

# 1 DYNAMIC VALUE AND NATURAL PRICE

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The purpose of this paper is to liberate the concept of natural price from the grip of price of production theory.

The theoretical background involves a rejection of I. I. Rubin's catena of labor-value-price. The second link, value-price was challenged long ago in Eldred and Hanlon's 1981 article 'Reconstructing Value-Form Analysis' (Capital and Class 13). Rubin argued that in the process of exchange sometimes very unequal quantities of labor are socially equalized" (Rubin Essays p.154). Eldred and Hanlon argue that "fluctuations in price are to be regarded as fluctuations in the commodity's magnitude of value" (p. 39). This paper has been a thorn in my side for many years. Belatedly, I have realized it is more than half right. Of course, the fluctuation in nominal money price might be due to a fluctuation in the value of money and not a fluctuation in the value of the produced commodity but, in the context, this is a mere quibble. However, having capitulated, I am going to mount a resistance and defend the idea that, in some sense, value is immune from market fluctuation. As Aristotle often said: in one way it is and in another way it isn't.

Rubin's first link must also be rejected. Rubin denies the identity of labor and value. Here it is asserted. I speak of embodied labor value, labor-power value, money labor value and even value creating labor activity. The philosophical idea behind this is Aristotle's focal meaning, *pros hen legomena*. Metaphysics GAMMA 2 1003a33:

*\_To de on legetai men pollarchos, alla pros hen kai mian tina phusin kai ouch homonymos\_* (that which *is* may be so called in several ways, but with reference to one thing, i.e. one particular nature, not homonymously) Labor is said to be in many ways but with *reference* to one thing, the focal meaning of labor as activity.

Background reading: 'Unity, Identity, and Explanation in Aristotle's Metaphysics' (Scaltsas, Charles and Gill eds) OUP 1994. Especially the four articles on the potential and the actual.

The big danger in talking about a potential something-or-other is blundering into having potential potentials. Then it is but a short step to potential potential potentials and infinite regress. I am going to sail very close to the wind on this.

Aristotle holds that actuality is prior to potentiality in formula (*\_logos\_*) and substance (*\_ousia\_*) (Metaphysics THETA 8 1049b10). For the present purpose this means we define a potential in terms of its actuality. The actualities I shall be concerned with are (1) the activity (*\_energeia\_*) of value creation and (2) the recognition (*\_entelecheia\_*) of value by money. The potential for value creation is labour-power. This is a potential for activity, an A-potential. The potential for recognition or R-potential applies to both labor-power (potential labor-power value) and its activity, value creating labor (potential value creating labor).

Thus recognized labor-power value is an A-potential and has a R-potential. Recognized value creating labor activity has both an A-potential and an R-potential.

I associate these R-potentials with natural wages and natural prices (or, more accurately, natural price markups). These natural wages and prices are not sums of money. In a simple reproduction model money prices and wages would be equal to natural prices and wages but natural prices and wages come under intrinsic value. A natural price markup is a property of an individual valorization process. A natural wage is a property of an individual producer commodity (an producer

commodity is individuated by skill—so all plumbers would come under one individual producer commodity).

Adam Smith distinguishes between natural and market prices and wages. I am dropping his ideas of natural rates of profit and rent. Market prices fluctuate and at any one time are dispersed about natural prices. To measure the natural price markup we use wage data. We use real wages—the average hourly real wage is equal to 1. Then we recalculate each firm's wage bill using not the actual wage paid to each worker, but the economy-wide average wage paid for each type of skill. Since these economy-wide averages will be statistically independent, the recalculated real wage bill will be immunized against market noise. The greater the number of different skills used by the firm the better this works. This recalculated real wage bill is an estimate of the natural price markup, the R-potential for value creating labor activity.

The natural wage is a bit more complicated. We use price data. We need to do a least squares fit: minimize with respect to  $x$  the square of  $(y - Mx)$

where  $x$  is a vector of hourly natural real wage rates,  $y$  is a vector of recognized labor activity, measured by money, expressed in hours and  $M$  is a matrix. The element  $M(f,t)$  gives the hours worked in firm  $f$  by workers of skill type  $t$ . We need to have the number of firms much greater than the number of skill types to get good immunization.

The potential price markups should be equal to wage bills recalculated at natural wage rates.