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Commodity Value Theory—Invisible Hands Seen

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Through the revelation of “commodity value”, the “invisible hand” described by Adam Smith is now clearly visible. It is precisely “commodity value” that guides people to seek benefits for themselves and for others, adding enormous wealth to society.

Keywords: the invisible hand has been seen

Labor products become commodities, which can double the value created by labor, because commodities not only prevent diminishing marginal utility, but also enable workers to fully utilize their strengths and skills, improving the efficiency of wealth creation. People choose to produce and interact with goods because of the enormous and magical power within them. Adam Smith described this power as an “invisible hand”.

But Adam Smith said that this hand, when people are completely self-interested, will unconsciously seek a corresponding benefit for others as well. It is precisely because commodity exchange makes gains more lucrative that people rush to the market, enthusiastically showcasing their products and attracting those who are also selfish to come and take advantage, because only by allowing others to gain certain benefits can one obtain corresponding benefits for oneself.

Where does the value of benefits that both parties can benefit from come from? Its implementation, from a phenomenal perspective, only occurs at the moment of exchange between the two parties, but it has actually been in the process of exchanging calculations that already exist between the two parties. Therefore, this value of benefits has always been well known to people, but people have always only focused on their own gains and do not care about the gains and losses of others, so it does not appear. This benefit value is the “commodity value” that we are going to discuss here.

In the past, people have also used the word “commodity value”, but this word has always been used only to express the value of goods as commodities, not the value that goods breed as commodities. What we want to reveal here is precisely the latter, which refers to the wealth value that goods breed or enhance as commodities.

In the eyes of the seller, it is exchange value for a certain product, and in the eyes of the buyer, it is usage value. But the seller’s exchange value is based on the current status of the product’s use value. The value of a product varies from time to place among many other products, such as its current scarcity, including the difficulty in production, the existence of alternative goods, and so on. Of course, there are also consumer tendencies that constitute or determine its value position.

It is obvious that what determines consumer purchasing desire is the value of the product and its ability to provide consumers with a pleasant experience. What other reasons are there? If there are any, the reason why the buyer purchases or exchanges with it is that the item is obtained in other ways, which will be greater than the cost of the exchange. Therefore, exchange is the activity and method of obtaining maximum use value or more wealth with minimal effort.

For a seller, whether they are a producer or a seller, once they have a clear understanding of the current value and status of a product, they accurately estimate its exchange value. He compared all of this with the cost of obtaining the product, which is the basis for his decision on whether to produce or operate the product.

This reveals that a value exists within it, and the reason why an item becomes a commodity is that it has such a value. This value is the difference between the value consumed during the acquisition (production or purchase) of an item and the value obtained after exchange (sale), and this value difference is the value of the commodity.

Due to the fact that the cost value is always lower than the value obtained through exchange, the value of goods is highly attractive. It is precisely it that motivates people to actively explore and create in the market, promoting the prosperity and development of the commodity market.

People may question that value cannot be formed out of thin air. How can a commodity breed or create real value without any change in its function or purpose?

From the difference between the attributes of a commodity and the attributes of an item, we can see that for example, a shirt has the attribute of warmth preservation. As a commodity, showcasing its warmth preservation function and appearance in the market has a clear purpose, which is to exchange it for a greater value for the producer or holder. For example, exchange 50 kilograms of rice, because the labor required by the top producer to produce a top, combined with the labor required to produce the raw materials, is far less than the labor required to produce 50 kilograms of rice on their own. That is to say, it (top) went to the market to exchange small for large. These are the attributes of a product, which are two completely different concepts from the attributes of an item.

Similarly, rice comes to the market to exchange small for large. The producers of rice and the producers of tops feel the same; they both benefit equally. This is the purpose of tops and rice coming to the market. Therefore, the attributes of a commodity are not the attributes of the object as a commodity, nor are they the concepts of value and use value that people used to talk about when discussing commodities. Instead, they are the concept of exchanging small for large, which is the proliferation of value. When various items are used as commodities, there is only one attribute, which is the meaning of exchange caused by the independent layer of the commodity outside of its attributes. The value of a commodity is the increase in value achieved during the exchange process.

The expectation of this value increase is clear in the minds of actual participants (but this value increase is not fixed, because the value of goods is like water, never fixed, just like a river that flows endlessly, but not a single wave is the same). Like the laborer who grows rice, he will have a carefully cultivated land and skilled farming tools. More importantly, he has rich experience in farming. It is normal for such a worker to produce 2,000 kilograms of rice per year or an average of five kilograms of rice per day. That is to say, this yield is not difficult for this farmer.

On average, five kilograms of rice per day is enough for him and his family to have enough to eat. But he also needs to wear clothes to keep warm and other expenses. For example, if he needs a shirt now, he can certainly stop farming to make one.

We can imagine that with his farming skills and inexperienced skills, it would be difficult for him to sew this shirt well in just a month, and it would also be very rough. That is to say, the farmer had to spend 30 days making a shirt, and the harvest would decrease by 150 kilograms of rice as a result.

But there is a shirt he likes in the market, which can be exchanged for only 50 kilograms of rice. His wise approach would be to exchange 50 kilograms of rice for a shirt. Fifty kilograms of rice only required him 10 days of labor, and he exchanged the 50 kilograms of rice he obtained with these 10 days of labor for the shirt he needed 30 days of labor to achieve. The utility of 50 kilograms of rice has not changed, but its effect on the owner, the farmer, has clearly changed. This change occurred when these 50 kilograms of rice were used as commodities. This farmer exchanged his 10 days of labor for the results he needed for 30 days of labor. The 20 days of labor saved, or seen as an additional 20 days of labor, is the value of this 50 kilograms of rice as a commodity. I call it the "commodity value".

Here, for the farmer, the commodity value of these 50 kilograms of rice is the 20 days of labor saved or the 20 days of increased profits from producing rice, rather than 30 days (the time it takes to make a shirt) or 10 days (the time it takes to produce these 50 or 10 kilograms of rice).

Of course, the situation will also be the same for the worker who exchanged his shirt for rice. He is not serving others for free in this exchange. We can clearly see that with the professional skills and skilled tools that a garment maker has been engaged in for years, he may not be able to sew a shirt in three to five days. Plus the labor he spends on raw materials, he will not be able to complete a shirt in more than 10 days in total. If he wants to grow his own rice, he probably will not harvest more than one kilogram on average per day. It may take him three to 50 days of labor to achieve these 50 kilograms of rice.

For this garment maker, even if he completes a shirt in 10 days, through exchange, that is, by using the shirt as a commodity, he saves it, or rather, he gains at least 20 more days of labor. This is the value of the garment when the garment maker uses his shirt as a commodity.

It can be seen that commodity exchange has resulted in both parties receiving considerable benefits. This is the significance and value of commodity value, which can double the wealth created by the same amount of labor and promote rapid growth of social wealth.

Let's look back at it from the surface. The exchange between farmers and garment makers has indeed not changed the appearance and function of rice and clothing. It can even be said that the value of tops and rice has not changed. But through mutual exchange, the benefits for both sides are doubled.

Because exchange changed the form of their products, they became commodities, and all the advantages of workers formed value, which was ultimately realized through commodity exchange.

Although various exchanges are often sporadic, the reason why farmers produce as much rice as possible exceeds their own needs, and garment makers also produce as many tops as possible. Obviously, before production, they all have a clear understanding of the needs of the other party (i.e., the market) and their own advantages. The commodity market provides every participant with all the conditions to leverage their strengths and advantages, and makes them a source of wealth.

In all exchanges, neither party thought of the other's interests. They were each carefully calculating for their own interests and had no intention of doing anything for each other or contributing to society from beginning to end. However, driven by self-interest, they gave each other a share of the benefits that were equivalent to what they had gained. As currency emerges and becomes increasingly developed, the other party becomes more uncertain and ultimately manifests as society.

This is the "invisible hand" described by Adam Smith. We have revealed the value of goods here, and this invisible hand is already clearly visible. It is precisely "commodity value" that guides people to seek benefits for themselves and for others, adding wealth to society.

Adam Smith has an approximate description of the value of goods. He said, "For those who have already acquired it and are willing to sell or exchange it for something else, the actual value of each thing is equal to the effort it saves them and imposes on others" (Ricardo, 1992, p. 8). However, the latter sentence, "to make him forget and transfer the hard work to others" does not match the fact.

In Smith's view, everything will inevitably consume a certain amount of labor. Although he has seen that exchange can save the exchange a bit of hard work, he does not believe that anything can be achieved with insufficient labor. So the effort saved was described as being "transferred onto others". In our example, farmers and garment makers exchange their labor products with each other, and as a result, the farmer transfers the labor he saves onto the garment maker. The garment maker also transfers the labor he saves onto the farmer. So who on earth did they transfer their hard work to whom?

In fact, none of them transferred the effort they had saved onto each other, and indeed, in the exchange, they had saved themselves a share of the effort. This is the "actual value" of the item Smith was supposed to say for exchange. This "actual value" is somewhat similar to what I mean by "commodity value" here.

Due to the fact that the value of a commodity can only be realized through exchange, and the freer the exchange, the more fully the will of the trading individual is reflected, and the greater the value of the commodity. Therefore, the more open the commodity market, the more convenient the exchange, and the more rapid the growth of social wealth. On the contrary, if the commodity market is intervened, the value of goods will shrink significantly, and the growth of social wealth will become slow accordingly.

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