

# Why Labor Power Is Not a Commodity and the Actual Determination of Wages

## 1. Introduction

Capitalism looks very different from a working-class perspective than it does from a capitalist perspective. The facts are not in dispute., The conclusions that are drawn from these facts by workers and capitalists are however very different. From a capitalist perspective, there is no alternative to the current structure of social relations. From a working-class perspective, capitalism is a system that *can* be changed by the actions of the members of that society. What is needed then is to understand the facts, the decisions that are in fact made by the members of the capitalist society within which we live, and why people make those decisions. This then makes it possible to consider *other* decisions that could indeed result in a change in the structure of social relations, namely an end to capitalism as a mode of production.

Marx focused his attention on the relationship between wages laborers and the capitalists who employed them in the production of commodities. What he sought to do was to derive from this an account of the relationship between the capitalist *class* and the working *class*, i.e., the members of those classes. The account that he presented was, however, *incomplete*, because it recognized only the activity of the working class that, in the capitalist mode of production, took the form of wage labor. Theoretical recognition of this other activity by both mainstream and Marxist economists, was an achievement of the second-wave feminists movement that began in the last third of the 20th century mainly in countries of the Global North. Economists accordingly recognised the existence of what came to be termed “household production” that took place *in addition to* what they had previously termed “production.” Economists whose theoretical understanding of capitalism was built on the achievements of Marx and others, would find that recognition of the fact that this household activity existed necessitated a fundamental change in their account of the relationship between wage laborers and their capitalist employers, in particular in an account of the determination of wages, and hence the actual rate of exploitation of the working class.

In what follows, that relationship will be explored first from the perspective of the capitalist class. This will be followed by Marx’s account, in *Capital*, of this relationship and his theoretical understanding of capitalism as a process of capital accumulation. This account will be seen to be incomplete *because* it excluded from consideration the *fact* that household activity existed. Failure to recognize this led Marx to develop the concept of labor power as a commodity for use in his account of capitalist exploitation. His account was thus constructed on the basis of an *assumption* that workers in the capitalist mode of production were totally separated from the means of production. This was followed by an *assertion* that this “separation” had actually taken place. Recognition that this is simply untrue then sets the stage for a different account of capitalist exploitation including the determinant of wages. A final

section will explore the role of unemployment that follows from this new account, in place of that based on the concept of labor power as a commodity.

## 2. Production and Labor Power

Capitalists say that they are “in business to make money.” Their account of production is thus an account of this. Corporate accounts accordingly list all of the receipts and expenditures that have taken place during a specified time period, such as a year, with the difference between them constituting their bottom line, namely profits. The process for them is one which begins with the purchase of means of production—raw materials, machinery, buildings etc, as well as the purchase of what they term labor, but which can usefully be described as Marx did, as labor power. Thus a description of the production of a garment factory, for example, lists how many yards of cloth were purchased, how many sewing machines were purchased, how many kilowatts of electricity it were used, along with a list of how many people were employed in the various tasks such as cutting cloth, operating sewing machines etc. The corporate accounts provide this information in monetary form, based on the price per yard of cloth, the price per kilowatt of electricity, and the “price” per day, or per hour, of the cloth-cutters, the sewing machine operators, etc. . The items thus purchased are then “combined” in the process of production in such a way as to minimize the total cost per garment produced, based on the information the capitalist has on the cost of each item. They are substitutable for each other. *Power*, for example, can be provided in the form of electricity, or solar power, or horsepower, or *manpower*. They are all, in the language of economics, commodities. If the price of “machines” goes down, they may be substituted for workers. Cashiers in a supermarket do not need to count money in their tills at the end of the day if all purchases are made by credit cards. Corporations accordingly provide accounts of the quantities and prices of each of the items that they purchase. *Wages are, from the perspective of the capitalists, labor power is a commodity. From the perspective of the laboring class, wage labor is one form of activity,*

Accepting this capitalist perspective, this characterization of labor power as commodity is, unfortunately, at the very center of theoretical work of the vast majority of contemporary Marxist economists. An account of the process of capitalist production thus begins with money (M) that is used to purchase commodities (C), *including labor power as a commodity*. What follows next is production (P) of a new set of commodities (C') that are then sold for money (M'). Capitalist profits then consist of the difference between M' and M. This is not, however, in fact, a description of the actual process of capitalist production.

This is because the process of production is one in which the agreement between capitalists and employers takes place *before* the production, while the payment of wages takes place only *after* wage laborers have carried out their work. This same mistake was made by Marx when he described the making of this agreement as the actual exchange of money for labor power as a commodity. s. This takes place, he theorized, within “the sphere of circulation” and within this sphere there is no exploitation - like is exchanged for like and workers receive *in full* the value of the commodity that they sell, namely labor power. Having

argued this, Marx invited the reader to follow him into the sphere of *production*, the capitalist workplace in which workers create value that is greater than the value incorporated in the wages that they have received. This is then his account of exploitation,

The problem with this account is that no exchange took place when the agreement between the capitalists and workers was made. No money changed hands at the time when what could be described as this contract was signed. The payment of wages took place only *after* the workers had completed the hours of labor to which they had agreed. If, after signing this contract they did not show up for work in the days, they would not be paid. There were thus two components to this “contract.” One was indeed the sum that the workers would receive, and the other was *the hours of work* that they agreed to carry out under the direction of their employers.

By describing the interaction between employers and wage laborers as the sale of labor power as a commodity, Marx failed to distinguish between labor power, the ability to create value, and the actual activity of laboring. The wages that are paid must be understood as the product of the hours worked and the hourly wage rate. A 40-hour work week for which the workers are paid \$400 can be understood as 40 hours of work at \$10 an hour. The “contract” that workers and capitalists agree on specifies both the hours that would be worked and the hourly wage rate.

The question that Marx asked was then how that \$400 provided the workers with what was necessary for their reproduction. The question that needs to be asked instead is what determines *both* the hours of work *and* the hourly wage rate, what determines the share of the time of the working class that takes the form of the labor that produces surplus value, and what ensures that the working class is indeed reproduced.

Before moving on, it is important to note that this is how capitalists' accounts end. Nobody criticizes their accountants for excluding the household production that wage laborers carry out after they have left the capitalist workplace. Individual capitalists neither know nor care about this. For them, production consists of commodity production, or, to be more precise, of production that provides them with profits. They are indeed “in business to make money.” These same accounts are aggregated into a system of National Income and Product Accounts (NIPAs) and provide a measure of what capitalists see as total production, namely Gross Domestic Product (GDP). The omission of household production from these takes place through *defining* the commodities purchased by households as “final products,” i.e. products that do not serve as inputs into any further production process. In these, what is termed “investment” corresponds to what Marxists term the accumulation of capital.

Economic theory, as taught in the school, colleges, and universities of the capitalist world consists of a microeconomics, (the production and exchange of commodities) and macroeconomics the interactions at an aggregate level that may or may not result in the full employment of all of the resources used in capitalist production (including labor). As such it represents an account of society *from the perspective of capitalists*. Within this, workers exist only as the providers of “labor power.” It then *appears* to both capitalists and wage laborers that wage laborers are being paid for their labor. Workers might wish that their wages were higher, and capitalists would prefer them to be lower, but there seems to be *no alternative* to a world in which this is just how production takes place.

What Marx set out to do was to show that capitalism is, like all class societies, one in which a non-laboring ruling class extracts surplus labor from a laboring class for its own use. . What he showed, in *Capital*, was that in a capitalist society, the dominant form of extraction of surplus labor was as surplus value. It consisted of the difference between the value created by wage laborers employed by capitalists in the form of commodities and the portion of that value that was returned to them in the form of wages. The use to which this surplus labor is put is for the accumulation of capital, a process necessitated by competition between capitalists in this process of commodity production. Thus just as workers have no choice if they want to live but to engage in wage labor, so capitalists have no choice but to use surplus value for accumulation. To fail to do so results in the “death” of capital, namely bankruptcy.

The fundamental principle in this account lies in what can be termed the “labor theory of value,” not as a means of determining the relative prices of commodities but as a way of understanding human activity. It consists of recognition of the fact that society consists of *people* and that people have, among their many abilities, that of being able to create value. Thus people have what Marx termed “labor power.”

We mean by labour-power, or labour capacity, the aggregate of those mental and physical capabilities existing in the physical form, the living personality, of a human being, capabilities which he sets in motion whenever he produces a use-value of any kind (1976: 270).

Commodities are use-values that also have exchange value, that can be exchanged for other commodities or for money. Capitalists, *as capitalists*, care only for money, and for them workers are only the providers of labor power. An account of capitalist society must then be one that goes beneath this appearance to make *apparent* the *fact* that human beings are more than this, that they are able to laugh, to love, to appreciate beauty, to develop an understanding of the material world. What they choose to *do* with these capabilities is then up to them.

This is what Marx was able to explain in *Capital*, and it is in recognition of his role in the development of this understanding that many contemporary opponents of capitalism describe themselves as “Marxist.” His ideas, however, can best be seen as having developed from the activity of others, and in particular that of wage laborers, and thus as representing their perspective of the working class. Recognition of household production provides the opportunity to develop a perspective that incorporates the perspective of those whose activity does not consist primarily of wage labor. This does, it should be noted, include the perspective of women who are members of the capitalist class.

But a “Marxist” reading of capitalist production does not require debate over the meaning of the term “production” or the concept of “value.” It requires only a factual account of the process that does indeed have as its outcome both the reproduction of the working class and the accumulation of capital. It begins with the recognition of the *fact* that *capitalists do not pay workers for their labor, or their labor power*.

The process of production does indeed begin with the capitalist purchase of labor-produced commodities as means of production, if they do not already own them. A pre-capitalist “improving landlords” might, for example, choose to use the field that they own for use in commodity production. But however acquired, capitalists can be seen as having begun

the process of production with ownership of the means of production necessary for the production of other commodities *by the workers they employed to do so*. Money does not turn into more money.

It is not, in fact, controversial, to recognize the need to continue an account of capitalist production with an account of the use that is made of the money realized from the sale of the commodities that are produced. It is used for the replacement of the means of production that were used up in the course of production including not only raw materials but the machinery that is more gradually used up. They are not necessarily identical in form to those used up be different, and there is always the possibility that capitalists will simply hold onto the *money* for later use. After production has taken place, and workers are paid the wages that have been agreed upon, the capitalists are now in possession of more money than before. What marks them “capitalists” is the fact that this surplus value is used for the purchase of additional means of production, for the accumulation of capital..

It differs then from the process of exploitation that characterized all previous modes of production, in which surplus labor is extracted by a ruling class. This surplus labor can be used, for example for warfare, which is clearly not a process of *production*. It can be used for the direct consumption of members of the ruling class. Surplus labor can take the form of the products of laboring class households either in kind, or, increasingly over time, in monetary form, where it may be termed “rent.” It can also be extracted from those employed within ruling-class households, where the servants provide not only for their own maintenance but for that of members of the ruling class. It is not accurate to say that they are “provided with room and board,” since it is they themselves who carry out all of the production of those households.

Thus neither as servants nor as wage laborers are workers actually *paid* by those who employ them. At no time do their employers transfer to them a portion of what they themselves own, as takes place when they engage in a process of commodity exchange. What workers in class societies receive when they are employed is a portion of what they themselves have produced. *Workers are not paid for their labor.*

Thus while the payment of wage has the *appearance* of payment for labor (or labor power) as a commodity, the relationship between capitalist employers and wage laborers is not a process of exchange.

### **3. The Determination of wages**

Having recognized the role of *labor power* in capitalist production and characterized it as a commodity, Marx set out, in *Capital*, to provide an account of the determination of the price of this commodity. He began his account by recognizing the fact that wage laborers engaged in wage labor because they need wages to live. In this account, he made the *assumption* that workers were totally separated from the means of production and were therefore unable to engage in any production other than as wage laborers. The agreement that they made with capitalists was therefore to provide them with all of their “labor power.” If this were indeed the case, if workers were indeed totally separated from the means of production,

the wages that they received, or, to be more accurate, the labor embodied in those wages, must be sufficient to provide them *all* that was needed for their reproduction.

The agreement made between wage laborer and capitalist was thus seen as one in which capitalists acquired control of *all* of the workers' labor power, and the wage-laboring class was reproduced entirely through its consumption of the commodities purchased with the wages they received. Those "trained" as economists, saw an *analogy* between this and the process of exchange between the owners of two commodities. In such a process the money paid to the producer of a commodity can be understood as equivalent in value to the labor embodied in that commodity. If labor power is seen to be a commodity, the wage could be seen as its price.

If, in addition, it is assumed that the working class is indeed reproduced over time, this could be seen as evidence that the wages that were paid were indeed what was necessary for this reproduction to take place.

The *theory* that the wages that capitalist paid those they constituted what was necessary for their reproduction was derived from two assumptions. One was that workers are totally separated from the means of production, while the other was that the wages that were paid did indeed constitute what was necessary for their reproduction. This does not constitute a theory of wage determination. It is instead only an extrapolation of an account of a hypothetical society that is derived from these two assumptions.

In fact, as is now recognised, workers are *not* totally separated from the means of production. Recognition of the existence of household production has required Marxist economists to modify the assumption that workers are *totally* separated from the means of production. Instead Marxist economists now theorise that wages constitute what is necessary to *supplement* household production. Only a portion of their time takes the form of wage labor, and only a portion of the labor necessary for their reproduction of the working class takes the form of that embodied in the commodities purchased with the wage. The task is then to provide an answer to the question of what determines these *two* proportions. If in addition, the assumption that wages indeed constitute exactly what is needed for their reproduction, it becomes possible to explore the fairly new "problem" of a declining population in increasing numbers of countries— evidence that wages are *not* sufficient to ensure the generational reproduction of the working class.

The question of how *much* wage labor needs to be carried out by a working class household is very different from the question of who, *within* that household, should carry it out. Recognition of this makes it easier to understand that there are the two components in the agreement between wage laborers and capitalists. One is the *quantity* of wage labor, in hours per week, for example, that will be provided by workers to their employers, and the other is the wage that will be paid for each such hour. The agreement, the contract, to which wage laborers and capitalist agree, specifies both the *quantity*, in hours, that workers will provide and what therefore can be *seen* as an hourly *wage rate*.

It is not customary to think of working-class households as reaching decisions on the total quantity of hours of wage labor that their members will carry out. The actual total is the outcome of many different decisions that necessarily involve relations of both gender and age. They include decisions on the age at which children "start work," i.e. substitute wage labor for household or other activity, such as formal education. They include a decision on the age of retirement, namely the age at which they cease to engage in wage labor. They include the

decision as to how soon, after the birth of a child, a new mother must “go back to work.” And of course many people work “two jobs.” Insofar as overtime work is voluntary, a decision has to be made as to whether or not it is “worth doing.” The last of these mostly clearly illustrates the fact that the decision of working class households on the total hours of their wage labor is one that consists of *the substitution of wage labor, whoever carries it out, for household activity.*

That is not how it appears. Instead employment seems to be an either/or decision. Either people have jobs or they don't. But this is because capitalist production typically requires that those they employ start and finish work at the same time. So individual workers must agree when they take a job, that they will, for example, work 5 days a week from 9 a.m. to 5 p.m. They do not have the option of working from 9 a.m. to 2 p.m. (Marx misread the development of laws that restricted the day of a wage-laborer to 12 or 10 hours. These did not and *could* not limit the total combined hours of wage labor by a working class household. Instead they prohibited *capitalists* from requiring *as a condition of employment* that workers agree to work more than that specified number of hours.)

The decision then on the number of hours of wage labor will provide can be seen then depend on the hourly wage that they are offered. It must be sufficient to make it *worthwhile* for the workers to give up those hours of work for the use of that time in household activity. Is it *worth* their while to engage in this wage labor? In the language of neoclassical economists, they must mean that they must *value* those hours of household activity that they give up as less than the wages that they would receive from using their time for this wage labor. For workers, the appropriate language that they use is not be quantitative. Instead, decision are made on the basis of what is seen to be “more important”—additional *money*, or time spent either alone or with friends, in activities that are seen to be what makes life worth living. But regardless of their individual “preferences” or “values,” the decisions that they make must be such as to ensure that they are able to *live*, to ensure their physical survival, the provision of the resources necessary for their maintenance and generational reproduction and, as capitalism has developed, these increasingly take the form of commodities..

To understand the decisions that workers do in fact make requires recognition of the fact that those who become the wage laborers of the new capitalist employers were already members of an exploited laboring class. The full-time activity of all household members of that class, after the necessary submission of supply labor to the ruling class, was then only sufficient to provide for their reproduction. The hours of wage labor would therefore have to be taken out of either the hours that had been used in provision of surplus labor to the ruling class or in the activities that provided for their own reproduction.

It is important to note therefore the continuous increase in the proportion of surplus labor that is extracted in the form of surplus value. Non-capitalist commodity production continues to constitute a large proportion of the activity of laboring households particularly in countries of the Global South, and surplus labor is extracted from them in the form of rent and interest. The decline in the prices of these commodities due to competition from capitalist producers requires the substitution of wage labor for such production. Surplus labor is also extracted from the households of those engaged in the production of use values, most importantly in the form of rent or mortgage interest payments for the use of their *houses* as means of production.

#### 4. Wage Differentials

The observable differences between the wages paid to different workers within and between different societies can now be understood as due primarily to differences in their household circumstances rather than to differences in their “productivity” as workers, namely the value that they produce. The wages needed to “supplement” household production depend on what those households are able to reproduce.

The hourly wage rate that is needed to induce a worker in a poor household to substitute wage labor for household activity is less than that needed by a worker in a more affluent household. A multinational corporation with a factory in a country in which workers are fairly well-off, set operate an identical factory in a country where workers are desperately poor and pay them hourly wages that are a fraction of what it pays workers who are already better off. The difference in wages has *nothing* to do with the differences in the labor they carry out. It was, for example, the inability of those who were emancipated from slavery in the US to obtain “fifty acres and a mule” that necessitated their employment and exploitation by their former owners.

The fact that some workers are willing to work for less than others does not lead capitalists to substitute them for those who are paid more, but instead to employ them *in addition* to those already employed. There are problems for capitalists if those who are working side by side are paid different wages. The “solution” is to allocate them to different tasks, i.e. to segregate them not on the basis of their abilities, but on the basis of those wage differentials, which can then appear to be based on the characteristics of those tasks.

#### 5. Unemployment

The characterization of labor power as a commodity leads to a belief that it is the “reserve army of the unemployed” that is responsible for lowering wages. This fuels the antagonism of workers to those whom they see as “competitors” in this “labor market.” This plays a significant role today in the growing antagonism of the residents of a country to immigrants, driven from their own countries by poverty, war, and climate change. The idea that wages are determined by “supply and demand” in “the labor market” provides support to this perception. This belief also directs attention away from the very real role that unemployment plays in capitalist exploitation.

The concept of “the labor market” is fueled by the way in which data on “the state of the economy” is reported with particular attention on the rate of unemployment. In fact, in *any* system of commodity production, changes in either the composition or the technology of production required changes in the allocation of resources. This takes time. It is not only workers who are unemployed, it is also the means of production. An office building can be converted into condominiums but until this has been completed the owner of that building cannot collect rent. A worker in a failing shopping mall can find employment processing data for Amazon, but the transition is not necessarily a smooth one. In the United States the Federal

Reserve collects data from businesses on what it terms “the rate of capacity utilization” but this is very difficult to measure when compared to the data collected from households on their employment or lack of it. Both capitalists *and* workers who regret that period of inactivity. It is simply not true that capitalists *want* workers to be unemployed.

What capitalists do want is the ability to lay off or fire workers not only when their labor is not needed, but as a way of disciplining the workforce as a whole. The *threat* of unemployment is essential to this.

Those who are unemployed are said to have “time on their hands.” But the use of this time cannot compensate for the money that they had earned as wage laborers. It was precisely *because* the quantity of wage labor that was taken on to substitute for household activity was seen as *necessary*, that makes the loss of employment so serious. The increase in wage labor takes place gradually, not quite one hour at a time, and is not always easy to notice. The loss of a job however constitutes a *huge* decrease in the total production of the household. For those who live paycheck to paycheck this is serious. That job was necessary, *as they themselves see it*.

This provides the basis for an understanding of the distinction that is drawn by Marxist theorists between *necessary* labor and surplus labor. What constitutes “necessity” varies between people and over time. It also varies *within* working-class households. What Marxist theory provides is an account of the basis for unity within the working class, based on the agreement that *surplus* labor constitutes *exploitation*.

## 6. Conclusion

Capitalist society can be understood, as Marx presented it in *Capital*, as a system of commodity production in which surplus labor is accumulated as capital. Recognition of the existence of household production requires major changes in an account of this process. Marx’s concept of labor power and its use by contemporary theorists constitutes an obstacle to this.

Wages constitute a portion of the labor that is indeed necessary for the reproduction of the working class, as seen by the members of that class and revealed in the decisions that its members make on the allocation of time to wage labor,

The struggle against capitalism is thus a struggle against exploitation. ton, It is a struggle against a system in which an ever-increasing proportion of our time is used for the accumulation of capital *instead* of for the development and use of all human capabilities, including, but far from limited to the ability to create value.

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