<u>**Productive and Unproductive Labour**</u>

Productive labour is labour that creates value and surplus value; unproductive labour does not. The definition is simple, but deceptively so, for whether to make the distinction, and if so how, are among the most controversial issues in Marxist economics. Partly this is because, as with so much else, Marx both built on and transformed the categories of productive and unproductive labour that he had inherited from his predecessors (primarily Adam Smith). Partly it is because Marx never developed a systematic treatment in his own work, so that the category has to be recovered and interpreted from widely scattered sources among writings put together for publication after his death by Engels (*Capital* Volumes II and III) and Kautsky (*Theories of Surplus Value*). And partly it is because capitalist economies have changed since Marx's day, so that what is unproductive has a historical specificity that writings in the late nineteenth century could not anticipate.

Productive and Unproductive Labour According to Adam Smith

The second half of the eighteenth century witnessed the beginnings of substantial economic transformation as factories in towns began to supersede rural cottage industry. These new places of work could exploit new sources of power, and were characterised by closer control over the production process, which enabled further extension of the division of labour. Substantial economies of scale were thereby achieved. At the same time, the enclosures of common land coupled with increasing economic differentiation in the countryside provided the labour for the new factories as the rural poor were increasingly forced to seek their subsistence through the market by selling their labour power.

In the late eighteenth century, Adam Smith at least partially recognised the novelty and the scale of these developments. He saw capitalism as an emergent system with positive feedback, governed by an ‘invisible hand’: the extension of the division of labour increased productivity and incomes (and, after a lag, population), that, in turn, created the demand which enabled further extension of the division of labour and specialisation. But he was then faced with the problem that not all labour contributed to this process. Investment in factory labour clearly did; but outlays on personal servants, while they might marginally contribute to increases in demand, otherwise clearly did not, for their outputs (the personal services) were directly consumed by their employer. If no output is produced for sale, there are no proceeds to cover costs and finance investment. Hence expenditures on personal servants consumed rather than produced wealth, and their labour was ‘unproductive’. Smith then substantially muddled matters by contrasting the labour that produced physical goods with the labour that produced services; the former was productive, the latter unproductive. In an economy in which most services were directly consumed and very few were marketed, the inconsistencies generated by the two different definitions, one based on the contribution to wealth creation, and one based on the materiality of the product, were not especially apparent. But as capitalism developed, the two approaches were correspondingly increasingly incompatible.

The Marxist Account of Productive and Unproductive Labour

Nearly a century later, Marx took Smith’s first definition and reworked it in a different framework. Instead of focusing on wealth (the sum of produced and non-produced use values), Marx focused on value. His general perspective was that what differentiated class societies was the form in which the surplus product was extracted from those who produced it. In commodity-producing societies, this took the form of a sum of money (profit) which, according to the labour theory of value, was the form in which surplus value was realised. Consequently labour was productive if and only if it produced surplus value. The distinction between the labour that produced a physical output as a commodity and the labour that produced a service as a commodity was therefore irrelevant.

The focus on the production of value rather than the production of use value has an unfortunate implication, concerned with the simple issue of nomenclature. 'Productive' seems to entail that work is done and something is produced. Cooking a meal for oneself is certainly an act of labouring activity, and, as long as the meal is edible, produces a use value. But such labour is not a purchased input in a capitalist production process. Of course people must eat to survive, but the issue is not whether the labour is necessary; it is whether it produces surplus value. For this latter to obtain, labour power must be a commodity. Only when labour power is a commodity is there a wage, only wage labour produces commodities for sale, and only when commodities are sold is surplus value realised. In this sense, only commodity-producing wage labour counts. All other labouring activity, no matter whether essential or trivial, fulfilling or destructive, is neither productive nor unproductive. Much of such labouring activity is of course crucial to social reproduction (consider the care of small children for example), but the question of what is surplus value producing is considerably narrower in scope.

In general, the distinction between productive and unproductive labour is not apparent in *Capital* Vol. I. For Marx here dealt with two major themes, each illustrated with copious historical detail. First, he analysed how capital produced surplus value, and second, he analysed how surplus value produced capital. In each of these themes, he explicitly assumed ‘equal exchange’ or ‘exchange of equivalents’. This was because he wanted to show that, even on the extreme assumption that the seller is always paid the full value of the commodity she sells, he could explain how surplus value (and hence profit) arises, and how its magnitude is determined. Thus the worker, free to sell her labour power to any purchaser, and free of any means of production that might enable nonmarket access to the means of subsistence, sells her labour power at its value. The purchaser, now the owner of the labour power, then consumes the commodity purchased. This means putting the worker to work for a specified period of time; the outcome is that an output is produced that can be sold for more than the cost of the labour time that the capitalist purchased. That is, the use value of labour power to the purchaser is the subsequent work done, which is of greater value than the value of labour power. This value difference is unpaid surplus labour, or surplus value, accruing to the owner of the commodity labour power. But this argument can only be made precise if value-equivalents are exchanged, which in turn implies that all the labour concerned is productive labour. If the use value of labour power is the ability to create new value that is greater than the value of labour power, that labour power must be an attribute of a productive worker. For unproductive workers do not create value. Hence in *Capital* Vol. I, apart from occasional asides, there is nothing substantive about unproductive labour.

If productive labour produces surplus value, what does unproductive labour do? First, and obviously, if surplus value is to be produced in money form, output must be sold. If wage labour is engaged in a production process that produces no marketed output, then value and surplus value are not being produced. While of little consequence in Marx’s day, all capitalist economies have witnessed substantial growth in wage labour that produces no marketed output. This is labour that works for ‘general government’, producing output for direct consumption (either individually or collectively), and financed by taxation and the sale of debt. The state has always been responsible for the management of inter-capitalist rivalries (through its diplomatic corps and its armed services, for example), the policing of internal class conflicts through the protection of private property (police and judiciary), and general executive administration. But the state has also increasingly taken responsibility for the infrastructure for the reproduction of labour power (health, education, social security, housing, and care for the elderly), as well as a fluctuating number of economic functions (subsidies to industry, physical infrastructure such as bridges and roads, and direct economic interventions). This involves employing large numbers of people in ‘general government’, but all such labour is unproductive.

The best way to approach the classification of wage labour that does produce a marketed output is through a consideration of the circuit of capital. Consider a capitalist with a sum of money to invest, hence with capital in money form. The process of investment means engaging in a set of activities to purchase labour power and non-labour inputs; capital is thereby transformed from a money form to a productive form. Then a second set of activities ensues whereby the inputs are transformed into outputs (of higher value); capital is thereby transformed from a productive form to a commodity form, awaiting sale. Finally a third set of activities occurs, which transform capital from a commodity form to a money form, so that the whole process can repeat. As capital moves round the circuit, it exists successively as a stock and a flow. Starting from a stock of money capital, capital flows through a set of processes to finish as a stock of productive capital; call this the Phase 1 flow. From a stock of productive capital, capital flows through a production process to finish as a stock of commodity capital; call this the Phase 2 flow. And from a stock of commodity capital, capital flows through a set of processes to finish as a stock of money capital; call this the Phase 3 flow. Consider then the labour employed in these three flows, assuming value-equivalence in exchange.

Phase 1: these are a set of transactions in the market whereby inputs are purchased. While such transactions can be simple, frequently they are not, because non-labour inputs of fixed capital are expensive because of their ‘lumpiness’. Hence credit is frequently involved in their purchase. This in turn entails a set of functions in financial markets both to spread risk and to consolidate a large number of small sums of money into the larger sums needed. When debt is sold by financial agencies, the typical payment is a rate of interest. But while the transaction has a commodity form, no commodity is produced, so that there is no immediate value equivalent to match the payment of interest. The interest payments are a claim on the surplus value yet to be produced (in Phase 2) and realised (in Phase 3), and because of this precommitment to an uncertain future, there is always an element of speculation involved. Financial instruments can be very complicated, particularly when the sale of debt creates flows of interest that can be securitised into new financial instruments to be bought and sold. Moreover, the transfer of title involved, as money capital is transformed into commodity capital, can also be complex, involving commercial law firms, accountancy firms and so forth. The multitude of non-equivalent exchanges of value involved are all sales of services in exchange for claims on future surplus value. Despite the complexity of these transactions, their function is simply to transform money capital into productive capital, a stock of money into a stock of inputs ready for production. They do not change the total value of the capital; they merely change its form. Thus the labour that transforms money capital into productive capital is unproductive.

Phase 2: in the production process, the capitalist consumes the use value of the purchased labour power by setting the labour to work with nonlabour inputs (the means of production). The consumption of labour power is the production of new value and a transfer of (a portion of) the value of the means of production to the final product. If value is to expand, the new value, or value added, must be greater than the value of labour power, and the extra value is surplus value. The whole process is a transformation of productive capital into commodity capital of higher value, both a change of form (like Phase 1) *and* a change of magnitude (unlike Phase 1). Consequently, the labour that effects this transformation is productive labour. Further, the greater the extent of the division of labour, the more the process of production requires planning and coordination. Such labour too is productive. Yet the way in which technology is developed under capitalist relations of production is not a class-independent process. A capitalist division of labour involves processes of deskilling, hierarchies of supervision, and a general policing of an authoritarian organisation of production based on the giving and receiving of orders. The labour involved in such policing acts as surrogate for capital, and is therefore unproductive. In capitalist production processes, it is in general impossible, both conceptually and empirically, to separate the productive labour that plans and coordinates, from the unproductive labour that supervises and polices. Unproductive labour here is financed directly out of the surplus value produced by the labour it supervises.

Phase 3: in order for surplus value to be realised as a sum of money, commodity capital has to be transformed into money capital, which requires that the produced commodities be sold. Conceptually the simplest phase, in this transformation of capital's form no new value is created, and so the labour that effects the transformation is unproductive. As well as the labour directly involved in the sale of outputs, labour generating advertising services aimed at boosting sales is unproductive, as is the labour that is devoted to recording flows of transactions (bookkeeping and accountancy). Labour involved in promoting the war of competition, fought through market share is similarly unproductive. Unproductive labour in Phase 3 is financed out of the revenues derived from sales. For example, advertising agencies charge a fee for their services, and that fee has to be found from the revenues accruing to the firm purchasing advertising services. Advertising revenues originate in the unpaid labour that produced the commodities whose sale the advertising firm is promoting. Similarly for bookkeeping and accountancy services, and all other services designed to facilitate the transformation of commodity capital into money capital. This transformation is again one of form; it is not one of magnitude. But although the labour performed in this transformation creates no new value, it is nonetheless exploited, in the sense that revenues accrue that are greater then the cost of the labour time employed in generating such revenues. But the value flows that finance these revenues are produced elsewhere.

In sum, Phases 1 and 3 together comprise the sphere of circulation, a set of C-M-C circuits. These circulation circuits change the form of capital, and not its magnitude. Only labour without supervisory responsibilities in Phase 2 is purely productive, changing both the form of capital and its magnitude.

To get some idea of orders of magnitude of productive and unproductive labour, consider the US economy in 2007, in which total private sector employment amounted to 115.4 million. More than 6 million (5.3%) were employed in finance and insurance (Phase 1). About 21.5 million (18.7%) were employed in wholesale and retail trade (Phase 3). About 6.2 million (5.4%) were employed in areas related to purchase and sale: advertising and related services, accountancy and book-keeping services, management consultancy services (which also relate to production), offices of bank and other holding companies and of corporate, subsidiary, and regional managing offices, and real estate, rental and leasing services (Phases 1 and 3). Some 13.1 million in value-producing sectors (about 17.8% of the total in those sectors) had some supervisory responsibility (Phase 2). And both transfers of property rights and production activities require a framework of legal services, and, occasionally, investigative and security services (almost 2 million, or 1.7%). In addition, some 8 million (7%) were employed in Administrative and Support Services, whose location in the circuit of capital is often ambiguous, and whose productive and unproductive characteristics are therefore difficult to disentangle. Even ignoring this latter category, certainly well over 40% of US private sector employment in 2007 was unproductive. Finally, outside of the private sector, almost 18.5 million (around 1 in 7 of all full-time equivalent employees) were employed by general government.

Uses of the Concept

The method that Marx adopted in establishing his categories of analysis was one whereby the further development of the category required the supersession of the assumption that generated it. This is a delicate procedure, since it is easy to criticise it for producing a contradictory analysis, results that are inconsistent with assumptions. One example of this methodology is the way in which Marx used the assumption that commodities exchange at money prices proportional to their labour values to show that such exchange cannot in fact be the case, for it contradicts the empirical analysis of competition and its tendency for capital flows to equalise the rate of profit. This latter requires exchange at prices of production, which will in general differ from the prices proportional to labour values because of differing compositions of capital. This entails that even in long run equilibrium, unequal or nonequivalent exchange is the norm in the circuits that involve productive labour.

At the level of the individual capital, an assumption of equal exchange in order to identify the value-creating process, and hence also productive and unproductive labour, is therefore inappropriate except at the most abstract level. Unequal or nonequivalent exchange is the norm, and the only difference between the output of a purely productive capital and a purely unproductive capital is that the former produces a money value that is different from the labour value of its output, whereas the latter produces no value at all. But this difference is invisible to the observer: both employ inputs to produce outputs in order to maximise their profit, and it is not possible to say how much value is produced by *any* individual firm. Indeed, what is productive and what is unproductive is not a sensible question to ask of an individual capital.

Because in an unequal exchange, what one party gains the other must lose, in the aggregate all such gains and losses must cancel out. Total value added (whether in money or in labour) is invariant to the vicissitudes of exchange. Hence in the aggregate, payments to unproductive labour are financed out of aggregate surplus value, so that, in the aggregate, productive labour finances unproductive labour. The amount of productive labour and the degree of its exploitation are together an index of the total profits that are potentially available to an economy. But since unproductive labour is ultimately paid out of surplus value (no matter how complicated the processes by which this occurs), the amount of unproductive labour in an economy determines how much profit is actually available. However, unproductive labour is not necessarily thereby a deadweight loss, for its consumption of surplus value might raise overall profitability (as in the 'managerial revolution' in the early twentieth century). While any empirical analysis will therefore find a clear association between a rising rate of surplus value and a rising ratio of unproductive to productive labour, what is required is to analyse just how the 'technologies' of production and circulation interact to produce such a relationship. Because most work on productive and unproductive labour has tended to remain at the level of the elaboration and contestation of theoretical categories, such detailed empirical work to date remains undeveloped.

Further reading

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