

Here, as so often, Schumpeter provides some useful theoretical guidance. In his well-known chapter on "creative destruction" in *Capitalism, Socialism, and Democracy* ([1942] 1962: chap. 7), Schumpeter, rather inadvertently I would imagine, has shown us in what manner all empirical prices are set under the same dominant constraint, namely, the existing property system as expressed in historically established prices of productive assets. His actual argument is that one of the virtues of capitalism is that profit-oriented firms will discard still usable capital equipment if newer, more cost efficient equipment that will lead to greater net returns is available. Extrapolating the effect of this "creative destruction," he argued that over time a capitalist economy would seek out those paths of economic change, marked by cost considerations, that comprise some calculus of least effort/best effect in the present while always remaining state of the art in its choice of productive (and presumably distributive) methods.

This approach is quite congenial to the present effort to reconstruct value theory without the value subsystem. But there are some problems.<sup>12</sup> What Schumpeter has done in fact is to underline the tension in his conception between the historical prices of productive assets and the likelihood that those prices will be validated by their subsequent productive effect. Put more simply, at one pole there is the historical-empirical price of the lathe and its operation, at the other the priced returns likely to be received in a determinate future span of time for the products of its operation. For Schumpeter, *creative destruction* refers to the normal practice of a capitalist economy to weight the decision on whether to scrap or main-

tain the lathe in favor of those future prices and not be bound by the prices paid in the past.

Agreeably to Schumpeter, his analysis is often seized upon to argue the virtues of “market capitalism” or some such equivalent expression over opposing or competitive economic systems because it will always shed unnecessary constraints on growth and efficiency. Any piece of property, in his view, may or will be creatively destroyed if it can be replaced with a more price productive one. Yet in making such a argument we again run afoul of logical/grammatical confusion. Here it is one of those classic cases of the older logic’s Fallacy of Composition, that is, inferring from what is true in the individual case to the whole set of cases. Or—a more professorial image—if one is grading on a curve not every student can do better on the next test.

It does not follow from the notion that “any productive asset” will be creatively destroyed that “all productive assets” will suffer the same fate. As a practical matter and in a capitalist economy such as we have at present, the evaluation of the cost/benefit character of a productive asset is crucially dependent on the rate of interest and the empirical price(s) relationships at the period in time within which the asset is evaluated. We can take up these points in reverse order.

An Indian friend told me not many years ago that in his city they were only then scrapping cotton textile machinery that dated from mid-Victorian times, machinery, in other words, about a century and a quarter old. The equipment had been employed in the United Kingdom until the 1920s and then sent out to India, where it continued in productive use until the middle 1990s, at which point it was creatively destroyed. The price logic of that history is not difficult to decipher. Rising or prohibitively high productive costs in the English Midlands in the 1920s were decreasingly competitive with those of, very possibly, Japan. Thus, perhaps copying the migration of the cotton textile industry out of New England to the U.S. South in the same period, some of the equipment of the British industry went off to India, where, it seems plausible, the very low wages paid there underwrote the continuing use of quite ancient and arguably rather inefficient equipment. So went my friend’s explanation, and there seems to be enough verisimilitude in it to serve as an illustration.

What the story illustrates is that what is destroyed and what is retained does not depend in the first instance on productive prospects per se but on the price relations holding between the old and the new. The continued use of relatively inefficient equipment may be underwritten by particularly low wages or other costs, while the benefits accrued by introducing more efficient equipment may be voided by price collusion between

producers, by patent monopolies, by tariffs (or “Imperial Preference”), or by the fact that the existing equipment happens to be (empirically) priced so low that its money rate of return cannot be outdone by the better, technically more productive, replacement machinery. It is possible, in short, that existing price structures for productive assets may nullify the capitalist preference for new, “better” methods as opposed to old, “inferior,” productive methods, as in my Indian friend’s story.

One can see the bearing of this argument when one tries to maximize the operation of the principle of creative destruction. A whole capitalist economy cannot simultaneously subject every productive asset to its regimen. We can mentally divide productive assets into three categories, those that for historical reasons happen to be underpriced in terms of their profitable returns, those priced within what appears to their contemporaries to be the appropriate range, and those that are relatively overpriced. As long as assets remain within the first category, they will likely not be candidates for creative destruction no matter how crude and backward their technology or even their social and ecological effects. Schumpeter’s analysis only bears on those assets passing or threatening to pass from the second to the third category.

The point is, of course, that the first category will never be empty. An economy based on property has an overriding concern to preserve existing, overall property values, so decisions to creatively destroy this or that asset will always be made in a definite context of existing property values that will determine whether a new productive technique or system will enhance or threaten their net increment. There may be much or little creative destruction, but its upper limits are always fixed by the dominant imperative to maintain the existing system of property values.

This finding gets further bite from the manner in which modern interest rates and money supplies are managed by the several central banks in the advanced countries. As Greider (1987) has shown us so well—or rather reminded us so well—the several rates of interest in a modern economy, along with the money supply, are managed with the precise end in view to preserve existing property values. That very fact, of course, obviates much of the historical theorizing about the complex phenomenon of interest. The various central banks are very pragmatic and do not stand on theoretical ceremony; if one interest rate and its theoretical justification won’t do it, then for that very reason they’ll set another. If one level of money supply fails to do it, they’ll try another. Those actions, in combination with the great variety and ease of ways to pass between liquid and nonliquid assets, place a very permissive threshold on the profit productivity of physical and social assets. Because the interest of the

central banks—another bad pun—is to preserve property values per se, there is a built-in, adjustable tendency in a modern economy to place most productive assets within the first category, that is, to make sure that the tension between historical prices and anticipated returns is not so great as to “creatively” threaten the great bulk of those historically priced productive assets—the existing valuation of property. The form that this lesser tension takes is necessarily higher prices, preemptively slowed economic growth, and the delayed introduction of improved productive methods. These, I would argue contra Schumpeter, are characteristic of any economy that protects so-called property values. Creative destruction is, so to speak, the exception and can’t be the rule.

A modern capitalist economy operates well within that band of tension created by the existence of historical prices for productive and other properties that will have to be validated by future prices even when the future productive setting is or may be radically altered.

Imagine now that we shift our conception of the economy. Before we conceived it to comprise the ensemble of priced productive assets that are the property of someone or other, that is, are de facto sheltered from too much exposure to the storms of creative destruction. Now conceive that the economy is more or less coterminous with the social labor-power and that we want to evaluate prices with respect to the value or values they represent to it. We focus on the degree to which a given price approaches the value of that commodity to the social labor-power or some part of it in that span of time, its value, that is, as simultaneously a freely undertaken input and a freely chosen output. When we imagine that the social labor-power could operate under different, lesser, historical constraints than those introduced into empirical prices by the property system, we can envisage whole menus of different pricing decisions and choices that would be dictated by our perceptions of value. This brings us to Pareto.

In a Pareto optimum, should any economic actor change, say, the way he or she distributes expenditures, that actor will suffer a net decline in economic well-being. Actors are theoretically assumed to exist in an economy of fixed productive assets and in instantaneous time. But such an optimum situation would change if there were different menus of empirical prices. To take a commonplace example, sport utility vehicles (SUVs) in the United States are classified under the regulations of the Environmental Protection Agency (EPA) as light trucks rather than passenger vehicles. Accordingly, they have been given a bye in meeting both air pollution control and road safety standards. Trucks operate under looser standards because presumably the EPA didn’t want to wipe out at a stroke a substantial part of the trucking industry’s capital assets. At any rate, the

bye permits SUVs to be produced and sold more cheaply than if they had to meet passenger vehicle standards. No one, I think, seriously doubts that the SUV exemption is simply a device to help the auto companies and oil firms, in our terms, to protect and enhance their property at others' expense. Obviously, there are or could be devised prioritizing and price-setting modalities here, as in many other areas now tinged by property constraints, in which individuals had at least as much say as they do in the current corporately created "markets," and to each of them corresponds a different Pareto optimum.<sup>13</sup>

Unless our minds are singularly lacking in social invention, it does not seem impossibly difficult to conceive of pricing scenarios in which different projected optima for the development of the social labor-power would weigh more heavily in economic decision making and price setting than those corresponding to the present, or other, property system.

Technically speaking, insofar as we conceive of the economy in real time, true maximizing is out of the question; optimizing is the ticket or, more concretely, people would have to consider different scenarios for the future insofar as they could be precast by today's pricing decisions. We would realistically assume a great deal of uncertainty about the future effect of this or that price or price structure. We would also realistically assume that there would be conflicts within the social labor-power about which no permanent decision or consensus would or could be reached.

Ideally, one would want modalities in which the people who set priorities and make decisions would experience their effects, with that effective feedback operating in real time. To borrow an image from William James, we want the "moral equivalent" of the "free market." We want to be able to confidently expect that there will both social and individual learning curves as experience with the effects, intended and otherwise, of prioritizing and price setting accrues over time. Of course, unlike that free market, we would like to allow more diversity and tolerance in economic priorities.

I have been trying to sketch a situation in which, through the medium of pricing decisions, a modified principle of creative destruction would be tied to time-modified Pareto optima within an economics of price relativism. More directly, I have sketched elements of an economy in which price estimations are tied only to value costs and effects of various assets, independent of all pricing imperatives tied to the preservation of non-productive effects, to a value calculus or calculi and not to property preservation. In practice, of course, no such black and white distinction would likely present itself, but the conception of price relativism doesn't call for that. It calls only for preferencing decisions that are always provisional and subsequently adjustable.

Granted, there would be monumental difficulties in organizing such an economy, and even more in overcoming the present dominance of property. But we have succeeded in defining *value* as that which increases as and to the degree that property constraints are diminished; *value* is identified here with the tension within the social labor-power between more freely chosen economic futures and those imposed by constraints emanating from even the best, most flexible, and most far sighted property system.

Value here still functions as an only partially defined intervening variable. It points ultimately to the gap between our present modes of quasi-constrained sale/purchase and the different menus of choices that could be made as and to the extent that those constraints were lessened. Thus, for each priced transaction at present we conceive that there is a set of different values corresponding to what that price would be or could be in the future if this or that degree or kind of constraint were removed, most notably those constraints directly introduced by property strictures and the social and related constraints that are ancillary to it.<sup>14</sup>

### Value Expanded

Earlier we treated commodities as consisting of complementary quasi services linked to integral services in time. It follows from the previous analysis that commodities have value insofar as they may come to be employed to amplify the capacity of the social labor-power or any element of it. Thus, the value of a commodity is not historically determinate or even a historical given; it is validated only in the future. A commodity, no matter how laboriously produced or avidly desired, has value only to the extent that it will play a role in the future of the social labor-power. Insofar as there are different scenarios in which that commodity, service, or quasi service will so serve the social labor-power, to that same extent does it have values. In that sense, the value of a commodity, service, or quasi service is never ultimately crystallized but always relative to future validations. Value ultimately comes from the ways in which commodities enter the stream of self-development of the social labor-power. Permitting some bad grammar on my part, it can be said that the word *value* is always in the future tense and always in the plural.

Derivatively, we can say that commodities are also value shells and that to each quasi service there corresponds relative value, only estimable in the present but subsequently determinable as and to the extent that it becomes an integral service. The value here is only relative in that it can

and will be validated when and as an integral service ensues. Its value is relative to that process only and carries no necessary implication as to whether it adds, subtracts, or leaves intact the quantum of value in the economy as a whole. I repeat: this use of *value* is only a derivative one.

Seen in those terms, the various stages or phases of the sale/purchase of an auto can be seen as adding (or removing) relative value to (or from) the commodity. I will employ the conception of a value shell for both senses of the variability of value, that is, that value may be added or taken from a commodity and that that value estimation is always only situationally warranted.

In this theoretical formulation the hypothesized relationship among price, actual prices, and value departs from the sort of theory associated with the value subsystem. Here both price and value have a dual utility/disutility logic to them. Both function in time but differently. Price represents the historical pull of past property values (costs) carried into the present and the future and demanding, as it were, to be made good. Value emphasizes the shedding or diminution of that sort of historical constraint in light of a less constrained future. Schematically, prices are in part validated or invalidated backward in time, and I think it apt to keep that implication. But value is most fruitfully thought of as the other, future pole of price, demanding that the worth or utility of a commodity or quasi service eventually depends on how it functions in the present and future. In that sense values are essentially confirmed or unconfirmed in forward time.

The following summarizes the argument about value that has been sketched here and has been developing since our earlier pages. The form under which constraint operates in a modern economy is the actual price system. As described earlier, “final” or consumer consumption occurs modally under different kinds and degrees of constraint, that constraint being significantly a projection through the medium of price of our present system of property, that is, the power of capitalist institutions and their allied political states over those who work and those who consume.

Each sale/purchase state should accordingly be viewed in both price and value terms as comprising (1) costs, monetary and otherwise, to the purchaser/consumer; (2) gains, satisfactions, utilities, and rewards; (3) through time; and (4) within a definite structure of externally imposed constraints. In an actual economy, the various prices for that commodity are all united in that structure of constraints: the price at point of nominal sale; additional prices coming due within the sale/purchase state; the monetary liens on the purchaser/consumer’s labor-power; and the influence of the person’s course, especially through the social identity of

his or her income stream; its size, regularity, and security; and its future prospects. Here the sale/purchase state, as reflected in its several prices, reflects an economy of constraints.

All actual prices are anchored more or less firmly in time past, that is, they reflect the actual or projected costs in commodities, including labor-power, that entered into their production and distribution, and those costs are in part skewed by the property system, that is, a set of preexisting prices that, above and beyond their actual contribution to the creation of new commodities, are weighted toward the one-sided advantage of their owners. In the actual formation of prices, whatever else is true in an economy in which productive assets appear in the form of property, those prices will be pulled by that structure of preexisting property prices. At the same time, changes in productive methods and what is produced also react backward to revalidate or even destroy some of the preexisting property assets and their respective prices. But even this creative destruction occurs within narrow economic limits.<sup>15</sup>

The same breakdown can be given in value terms. The leading idea here is that the value of a commodity is given by the degree to which its production and consumption lead to a net decline in constraints imposed on people as producers-consumers. There is a studied, deliberate “vagueness” in this formulation that several further observations should clarify.

Value is conceived as a quantitative variable, but the means of identifying its quantity in any given context are inferential and indirect and one makes no claim that there is or even could be a unique decision procedure to which to appeal. Technically, value has intensive not extensive quantity (Cohen and Nagel 1934: 293ff.).

A given commodity at a given time has a variable, not a fixed or crystallized value. Its value is not a direct reflection of its price but something conceived to be an index of the complex tensions within its several price scenarios between constraint and freer choice.

Because there is no unilinear path or measure of the amplification of free choice, we can view the evaluation of the value of each commodity as a switching point into different futures and its value can in part be “measured” by that very role, that is, whether it points to futures of less tension between price and value, the same tension, or greater tension.

The relationship between price and value cannot be resolved by theoretical means; it is purely a question of practice. To the extent that one accepts something like the Enlightenment hope for our common human future, one would try at both the personal and social levels to lessen the price-value tension. Insofar as economists accept this narrative and/or are convinced through the scientific spirit that the arguments advanced

herein are worthy of assent, then the object of analysis and policy is to assist in lessening price-value tension, that is, to lessen or even remove those sorts of things, preeminently property claims, that we know from experience arbitrarily constrain the activities of people. There is no menu of removals here; one calls only for a learning curve.<sup>16</sup>

I do not postulate that there exists or could exist a state of affairs in which the value produced by an economy was “maximized” or was being increased at the most “perfect” or “best” rate. Beyond self-deceiving conundrums and tautologies no one can read the future with certainty. Even the best conceived, well-motivated judgments of today may turn out to have a dreadful effect. As important, human beings are shaped in their preferences, knowledge, and moral attitudes by the existing political economy. To the extent that economics has been part of the “moral sciences” in the past and still has not shed that role entirely, the best one can do is do one’s best, always in critical light of the evidence, to lessen price-value tensions. If there is to be a “progress narrative” it will not be mapped from outer intellectual space but laboriously created, step by hesitant step, down in the tangle of confusing events.

Paradoxically, the aggregate quanta of value are not a given in an economy. In the account given here the best one can say is that greater value should be an emergent feature of an economy and the decisions, procedures, and institutions within it.

The theory given here is simultaneously a modified labor theory of value and a modified demand-driven subjective value theory. Value is optimized to the extent that the tension between the two, as represented, say, in the actual prices one receives for one’s freely chosen labor and pays for one’s freely chosen consumption, is decreasing over time.

I want to close this brief presentation of a different value theory by again emphasizing that value questions are practical not theoretical. We would in the general case know that the value being produced and enjoyed in our society was near an optimum to the extent that people, acting under fewer constraints than yesterday, were less inclined to introduce changes—in the pricing system, in what was being produced, how, how much, and so on. There is no imputation here that what was decided today should be maintained tomorrow; perhaps it will even be seen as a mistake and a new start made. To again borrow from the tradition of historic value theorizing, one would like to work to bring about something along the lines of a Pareto optimum but an optimum decided on a somewhat less individualistic and, paradoxically, corporate basis, with no imputation that today’s optimum will be satisfactory tomorrow.