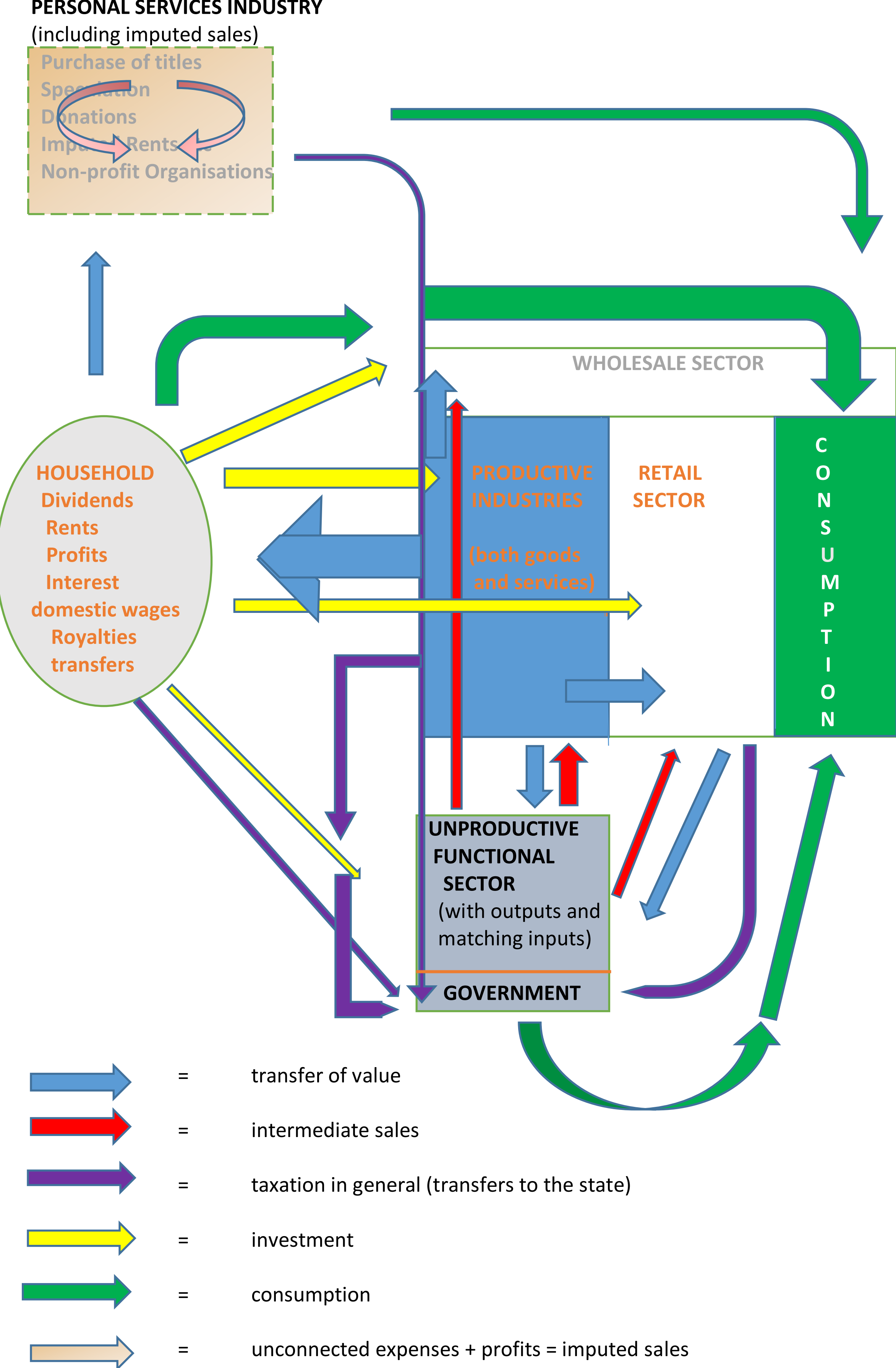
Diagram of value flows to explain the specie of labour

This posting, by means of the diagram on this page, represents a refinement of the distinction between functional unproductive workers and those engaged in personal services.



= transfer of value

= intermediate sales

= taxation in general (transfers to the state)

= investment

= consumption

= unconnected expenses + profits = imputed sales

Explanation of Flows.

Since the emergence of what is now called the System of National Accounts or SNA for short, many diagrams have been proposed to capture the complexity that is the national expenditure of labour in its variety of forms. Shaikh and Tonak do so on page 22 in their monumental but deeply flawed book: Measuring the Wealth of Nations. The diagram presented here on page 1 is of a different order, more complex and more accurate.

To understand why we separate out spheres of production it is necessary to understand the four great horizontal divisions of labour within capitalist society. The first is between productive and unproductive labour. The second is within the category unproductive between those workers necessary for the functioning or metabolism of capitalism and those unproductive workers engaged in providing personal services to the capitalist class, the former called functional unproductive workers and the latter personal (domestic) unproductive workers. Thirdly there is the distinction within productive labour itself between those engaged in producing articles of consumption for the working class (Department 2A) and those producing articles of consumption for the capitalist class (Department 2b) which represents such a drain on society. The final category is the often ignored one - domestic labour.

The reason for these distinctions is not semantic. Capitalism is based on the production of profits, and each of these species of workers either produce profits, consume profits, or supplement profits as in the case of domestic labour by its effect on cost prices. For the time being we are concerned only with the first two divisions, that between productive and unproductive workers, and within unproductive workers, those who are functional and those who are providing personal services. Later we will examine domestic labour, production's poor cousin.

At the outset it is important to note that the total labour expended within capitalist society, exceeds the labour expended producing commodities. However, as the wealth of a nation is measured by the value of its annual commodity product, this wealth is not equivalent to the total physical output of labour. In other words, some labour, for example domestic labour is not monetised, while some labour is counted as commodity producing labour when it is not. Hence the "value added" by commodity production as measured by GDP is at once an underestimation of physical labour expenditure and at the same time an overestimation of social labour expenditures.

Marx and his predecessors were aware of the difference between social labour and physical labour, but it was Marx who brought out its significance for the production of profit and therefore the state of the overall economy. The distinction between physical and social labour is vital in a market economy. In such an economy the labour of the individual only becomes part of the labour of society through being exchanged. Labour that is not exchanged, remains private labour, not social labour, not value producing labour therefore unprofitable. The capitalist social relation is therefore comprised not only of production, but the exchanges that bracket it.

This social relation comprises two essential exchanges which connects the private producer to the rest of the economy. It begins with a purchase and ends with a sale. The purchase takes place when the firm (an employing set of capitalists) acquires the factors of production without which production cannot proceed. These factors include labour power (hiring workers) and means of production. By reuniting workers with their means of production, the firm sets production in motion resulting in new and additional commodities for sale. The second and concluding exchange takes place when these commodities are converted back into money through being sold. As workers produce unpaid labour, the money received from the sale exceeds the money spent on the purchase, thus yielding a profit.

To describe the capitalist social relation Marx used the following circuit of capital, a formula which in the sphere of economics is as important as $E=MC^2$ is in physics. It is described thus: **M.C….P….C⁺..M⁺** where **(M)** is the money capital used to buy the factors of production in their commodity form **(C)**. Production **(P)** then ensues. The extra dots that surround **P** represents the additional time that production requires compared to the period of exchanges at the beginning and end of the circuit. Finally, the ⁺ signs at the end of the circuit represents the additional value embodied in the new commodities which yields additional money when sold.

Only labour expended in this manner becomes part of the labour of society. Only this labour produces commodities. Only this labour produces value and therefore surplus value. Only this labour is considered productive because it alone

can produce profits thereby enriching the capitalist class. Described socially, it is the movement from the social into the private and then from the private back to the social. Money the embodiment of social labour, is used to purchase the factors of production privately, and then after private production has taken place, the resulting commodities are socialised through once again being converted back into money.

All other labour is unproductive; that is unproductive of profit. Marx did not demean this kind of labour. Nor did he imply that it was unnecessary labour. He realised, that except for personal services to the capitalist class, it was labour necessary for the functioning of capitalism, or as he saw it, maintaining the metabolism of the system. In addition, much of this unproductive labour indirectly supports the production of profits. Domestic labour, that is the private and unpaid labour produced in the home, and shamefully, mainly by women, reduces the value of labour power. Anything which reduces the value of labour power and therefore wages, helps boost profits. In sum the bulk of unproductive labour enables the functioning of capital enabling profits, but without producing any.

In an earlier posting entitled **DUPLICATED VALUE, ACCOUNTING FOR THE LOW RATE OF TURNOVER WITHIN PRIVATE INDUSTRY** we examined the different circuits describing different industries. We saw that in each case, the stage (P), (C^+) or (M^+) found in the circuit of productive capital, was missing. If production did not take place or if a new commodity was not produced, then new value could not arise. This meant these industries were not value producing but value consuming. The value circulating in these industries was transferred to them from the productive industries where it was produced. However, the SNA does not make a distinction between value added and value transferred treating all industries as adding value.

This error is correct in the above diagram. The blue arrows represent a transfer of value from the productive industries. There are arrows to wholesale, retail, unproductive functional industries and of course the household sector. We note there is no direct blue arrow between the productive industries and the personal services industry. Its significance will be examined later. The purple arrows represent value transfer in the form of taxation to the government sector. The returning red arrows represent inputs, the recording of these transfers of value back to their source. They ensure "value added" is not recorded twice. Again, we note that there are no returning red arrows from the personal services sector found in the top left-hand corner. There is thus no accounting for this transfer which prevents value added being recorded twice.

In this posting we will be looking at a specific phenomenon. Instead of comparing productive to unproductive labour or productive industries to unproductive industries we will be examining the distinction between unproductive labour necessary for the functioning of capital and unproductive labour which merely provides personal services to the capitalist class. This distinction is captured by our diagram. There we find two unproductive sectors. The first called Unproductive Functional Industry **(UFI)** is found at the bottom of the diagram and the second called Personal Services Industry **(PSI)** is found in the top left-hand corner as has already been mentioned.

UNPRODUCTIVE FUNCTIONAL INDUSTRY (UFI).

Although we will be dealing primarily with the Personal Services Industry a detour via the Unproductive Functional Industry (UFI) is needed in order to understand the difference between the two. This is done to fully describe the transfer of value between the UFI and productive industry. UFI workers are paid out of capital. It is a misconception to assume that Marx limited variable capital to the payment of wages to productive workers only. In Chapters 16 – 18 of Part IV of the third volume of *Capital*, Marx identifies commerce to be, in the main, a sphere inhabited by unproductive labour. This does not prevent him from stating on page 402 that commercial capital breaks down into both constant and variable capital viz, "The other costs are reducible to variable capital that is advanced for commercial employees". And again, on page 406 "…a commercial employee of this kind is a wage labourer like any other…as his labour is bought with the merchant's variable capital, not with money that he spends as revenue:.." When Marx makes a distinction in these chapters between variable capital applied to productive labour and variable capital applied to unproductive labour, he does so to remind us that only variable capital applied to productive workers is pregnant with future profits.

Thus, the misused category that unproductive labour is always exchanged against revenue and not capital must now be abandoned. The final proof that Marx is referring to actual capital is his observation that commercial capital enters

into the averaging out of the rate of profit. Thus, the same profit motive which guides investments within production applies equally to the movement of capital between production and commerce. Activity in both spheres are regulated in the same manner. If commercial capital yields an above average rate of profit than does production, then capital will flow from the latter to the former and vice versa in the case of production being more profitable.

UFI workers are essential to the functioning of capital. Put another way, they secure and circulate the value produced by productive workers. There is therefore always a link between UFI workers who assist in the valorising of value and workers who produce it. Within the corporation itself, the labour of productive workers is captured by the Trading Account, whereas the labour of unproductive workers is captured by the Profit and Loss account.

Productive (factory) workers, below, produce the gross profit of the firm ($60 billion). This gross profit is then reduced to net profit ($30 billion) by the losses due to the expense of unproductive (office-clerical) workers. The value added, as assessed by the System of National Accounts, derived from corporate accounts, as below, is thus total wages plus net profit and not productive workers' wages plus gross profit. It is a combination of both sets of account. It is $40 billion (plus $30 billion and not $20 billion plus $60 billion. This is shown below.

TRADING ACCOUNT		**PROFIT AND LOSS ACCOUNT (wages $20bn + inputs $10bn)**	
Annual sales adjusted for inventory =	$120 billion	Gross profit (b/f)	$60bn
Less wages paid	$20 billion	**Less** selling expenses	$5bn
Less inputs used up (materials etc)	$40 billion	**Less** general expenses	$10bn
		Less administrative expenses	$15bn
Equals GROSS profit (c/f)	$60 billion	**Equals** NET profit (c/f)	$30bn

Here we find that the total value of sales is $120 billion in the Trading Account = gross output. After subtracting the inputs of $40 billion going into the factory, the value produced by these productive workers is $80 billion for which they are paid $20 billion in wages which leaves $60bn unpaid forming the firm's gross profit. In the Profit and Loss Account, this gross profit of £60 billion is reduced to net profit of $30 billion by the $20bn in wages for the office workers together with the $10bn of inputs they consume adding up to the $30bn in expenses. From the point of view of the national accounts, Gross Output is $120 billion, intermediate sales are $50 billion (inputs of $40bn in the factory and $10b in the office), yielding value added of £70 billion divided into wages of $40 billion and net profit of $30 billion.

We note immediately that while the value "added" by productive workers in this firm amount to $80 billion, the national accounts register only $70 billion. This is due to the office inputs of $10 billion. In other words, the money paid out for inputs or intermediate sales represents a leakage of value from the firm, a transfer of value to other firms from which the inputs are acquired. The term "value added" is therefore a misnomer. What the system of national accounts is really measuring is not value added but value realised, that is value added less inputs, or what is the same thing the residual element of value that remains in the firm after transfers. It goes without saying that value realised is always smaller than value actually "added" (produced) within the **productive sphere.**

If we return to our example and mistakenly add in the gross profit of $60 billion instead of the net profit of $30 billion we would arrive at an **inflated** total output of $150 billion, not $120 billion. Intermediate sales remain at $50 billion but value added would increase to $100 billion. This is an overstatement of $30 billion, because the deductions of $30bn in the Profit and Loss Account are ignored. In this case we would have duplication. But this does not occur because the profits added by the productive workers are always reduced by the wages of the unproductive workers, reducing the gross profit to net profit. When this happens the actual value "added" (realised) is the correct figure. What was lost in profit is gained in wages in this case.

This is the essence of national accounts, derived by Marx in Volume 2 of Capital where he established the overarching principle that "double counting" needed to be avoided. As long as the plusses added by productive workers is reduced by the minuses applied to unproductive workers, total wages and net profit will equal the value produced by productive workers. Over the economy as a whole (excluding duplication) total value added will equal total value produced because it is the sum of value realised plus transfers between industries.

Thus, when determining the general rate of profit using the system of National Accounts it is unnecessary to distinguish between productive and unproductive workers because it is the net profit not the gross profit which is used in the

calculation. However, if the purpose is to observe the effect of unproductive labour on the net profit this is a worthwhile endeavour and another matter. As a rule of thumb, the higher the proportion of unproductive labour in the mix of labour, the bigger will be the gap between gross and net profits. Accordingly, a higher composition of unproductive labour will result in a reduced net profit and with it a reduced rate of profit, because the capital in the calculation is unaffected, covering both the capital expended on productive and functionally unproductive labour.

Having looked at the transfer of value within the firm we will now examine the transfer between firms. Specifically, between productive firms and unproductive firms. Here the role of intermediate sales is crucial. One of the biggest UFI industries is outsourcing. All workers in outsourcing companies are unproductive - they do not produce value. The relationship, as we have shown in our earlier posting, is not that between buyer and seller, but between principal and agent. If we were to assume a payroll company, then the payroll it produces belongs to the principal not the payroll company. It is therefore not a commodity, something the payroll company is free to sell. Indeed, if the payroll company sold this information, which is confidential, it would be in breach of contract and subject to criminal and civil penalties. Here the circuit is described as M.C…P…M^+. We note that C^+ is missing.

The value that circulates within the payroll company, that pays its wages while leaving a residue of profit, arises in the sourcing company, say a car company. The link between the car company and the payroll company is called an intermediate sale. This sale logs the transfer of value in the national accounts. The plus produced by the payroll firm is balanced by a minus (a cost) in the car company. The additional output of the payroll firm is cancelled out by the additional input into the car company. This will be made clear in the extension of our previously used example.

The car company, which originally carried out its payroll function in house has decided to outsource it. When it was done in-house, it cost $3 billion in wages and $3 billion in inputs to carry out. In short, it cost $6 billion. When the car company fires its payroll department it reduces office wages from say $20 billion to $17 billion and office inputs from $10 billion to $7 billion yielding this saving of $6 billion. But the corporation needs payroll. The reason it has sacked its payroll department is that it is cheaper to outsource it. It can contract out its payroll department to a specialist firm for only $5 billion yielding a saving of $1 billion. Accordingly, office inputs which were reduced to $7 billion are now increased to $12 billion due to the new input of $5 billion, but office wages remain at their reduced level of $17 billion.

The Trading Account is not affected but the Profit and Loss Account now looks like this.

ORIGINAL PROFIT AND LOSS ACCOUNT		**NEW PROFIT AND LOSS ACCOUNT**	
Gross profit (b/f)	$60bn	Gross profit (b/f)	$60bn
Less office wages	$20bn	**Less** office wages	$17bn (-$3bn)
Less inputs	$10bn	**Less** inputs	$12bn (+$2bn)
Equals net profit (c/f)	$30bn	**Equals** net profit (c/f)	$31bn (+$1bn)

As far as the National Accounting Bureau is concerned, gross output has risen to $125 billion of which $120 billion belongs to the car company and $5 billion to the payroll company. If we assume that payroll inputs in the payroll company match that of the car company when the payroll was in-house, then intermediate sales would have increased by $2 billion in the car company and $3 billion in the payroll company, an increase of $5 billion to $55 billion. When we deduct this $55 billion from the gross output of $125 billion, we arrive at the original $70 billion realised in the car company.

Value has not been duplicated, only transferred and accounted for correctly in the national accounts. We now see the severity of the mistake made when variable capital is limited to only productive workers. In this case all these Marxists are doing is reversing the profit and loss account back into the trading account and intermediate sales back into gross output. When a set of capitalists consider a new investment, they will include the wages of the factory workers as well as the office workers who will sell, account for and administer their enterprise. They know instinctively that the one group of workers cannot function without the other. The separation of the trading account from the profit and loss account is an explicit recognition that factory workers produce profits while office workers reduce it (the loss side of the Profit and Loss Account). Of course, in their universities and textbooks, no mention of the distinction between productive and unproductive labour is ever found, because of the modern rejection of the Smithsonian, Ricardian and

Marxian *labour theory of value*. And yet in practical terms, the schizophrenic capitalist class must operate with this reality.

What outsourcing has done has not changed the scope of variable capital. The reduction of workers in the car company has reduced the variable capital spent on wages there and increased it in the payroll company, though not necessarily proportionately. It would be wrong to insist that only variable capital is spent in the car company factory and not in its offices nor in the offices of the payroll company. However, when we now look at the personal services sector, then the scope of variable capital is changed.

(As an aside, I prefer measuring the rate of profit using fixed and circulating capital rather than fixed and variable capital. The growth of outsourcing has reduced the amount of variable capital in firms taking advantage of outsourcing while increasing their inputs or intermediate sales. Circulating capital not only captures wages it also captures inputs, which means it is unaffected by outsourcing and its effects.)

THE PERSONAL SERVICES SECTOR.

Having investigated the distinction between productive workers and unproductive workers we will now examine the distinction between unproductive functional workers and unproductive personal service providing workers. We will begin by looking at the flows on page 1. In the top right-hand corner, we find the personal services sector and note it is solely connected by one blue arrow to the household sector. Most importantly there is no returning red arrow. There is thus a transfer of value from the household sector (blue arrow) but no red arrow, the intermediate sale needed to subtract it from the household sector from which it derives.

Why are there no intermediate sales back to the household sector? The simple answer is the household sector resides in the sphere of consumption (and saving). Here is found all the personal consumption expenditures. When capitalists hire personal services, it is part of their personal consumption expenditures. Indeed, as far as consumption is concerned total consumption breaks down into the consumption of articles of consumption and personal services. (However, the household sector does not consume all that is produced, some of it saved and returned back to production in the form of investment – the yellow arrows.)

Intermediate sales can only exist in the sphere of production both primary and functional. It cannot exist in the sphere of consumption. A capitalist not only invests, not only consumes articles of consumption, but surrounds himself with personal servants; personal assistants, maids, gardeners, chauffeurs, personal trainers and bodyguards, but in addition there are the professionals; the tax consultants, accountants, lawyers, stockbrokers and so on (talk about feudalism). It does not matter if these servants are employed directly, or indirectly via agencies or firms.

The important thing to remember is that this labour is purchased for personal use or what is the same thing for immediate consumption. It is not set to work to produce a new commodity it is not production for exchange. Here the formula is M.C.P. We note there is no new commodity and therefore no new money coming in. The whole second half of the circuit of capital is missing. An example will clarify this. Mr Smith the owner of a printing company is involved in a dispute over property with his brother. He employs a firm of solicitors, Shyster and Sons to act on his behalf. In this case Shyster and Sons, though well paid and educated, are the professional servants of Mr Smith for the hours of litigation he pays for. Let us go further. Let us say that Mr Smith is so impressed with this firm that he commissions a specific partner to write a book on law which his company will publish and sell. Now the partner is no longer the personal servant of Mr Smith. Mr Smith is no longer personally and directly consuming his labour, rather this labour is being used to produce a commodity (a book) for sale. A totally different relationship has emerged. Now production is for exchange not use. We have the purchase and sale of a commodity that constitutes the capitalist social relation. Concretely, the partner may have worked just as hard and as long on Mr Smith's personal litigation as he did on the book, but in the case of the book his labour takes on a different social form, it helps create new and additional value.

This confusion between the expenditure of labour and value production warrants another example, this time wider in scope. Here we will look at a film studio called VFP films. It has three divisions. The first produces Hollywood type films

for cinemas and TV. The second division produces adverts for cinemas and TV on behalf of clients. The third division produces home movies for the rich like Mr Smith so he can record his blood line at play.

In the first division, the V in VFP, films are produced for sale. They are a commodity like any other. VFP sells these films to cinemas, later to TV and streaming companies. If the films are popular, the new money that comes in will exceed the money that went out on their production and VFP will realise a profit. Now we know what the V stands for, it is the production of value.

Next, we turn to the making of adverts which takes place in the F division, the functional division. Let us assume our car company is bringing out a new model car and needs to inform and entice the public to buy it. What better way than to make a beguiling advert. It therefore commissions such an advert from VFP. The expense of making this film is a cost to the car company which comes out its marketing budget. But this is not the end of the story. VFP has to pay the TV companies and cinemas to screen this advert on behalf of the car company. The total cost, and the total value of the intermediate sales is the cost of producing the advert plus the cost of screening it. Thus, this cost forms the revenue circulating in VFP and through it to cinemas and TV stations.

Now contrast this to the Hollywood type films the first division produces. In that division, it is the cinemas and TV companies that pay VFP to screen its films. Money comes in. But in the case of the adverts VFP has to pay the same cinemas and TV companies to screen the advert on behalf of their clients. Money goes out instead of coming in. In the case of the cinema the reverse occurs, money comes in rather than goes out.

The same technicians could have been employed either producing the film or the advert while using the same expertise, but the film and advert inhabit different social realities. The film is a commodity while the advert is not. The film produces added value (new and additional money comes in), the advert does not. The film costs money to produce but through its sale new money flows in to covers its cost and yield a profit. On the other hand, the advert just costs and costs depending on how many screenings. In the case of the National Accounts, the film increases output and value added, while the advert increases output and intermediate sales leaving value added unchanged. All is in order.

Finally let us turn to the third division, the hiring of film making expertise in the personal or household sector. This is a film made for the personal use of Mr Smith and his family. It is paid out of the dividends Mr Smith receives from his company and which has already been recorded by the National Accounts under Net Profit. By choosing to pay for this film, Mr Smith has merely forsaken spending on something else. It is a consumer choice. All we have here is a transfer of some of his already recorded dividends to the film company.

From the perspective of VFP, the income in division P is no different from the income in V and F, its other two divisions. But this income does not come from selling what has been produced, but from the hiring out of their production facility to Mr Smith for his use. The film crew film, while at Mr Smith's home, shoot and edit the film with the family and leave the master video and copies behind. What has been produced therefore belongs to Mr Smith including the copy right. There is thus no sale of the video.

The sale by VFP to Mr Smith is really an intermediate sale because it is the provision of the factors of production enabling the production of a new use value – the family video. Mr Smith is the producer not VFP. So how does the statistical bureau treat this transaction? It treats it as if VFP is the producer and accordingly, their provision of the factors is treated as a final sale. As a result, the value transferred to it by Mr Smith is classified as value newly added when none has been produced. On the other hand, there is no deduction of this value at source, the household sector. There is thus duplication. This differs to the advert where its cost is registered in the car company as an input.

The difference is that Mr Smith's production is for use, while the car company's production of cars is for exchange. The second difference is that the Smith household is consuming while the car company is producing. The Smith family do not see their treasured video as a cost while the car company sees its adverts as a cost. Mr Smith may have less money in his bank account, but he is richer for the film. A cost is the social expression of the expenditure of labour in the process of production. Consumption is the reward for that expenditure. In sum, while there is a cost of production, there can never be a cost of consumption and therefore intermediate sales linked to consumption. The Smith family

film must be treated as a final sale by VFP in the national accounts otherwise their books would not balance, the consumer expenditure side would exceed the output side.

We will look at two further examples. The same applies to a tool hire shop. If a compressor is hired out to the Smith family to pump up their own bouncy castle, it is recorded differently but treated no differently to when the compressor is hired out to a building contractor for a new building. In the former case, the domestic hirer enjoys their bouncy castle throwing away the invoice, in the latter the invoice is filed against payment as proof that a cost of production was incurred.

A final look at the Smith household finds their gardener so admiring of one of Mr Smith's shirts that he goes out and buys the same one, though he is mindful not to wear it to work. At the end of the month Mr Smith hands over $2000 in payment to his gardener. This $2000 increases the output of the household sector in the form of wages by that amount. When the gardener spends $100 dollars on the shirt it increases the output of the retail sector by $100, which when added to the $2000 increase in output of the household sector increases national output by a total $2100. Now when Mr Smith buys the shirt himself, it is only the output of retail that increases by $100. There has thus been a duplication in value amounting to $2000 by means of money passing from Mr Smith's hand to that of his gardener. No one argues that the gardener does not work, does not expend labour, but this is not value producing labour, it is labour for the personal use of the Smith family. As inequality has increased, so too has the wages spent on personal unproductive labour in the form of a growing army of servants and serving professionals. This has had a distorting effect on the national accounts increasing the probability of duplication.

We will look at one final variation. Up to now money has passed between hands, there is a transaction. The statistical bureaus even invent sales when no money changes hands. For example, they apply rent to owner occupiers as though owner occupier were their own landlord. This boosts the output of the rental sector adding around 8% to GDP. Another example is Research and Development. Most Research and Development is done in-house and never sold. In the past the statistical bureaus treated R&D as an intermediate sale, a cost, now they treat it as capital. And to achieve this, they compensate for the non-existing sale by inventing one - the imputed sale - whereby the corporation, say our car company is assumed to have sold its own R&D to itself. Incidentally, this conversion of a cost to a sale increases GDP by around 3%.

There are thus a variety of mechanisms by which value added is duplicated. It could be either through the invention of a sale (an imputed sale), the misconstruing of an intermediate sale as a final sale, or the absence of an intermediate sale to record the transfer of value. Anything which artificially increases total sales or reduces intermediate sales will inflate value added. Using imputed sales, value has been attached to the labour of the workers in the P film division and the gardener, when in fact the product of their labour did not become a commodity.

It would be wrong to assume that duplication is a small part of GDP. Duplication is significant, perhaps as much as 20% of U.S. GDP, amounting to over $5 trillion. If this duplicated value was a country, that country would be the third largest economy in the world when measured by GDP. Moreover, many of the industries classified by the BEA are truly ridiculous. One that stands out is Industry 813A called *Religious, grantmaking, giving, and social advocacy organizations*. As religion is big business in the United States it even has its own industry classification **8131.** Religion may increase the size of GDP, but all religious donations achieve is to reduce the consumption of the giver and increase it for the priest and his/her church. The church is treated as a producer not necessarily the producer of miracles. In reality, the only miracle that occurs is that God's work is recorded as human value creating labour in the national accounts. Amen.

In conclusion, it is wrong to equate the expenditure of labour with the production of value. Not all labour produces value. And yet the national accounts, with few exceptions, treats most labour as value producing labour even when that labour is not monetised through sale. This is not a semantic argument. Only value producing labour produces profits. Duplicated value on the other hand, as we are about to see, only preserves some of this already produced profit. (I have avoided the relation $M.M^{+}$ the mere exchange of money as in finance and speculation because it has no bearing on this discussion and analysis.)

VARIABLE CAPITAL.

The import of Marx's distinction between variable capital spent on the purchase of labour power and revenue spent on the purchase of labour power is now understood. It is the distinction between money spent on production for exchange and circulation versus money spent on production for use. In both cases money is spent on the first exchange, but only in the second is money

returned when the output of that labour is sold or circulated as a commodity. This is the mistake that Shaikh and Tonak make with their restricted view of variable capital.

Furthermore, as long as there is correspondence between inputs and outputs no duplication occurs. In that case variable capital is real and the formula for the turnover of capital is accurate. The problem arises when duplication occurs. By this we mean there is an output but no input, an addition but no subtraction, and where that output is merely an accounting fiction. This of course is what occurs in the realm of personal service production where production is always for personal use.

This duplicated value, in common with real value, is decomposed into wages and profits. The question that now needs to be addressed is this, what increases more: wages or profits? If a personal servant works for himself or herself, regardless as to whether they are directly employed or self-employed, then only wages materialise. If they work for an agency or a firm, then these employers always invoice their services for more than the wages they pay their workers. They end up with a profit. This particularly true in the realm of finance, where banks profit hugely from looking after the wealth of the capitalist class even when they do not speculate with this money.

It is in the nature of personal services that they tend to be labour intensive, and hence when we examine the input output tables, where value added is broken down into wages, taxes and surpluses, we find that wages form the largest component. It must be remembered that the profits of the capitalist class are not diminished by the payment of wages for personal services. At the same time any profits in agencies or firms that forms the residue after wages and expenses have been deducted are added to these undiminished profits. Thus, profits are overstated in the National Accounts.

But so too are wages, only more so. That is why it is misleading to use the division of wages and profits as an indication of inequality when viewing the economy as a whole - the totality of private industry. Inequality is much higher. If the capitalist class, because it is now fashionable, double their employment of servants, wages would shoot up and this would give the appearance that inequality has fallen, because relative to profits, wages have now increased. But this is an illusion. The capitalists have just changed their consumption habits, fewer yachts, mansions, Bentleys, and more servants.

This contributes to our understanding as to why the ratio of profits to wages is lower in total private industry compared to specific industries. There is significant duplication in the former compared to the latter, which is why this author contends we cannot measure anything if there is duplication and this applies to total wages and total profits. Deflating these total wages by turnovers would still yield inflated variable capital. Furthermore, turnovers are also slowed by duplication. Collectively, inflated wages divided by a deflated number of turnovers would result in grossly overvalued variable capital.

The turnover formula is based on the difference between value added and gross output. If we assume that gross output is \$20 billion and intermediate sales are \$8 billion, then value added would be \$12 billion. This yields a ratio of 67% (\$20/\$12) and a turnover of 2.34. The turnover formula is GO/GVA + (GO– GVA)/GVA 20/12 + (20-12)/12 1.67 +0.67 = 2.34. Let us assume that gross output is overstated by \$2 billion making gross output really \$18 billion. In that case value added would be reduced to \$10 billion because intermediate sales remain at \$8 billion. Now the ratio between G.O. and G.V. would increase to 80% (\$18/\$10) and turnovers to 2.60.

This combination of inflated annual wages and reduced turnovers makes it impossible to deduce variable capital over the whole economy. Variable capital turns out to be much too high. It outweighs the small addition to profits, thus ensuring that the rate of surplus value is grossly understated, turning it into a nonsense. Even the rate of surplus value in total domestic industry, which excludes most imputed sales like household services, non-profit industries and imputed rents for owner occupiers (Bea Table 1.3.5) is still understated. Even here we find duplication e.g. the treatment of Research and Development (nearly 3% of GDP) and more significantly that part of finance providing personal services to the rich (advice, custody and investment). It is why I limit my analysis of profitability to non-financial corporations because this sector contains relatively fewer duplications.

DOMESTIC LABOUR.

Earlier we said that GDP is both an overestimate and an underestimate of the physical labour expended by society to enrich it and to make it function. Where the gap between the physical expenditure of labour and its monetisation is greatest is in the realm of domestic labour. Various studies have concluded that the non-payment of domestic labour amounts to between one-third of GDP in Australia up to nearly half (45%) in Britain.

Domestic labour belongs to the necessary part of the working day. But unlike the necessary part of the employed working day when wages are paid, domestic labour is completely unpaid. It is provided free, gratis to the capitalist class. It acts as a subsidy reducing the value of labour power and thereby the cost price of production maximising profits. And it is a huge subsidy which if paid would wipe out that mass of profits, making capitalism unviable.

Let us look at the matter more closely and untangle the social from the physical expenditure of labour by using the example of Mrs Brown. In the morning Mrs Brown is employed part time by McDonalds flipping hamburgers. At lunch she works part time in a hospital once again flipping hamburgers. When she returns home, to her distress, she learns her children want hamburgers for dinner as well, so once again she ends up flipping hamburgers.

Now in each case Mr Brown is preparing burgers. Her physical labour is similar. What is not similar is the economic or social outcomes. In the first instance, while at McDonalds, she is producing burgers for exchange, as a commodity, they are sold. In addition, her labour power is bought as a commodity. Because the value of her labour in the four hours she works for McDonalds exceeds the value of her wage, she produces a profit for McDonalds which is realised every time her burgers are boxed and sold. So here we have the complete circuit of capital or **M.C….P….C^+..M^+** comprising both exchanges, the opening and concluding ones. McDonalds purchases the factors of production M.C then sets production in motion then sells the burgers and fries C^+..M^+

But matters are different when she arrives in the hospital kitchen in say a non-profit like the British NHS. No longer is Mrs Brown cooking for exchange but for use, for the patients who like burgers. These burgers are not sold, the patients do not pay for them, they are handed over at their bed side (hopefully not extending their stay in hospital). Here we have lost the second exchange. The act of production is now reduced to M.C….P. The first exchange is present in the form of M.C. but not the C^+..M^+

From the point of view of the capitalist class, Mrs Brown's labour in the hospital is not profit making but loss making. Taxes have been spent on her wage and other inputs, but there is not benefit to her employers, the hospital. That is why Ronald Reagan and Margaret Thatcher hated unprofitable public services and why they sought to privatise these services. But by doing so they proved that public employees like Mrs Brown were in fact not being paid for all their labour, but only for part of it. They were indeed producing surplus labour which remained hidden because it was not converted into cash through sale.

Thus, when the hospital canteen was privatised allowing the private contractor to sell their burgers to the hospital, lo and behold, profits emerged where none existed before. (Of course, to maximise their profits cost cutting took place.) When Mrs Brown was a public sector worker she belonged to the specie - functional unproductive worker - because she did not produce profits. When she worked for the contractor, she was miraculously transformed into a productive worker.

Wiser minds than Reagan and Thatcher understood the virtue of public services. They were cheaper than private services. The tax paying for them was less than the increase in wages needed for workers to pay for them privately. Today privatisation has been a disaster in most cases. Not so much highway robbery as sewage pipe robbery. It has resulted in worse services and more fragmented services which is why the vast majority of society wants to renationalise them. Long gone is the cultivated myth that the private sector could provide these services more effectively and efficiently than the state sector.

As the sun is now setting let us follow Mrs Brown home weary from work. As she passes through her front door she enters the realm of private labour. In her kitchen she works for love and obligation, but not a wage. Now we do not even have the first exchange, the waged employment of her labour power. ~~M.C….P….C^+..M~~ Her labour is free to the capitalist class as she raises the next generation of workers and a future filled with exploitation.

CONCLUSION.

Distinguishing value forming labour from non-value forming production is vital if we are to understand what is happening within and to the capitalist economy. Recording it is vital too. The core of the SNA remains true to the methodology laid down by Marx in Volume 2 as translated by Kuznets and Leontief, two Russian emigres well versed in Marx's writings. Where the SNA fails today is when they ignore Marx's instruction to avoid duplication or to treat non-commodity production and exchanges as though they were commodity producing. In this sense GDP inflates value production while on the other hand failing to capture the total expenditure of physical labour. This must be so, because only commodity production, the home of profits, **directly** enriches capitalist society while illuminating its distribution.

The novelty of this article lies, firstly, in the way it tracks the production and distribution of value, and secondly, how for the first time it splits unproductive labour into its two forms, functional and personal (domestic). This split is important if we are to evaluate the effect of unproductive labour on the general rate of profit and its movement. This distinction has become more important as inequality has grown creating the opportunity for the rich to assemble larger retinues of personally unproductive labour.

To summarise, only production for exchange is profit making, production for use is loss making, while domestic labour is neither profit nor loss making. However, collectively they make up the overall and essential conditions for the production of profit. Once the capitalist system based on commodity production and surplus value extraction is overthrown, these distinctions become redundant as social production takes over from private production. This ensures every member of society in every sphere of necessary production, both outside and inside the home, are accurately reimbursed for the expenditure of their labour.

Brian Green, February 2016 and updated May 2026.