The Labour Theory of Value and Economic Crisis

Klaus Hagendorf
eurodos@gmail.com

December 2008

Orthodox economists deny generally the necessity for a labour theory of value. Relative prices could be explained also without it. Thus they do not only misjudge the fundamental meaning of the labour theory of value for political economy, understood as the science, which investigates the material basis of a society, in particular the conditions of its material reproduction. It is the labour theory of value, which makes the "natural" integration of the members for a society possible on the basis of social equality. The labour theory of value is thus an indispensable basis also for liberal political economy. To the degree, in which the validity of the labour theory of value is reduced, the social integration of humans on the basis of social equality is also impaired. Therefore the right to work is a human right. In the following it is shown that the labour theory of value is also fundamental for the understanding of economics processes and crises.

The validity of the labour theory of value follows from the condition that under perfect competition relative prices correspond to the reciprocal of the marginal productivities of labour

$$\mathbf{p_1/p_2 = \delta L/\delta x_1 \,/\, \delta L/\delta x_2}$$

$\delta L/\delta x_i$ is the correct analytic expression for the labour value of commodity i. That is, $\delta L/\delta x_i$ represents the socially necessary work, which is contained in the commodity i. The discovery of this is due to William Stanley Jevons. However this is generally concealed both by Marxists and orthodox economists [Hagendorf, 2006].

Now to the actual point, the cause of economic crises. It follows from the theory of general equilibrium, that in equilibrium the marginal rate of substitution equals the marginal rate of technical transformation or differently expressed, in equilibrium the ratio of prices corresponds to the ratio of the marginal utilities of two goods and this corresponds again to the ratio of labour values ($\delta L/\delta x1/\delta L/\delta x2$) of these goods [Henderson/Quandt, 1980].

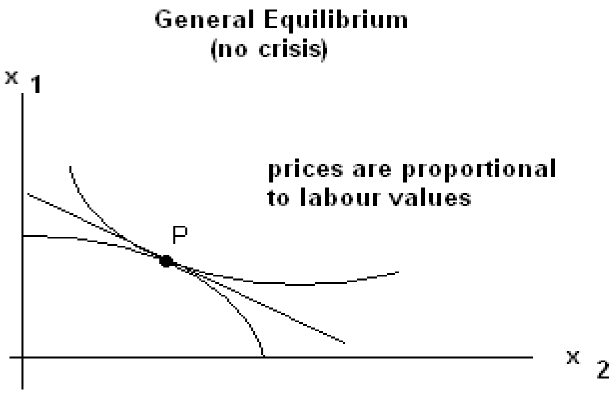

Diagram 1

If this condition is fulfilled, the economy is in an equilibrium situation, which is efficient (without crisis). This can simply be represented graphically (see diagram 1).

One sees in the diagram that the point P is on the production possibility curve. With given resources a maximum output is reached. This point lies also on an indifference curve, which represents the greatest possible utility for this production.

At point P:

$$\mathbf{p_1/p_2 = \delta u/\delta x_1/\delta u/\delta x_2 = \delta L/\delta x_1/\delta L/\delta x_2}$$

This is different in the case of economic crisis. Then we have a situation which lies below the production possibility curve. This can be represented graphically as follows:

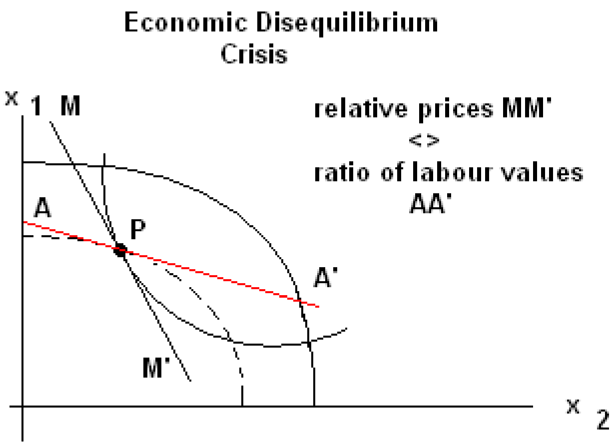

Diagram 2

Here the relationship of the prices does corresponds to the demand conditions, that is to the ratio of marginal utilities, but not to the ratio of labour values.

A substantial cause for this is the existence of monopolies. A monopolist sets his supply price in such a way that his marginal revenue is equal to marginal cost. From this it follows however that his supply price lies above marginal cost, since the supply price is greater than marginal revenue. However, marginal cost (MC) are equal to the labour value multiplied with the wage rate,

$$\mathbf{MC = w\ \delta L/\delta x.}$$

Now to the present world economic crisis. As it became clear to everyone, many prices of natural resources as well as food prices had increased enormously and this was caused in particular by monopolistic structures, and in addition, by incredible speculations and this concerned the entire world economy. It was not possible for the national economic policy agents to control these developments. This led to an enormous redistribution of wealth and to the reduction of the profitability of industry. The present world economic crisis is the result of monopolistic structures, which developed on a global level and which above all are related to the monopolization of natural resources.

This means, we not only need an effective control of the financial sector, but also an internationalization of the control of natural resources and the prevention of speculations around these resources, in particular for food.

As one sees, the correct interpretation of the labour theory of value plays a crucial role in the understanding of economic processes. In fact, the divergence between relative prices and the ratio of labour values could be regarded as the definition of economic crisis properly.

Reading the introduction of Keynes “General Theory” [Keynes, 1936], one finds suggestions that Keynes had exactly this kind of analysis in mind. However he did not want to bring forward a theory which is based on the labour theory of value as this would lead inevitably to socialism.

Université Paris X - Nanterre, 5.12.2008

Klaus Hagendorf

Bibliography

Hagendorf, Klaus
A note on Ronald Meek's 'Studies into the Labour Theory of Value'
Paris: Eurodos; 2006. . http://mpra.ub.uni-muenchen.de/11759/

Hagendorf, Klaus
The Labour Theory of Value: A Marginal Analysis
Paris: Eurodos; 2008. http://mpra.ub.uni-muenchen.de/10202/

Hagendorf, Klaus
The Labour Theory of Value: A historical logical Analysis.
Paris: Eurodos; 2008. A lecture text, http://eurodos.chez-alice.fr/docu/econ/hagendorf_labour_theory_of_value_42008.pdf

Henderson/Quandt,
Microeconomic Theory: A Mathematical Approach. James M. Henderson; E. Quandt. 3rd edition. New York: McGraw Hill; 1980.

Keynes, John Maynard
The general Theory OF Employment, Interest and Money.
London: Macmillan; 1936.