WHEN IT COMES TO DISTINGUISHING GOODS PRODUCING WORKERS FROM SERVICE WORKERS THE DIFFERENCE IN THE USE VALUES THEY PRODUCE IS IMMATERIAL, literally.

A recent post on Michael Roberts blog resulted in over 50 comments. It is always the case on his blog that issues of theory result in the most comments. Sometimes these comments add to our knowledge, often they subtract from it. Confusion over what constitutes a commodity has been a vexing issue.

In my opinion Marx originally intended to begin Das Kapital with money, but as we read in the Grundrisse, he recognizes that money itself needs to be explained as it has its origin in the commodity. Thus at the end of the Grundrisse which forms the starting point of Das Kapital, these key sentences are found in the short chapter on Value: "*The first category in which bourgeois wealth presents itself is that of the commodity. The commodity itself appears as unity of two aspects. It is use value, i.e. object of the satisfaction of any system whatever of human needs." "Appropriation through sale is the fundamental form of the social system of production, of which exchange value appears as the simplest, most abstract expression. The use value of the commodity is presupposed, not for its owner, but rather for the society generally*." (Page 881, Penguin edition)

These words are in turn repeated in the opening paragraph of Das Kapital Volume 1: "*The wealth of those societies in which the capitalist mode of production prevails, presents itself as 'an immense accumulation of commodities,' its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity.* There has been some recent argument about the English translation of this sentence, but that controversy is once again immaterial. The importance lies in this. Gross Domestic Product and National Income both measure or should measure the annual production of commodities within the national economy and the income or better still the revenue that results from the sale of these commodities within the annual.

I use the word 'should measure' because this does not always happen. To understand why, we first need to recognise how a commodity is produced and how the value generated during its production is realised through its sale. A commodity is a use value produced for exchange. In short it is the result of private production for social consumption, a conversion from the private to the social made possible by the medium of money. The use value does not alter this relation. A Rolex watch is as much a commodity as a barrel of oil. The fact that capitalist commentators limit the term commodity to the mass produced mundane is merely an expression of their crudeness (literally).

Thus the use value of a commodity does not distinguish anything. So let us get this aspect of the commodity out of the way. In the information age the issue of immaterial use values has gained prominence. But it has been around from the birth of the commodity in the form of say singing for a paying audience. Here the sound of the singer travels at 343 metres a second reaching the ear of the audience in a split second and once having excited the ear drum those notes are lost forever.

But there has been something else which propagates a thousand times faster and which gave rise to the information age, and moreover which has been around for over a century - electricity. The shocking truth is that electricity is itself immaterial in so far as it is consumed the moment it is produced. Turn a light switch on and the electricity used has been produced a nanosecond earlier and is now lost from the circuit. This is likely to be the reason that Western statistical bureaus categorise *Utilities* under the heading Service

Sector. (Many countries including China include it in the Goods Sector.) It will be interesting to see, once scientists and engineers conquer the chemical or battery storage of electricity, so it is not consumed instantaneously but stored, whether statistical bureaus will reclassify Utilities as something tangible therefore belonging to the goods producing sector.

There is one common quality to all immaterial use values: their up-front preparatory costs of production will always exceed the up-front costs found in the production of material use values whose costs are mainly found in their production. This applies to the singer as much as to Alphabet. The many hours rehearsing the songs and perfecting it, this hidden behind-the-scenes earlier expenditure of labour, is just as necessary to the performance as the actual delivery of the song itself. In the case of software and internet companies, the Research and Development costs need to prepare their use values is exorbitant and can cost up to 50% of their operating profits. This is much, much higher than in say an automobile producer whose R&D is far lower. I have pointed this out in earlier articles. Thus the up-front rehearsal costs of a singer or an orchestra is no different to the development costs needed to produce an internet use value, but the scale of these hidden costs are never recognised by those who worship the immaterial.

Having thus set aside use values, what constitutes a commodity. A commodity is a use value financed by capital produced for sale seeking a profit. Only when sold does the private labour used to produce it become social through being monetized. In other words, a market economy can be defined as one wherein the labour of the individual only becomes part of the labour of society indirectly and belatedly, through having to be exchanged first. In such an economy the labour of the individual producer or private producer necessarily takes the form of a commodity.

So far so good. Does the System of National Accounts measure the production of commodities accurately? Although based on the methodology prepared by Marx in Volume 2 of Das Kapital and transferred to the West via two Russian emigres – Kuznets and Leontief – errors abound. GDP and National Income should be equal to prices realised through the sale of commodities for final consumption. In other words GDP should record the value of commodities produced in a given period. This does not always happen, and I will explain why shortly.

Suffice to say at this point, the GDP and National Income overstates the value of the commodities produced in a calendar year based on their final sales prices. On the other hand, GDP and National Income under-estimates the actual physical labour expended by society based on the labour needed to not only produce commodities but to support the metabolism of capitalism without which commodities could not be produced nor circulated. Here we consider functional unproductive workers where their surplus labour is never accounted for, and we consider domestic labour where no labour is identified at all. As Marx said: domestic labour is produced free, gratis, for the capitalist class.

And domestic labour consumes a large portion of the necessary labour expended. "*According to the Organisation for Economic Co-Operation and Development, men in the United States spend 150.2 minutes a day — about 17.5 hours a week — doing unpaid labor. Women spend 243.2 minutes doing unpaid labor each day — about 28.4 hours a week. When you add both paid and unpaid work together, women still work longer hours.*" Averaging this out, domestic labour adds up to roughly half the hours expended working in paid employment. This is a considerable amount, one which has the benefit to capital of reducing the wage threshold needed to maintain workers and their families. Clearly domestic labour is not commodified and therefore cannot affect GDP.

Turning back to the commodity, we can best identify its private and social qualities via Marx's immortal presentation of the circuit of money capital: M.C…P..C^{+}…M^{+} This circuit can in turn be divided into three stages. The first is the conversion of the social into the private or (M.C.) Here money, being **social** is used to purchase the factors of production from the rest of society including the working class which then enters **private*** production. (P) represents the period of private production. This is followed by the proceeds of this private production being reconverted into the **social** by means of sale or (C^{+}..M^{+}) where the $^{+}$ represents the surplus or profit. (*No matter how big a company, they are still run privately walled off by competition.)

In so far as the national bureaus of statistics equates GDP to the value of commodities produced and sold, they are in fact measuring the wealth of society as Marx pointed out in his opening sentence to Chapter 1 of Das Kapital. Without a doubt, the higher the GDP per capita when measured by a common currency, the wealthier that society will be, and given a common rate of exploitation, the wealthier that capitalist class will be.

Thus the argument about the nature of use value is irrelevant. The real quest is to explain the journey of the commodity as it moves from the social to the private and back to the social. Everything else to be blunt, is inconsequential in terms of understanding how capitalism works.

There is only one circuit of money capital and therefore of the commodity, and that is M.C…P...C^{+}..M^{+} This does not preclude deficient circuits which unfortunately statisticians mistake for the real thing, thereby erroneously inflating GDP. For example the British *Office of National Statistics* (ONS) has recently carried out a revision of the size of the UK economy only to find it larger than expected, but it has arrived at this new estimate using suspect methodologies. More on this later.

The most common mistake is to take M.C…P for the full circuit or M.C…P..C^{+}…M^{+}. Much labour is expended in a capitalist society not for sale, but for immediate consumption. When that labour is expended in offices or in state services this labour appears as simply a cost (an expense) rather than as labour that is profit making. Which is why Marx considered it unproductive, that is unproductive of profit. Unproductive must not be confused with necessary. Labour can be both necessary and unproductive at the same time.

Neo-liberals such as Reagan and Thatcher saw this labour only as loss making especially when it was 'lavished' on workers. They understood by reducing the size of the state through reducing these services they would reduce the tax burden on the private sector. But what they did not understand, and which turned into an ultimate disaster for capital, was that these services not only benefited workers, but it helped reduce the value of their labour power. To afford private alternatives like housing or health care, wages needed to go up, because private services cost more. But because wages did not go up, workers' standards of living were impacted, the quality of their life was impaired and subsequently so too their productivity. In short capitalism ended up with an unhealthy population living in inadequate but expensive housing which in the end cost it more in tax credits than it saved.

To explain the differences in the circuits I used the analogy of Ms Smith a cook and a mother, queen of the burger flippers. As I mentioned on Robert's blog, Ms Smith has three roles. In the morning she works for Burger King flipping burgers which are then sold while hot and converted into money. Here the circuit is complete; M.C…P...C^{+}..M^{+} At lunch time she heads for her second job in a hospital kitchen which still prepares its own food for patients. There she is found working equally hard producing burgers once more. But these burgers are not sold before being eaten, instead they are provided directly to the patients in the

hospital without payment. As a result the circuit is reduced to M.C…P only. The third part (..C.M) is missing, the part which would have socialised (monetized) Ms Smith's private labour turning her burgers into a commodity. Now it is important to note, in this circuit only cost price exists. This is equal to the tax used to pay for the meat, electricity etc as well as the wages needed to pay for Ms Smith's labour power. Cost price tends to be lower than the selling price due to the added profit margin that separates the two prices. And the profit margin itself is formed from the surplus labour produced by workers. Hence what has happened is that although Ms Smith produced surplus labour in the hospital kitchen where she works just as hard as in Burger King, that was lost to her employer because her employer did not sell her labour. Instead the burgers were served free to patients. On the other hand in Burger King, the company is paid for all the labour their workers produce which includes their surplus labour when the burgers are sold for cash at their full price.

In the evening, worn out she heads home to cook for her family and being out of ideas she makes them burgers once more. In this case there is not even the first part of the circuit because no one hires her labour power paying her a wage. Her labour is completely private labour.

In all three roles Ms Smith expended the same concrete labour resulting in similar use values. However the social reality in which her labour was consumed differed significantly. In the first case her labour power was hired by Burger King and her labour was socialised through sale. In the second case her labour power was hired but her labour was not socialised through sale. In the third case her labour power was neither hired nor her labour socialised. In the first case her labour power was purchased with capital while in the second it was purchased through tax revenue. Despite these differences, Ms Smith feels she has been exploited in all three of her roles, and you know what, she is right.

Setting aside domestic labour which leaves GDP unaffected, unproductive labour which is labour that moves from the social to the private (production) but not back into the social - aka M.C…P. - often erroneously boosts GDP because it is conflated with commodity producing labour. This results in double counting. This can be seen in the *nonprofit sector* within the system of national accounts, the sector where most charities are found. The size of this sector is about 6% of GDP (BEA NIPA Table 1.13 lines 49 – 53) Ninety seven percent of this 6% is made up of *Compensation of Employees*. So the bulk of the M in M.C…P is spent on wages and benefits. Thus most of the C here is labour power.

The problem arises if the M (charitable contributions) going into hiring charity workers or paying for priests has already been taken elsewhere as revenue. The donations have to come from somewhere. They could be from the profits of the rich seeking to undo some of the harm they cause, or they could have come from the pockets of workers in solidarity with those less fortunate than them. Whatever the case this is double counting because these profits and wages have already been accounted for in the GDP calculations.

It is very difficult for the statistical bureaus to account for these flows. Thus they tend to add the money spent in this sector while failing to deduct it at source which would have the effect of cancelling this double counting. The result is they treat this expenditure of labour independently as though it were a commodity producing relation, which it is not, because charities do not sell their charity. If they did they would no longer be charities.

The other notorious sector for overestimating GDP is public services. Recently the Office of National Statistics revised up Britain's post-covid recovery GDP by 1.1%. This meant that Britain previously thought to have the worst G7 recovery now finds itself in the middle of the pack above Germany. There were a

number of revisions, the second most important was the one allegedly produced by the increase in health services in 2021: "*The second largest contribution to the revision in 2021 is from the human health and social work activities subsector, which contributed 1.2 percentage points to the upward revision, the main contribution to which came from the human health industry."* The same can be said for the education sector which was the third largest contributor to the upward revision.

This is quite clearly wrong. Most of the workers and the inputs for these two sectors are paid out of tax. Thus if in 2020 many of these workers were on furlough due to lockdowns, their substitute wages were being paid out of Covid funds or what is the same thing tax. When they went back to work in the public sector their reinstated wages continued to be paid out of tax. The fact that they were now expending labour attending to the sick in hospitals, the infirm in care centres and pupils in school in greater numbers does not alter this fact. Their reinstated labour was not commodity producing that is to say new value producing labour. So this upward revision is fictitious, but it does lay bare one of the problems found accounting for GDP and National Income. (I will not deal here with the issue of inputs.)

Then of course there is the fictitious circuit found in finance, M…M^{+}. This pure circuit of money whereby money lent out or speculated with, results in more money being received (hopefully) and when mistakenly counted as a transaction, can raise GDP. It is one of the secrets why productivity fell in the aftermath of the 2008 Financial Crash. Prior to the crash the revenue per bank worker rose on the wave of speculation. This increased the growth rate of GDP and with it productivity. After the crash ended this rampant speculation, the revenue per bank worker contracted and with it the growth rate of GDP. Remove this anomaly and productivity and GDP growth rates prior to the Crash and post the Crash are much closer than the statistics suggest.

The Service Sector vs the Goods Sector.

The other issue I pointed to in the blog is that in terms of value actually produced, the Goods Sector is much larger while the Service Sector is much smaller than recognised. The reasons are three-fold. Firstly, a significant portion of the 'revenue added' in the Service Sector is transferred to it from the goods producing sector. Thus the term value added which is applied to all sectors is ambiguous because it does not distinguish between value produced and value transferred. Secondly, a significant element which is not identified are the hidden discounts given to the distributive sector by the goods producing sector as payment for the circulation of their goods. This applies particularly to the wholesale and retail sectors. Finally, the amount of double counting is higher in the Service Sector because the density of commodity producing corporations there is lower. This does not mean that the Service Sector is bereft of commodity producing labour, only that proportionately less of it is found there.

To illustrate this false impression, truly a statistical mirage, I have prepared a spreadsheet based on GDP-by-Industry, Gross Output Tables released by the BEA. For the purposes of comparing the sectors, I do not use GDP or what is the same thing Gross Value Added, or what is the same thing the Value of Final Sales, but Gross Output because G.O. is based on total sales making it more representative of the economy as a whole. The Goods Producing Sector and the Service Sector differ because the former has many more intermediate sales relative to final sales as it buys in more and transfers more value from the rest of the economy than does the Service Sector.

Anyway. The spreadsheet is titled: *'isolating commodity producing sector'*. Column 1 or C in the spreadsheet is the value of total sales. I have colour coded each sector to show if it is related to the goods producing sector. The colour coding is explained in Column 2 or D.

Column 3 or E is a simple estimate of the value of commodities produced within the goods and Service Sector.

Column 4 or F is a broad brush as it not only shows the value produced in the goods producing and transporting sectors, but the associated flows of value to the Service Sector, thereby showing how connected sectors draw in value from the goods producing sector. Column 4 therefore estimates the size of the Goods Sector by estimating the value produced therein as well as the value transferred to the Service Sector. When arriving at the share, the denominator is Private Industries as found on Row 13. Government is excluded here while finance is included. The result is the goods producing sector is at least 49.7% of the economy.

(A methodology note: Navigating the relation between the Service Sector providing services to the Goods Sector is not without its problems. For example take row 76 *Professional and business services,* many of these services are contracted to the Goods Sector as their main customer. In the case of contracted services where the relation is one between **Principle** and **Agent** providing a unique and proprietary service, it is arguable whether what is changing hands is a commodity, given this cannot be freely traded because of copyright. For example if a car company hires designers to help design its next model, those designs cannot then be sold on the open market because they are proprietary. This is the reason I have estimated an association of 50% for this sector.)

Turning to the goods only sector, free of associations with the Service Sector, as found in column 5 or G, its share of the private economy with the financial sector included is 42.2% rising to 53.7%* when the financial sector is excluded. Finally, and most importantly the reader will note that wholesale and retail as well as most of transport/warehousing is included in column 5. I have not taken 100% for wholesale and retail as they not only circulate goods but also add a bit of their own value when doing so. Similarly for transport, some elements transport passengers rather than goods. (*Because of duplicated sales found in the Service Sector and household/nonprofit sector, these shares are actually larger than 42.2% and 53.7% respectively.)

Please consider this a rough overview. However, even if it is only 90% accurate it debunks the view that the Service Sector is multiple times larger than the Goods Sector. Understanding this is not merely an academic exercise, it has real world consequences, namely that recessions always start in the Goods Sector which then drags down the Service Sector. Furthermore, the converse does not hold, the Service Sector is not able to prop up the Goods Sector reversing its contraction. This would not happen if the Goods Sector, as is commonly but mistakenly presented, was less than 20% of the economy in advanced capitalist countries.

Finally we should bear in mind that globally the Goods Sector is now in a deepening recession. This makes this discussion really material.

(Please note I have attached an excel spreadsheet and for those without excel I have provided an open-source table which hopefully is downloadable.)

Brian Green, 3rd September 2023.